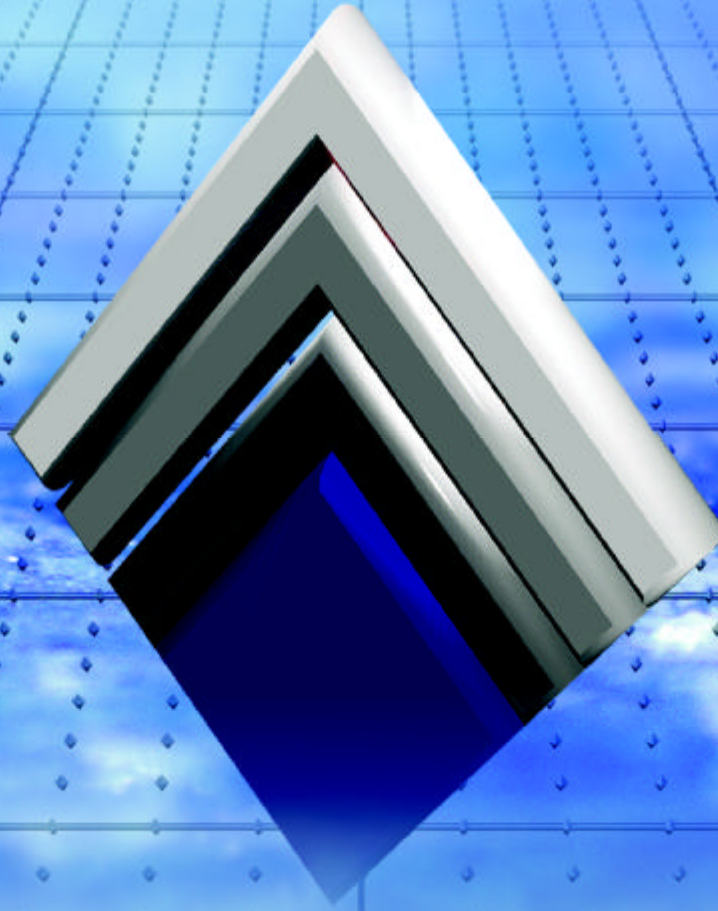
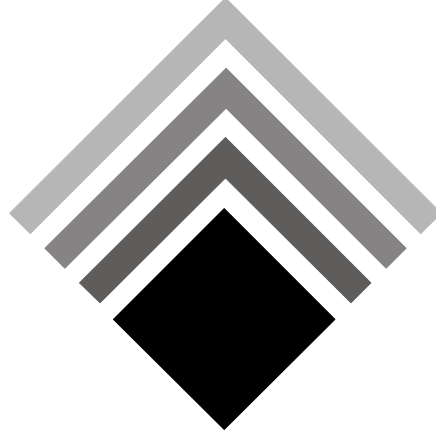


Fifteenth  
Annual Report  
2007



الضَامِنُ  
Al-Zāmin Leasing Modaraba

# Fifteenth Annual Report 2007



الضَامِنُ

## Al-Zāmin Leasing Modaraba

MANAGEMENT COMPANY

**Al-Zāmin Modaraba Management (Private) Limited**

101-108, Kassam Court, BC-9, Block-5, Clifton, Karachi-75600, Pakistan.

Tel: 5873373, 5876651, 5876652, 5867102, 5374474, 5371725, 111-111-303

Fax : 5837586, 5870408 e-mail : [contact@alzamin.com.pk](mailto:contact@alzamin.com.pk) Website : [www.alzamin.com.pk](http://www.alzamin.com.pk)

# Modaraba Background

**AI-Zamin Leasing Modaraba** commenced its operation in August 1992 with a paid-up capital of Rs. 100 million. It was listed on the Karachi, Lahore and Islamabad Stock Exchanges in July 1992 through public offer which was seven times oversubscribed.

Modaraba's principal place of business is located at Karachi, whilst its' five zonal offices are situated at Karachi, Lahore, Islamabad, Faisalabad and Peshawar.

The promoters of the Modaraba included reputed financial institutions of the country, professional bankers, respectable businessmen and retired civil servants. Since inception, **AI-Zamin** has managed to establish itself as one of the most successful and growth oriented financial institution of the country.

The current status of **AI-Zamin** in the context of the Modaraba and Leasing sector is highlighted by the fact that its image in the market is that of a highly professional and progressive organization distinguished on the basis of its quality and stability. JCR-VIS Credit Rating Company has assigned a rating of "A-" (Single A Minus) for medium to long term & A-2 for short term finances. Whereas the Musharaka based TFC's have been awarded rating of 'A' (Single A).

As a part of its growth strategy **AI-Zamin** successfully completed two mergers by way of amalgamation of the operations, assets and liabilities of Ghandhara Leasing Company Limited and First Professionals Modaraba into **AI-Zamin Leasing Modaraba**. At present **AI-Zamin's** equity stands at Rs. 392 million and asset base at Rs. 3,642 million.

## Mission Statement

**AI-Zamin** aims to evolve and practice exemplary standards of integrity and proficiency by achieving balanced growth, building quality investment portfolio, maintaining high standards of efficiency and providing good returns to its certificate holders. **AI-Zamin** shall endeavor to maintain a competitive edge in the industry and contribute effectively in promotion of Islamic financial regime. It shall adopt a management culture based on participation, motivation and accountability to achieve professional and personal excellence and growth of human resource. **AI-Zamin** shall achieve a balanced texture of being a prudent and progressive organization with a sound image in the market place.

# Report Contents

Modaraba Background and Mission Statement	2
Corporate Information	4
Board of Directors and Management	5
Notice of Annual Review Meeting	6
Performance Comparison	7
Directors' Report	8
Statement of Compliance with the Code of Corporate Governance	12
Key Financial and Operating Data	13
Pattern of Certificate Holding	14
Categories of Certificate Holders	15
Auditors' Report to the Certificate Holders	16
Review Report to the Certificate Holders on Statement of Compliance with Best Practices of Code of Corporate Governance	17
Balance Sheet	18
Profit and Loss Account	19
Cash Flow Statement	20
Statement of Changes in Equity	22
Notes to the Financial Statements	23

# Corporate Information

## **MODARABA COMPANY**

Al-Zamin Modaraba Management (Private) Limited

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## **AUDITORS OF THE MODARABA**

KPMG Taseer Hadi & Company, Chartered Accountants

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## **BANKERS**

Albaraka Islamic Bank	National Bank of Pakistan
Allied Bank Limited	Saudi Pak Commercial Bank Limited
Askari Bank Limited	Soneri Bank Limited
Faysal Bank Limited	Standard Chartered Bank (Pakistan) Limited
Meezan Bank Limited	The Bank of Khyber

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## **LEGAL ADVISORS**

Sharif & Company, Advocates	Kazim Hasan, Advocate
Mansoor Ahmed Khan & Company, Advocates	S.B Durrani Law Associates

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## **REGISTERED OFFICE AND KARACHI ZONAL OFFICE**

104-106, Kassam Court, BC-9, Block-5, Clifton, Karachi-75600.

Telephone : 5876651, 5876652, 5371725, 5873373, 5867102, 5374474, 111-111-303

Fax : 5870408, 5838304, 5837586

E-mail : [contact@alzamin.com.pk](mailto:contact@alzamin.com.pk)

Website : [www.alzamin.com.pk](http://www.alzamin.com.pk)

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## **LAHORE ZONAL OFFICE**

Suite No. G-01, Rehman Business Centre, 32B-III, Gulberg-III, Lahore.

Telephone : 5878016, 5878017 Fax : 5878018

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## **ISLAMABAD ZONAL OFFICE**

52-E, Dohdy Building, Jinnah Avenue, Blue Area, Islamabad.

Telephone : 2270588, 2272835 Fax : 2272813

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## **FAISALABAD ZONAL OFFICE**

201, 2nd Floor, Faisal Complex, Bilal Road, Faisalabad.

Telephone : 2613466 Fax : 2613467

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## **PESHAWAR ZONAL OFFICE**

Tehmas Centre, Tehkal Payyan, University Road, Peshawar.

Telephone : 5711731-33 Fax : 5846034

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## **SARGODHA BRANCH OFFICE**

College Road, Opposite National Bank of Pakistan, Sargodha.

Telephone : 3222699 Fax : 3223199

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## **SAHIWAL BRANCH OFFICE**

Suite No. 01, 2nd Floor, Central Plaza, High Street, Sahiwal.

Telephone : 4228332 Fax : 4228337

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## **SHEIKHUPURA BRANCH OFFICE**

117-118, Cricket Stadium, Sheikhpura.

Telephone : 3810593 Fax : 3810634

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## **ABBOTABAD BRANCH OFFICE**

Room # 1-3, Second Floor, Silk Plaza, Mansehra Road, Abbotabad.

Telephone : 343145 Fax : 343146

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## **SHARE REGISTRAR OFFICE**

Progressive Management Services (Pvt.) Limited.

10th Floor, Mehdi Towers, A-115, SMCHS, Shahrah-e-Faisal, Karachi.

Telephone : 4526983 - 84, 4393943 - 48 Fax : 4526985

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# Board of Directors

The Board of Directors of **Al-Zamin** comprises of eminent professionals and businessmen having rich experience and strong relationship in domestic and international banking circles. The members of the Board are as follows:

<b>Mr. Zafar Iqbal</b>	Chairman
<b>Mr. Basheer Ahmed Chowdry</b>	Chief Executive
<b>Mr. Manzoor Hussain Shah Kazmi</b>	Director
<b>Mr. Mohammad Aslam Khan</b>	Director
<b>Mr. Shaikh Arshad Farooq</b>	Director
<b>Mr. Mohammad Imranul Haque</b>	Director
<b>Mr. Najib Amanullah</b>	Director
<b>Dr. Namoos Baquar</b>	Director
<b>Mr. Sohail Ansar</b>	Director
<b>Mr. Muhammad Kamal Abdul Nasir</b>	Director
<b>Mr. Muhammad Zahid</b>	(Nominee of Zahidjee Fabrics (Pvt) Ltd.)
<b>Mr. Syed Ghazanfar Ali</b>	(Nominee of Pak Libya Holding Co. (Pvt) Ltd.)
<b>Mr. Rashid Ahmed</b>	(Nominee of National Investment Trust)
<b>Mr. Syed Raza Abbas Jaffari</b>	(Nominee of National Investment Trust)

## Management

Mr. Basheer Ahmed Chowdry	Chief Executive
Mr. Mohammad Moizul Haque	Chief Operating Officer
Mr. Ansar Husain	Executive Director
Mr. Muhammad Kamal Abdul Nasir	Director
Ms. Hamida Aqeel	Company Secretary
Mr. Mohammad Naim Ashraf	Chief Financial Officer

### Zonal and Divisional Heads

Mr. Omer Farooq Khan	Karachi Zone
Mr. Hamayun Shabbir	Lahore Zone
Mr. Raja Imran Ashfaq	Islamabad Zone
Mr. Ameer Hamza Khawar Hasan	Faisalabad Zone
Mr. Hameed Rabbani	Peshawar Zone
Mr. Shiraz Butt	MSE Division
Mr. Mohammad Naim Ashraf	Finance & Accounts Division
Mr. Irfan Bashir	Risk Management Division
Mr. Mohammad Imran Khan	Information Technology Division
Mr. Zia Khalid	Internal Audit Division
Mr. Mirza Zubair Baig	Treasury Operations
Mr. Rizwan Ibnul Hasan	Lease Management Division
Mr. Abdul Waheed	Recovery Division

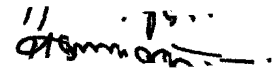
# Notice Of Annual Review Meeting

The Board of Directors have approved a cash dividend of 12.50% (Rs. 1.25 per certificate) for the financial year ended June 30, 2007.

The Certificate Transfer Books of the Modaraba will remain closed from Tuesday, October 2, 2007 to Friday, October 12, 2007 (both days inclusive). Transfers received by our Registrar Messrs Progressive Management Services (Pvt.) Limited, 10th Floor Mehdi Towers, A-115 S.M.C.H.S., Shahrah-e-Faisal, Karachi (Tel: 021-4526983-84 Fax: 021-4526985) by the close of business hours on Monday, October 1, 2007 and found in order will be entitled to the dividend.

Notice is hereby given that the Annual Review Meeting of the Certificate Holders of the Modaraba will be held on Friday, October 12, 2007 at 9:30 a.m. at Regent Plaza Hotel, Karachi, to review the performance of the Modaraba for the year ended June 30, 2007.

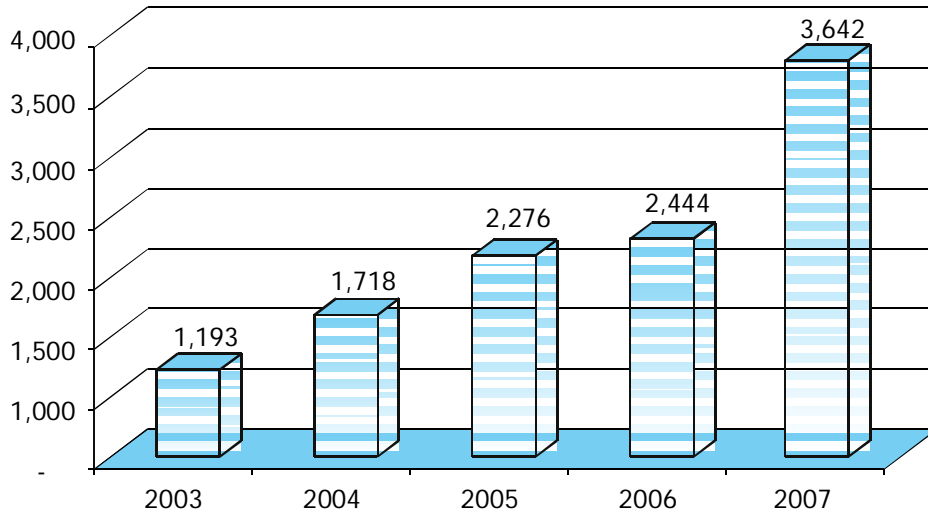
Karachi:  
30<sup>th</sup> August, 2007

  
**Hamida Aqeel**  
Company Secretary

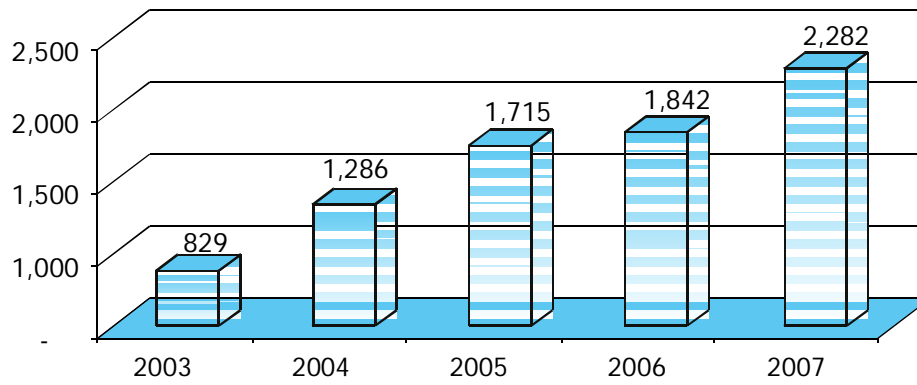
## NOTE :

The Certificate Holders are advised to notify to the Registrar of Al-Zamin Leasing Modaraba, any change in their addresses. Certificates for transfer should also be lodged with the Registrar Messrs Progressive Management Services (Pvt) Limited, 10th Floor, Mehdi Towers, A-115, SMCHS, Shahrah-e-Faisal, Karachi. Phone : 4526983 - 84, 4393943 - 48 Fax : 4526985

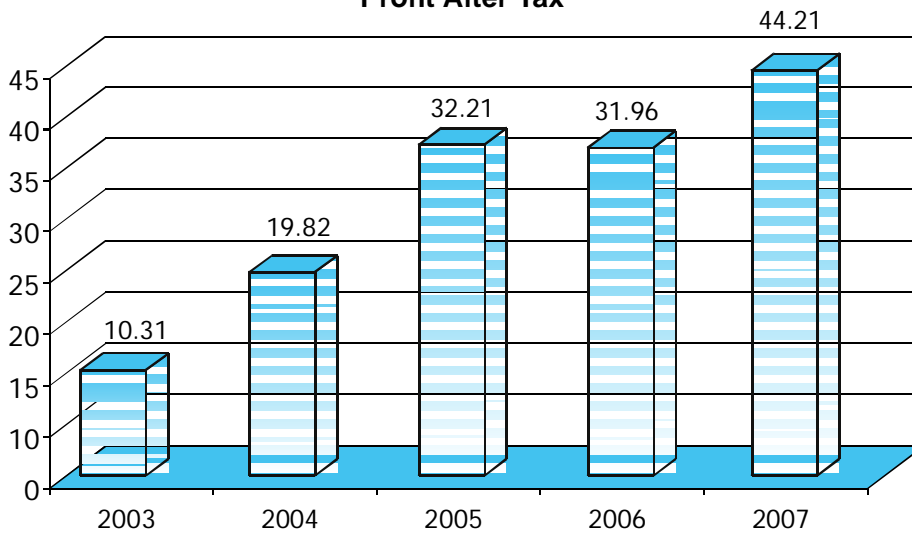
### Total Assets



### Net Investment In Leases



### Profit After Tax





# Directors' Report

For The Year 2005-2007

The Board of Directors of Al-Zamin Modaraba Management (Private) Limited takes pleasure in presenting the annual audited accounts of Al-Zamin Leasing Modaraba as on 30th June, 2007 to the certificate holders.

## Performance During the Year

The financial year ending on 30th June, 2007 was yet another milestone in the continued growth, profitability and strength of the Modaraba. Marketing and operational strategies formulated earlier to realign the business according to the changed circumstances and opportunities were meticulously implemented and projected goals were successfully achieved. Against an estimation of Rs.2,000 million projected at the beginning of the year for making fresh disbursements towards asset creation and resource mobilization, your Modaraba achieved Rs.2,474 million indicating an overall performance of 124%. Out of the aforesaid figures, fresh disbursements of Rs.1,290 million were made in leasing portfolio and Rs.486 million for Musharakah and Morabaha transactions. A significant aspect of the year's performance was that fresh resources amounting to Rs.698 million were generated through marketing of Al-Zamin's core Certificates of Musharakahs.

Total assets of the Modaraba increased from Rs.2,445 million to Rs.3,642 million providing a robust increase of about 50% for the year. This is the highest percentage of growth achieved by your Modaraba in any previous year and proves the commitment, hard-work and capability of the team. When viewed in the context of the severe competition being offered by the commercial banks and NBFCs in the areas of leasing business and other modes of business, the growth achieved during the year becomes even more significant. Also, increased business was achieved in a well-diversified manner by implementing the planned strategies for distribution of risks, multiplication of revenue streams and improvement in the quality of portfolio. Consequently, the net investment in leases grew from Rs.1,842 million to Rs.2,282 million showing an increase of over 23%. A significant increase was registered in the Musharakah investments which rose from Rs.181 million to Rs.556 million showing a growth of about 207%. Investments in diversification projects also increased from Rs.47 million to Rs.255 million, indicating a growth of 442%.

Leasing remained the major source of business with focus on such segments which could provide high yields with acceptable risk profile. Al-Zamin remains a significant lessor of the CNG stations, medium size corporates and vehicles. Problematic business areas like commercial transport and some of the manufacturing industries were carefully avoided. Your Modaraba also increased its participation in the small and micro sector by establishing an effective MSE infrastructure throughout the country. Al-Zamin believes that micro leasing is an effective tool for supporting entrepreneurs who are deprived of resources but have the capability to generate earnings through skilfull usage of the assets provided through leasing process. This, in many ways, is a better form of promoting micro credit which constitutes an important facet of the current policies of the government and financial regulators to enhance self sufficiency and poverty alleviation. Al-Zamin's entry into the micro lease was initiated through its participation in the Swiss Development Agency Program being coordinated by Leasing Association of Pakistan. It has now developed into a significant segment of its overall business which is growing with the passage of time as a sustainable activity.

The process of diversification started last year included entering into partnership for and owning CNG stations at various locations of the country. Your management believes that the CNG filling business, along with its allied activities, will provide good profits which would more than offset any pressure on the net yields in the leasing business due to severe market competition. So far, five CNG ventures have been undertaken of which two were fully functional at the end of the year. Two more stations have become operative in the month of August, 2007 and the fifth one is likely to commence its operations in about three months' time. The cumulative effect of the profitability of five CNG projects will be fully visible in the year 2007-08. The Modaraba has also participated in property development projects which are yielding good profits while being fully secured investments. The sector offers substantial opportunities which need to be viewed prudently in the context of forthcoming socio-economic conditions.

An important aspect which received special focus throughout the year was mobilization of further resources to fund the increasing business and to reduce the cost of funds in order to improve net margins. Your Board is happy to report that fresh credit-lines of Rs.810 million for 3 to 5 years tenure were successfully availed of thereby improving the liquidity matching profile of the Modaraba significantly. Short term funding also remained available which was used occasionally while mostly adhering to the policy of prudent matching of receivables and commitments. Your Modaraba enjoys continued confidence and support of the financial sector based on its performance and meticulous fulfillment of its obligations. During the year, added focus was placed on expediting the recoveries of lease rentals which, inter-alia, made significant contribution towards improvement

of the quality of the portfolio. It also resulted in significant reversal of the provisions which had been made in the previous year in respect of the delays and defaults. Besides reducing the overall NPLs, your management is fully cognizant of the challenges and risk profile of the medium, small and micro sector leasing business and has developed its infrastructure to manage the exposures successfully. The current uncertainties on the socio-political horizon of the country are likely to impact medium to small businesses, for which your Modaraba has devised a careful policy to handle any difficulties.

The year under review also registered a significant increase in the revenues of the Modaraba which grew from Rs.245 million to Rs.334 million showing an increase of 37%. Due to increased borrowings to finance our continued growth and constant escalations of borrowing rates during the year, our financial charges increased from Rs.141 million to Rs.205 million. However, because of the better yields achieved during the year, net spreads of the Modaraba registered a healthy improvement of more than 75%. In order to achieve and manage the substantial growth in the business of the Modaraba, special efforts were dedicated on enhancement of infrastructure and increase in the human resources which increased the operating expenses from Rs.53 million to Rs.82 million. This also included revision of the staff emoluments during the year which needed to be brought to the level of the current market. Nevertheless, profit for the year before taxation increased from Rs.36 million of the previous year to Rs.44 million for the year under review. Earnings per certificate also increased from Rs.1.25 to Rs.1.74.

### **Dividend Distribution**

Your Board is pleased to announce 12.50% cash dividend to the certificate holders (amounting to Rs.1.25 per certificate) out of the net profits as at 30th June, 2007. It would be recalled that a dividend of 5% was distributed in 2005 and 10% in 2006. The process of diversification, increased yields of the leasing portfolio, reduction in the borrowing costs, effective recoveries of the receivables and disciplined operating expenses would undoubtedly maintain the trend of increasing distributable profits in the future as well.

### **Credit Rating**

Credit ratings of the Modaraba were maintained during the year by JCR-VIS Credit Rating Company as A- (Single A Minus) for long term and A-2 (Single A Two) for short term rating with the 'Stable' outlook. Also, the instrument rating of Musharakah based TFC issued by the Modaraba was maintained as A (Single A). The credit report issued by the rating agency maintained that there has been significant growth and diversification in the Modaraba's assets. Leverage indicators remained at acceptable levels and profitability indicators posted significant improvements. The report also recognized positive results achieved by the management in monitoring and reinforcing recovery efforts to improve asset quality indicators. Also, the long term funds mobilized for improving maturity mis-matching situation were duly acknowledged.

### **Islamic Bank Project**

The application filed by your Modaraba with State Bank of Pakistan (SBP) on behalf of a consortium of investors for obtaining Islamic banking license is progressing through various stages for regulatory approvals. A very respectable and substantial group from the Middle East has committed to subscribe a substantial amount to the initial equity of the Modaraba which will result in sponsors' equity to exceed Rs.6,000 million. Participation of the aforesaid group would also provide valuable business opportunities and professional assistance for the proposed bank's operations. Various legal and regulatory aspects are being completed in this regard.

### **Crescent Leasing Corporation Limited**

Your Board is happy to report that the acquisition of the majority shareholding and management control of Crescent Leasing Corporation Limited arranged and spearheaded by your Modaraba was successfully completed in April, 2007. Consequently, 78.4% of the shareholding of the Company has been acquired by Al-Zamin Group, constituted by your Modaraba and its shareholders and Directors. The Board of Directors of the Company has been reconstituted and new management is in place. An aggressive plan for the revival of the business and profitability of the Company has been launched which has already started showing significant results.

Currently the merger of Universal Leasing Corporation with Crescent Leasing Corporation Limited is in its final stages of completion after which the name of the merged entity will be changed to Al-Zamin Investment Bank for which necessary approvals are being obtained from Securities and Exchange Commission of Pakistan. Al-Zamin Leasing Modaraba and Al-Zamin Investment Bank will support and coordinate their business operations for their mutual benefit and enhance the business handling capacity of the group.

### **Mergers and Acquisitions**

Your Modaraba has signed a MoU with International Multi-Leasing Corporation for its merger into Al-Zamin upon its satisfactory conclusion of its petition under consideration of the Honorable Supreme Court of Pakistan for its release from a previous merger with another entity. Negotiations have been held for acquisition of one more entity which, when concluded, would increase the equity and asset base of the Modaraba further.

### **Future Prospects**

The strong economic fundamentals and continuity of positive macro policies experienced during the last few years may experience some variations and adjustments due to the forthcoming elections and emergence of any changed political set up. Until the political scene is finally settled, the economy and businesses are passing through visible uncertainties. Stock exchanges have already experienced wide fluctuations and the tempo of fresh investments seems to have slackened for the moment. An un-abating inflation continues to remain a source of concern and State Bank has re-affirmed the continuity of a tight monetary policy. The interest rates have increased during the year and the six months KIBOR is around 10.10% at the moment. However, foreign remittances have maintained a steady inflow thereby providing satisfactory exchange reserves for the country. The financial sector of the country has witnessed significant acquisitions and mergers during the year in which the interest of foreign banks and overseas investors has been an important factor. Pakistan seems to have captured the attention of international market as an investment opportunity and there is no doubt that, with a stable government and the continuity of the previous policies, the economy is bound to grow further.

The scenario of changing rates results in various implications for the financial institutions like our-selves which have to rely on the borrowed resources but their receivables are generally determined on fixed IRR base. This creates a diverse yield curve if resources and utilization are not met properly. Therefore, your Modaraba has been following a careful policy of linking its major commitments to the variable rates and also increasing its rates for the fixed IRR leases. Special efforts have been made to promote our Certificate of Musharakah which not only provides a direct access to the investors but also achieves considerable reductions in the cost of funds. Intense focus on recoveries and careful risk assessment continues to safeguard any adverse impacts in the future. New product and services are being devised to enhance our business generating activities. Our offices have been shifted to better locations and are now able to produce increased level of business. The effort of your management during the current year would be to maximize benefits of the diversification and infrastructure achieved during the previous year and also to increase its equity in order to improve its business handling capacity.

### **Board of Directors**

Your Board is grieved to report the sad demise of Sheikh Muhammad Farooq, a founder member and Vice Chairman of the Modaraba, during the year. He was a respectable and resourceful businessman and always committed towards growth and health of the Modaraba. The Board wishes to place on record its appreciations of the valuable services rendered by Mr. Farooq and also offers its condolence to the bereaved family. Mr. Farooq has been replaced on the Board by his son, Shaikh Arshad Farooq who is the Chairman of AAA Group of Companies and a matured and successful businessman. Mr. Syed Jamal Baquar assumed a senior executive position with a prominent commercial bank of the country and had to resign from our Board in compliance of the regulatory requirements. He has been replaced by Dr. Namoos Baquar who is a well-educated lady and also a founder member of the Modaraba.

During the year under review, four Board Meetings were held and attended by the Directors as follows:-

<u>Name of Member</u>	<u>No. of Meetings Attended</u>	<u>Name of Member</u>	<u>No. of Meetings Attended</u>
Mr. Zafar Iqbal	3	Mr. Syed Jamal Baquar	3
Mr. Sheikh Mohammad Farooq	1	Mr. Mohammad Kamal Abdul Nasir	3
Mr. Basheer A. Chowdry	4	Mr. Najib Amanullah	1
Mr. Manzoor Hussain Shah Kazmi	3	Mr. Syed Ghazanfar Ali	4
Mr. Mohammad Aslam Khan	2	Mr. Mohammad Zahid	Nil
Mr. Sohail Ansar	3	Mr. Rashid Ahmed	3
Mr. Mohammad Imranul Haque	1	Mr. Syed Raza Abbas Jaffri	4

### Audit Committee

The Audit Committee of the Board consists of the following members:-

1. Mr. Mohammad Aslam Khan	Director	Chairman
2. Mr. Syed Ghazanfar Ali	Director	Member
3. Mr. Mohammad Kamal Abdul Nasir	Director	Member
4. Mr. Syed Raza Abbas Jaffari	Director	Member
5. Ms. Hamida Aqeel	Company Secretary	Secretary to the Committee

The pattern of certificate holding is annexed to this report along with the operating data of the Modaraba for six years. A Statement of Compliance with the Code of Corporate Governance is also enclosed.

### Compliance under Clause XIX of the Code

- The financial statements prepared by the management of Al-Zamin Leasing Modaraba present fairly its state of affairs, the result of its operations, cash flows and changes in the equity.
- Proper books of accounts of Al-Zamin Leasing Modaraba have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable to the Modaraba, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no doubts about Al-Zamin's ability to continue as a going concern.
- There has been no material departure from the best practices and corporate governance as detailed in the listing regulations.

### Staff Benefit Schemes

The Modaraba operates a Provident Fund Scheme for the staff, value of which is Rs.13 million as at 30th June, 2007. A Gratuity Scheme has also been implemented for the staff of the Modaraba w.e.f 1st July 2005.

### Auditors

Your Board wishes to place on record its appreciations for the valuable assistance provided by KPMG Taseer Hadi & Company, Chartered Accountants.

### Acknowledgements

The Directors are pleased to put on record their appreciation of the devoted efforts made by the staff for the successful operations of the Modaraba and valuable guidance provided by the Registrar Modarabas and Securities and Exchange Commission of Pakistan.

For and on behalf of the Board of Directors

  
**Basheer A. Chowdry**  
 Chief Executive

Karachi  
 Date : 30th August, 2007

# Statement Of Compliance

## With The Code Of Corporate Governance

For the year ended 30 June 2007

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

Al-Zamin Modaraba Management (Private) Limited (Modaraba Company) is not listed, however, Al-Zamin Leasing Modaraba (the Modaraba) is listed at Karachi, Lahore and Islamabad Stock Exchanges. The Board of directors of the Modaraba Company is responsible for management of affairs of the Modaraba.

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

1. The Modaraba Company has 14 directors which include 12 non-executive directors.
2. All the directors of the Modaraba Company have confirmed that they are not serving as a director in more than ten listed companies.
3. All the resident directors of the Modaraba Company have confirmed that they are registered as taxpayers and have not defaulted in payment of any loan to a banking company, a Modaraba, Development Financial Institution or a Non Banking Financial Institution, neither they are member of any stock exchange in Pakistan.
4. Two Casual vacancies occurred during the year in the Board which were filled within 30 days thereof.
5. The Modaraba Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors of the Modaraba Company and employees of the Modaraba.
6. The Board has developed a mission statement and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained in the form of minutes of meetings of the board and internal circulars. The overall corporate strategy of the Modaraba is discussed from time to time in the Board meetings and documented in the minutes.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board including changes in remuneration of the Chief Executive Officer and other executive director. However, no new appointment of the Chief Executive Officer and other executive director was made during the year.
8. The Board has met once in every quarter. Three meetings of the Board were presided over by the Chairman and one meeting, in the absence of the Chairman, was presided over by a director elected by the Board for this purpose. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Executive Directors, Chairman Audit Committee and Senior Executives of the Modaraba had attended a presentation on the Code of Corporate Governance which was arranged by Modaraba Association of Pakistan in collaboration with International Finance Corporation during the previous year to update the directors on the relevant aspects of the Code with reference to the duties and responsibilities of the directors. Also some directors attended relevant courses at the Institute of Corporate Governance during the year.
10. No new appointment of Chief Financial Officer, Company Secretary or Head of Internal Audit was made during the year.
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. The financial statements of the Modaraba were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.

13. The Chief Executive Officer, directors and other executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of certificate holding.
14. The Modaraba Company has complied with all the corporate and financial reporting requirements of the Code with respect to the Modaraba.
15. The Board has formed an Audit Committee. It comprises of five members including secretary to the Audit Committee. Three members are non-executive directors including the Chairman of the Committee.
16. The meetings of the Audit Committee were held once in every quarter as required by the Code prior to approval of interim and final results of the Modaraba. The terms of reference of the Committee have been framed and advised to the Committee for compliance, in earlier years.
17. The Board has set-up an Internal Audit function on a full time basis.
18. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the 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 regard.
20. We confirm that all other material principles contained in the Code have been complied with.

Karachi  
Date : 30<sup>th</sup> August, 2007



**Basheer A. Chowdry**  
Chief Executive

## Key Financial And Operating Data

	(Rupees in million)					
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Assets	<b>3,641.733</b>	2445.290	2276.263	1,718.177	1,192.547	915.542
Net Investment in Lease	<b>2,281.534</b>	1841.649	1715.463	1,286.088	828.966	633.254
Assets Leased out	-	0.354	13.356	31.926	57.951	49.908
Certificate Holder's Equity	<b>391.65</b>	372.679	353.452	320.547	318.560	311.883
Paid up Capital	<b>254.721</b>	254.721	254.721	254.721	254.721	254.722
Break-up value (Rs.)	<b>15.375</b>	14.630	14.660	12.580	12.516	12.244
Total Revenue	<b>343.085</b>	247.480	200.656	172.230	154.910	142.484
Financial Charges	<b>204.627</b>	141.242	108.524	85.105	75.581	69.747
Operating Expenses	<b>81.840</b>	52.955	46.788	38.943	36.391	39.900
Profit before tax	<b>44.211</b>	35.692	44.785	16.278	14.170	5.457
Profit after tax	<b>44.211</b>	31.963	32.905	19.817	10.310	5.457
Earning per certificate (Rs)	<b>1.736</b>	1.250	1.290	0.780	0.400	0.210

# Pattern Of Certificate Holding

As On 30 June 2007

Number of Certificate holders	Holding Certificates		Total Certificates held
	From	To	
2,348	1	100	118,677
1,747	101	500	422,204
1,355	501	1000	948,571
575	1001	5000	1,276,474
101	5001	10000	740,404
36	10001	15000	434,274
16	15001	20000	280,150
8	20001	25000	177,618
9	25001	30000	244,103
5	30001	35000	162,205
2	35001	40000	76,437
3	40001	45000	127,471
4	45001	50000	197,658
2	50001	55000	105,500
2	55001	60000	115,870
2	60001	65000	123,640
1	75001	80000	75,893
2	80001	85000	167,892
2	85001	90000	177,823
1	90001	95000	93,208
2	95001	100000	198,100
1	115001	120000	117,470
1	145001	150000	150,000
1	185001	190000	185,100
1	415001	420000	417,500
1	495001	500000	500,000
2	600001	1100000	1,901,435
4	1100001	1600000	5,766,607
3	2100001	2600000	7,154,309
1	2600001	3100000	3,015,519
<b>6,238</b>			<b>25,472,112</b>

# Categories Of Certificate Holders

As On 30 June 2007

Categories of Certificate Holders	Certificate Holders	Certificate Holding	Percentage
National Investment Trust	3	4,696,309	18.44
Investment Corporation of Pakistan	3	13,915	0.05
Modaraba Management Company	1	3,015,519	11.84
Public Sector Companies and Corporations	2	750	0.00
Banks	3	145	0.00
Development Financial Institutions	3	24,350	0.10
Insurance Companies	3	910,035	3.57
Modarabas	1	100	0.00
Joint Stock Companies	47	1,119,304	4.39
Directors, their spouses and minor children (Note)	9	4,298,959	16.88
Others	4	111,250	0.44
Individuals	6,159	11,281,476	44.29
	<b>6,238</b>	<b>25,472,112</b>	<b>100.00</b>

## Note : Holding of Directors, their spouses & minor children

Mr. Zafar Iqbal / Ms. Shehrbano Iqbal	2,976,500	11.69
Mr. Mohammad Zahid & Huma Zahid	1,290,052	5.06
Mr. Basheer Ahmed & Mrs Nishat Basheer	6,000	0.02
Mr. Kamal Abdul Nasir	19,000	0.07
Mr. Manzoor Hussain Shah Kazmi	7,287	0.03
Mr. Sohail Ansar	120	0.01
	<b>4,298,959</b>	<b>16.88</b>



# Auditors' Report

## To The Certificate Holders

We have audited the annexed balance sheet of **Al-Zamin Leasing Modaraba** as at 30 June 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the Modaraba Company's [Al-Zamin Modaraba Management (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. 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 Company, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

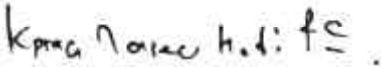
- a) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of Al-Zamin Leasing Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- b) in our opinion:
  - 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 accounts and are further in accordance with the accounting policies consistently applied, except for the change indicated in note 4.15 with which we concur;
  - ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required

and respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2007 and of the profit, its cash flows and changes in equity for the year then ended; and

- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Karachi

Date: 30 August 2007

  
**KPMG Taseer Hadi & Co.**  
Chartered Accountants

## Review Report To The Certificate Holders

### On Statement Of Compliance With Best Practices Of Code Of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Al-Zamin Modaraba Management (Private) Limited (the Modaraba Company) in respect of Al-Zamin Leasing Modaraba to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges, where the Modaraba is listed.


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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control 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.

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.

Karachi

Date : 30 August 2007

  
**KPMG Taseer Hadi & Co.**  
Chartered Accountants

# Balance Sheet

As At 30 June 2007

	Note	2007	2006
<b>Assets</b>			
<b>Current Assets</b>			
Cash and bank balances	5	212,594,086	29,335,148
Short term investments	6	53,926,953	52,406,008
Takaful Reserve Fund Investments	7	47,298,558	47,081,868
Lease rentals receivables		-	25,617
Short term musharika and morabaha	8	417,361,955	136,135,150
Advances and prepayments	9	36,608,179	26,090,486
Other receivables	10	60,531,660	68,867,074
Current maturity of long term receivables	11	978,104,232	673,380,442
Stock in trade	12	431,451	1,689,800
		<b>1,806,857,074</b>	<b>1,035,011,593</b>
<b>Non-current assets</b>			
Long term musharika - secured	13	47,898,336	6,744,881
Net investment in finance leases	14	1,409,174,853	1,225,974,766
Long term investments	15	141,486,250	133,629,288
Long term security deposits and advances	16	10,681,366	12,080,031
Assets leased out		-	354,865
Assets in own use	17	225,635,524	31,494,641
		<b>1,834,876,329</b>	<b>1,410,278,472</b>
<b>Total assets</b>		<b>3,641,733,403</b>	<b>2,445,290,065</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Short term musharika borrowings and bank finance facilities	18	419,000,000	416,820,910
Short term certificates of musharika borrowings	19	513,580,000	128,250,000
Creditors, accrued and other liabilities	20	69,807,327	57,026,456
Profit distribution payable		4,465,318	3,757,108
Current maturity of long term liabilities	21	548,035,260	367,902,976
		<b>1,554,887,905</b>	<b>973,757,450</b>
<b>Long term and deferred liabilities</b>			
Deferred liability for staff gratuity	4.7.1	2,565,685	968,955
Grant		-	301,398
Security deposits from lessees	22	663,357,098	503,413,267
Long term certificates of musharika borrowings	23	85,345,000	42,756,691
Liabilities against assets subject to finance lease	24	10,136,359	1,429,894
Long term musharika and morabaha borrowings	25	614,273,417	31,539,686
Redeemable capital - Musharika Term Finance Certificates	26	319,522,228	518,444,090
		<b>1,695,199,787</b>	<b>1,098,853,981</b>
<b>Total liabilities</b>		<b>3,250,087,692</b>	<b>2,072,611,431</b>
<b>NET ASSETS</b>	Rupees	<b>391,645,711</b>	<b>372,678,634</b>
<b>FINANCED BY</b>			
<b>Authorised certificate capital</b>			
50,000,000 Modaraba certificates of Rs.10 each	Rupees	<b>500,000,000</b>	<b>500,000,000</b>
Issued, subscribed and paid up certificates	27	254,721,120	254,721,120
Reserves		99,759,339	90,917,054
Share of surplus on revaluation of available for sale investments of an associated undertaking	15.3.3	227,766	-
Unappropriated profit		36,937,486	27,040,460
	Rupees	<b>391,645,711</b>	<b>372,678,634</b>
<b>Contingencies and commitments</b>	28		

The annexed notes from 1 to 43 form an integral part of these financial statements.

  
**Basheer A. Chowdry**  
 Chief Executive

  
**Zafar Iqbal**  
 Chairman

  
**M.H.S Kazmi**  
 Director

# Profit And Loss Account

For The Year Ended 30 June 2007

	Note	2007	2006
<b>INCOME</b>			
Income from leasing operations	29	239,806,725	184,268,608
Profit on musharika investments		67,465,249	24,972,343
Income on deposits with banks		1,358,191	1,215,547
Net gain on sale of marketable securities		2,262,853	9,293,046
Unrealised gain on investment in marketable securities - net		3,469,207	4,171,070
Mark-up on term finance certificates		12,283,388	12,911,616
Dividend income		5,377,955	7,876,442
Income from trading operations	30	100,800	609,999
Income from Diesel / CNG filling stations - net	31	1,986,851	-
		<u>334,111,219</u>	<u>245,318,671</u>
<b>EXPENSES</b>			
Financial charges	32	(204,627,328)	(141,242,689)
Amortisation of assets leased out		(354,865)	(3,283,201)
		<u>(204,982,193)</u>	<u>(144,525,890)</u>
		129,129,026	100,792,781
<b>(IMPAIRMENT LOSS) / REVERSALS</b>			
(Impairment) / reversals of assets leased out		-	504,925
Impairment loss against other lease receivables		(6,205,035)	(13,196,359)
Impairment loss against doubtful finance lease receivables and lease rentals-net		2,658,964	(11,803,807)
Doubtful lease receivables written off		(1,607,295)	(3,976,761)
Other receivables written off		(721,981)	(1,022,613)
Impairment loss on doubtful investments no longer required written back		-	23,365,565
Impairment loss against long term / short term musharika investment		(182,000)	(4,211,484)
Impairment loss against other receivables		(1,081,464)	-
		<u>(7,138,811)</u>	<u>(10,340,534)</u>
		121,990,215	90,452,247
Operating expenses	33	(81,840,242)	(52,954,975)
		<u>40,149,973</u>	<u>37,497,272</u>
Other income	34	4,956,498	1,667,224
Share of profit of a joint venture and an associate - net		4,017,332	492,803
		<u>49,123,803</u>	<u>39,657,299</u>
Modaraba company's management fee		(4,912,380)	(3,965,730)
Profit for the year before taxation		<u>44,211,423</u>	<u>35,691,569</u>
Taxation	35	-	(3,728,677)
Profit for the year after taxation	Rupees	<u>44,211,423</u>	<u>31,962,892</u>
Earning per certificate - basic and diluted (Rupees)	36	<u>1.74</u>	<u>1.25</u>

The annexed notes from 1 to 43 form an integral part of these financial statements.

  
**Basheer A. Chowdry**  
 Chief Executive

  
**Zafar Iqbal**  
 Chairman

  
**M.H.S Kazmi**  
 Director

# Cash Flow Statement

For The Year Ended 30 June 2007

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the year	44,211,423	35,691,569
<b>Adjustment for non cash charges and other items:</b>		
Amortisation of assets leased out	354,865	3,283,201
Impairment of assets leased out	-	(504,925)
Depreciation on fixed assets in own use	8,696,879	5,646,093
Gain on disposal of fixed assets in own use	(1,073,665)	(692,116)
Provision against doubtful debts	(2,658,964)	11,803,807
Doubtful receivables written-off	1,607,295	3,976,761
Other receivables written-off	721,981	1,022,613
Provision against musharika investment	182,000	4,211,484
Provision no longer required written back	-	(23,365,565)
Provision against other lease receivables	6,205,035	13,196,359
Provision against other receivable	1,081,464	-
Net gain on sale of marketable securities	(2,262,853)	(9,293,046)
Unrealised gain on investment in marketable securities-net	(3,469,207)	(4,171,070)
Provision for gratuity	1,639,400	968,955
Dividend income	(5,377,955)	(7,876,442)
Financial charges	204,627,328	141,242,689
	<b>210,273,603</b>	<b>139,448,798</b>
	<b>254,485,026</b>	<b>175,140,367</b>
 (Increase) / decrease in operating assets		
Net investment in lease finance / Ijarah finances	(438,833,896)	(142,484,217)
Lease rentals receivable	25,617	2,642,729
Musharika and morabaha receivables	(370,600,572)	7,231,797
Advances, deposit, prepayments & other receivable	(11,147,980)	(78,096,716)
Long term security deposits and advances	1,398,665	(1,179,508)
	<b>(819,158,166)</b>	<b>(211,885,915)</b>
 Increase / (decrease) in operating liabilities		
Creditors, accrued and other liabilities	(2,489,751)	3,009,150
Security deposits from lessees	177,865,827	97,775,552
	<b>175,376,076</b>	<b>100,784,702</b>
	<b>(389,297,064)</b>	<b>64,039,154</b>
 Financial charges paid	(189,356,705)	(135,537,101)
Gratuity paid	(42,670)	-
Tax paid	(480,655)	(662,982)
Net cash flows from operating activities	<b>(579,177,094)</b>	<b>(72,160,929)</b>

	2007	2006
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Fixed capital expenditure	<b>(204,434,042)</b>	(16,636,810)
Purchase of investments-net of proceeds on sale	<b>(3,634,771)</b>	(43,532,139)
Proceeds from sale of assets on operating lease	-	9,718,034
Proceeds from disposal of assets in own use	<b>2,669,945</b>	1,484,600
Dividend received	<b>6,815,830</b>	4,933,567
Stock in trade	<b>1,258,349</b>	(1,689,800)
Net cash flows from investing activities	<b>(197,324,689)</b>	(45,722,548)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Redeemable capital raised -net of initial transaction cost	<b>(92,921,862)</b>	2,076,732
Grant received (net of expenses)	<b>(301,398)</b>	(1,945,428)
Liabilities against assets subject to finance lease	<b>10,370,824</b>	(1,627,530)
Long term certificates of musharika borrowings	<b>42,758,510</b>	(180,006,149)
Long term musharika and morabaha borrowings	<b>637,109,459</b>	-
Short-term musharika borrowings and bank finances	<b>2,179,090</b>	143,320,910
Certificates of musharika borrowings	<b>385,330,000</b>	91,306,682
Profits paid to certificate holders	<b>(24,763,902)</b>	(12,358,904)
<b>Net cash flows from financing activities</b>	<b>959,760,721</b>	40,766,313
Net increase / (decrease) in cash and cash equivalents	<b>183,258,938</b>	(77,117,164)
Cash and bank balances at 1 July	<b>29,335,148</b>	106,452,312
Cash and bank balances at 30 June	<b>212,594,086</b>	29,335,148

*Rupees*

The annexed notes 1 to 43 form an integral part of these financial statements.

  
**Basheer A. Chowdry**  
Chief Executive

  
**Zafar Iqbal**  
Chairman

  
**M.H.S Kazmi**  
Director

# Statement Of Changes In Equity

For The Year Ended 30 June 2007

	Certificate capital	Reserve			Unappropriated profit	Certificate capital and reserves	Share of surplus on revaluation of available for sale investments of an associated undertaking	Total	
		*Statutory	Merger	Takaful					General
Balance as at 1 July 2005	254,721,120	52,668,354	6,856,122	10,000,000	-	29,206,202	353,451,798	-	353,451,798
Changes in equity for the year ended 30 June 2006									
Profit distribution for the year ended 30 June 2005	-	-	-	-	-	(12,736,056)	(12,736,056)	-	(12,736,056)
Transfer to statutory reserve for the year ended 30 June 2005	-	-	-	15,000,000	-	(15,000,000)	-	-	-
Takaful reserve transferred to general reserve	-	-	-	(25,000,000)	25,000,000	-	-	-	-
Net profit for the year ended 30 June 2006 (recognised income for the year)	-	-	-	-	-	31,962,892	31,962,892	-	31,962,892
Transfer to statutory reserve for the year ended 30 June 2006	-	6,392,578	-	-	-	(6,392,578)	-	-	-
Balance at 30 June 2006	254,721,120	59,060,932	6,856,122	-	25,000,000	27,040,460	372,678,634	-	372,678,634
	<i>Rupees</i>								
<b>Changes in equity for the year ended 30 June 2007</b>									
Profit distribution for the year ended 30 June 2006	-	-	-	-	-	(25,472,112)	(25,472,112)	-	(25,472,112)
Net profit for the year ended 30 June 2007	-	-	-	-	-	44,211,423	44,211,423	-	44,211,423
Share in surplus on revaluation of available for sale in investments - associates (recognised directly in equity)	-	-	-	-	-	-	-	227,766	227,766
Total recognised income for the year	-	-	-	-	-	44,211,423	44,211,423	227,766	44,439,189
Transfer to statutory reserve for the year ended 30 June 2007	-	8,842,285	-	-	-	(8,842,285)	-	-	-
Balance at 30 June 2007	254,721,120	67,903,217	6,856,122	-	25,000,000	36,937,486	391,417,945	227,766	391,645,711
	<i>Rupees</i>								

\* Statutory reserve represent appropriation @ 20% of profit after tax as per the Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan.

The annexed notes 1 to 43 form an integral part of these financial statements.

  
**Basheer A. Chowdry**  
 Chief Executive

  
**Zafar Iqbal**  
 Chairman

  
**M.H.S Kazmi**  
 Director

# Notes To The Financial Statements

For The Year Ended 30 June 2007

## 1. LEGAL STATUS AND NATURE OF BUSINESS

Al-Zamin Leasing Modaraba (the Modaraba) was formed in 1992 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (Modaraba Ordinance) and the Modaraba Companies and Modaraba Rules, 1981 (Modaraba Rules) and is managed by Al-Zamin Modaraba Management (Private) Limited (Modaraba Management Company), a company incorporated in Pakistan under the Companies Ordinance, 1984 and registered with the Registrar of Modaraba Companies and Modaraba (Registrar) under the Modaraba Ordinance. The Modaraba is listed on the Karachi, Lahore, and Islamabad Stock Exchanges. It is a multi purpose Modaraba and the principal business of the Modaraba is financing under leasing, musharika and morabaha arrangements and operation of Compressed Natural Gas (CNG) / Diesel filling stations.

In respect of the CNG / Diesel related projects, the Modaraba, either directly or indirectly through joint venture operations, is engaged in the following projects:

### *Joint ventures*

Centre Gas (Private) Limited and UMA Enterprises (partnership concern) (note 15.3).

### *Own projects (managed by the Modaraba as its integral part)*

- Star Petroleum (Faisalabad)
- Al Zamin Services (Rawat, near Islamabad)
- Kamoki CNG Station (Kamoki, near Lahore)

The above are CNG / Diesel filling stations. Kamoki CNG Station commenced its operations after the year end. The operations of Al Zamin Services were temporarily stopped before the year end for renovation purposes. It is expected to recommence its operations shortly. Star Petroleum was operational before the year end.

On 28 November 2001, the certificate holders of the Modaraba and shareholders of former Ghandhara Leasing Company Limited (GLCL) passed a special resolution to approve a scheme of arrangement for the amalgamation of GLCL and the Modaraba to take effect from 1 July 2000. The High Court of Sindh sanctioned the said Scheme through its order No. 43 dated 5 December 2001. Further, on 13 May 2003, the certificate holders of the Modaraba and the certificate holders of former First Professionals Modaraba (FPM) passed a similar special resolution to approve a scheme of arrangement for the amalgamation of FPM into the Modaraba to take effect from 1 July 2002. The High Court of Sindh had sanctioned the said Scheme through its order No. 23/2003 dated 1 July 2003. In accordance with the above schemes of arrangement for amalgamations, the Modaraba issued its fully paid-up certificates to the shareholders of GLCL and certificate holders of FPM in proportion of one certificate for every one share held in GLCL and certificate held in FPM.

The registered office of the Modaraba Management Company is situated in Karachi.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

2.1.1 These financial statements have been prepared in accordance with the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Modaraba Companies and Modaraba Rules, 1981 and the 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 Financial Reporting Standards 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 take precedence.

2.1.2 SECP vide its circular No. 10 of 2004 dated 13 February 2004 has deferred, till further orders, the applicability of International Accounting Standard (IAS) 17 "Leases" on Modarabas with effect from 1 July 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 above IAS have been considered for the purpose of preparation of these financial statements.



### **2.1.3 New accounting standards, interpretations and amendments that are not yet effective**

The following standards, interpretations and amendments in approved accounting standards are only effective for accounting periods beginning on or after 1 January 2007 and are either not relevant to the Modaraba's operations or are not expected to have significant impact on the Modaraba's financial statements other than certain increased disclosures in the certain cases:

- IAS 1 - Presentation of Financial Statements - Amendments Relating to Capital Disclosures.
- IAS 23 - Borrowing Costs (as revised).
- IAS 41 - Agriculture.
- IFRS 2 - Share-based Payments.
- IFRS 3 - Business Combinations.
- IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations.
- IFRS 6 - Exploration for and Evaluation of Mineral Resources.
- IFRIC 10 - Interim Financial Reporting and Impairment.
- IFRIC 11 - Group and Treasury Share Transactions.
- IFRIC 12 - Service Concession Arrangements.
- IFRIC 13 - Customer Loyalty Programmes.
- IFRIC 14 - The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction.

During the year a Islamic Financial Accounting Standard (IFAS) – 2 'Ijarah' was issued by the Institute of Chartered Accountants of Pakistan and promulgated by the Securities and Exchange Commission of Pakistan (SECP) vide an SRO dated 22 May 2007. As per the above SRO, this IFAS has to be followed for the purposes of the preparation of the financial statements of the Modarabas while accounting for the 'Ijarah' (lease) transactions. Ijarah has been defined in the above IFAS as 'a contract whereby the owner of an asset other than consumable, transfers its usufruct to another person for an agreed period for an agreed consideration'. These transactions have to comply with the shariah essentials in order to qualify as an 'Ijarah' arrangement.

Under the above IFAS 2, the 'Ijarah' transactions shall be accounted for in the following manner in the books and records of the Modaraba:

- 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.
- 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.

Similar accounting practices have been prescribed for the accounting of Ijarah arrangements in the books and records of the Musta'jir (lessees), i.e. the assets subject to Ijarah transactions would not be recognized as asset and accordingly no depreciation would need to be charged thereon. Instead the rental payments should be recognized as an expense in the profit and loss account.

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

Currently, the Modaraba Association of Pakistan, has approached the SECP for the deferment of the above IFAS.

## **2.2 Accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates, and assumptions that affect the application of policies and reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision 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 its revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material judgment in the next year are discussed below.

*Provision against non-performing leasing portfolio, musharika and morabaha finances*

The Modaraba reviews its loan portfolio of lease / Ijarah finance, musharika and morabaha financing to assess amount of non-performing portfolio and provision required there against on a regular basis. The provision is made in accordance with the requirements of the Prudential Regulations for Modarabas.

*Income taxes*

No provision has been made in these financial statements for income taxes (both current and deferred) as the Modaraba expects to distribute at least 90% of its profits to certificate holders in current and future years.

For the above purposes, and also in respect of making an estimates for income tax currently payable by the Modaraba (if so required), the management considers the current income tax laws and the decisions of the appellate authorities on certain issues.

*Investments stated at fair value*

Management has determined fair value of certain investments by using quotations from the active market. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and judgement (e.g. valuation, interest rates, etc.) and therefore, cannot be determined with precision.

*Classification of investments*

- In classifying investments as 'held for trading', the Modaraba has determined securities which are acquired with an intention to trade by taking advantage of short term market / interest rate movements.
- In classifying investments as 'held to maturity', the Modaraba follows the guidance given in the approved accounting standard on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgement, the Modaraba evaluates its intention and ability to hold such investment to maturity.
- The investments which are not classified as 'held for trading', as at fair value through profit or loss upon initial recognition, or 'held to maturity', are classified as available for sale.

*Depreciation and amortisation of operating fixed assets*

In making estimates of the depreciation / amortisation method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Modaraba. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

### **3. BASIS OF PRESENTATION**

These financial statements have been prepared under the historical cost convention, except that investments at fair value through profit or loss and available-for-sale, if any, are measured at fair values. These financial statements are presented in Pakistan Rupees, which is the functional currency of the Modaraba and have been rounded off to the nearest Rupee.

## **4. SIGNIFICANT ACCOUNTING POLICIES**

### **4.1 Investments**

All investments are initially recognised at cost, being the fair value of the consideration given including the transaction costs associated with the investment except in case of held for trading investments, in which case these are charged off to the profit and loss account. All regular way of purchases and sale of investments are recognised / derecognised on the trade date. After initial recognition these are categorised and accounted for as follow:

#### **4.1.1 *Investments in joint ventures and associated undertakings***

These investments are initially recognised at cost. Thereafter the Modaraba's share of the changes in the net assets of the joint ventures and associates are accounted for at the end of each period. Share of profit and loss of the joint ventures and associates are accounted for in the Modaraba's profit and loss account under the equity basis of accounting, whereas changes in the joint ventures' equity, which has not been recognised by them in their profit and loss account, are recognised directly in the equity of the Modaraba.

#### **4.1.2 *Held-to-maturity***

Investments with fixed maturity where the management has both the intent and ability to hold till maturity are classified as held to maturity. These investments are stated at amortised cost.

#### **4.1.3 *Financial asset at fair value through profit or loss***

This category has two sub-categories, namely; financial instruments held for trading, and those designated at fair value through profit or loss upon initial recognition.

##### *- Financial instruments held for trading*

Investments which are acquired principally for the purposes of generating profit from short term fluctuation in price or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading.

##### *- Financial instruments designated at fair value through profit or loss upon initial recognition*

Investments designated at fair value through profit or loss upon initial recognition include those group of investments which are managed and their performance evaluated on fair value basis in accordance with the entity's documented investment strategy.

After initial recognition, the above investments are remeasured at fair value determined with reference to the year-end quoted rates (equity shares and investments of closed ended funds at respective stock exchange rates, while units of open ended funds at their declared net asset value per unit). Gains or losses on investments on remeasurement of these investments are recognised in profit and loss account.

##### *Available-for-sale*

Investments which do not fall under the above categories are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognized directly in equity. Gains or losses on available-for-sale investments are recognized directly in equity until the investments are sold or disposed off, or until the investments are determined to be impaired, at that time cumulative gain or loss previously reported in the equity is included in current year's profit and loss.

All investments classified as available-for-sale are initially recognized at cost inclusive of transaction costs and subsequently quoted investments are marked to market using the last quoted rate at the close of the financial year. Fair value of unquoted investments is estimated based on appropriate valuation method if it is practicable to determine it.

### **4.2 Net investment in lease finance**

Leases, where the Modaraba transfers substantially all the risks and rewards incidental to ownership of an asset to the lessees, are classified as finance leases. A receivable is recognised at an amount equal to the present value of the lease payments, including any guaranteed residual value. Provision for potential lease losses is made in accordance with the requirements of the Prudential Regulations for Modarabas issued by the SECP and is charged to the profit and loss account currently.

### **4.3 Receivable from terminated / matured contracts**

These are stated net of impairment losses, if any. 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.

### **4.4 Fixed assets and depreciation**

#### **4.4.1 Tangible - in own use**

##### *Owned*

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation on fixed assets 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 from the month the asset is available for intended use up to the month of disposal.

Normal repairs and maintenance is charged to the profit and loss account as and when incurred. Major renewal and maintenance is capitalised as and when incurred. Gain or loss on disposal of assets, if any, is taken to the profit and loss account currently.

##### *Leased*

Assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of minimum lease payments at the inception of lease less accumulated depreciation and impairment losses, if any. Finance charge on lease obligation is recognised in the profit and loss account over the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding balance.

Depreciation on assets subject to finance lease is recognised in the same manner as owned assets.

#### **4.4.2 Intangible - in own use**

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. These are amortized using the straight line method reflecting the pattern in which the economic benefits of the asset are consumed by the Modaraba.

### **4.5 Revenue recognition**

#### **4.5.1 Finance lease income**

The financing method is used in accounting for income on finance leases. Under this method the unearned lease income i.e. the excess of aggregate lease rentals and the estimated residual value over the net investment (cost of leased assets) is amortized to income over the term of the lease, so as to produce a constant periodic rate of return on net investment outstanding in the leases.

Front end fee, commitment charges, gain on termination of lease contracts, documentation charges, and other lease income are recognised as income when these are realised.

#### **4.5.2 Income on debt investment securities, bank deposits, morabaha and musharika investments and finances**

Income on above assets is recognised on a time proportion basis under the effective yield method.

#### **4.5.3 Dividend income**

Dividend income from investments (other than investment in joint ventures) is recognised when the right to receive the same is established i.e. at the time of closure of share transfer books of the company declaring the dividend.

#### **4.5.4 Gain on sale of investments**

Gain or loss on sale of investments is taken to income in the period in which it arises.

#### **4.5.5 Unrealised income on non-performing assets**

Unrealized income is suspended, where necessary (on non-performing assets including the non-performing lease portfolio), in accordance with the requirements of the Prudential Regulations for Modarabas issued by the SECP. The unrealised suspended income is recognised in income on receipt basis.

#### **4.5.6 Sale of CNG / Diesel**

Income from the sale of CNG / Diesel are recognised on filling of the related vehicles, etc.

#### **4.6 Taxation**

##### *Current*

Provision for current taxation is made on taxable income at current rates of tax after taking into account the available tax credits, if any, and on income taxable under the presumptive tax regime at the applicable rate. The income of a modaraba from non-trading activities is exempt from tax provided that not less than 90% of its profits, as reduced by the amount transferred to statutory reserve, are distributed to the certificate-holders.

##### *Deferred*

Deferred tax is recognised using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their tax base. This is recognised on the basis of the expected manner of the realisation and the settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognised to the extent that future taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised.

Deferred tax liability or asset is not recognised if the management expects to continue to distribute at least 90% of its profit in future years (due to which no tax would be payable as explained above).

#### **4.7 Staff retirement and other benefits**

##### **4.7.1 Employees' defined benefit scheme - gratuity**

During the year ended 30 June 2006, the Modaraba introduced a defined benefit final basic salary based unfunded gratuity scheme with effect from 1 July 2005 (in respect of services rendered after this date). As per the scheme, an employee is entitled to gratuity equivalent to one month's basic salary for every completed year of service or part thereof in excess of six months.

##### **4.7.2 Provident fund**

Modaraba operates an approved contributory provident fund scheme for employees eligible under the scheme. Equal monthly contributions are made both by the Modaraba and the employees at 10% of the basic salary.

##### **4.7.3 Compensated absences**

The Modaraba also makes provision in the financial statements for its liability towards compensated absences based on the leaves accumulated up to the balance sheet date in accordance with the service rules.

#### **4.8 Grant**

Grant received relating to income is recognised in the balance sheet as deferred income when there is reasonable assurance that the Modaraba will comply with the conditions attaching to it. This grant, that compensates the Modaraba for expenses incurred are recognised as revenue in the profit and loss account on a systematic basis in the same periods in which the expenses are incurred. However, expenses incurred are shown as deductions from the grant received.

#### **4.9 Off-Setting of financial assets and financial liabilities**

A financial asset and a financial liability is set-off and the net amount is reported in the balance sheet if the Modaraba has a legal right to set-off the transactions and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### **4.10 Financial instruments**

All the financial assets and liabilities are recognized at the time when the Modaraba becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of the financial asset and financial liabilities is taken to income directly.

#### **4.11 Impairment**

The carrying amount of the Modaraba's assets other than deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of assets is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss account.

#### **4.12 Provisions**

A provision is recognised in the balance sheet when the Modaraba has a 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 can be made of the amount of the obligation.

#### **4.13 Cash and cash equivalents**

Cash and cash equivalents for cash flow purposes comprises cash in hand and with banks including the term deposits.

#### **4.14 Stock in trade**

These are valued at lower of cost and net realisable value. Net realisable value signifies the estimated selling price in the ordinary course of the business less estimated cost of completion and selling expenses. Cost is determined under the First In First Out (FIFO) basis.

#### **4.15 Morabaha borrowings and financing**

Consequent to adoption of Islamic Financial Accounting Standards 1 - Morabaha, issued by the Institute of Chartered Accountants of Pakistan, the Modaraba has changed its accounting policy in respect of the recording of morabaha borrowings and financing (receivables). Effective 1 July 2006, the Modaraba accounts for the morabaha as follows:

- Funds disbursed for purchase of goods are recorded as 'Advance for morabaha'. On the culmination of morabaha i.e. on sale of goods to the customers, morabaha financings are recorded at the deferred sale price net of profit. Previously, morabaha financings were recorded at the time of disbursement of funds.
- Goods purchased but remaining unsold at the balance sheet date are recorded as inventories. Previously, these were recorded as advance against future morabaha.
- Consistent with prior years, profit on morabaha is recognised on accrual basis. However, profit for the period from the date of disbursement to the date of culmination of morabaha is recognised immediately upon the later date. Previously, profit on morabaha was recognised from the date of disbursement.
- Funds received against sale of goods are recorded as 'morabaha payable'. On the culmination of morabaha i.e. on purchase of goods from the counter party, morabaha payables are recorded at the deferred purchase price net of expense. Previously, morabaha payables were recorded at the time of receipt of funds.
- Consistent with prior years, expense on morabaha is recognised on accrual basis. However, expense for the period from the date of receipt to the date of culmination of morabaha is recognised immediately upon the later date. Previously, expense on morabaha was recognised from the date of disbursement.

The above change has been applied retrospectively by the company in accordance with the requirements of International Accounting Standard - 8 "Accounting Policies, Change in Accounting Estimates and Errors". There is no impact on the profit of the current period or the previous periods as a result of this change. Due to this change the morabaha balances are grossed up of unearned income and deferred expense and simultaneously the same is shown as a deduction from the grossed up morabaha balance. This grossing up and deduction (presentation) is made in the notes to the financial statements (notes 8.4 and 25.3). On a net basis, due to this change, there is no effect on the financial statements.

			2007	2006
<b>5. CASH AND BANK BALANCES</b>				
Cash in hand			388,175	276,770
Cash with State Bank of Pakistan - current account			51,916	89,249
Cash with banks:				
- Profit and loss sharing accounts			206,434,431	27,216,988
- Current accounts			5,719,564	1,752,141
		<i>Rupees</i>	<u>212,594,086</u>	<u>29,335,148</u>
<b>6. SHORT TERM INVESTMENTS</b>				
Held for trading		6.1	13,928,293	14,562,931
At fair value through profit or loss upon initial recognition		6.2	39,998,660	33,218,935
Available for sale		6.3	10,000,000	-
Horizon Compression - joint venture		6.4	-	4,624,142
			<u>63,926,953</u>	<u>52,406,008</u>
Available for sale investments transferred to long term investments		6.3 & 15	(10,000,000)	-
		<i>Rupees</i>	<u>53,926,953</u>	<u>52,406,008</u>
<b>6.1 Held for trading</b>				
	2007	2006		
	(Number of shares)			
	11,500	-	Pakistan Oil Fields Limited	3,645,500
	32,398	28,000	Pioneer Cement Limited	1,211,685
	133,500	138,500	AMZ Ventures Limited	921,150
	45,000	-	Fauji Cement Company Limited	886,500
	15,000	15,000	Pakistan Telecommunication Company Limited	855,000
	120,000	110,000	Karachi Electric Supply Corporation Limited	810,000
	2,000	-	Packages Limited	638,100
	35,000	30,000	Dewan Farooq Motors Limited	556,500
	4,000	-	Nishat Mills Limited	521,800
	2,000	-	Engro Chemical Pakistan Limited	506,000
	20,000	-	Maple Leaf Cement Factory Limited	488,000
	10,000	-	PICIC Commercial Bank Limited	440,000
	20,000	7,000	Bosicor Pakistan Limited	355,000
	2,500	-	Arif Habib Securities Limited	291,500
	2,000	-	Allied Bank Limited	277,900
	2,000	4,400	Fauji Fertilizer Company Limited	242,500
	1,000	8,375	United Bank Limited	219,950
	5,000	-	Nishat Chunian Limited	205,750
	15,000	15,000	Dewan Hattar Cement Limited	192,000
	2,500	-	Bank Al-Habib Limited	166,250
	2,150	-	Sui Northern Gas Pipeline Limited	152,114
	2,000	10,700	Faysal Bank Limited	148,000
	1,650	1,500	Bestway Cement Limited	135,218
	400	-	Pakistan Industrial Credit and Investment Corporation	32,840
	440	400	Meezan Bank Limited	14,080
	75	-	Attock Refinery Limited	8,741
	74	-	Bank Alfalah Limited	4,817
	12	13,000	The Bank of Punjab	1,398
	-	11,460	Askari Commercial Bank Limited	-
	-	25,000	Callmate Telips Limited	888,723
	-	3,500	Hub Power Company Limited	1,387,509
	-	20,500	Kot Addu Power Company Limited	80,500
	-	10,000	MCB Bank Limited	863,050
	-	35,000	NIB Bank Limited	2,103,077
	-	7,500	Pakistan International Airlines Corporation	717,500
	-	2,700	Standard Chartered Bank (Pakistan) Limited	102,750
			<u>-</u>	<u>199,805</u>
		<i>Rupees</i>	<u>13,928,293</u>	<u>14,562,931</u>

The above are investments in ordinary shares of Rs. 10 each except for the ordinary shares of Karachi Electric Supply Corporation Limited which are of Rs. 3.50 each.

## 6.2 At fair value through profit or loss upon initial recognition

2007	2006		2007	2006
(Number of units)				
<i>Open-ended mutual funds</i>				
100,000	–	Meezan Islamic Income Fund	5,220,000	–
50,950	50,000	NAFA Cash Fund	564,185	509,500
–	144,687	Meezan Islamic Fund	–	11,013,531
–	200,334	Pakistan Element Fund	–	9,549,922
–	100,000	AKD Opportunity Fund	–	4,425,000
–	11,045	Crosby Dragon Fund	–	1,219,932
			<b>5,784,185</b>	<b>26,717,885</b>
<i>Closed-end mutual funds</i>				
2,000,000	–	NAMCO Balanced Fund	19,500,000	–
1,000,000	–	UTP Large Capital Fund	8,450,000	–
435,275	658,500	First Dawood Mutual Fund	3,917,475	6,124,050
65,000	–	PICIC Growth Fund	2,197,000	–
20,000	20,000	PICIC Energy Fund	150,000	164,000
–	20,000	Pakistan Strategic Fund	–	213,000
			<b>34,214,475</b>	<b>6,501,050</b>
			<b>Rupees 39,998,660</b>	<b>33,218,935</b>

Under clause 7(8) of part-II of the Prudential Regulations for Modarabas, the investment of the modaraba in listed securities shall not be more than 20% of the equity of the modaraba. However, the Securities and Exchange Commission of Pakistan vide its letter dated 20 January 2006 has relaxed the above limit to the extent of 30% of the equity of the Modaraba, with an advice that the relaxed limit may be used for Takaful Reserve Fund Investments (refer Note 7).

## 6.3 Available for sale

This represent investment in 1,000,000 ordinary shares of Rs. 10 each of First Dawood Islamic Bank Limited acquired during pre-initial public offering. Aforesaid shares are blocked with the State Bank of Pakistan and cannot be sold / transferred without the prior approval of the State bank of Pakistan for a period of three years (from 30 November 2006) or as specified by the State Bank of Pakistan.

6.4 The joint venture was disposed off during the year at a net gain of Rs. 3 million.

## 7. TAKAFUL RESERVE FUND INVESTMENTS

- at fair value through profit or loss upon initial recognition

Open-ended mutual funds

118,871	131,029	Faysal Balanced Growth Fund	14,433,317	13,920,521
202,639	–	Pakistan International Islamic Fund	11,935,437	–
13,864	11,250	Atlas Stock Market Fund	9,647,264	7,366,496
79,681	105,350	Meezan Islamic Fund	6,022,290	8,019,851
			<b>42,038,308</b>	<b>29,306,868</b>

Closed-end mutual funds

500,000	1,500,000	UTP Large Capital Fund	4,225,000	12,750,000
101,000	500,000	Meezan Balanced Fund	1,035,250	5,025,000
			<b>5,260,250</b>	<b>17,775,000</b>
			<b>Rupees 47,298,558</b>	<b>47,081,868</b>



		2007	2006
<b>8. SHORT TERM MUSHARIKA AND MORABAHA</b>			
Musharika - unsecured (considered good)	8.1	<b>290,000,000</b>	36,000,000
Musharika - secured			
- Considered good	8.2	<b>121,449,295</b>	69,941,690
- Impaired balance		<b>3,915,484</b>	3,915,484
		<b>415,364,779</b>	109,857,174
Provision against impaired balances	8.3	<b>(3,915,484)</b>	(3,915,484)
		<b>411,449,295</b>	105,941,690
Morabaha - considered good (secured)	8.4	<b>5,912,660</b>	30,193,460
	<i>Rupees</i>	<b>417,361,955</b>	136,135,150

**8.1** This represents unsecured financing for working capital for the periods ranging between 16 to 194 days and carries profit rates ranging between 8.8% to 12.5% (2006: 10.5% to 13.75%) per annum.

**8.2** This represents funds given (investments) for working capital purposes for the periods ranging between 30 to 365 days and are secured against mortgaged properties, hypothecation of stock demand promissory notes and personal guarantee of sponsor directors and carries profit ranged between 8.8% to 33.75% (2006: 10% to 24%) per annum. This includes Rs. 30 million invested with a financial institution in accordance with the provision of the terms and condition of Certificates of Musharika (refer note 19.2).

**8.3** The above musharika and morabaha finances include non-performing portfolio of Rs. 27.614 million, details of which are as follows:

**Category of classification**

	2007			2006		
	Principal outstanding	Provision required	Provision held	Principal outstanding	Provision required	Provision held
Other assets especially mentioned	313,017	-	-	-	-	-
Substandard	1,785,533	-	-	4,500,000	-	-
Loss	25,515,484	3,915,484	3,915,484	21,015,484	3,915,484	3,915,484
	<i>Rupees</i>	<b>27,614,034</b>	<b>3,915,484</b>	<b>25,515,484</b>	<b>3,915,484</b>	<b>3,915,484</b>

		2007	2006
<b>8.4 Morabaha - considered good (secured)</b>			
Morabaha receivables - gross		<b>7,906,299</b>	33,130,075
Deferred morabaha income		<b>(336,998)</b>	(800,639)
Profit receivable shown in other receivable		<b>(1,656,641)</b>	(2,135,976)
Morabaha financings/receivables	<i>Rupees</i>	<b>5,912,660</b>	30,193,460

Morabaha finances are for working capital purposes for the periods ranging between 92 to 365 days and are secured against hypothecation of stock, demand promissory notes and personal guarantee of sponsor directors and carries profit rate of 26% (2006: 20% to 26%) per annum.

		2007	2006
<b>9. ADVANCES AND PREPAYMENTS</b>			
Advance income tax		<b>8,532,961</b>	8,052,306
Staff advances	9.1	<b>581,385</b>	255,000
Advance against expenses / purchases		<b>1,801,800</b>	150,000
Expense recoverable in respect of the establishment of a proposed Islamic Bank	9.2	<b>9,145,756</b>	7,705,196
Advance lease rent payment against finance lease obligation		<b>112,344</b>	186,581
Prepayments		<b>16,433,933</b>	9,741,403
	<i>Rupees</i>	<b>36,608,179</b>	26,090,486

**9.1** The staff advances carry service charges at 5% per annum and are secured against the staff retirement benefits.

**9.2** This represent professional charges, fees and other related expenses incurred for the proposed establishment of an Islamic Bank which will be fully recovered from the proposed Islamic Bank.

The Modaraba is having discussions with a Islamic Bank in Dubai for the establishment of an Islamic Bank in Pakistan. The Islamic Bank in Dubai is proposed to be the major shareholder of the said proposed Islamic Bank in the country. The shareholders agreement between the bank in Dubai and Al Zamin Leasing Modaraba has yet to be signed. However, the said Bank in Dubai has given an undertaking to the SBP to invest in the proposed Islamic Bank in Pakistan with 94% holding, subject to the SBP's confirmation and issuance of the Banking License to the proposed Islamic Bank and the execution of the above referred agreement, etc.

## 10. OTHER RECEIVABLES

Accrued profit on morabaha and musharika investments		<b>16,557,802</b>	3,733,830
Assets to be repossessed	10.2	<b>3,000,000</b>	3,000,000
Profit receivable on term finance certificates (note 15.1)		<b>5,302,929</b>	5,764,231
Receivable against sale of equity shares	10.3	<b>5,546,270</b>	27,943,621
Dividend receivable		<b>1,505,000</b>	2,942,875
Others	10.4	<b>57,597,451</b>	47,173,809
		<b>89,509,452</b>	90,558,366
Provision against doubtful receivables	10.1	<b>(28,977,792)</b>	(21,691,292)
	<i>Rupees</i>	<b>60,531,660</b>	68,867,074

### 10.1 Movement of provision against doubtful receivables

Opening balance		<b>21,691,292</b>	6,465,698
Charge for the year - terminated lease receivable balance		<b>4,432,250</b>	12,244,129
- other receivable		<b>1,081,464</b>	952,230
Transferred from provision against net investment in lease		<b>1,050,805</b>	1,006,495
Transferred from provision against lease rent receivable		<b>-</b>	1,022,740
Written off during the year		<b>721,981</b>	-
		<b>7,286,500</b>	15,225,594
Closing balance	<i>Rupees</i>	<b>28,977,792</b>	21,691,292

**10.2** A suit has been filed by the Modaraba for Rs. 3 million including penalties against a lessee for repossession of leased assets. However, provision for the full amount has been made in these financial statements.

10.3 Subsequent to the year end, the amount was received.

	2007	2006
10.4 The details of other receivables are as follows:		
Insurance claims receivable	12,225,366	5,005,602
Repossessed assets (against terminated leases)	22,460,419	20,916,273
Other terminated lease / musharika receivables	16,419,005	14,756,701
Insurance premium recoverable	3,975,943	1,889,470
Others	2,516,718	4,605,763
	<u>57,597,451</u>	<u>47,173,809</u>
Provision held	<u>(25,829,635)</u>	<u>(18,716,484)</u>
	<i>Rupees</i> <u>31,767,816</u>	<u>28,457,325</u>

#### 11. CURRENT MATURITY OF LONG TERM RECEIVABLES

Musharika receivables	13	86,163,446	38,125,134
Net investment in finance leases	14	872,359,474	615,673,996
Investments - held - to - maturity term finance certificates	15.1	19,581,312	19,581,312
	<i>Rupees</i>	<u>978,104,232</u>	<u>673,380,442</u>

#### 12. STOCK IN TRADE

CNG Cylinders		-	1,689,800
Diesel		431,451	-
	<i>Rupees</i>	<u>431,451</u>	<u>1,689,800</u>

This represent stock of B407 diesel as on 30 June 2007 held at a CNG filling station in Faisalabad.

#### 13. LONG TERM MUSHARAKA - secured

Non Banking Finance Companies		1,468,634	17,575,625
Other companies		102,049,698	22,137,667
Individuals		31,021,450	5,452,723
		<u>134,539,782</u>	<u>45,166,015</u>
Receivable within one year shown under current assets		<u>(86,163,446)</u>	<u>(38,125,134)</u>
		48,376,336	7,040,881
Provision against impaired balances	13.2	<u>(478,000)</u>	<u>(296,000)</u>
	<i>Rupees</i>	<u>47,898,336</u>	<u>6,744,881</u>

13.1 This represents investments under musharika basis for working capital purposes. These are secured against musharika finance (borrowing), hypothecation of stock, demand promissory note and personal guarantee of sponsor directors. Profit rates ranges between 10% to 32.38% (2006: 10.5% to 30%). These are payable in monthly / quarterly instalments by 31 May 2010.

#### 13.2 Movement of provision against impaired balances

Opening balance		296,000	-
Charge for the year		182,000	296,000
Closing balance	<i>Rupees</i>	<u>478,000</u>	<u>296,000</u>

This represents provision against a non-performing receivable balance of Rs. 1.794 million (2006: 1.8 million) classified as loss.

#### 14. NET INVESTMENT IN FINANCE LEASES

	2007			2006		
	Due within one year	Due after one year but within five years	Total	Due within one year	Due after one year but within five years	Total
Minimum lease payments receivable	897,692,753	1,010,296,397	1,907,989,150	654,896,875	897,580,736	1,552,477,611
Residual value of leased assets	158,236,982	663,117,099	821,354,081	140,335,582	503,077,487	643,413,069
Lease contracts receivable	1,055,929,735	1,673,413,496	2,729,343,231	795,232,457	1,400,658,223	2,195,890,680
Unearned lease income (including suspended income)	(170,221,803)	(242,676,076)	(412,897,879)	(167,322,348)	(149,840,439)	(317,162,787)
Provision for potential lease losses	(13,348,458)	(21,562,567)	(34,911,025)	(12,236,113)	(24,843,018)	(37,079,131)
	(183,570,261)	(264,238,643)	(447,808,904)	(179,558,461)	(174,683,457)	(354,241,918)
<i>Rupees</i>	872,359,474	1,409,174,853	2,281,534,327	615,673,996	1,225,974,766	1,841,648,762

#### 14.1 Movement of provision for potential lease losses

	2007	2006
Opening balance	37,569,989	33,582,946
Charge for the year	4,159,615	17,480,370
Written off during the year	(370,301)	(6,774,064)
Transferred to provision against other receivable	(1,050,805)	(1,006,495)
Reversal during the year	(5,397,473)	(6,203,626)
	(2,658,964)	3,496,185
Closing balance	<i>Rupees</i> 34,911,025	37,079,131

14.2 The Modaraba has entered into various lease agreements with profit rates ranging from 8% to 30% (2006: 9% 13%) per annum. The agreements usually are for three to five years period. These are generally secured against the leased assets, personal / corporate guarantees and promissory notes given by the lessees and other collaterals.

14.3 The above net investment in finance lease includes non-performing lease portfolio of Rs. 123.208 million (2006: Rs. 84.474 million). Details of these leases are as follows:

#### Category of classification

	2007			2006		
	Principal outstanding	Provision required	Provision held	Principal outstanding	Provision required	Provision held
Other assets especially mentioned	34,834,534	-	-	23,197,791	-	-
Substandard	9,086,573	1,162,334	1,162,334	4,645,631	125,202	125,202
Doubtful	22,957,783	2,131,798	2,131,798	13,065,494	4,092,041	4,092,041
Loss	56,329,357	31,616,893	31,616,893	43,565,721	32,861,888	32,861,888
<i>Rupees</i>	123,208,247	34,911,025	34,911,025	84,474,637	37,079,131	37,079,131

		2007	2006
<b>15. LONG TERM INVESTMENTS</b>			
Held to maturity investments	15.1	<b>71,834,001</b>	91,415,313
Investment in related parties	15.3	<b>59,652,249</b>	42,213,975
Available for sale investments	6.3	<b>10,000,000</b>	–
	<i>Rupees</i>	<u><b>141,486,250</b></u>	<u>133,629,288</u>
<b>15.1 Held to maturity investments</b>			
Term Finance Certificates of Dewan Cement Limited	15.1.1	<b>64,470,047</b>	81,977,571
Term Finance Certificates of Dewan Hattar Cement Limited	15.1.2	<b>7,363,954</b>	9,437,742
	<i>Rupees</i>	<u><b>71,834,001</b></u>	<u>91,415,313</u>
<b>15.1.1 TFCs of Dewan Cement Limited - related party (due to the nominee director)</b>			
TFC series "A"	15.1.1.1	<b>79,380,863</b>	96,888,387
TFC series "B"	15.1.1.2	<b>2,596,708</b>	2,596,708
		<u><b>81,977,571</b></u>	<u>99,485,095</u>
Current portion of term finance certificates		<u><b>(17,507,524)</b></u>	<u>(17,507,524)</u>
	<i>Rupees</i>	<u><b>64,470,047</b></u>	<u>81,977,571</u>
<b>15.1.1.1</b>	These are payable in 8 equal biannual instalments of Rs. 8.754 million from 15 July 2007 upto 15 January 2011. The 9th instalment of Rs. 9.351 million is due on 15 July 2011. TFC series "A" carries profit at six months average KIBOR (ask side), prevailing at the time of previous redemption plus 2.5%.		
<b>15.1.1.2</b>	TFC series "B" are payable in 4 equal biannual instalments of Rs. 0.649 million from 15 January 2012 to 15 July 2013 and does not carry any profit.		
<b>15.1.2 TFCs of Dewan Hattar Cement Limited</b>			
TFC series "A"	15.1.2.1	<b>9,365,142</b>	11,438,930
TFC series "B"	15.1.2.2	<b>72,600</b>	72,600
		<u><b>9,437,742</b></u>	<u>11,511,530</u>
Current portion of term finance certificates		<u><b>(2,073,788)</b></u>	<u>(2,073,788)</u>
	<i>Rupees</i>	<u><b>7,363,954</b></u>	<u>9,437,742</u>
<b>15.1.2.1</b>	These are repayable in 8 equal biannual instalments of Rs. 1.0369 million from 15 July 2007 upto 15 January 2011. The 9th instalment of Rs. 1.07 million is due on 15 July 2011. TFC series "A" carries profit at six months average KIBOR (ask side), prevailing at the time of previous redemption plus 2.5%.		
<b>15.1.2.2</b>	TFC series "B" are payable in 4 equal biannual instalments of Rs. 0.01815 million from 15 January 2012 to 15 July 2013 and does not carry any profit.		
<b>15.2</b>	The above TFCs have been issued for the amounts due against finance lease arrangements with Dewan Cement Limited (DHL) and Dewan Hattar Cement Limited (DHCL).		

		2007	2006
<b>15.3 INVESTMENTS IN RELATED PARTIES</b>			
In joint ventures (CNG / Diesel filling stations)			
- Centre Gas (Private) Limited	15.3.1	<b>28,260,894</b>	29,903,656
- UMA Enterprises	15.3.2	<b>25,000,000</b>	12,310,319
- Horizon Compression		-	4,624,142
		<u><b>53,260,894</b></u>	<u>46,838,117</u>
Associated undertaking-Crescent Leasing Corporation Limited	15.3.3	<b>6,391,355</b>	-
		<u><b>59,652,249</b></u>	<u>46,838,117</u>
Horizon Compression - transferred to short term investment		-	(4,624,142)
	<i>Rupees</i>	<u><b>59,652,249</b></u>	<u>42,213,975</u>

**15.3.1** The summarised financial information and the share of profit given below are based on audited financial statements of Centre Gas (Private) Limited as of 30 June 2007 audited by another firm of auditors.

	<b>Total current assets</b>	<b>Total assets</b>	<b>Total current liabilities</b>	<b>Total liabilities</b>	<b>Revenue for the year</b>	<b>Net profit for the year</b>
Center Gas (Private) Limited	<i>Rupees</i>	<u><b>14,886,408</b></u>	<u><b>33,672,608</b></u>	<u><b>4,958,366</b></u>	<u><b>6,834,979</b></u>	<u><b>39,132,462</b></u>
					<u><b>39,132,462</b></u>	<u><b>9,010,086</b></u>

The company's paid-up share capital is Rs. 5 million comprising 5000 ordinary shares of Rs. 1000 each. The equity as at 30 June 2007 was Rs. 26.837 million.

Details of the investment is as follows:

	2007	2006
Opening balance	<b>29,903,656</b>	-
Investment made	-	29,410,852
Share of profit for the year / period	<b>4,505,043</b>	492,804
Dividend received	<b>(6,147,805)</b>	-
	<i>Rupees</i>	
	<u><b>28,260,894</b></u>	<u>29,903,656</u>

Securities & Exchange Commission of Pakistan (SECP) through its letter dated 8 January 2007 have relaxed the limit presented in regulation 7(7) of the Prudential Regulation to invest in the shares of Centre Gas (Private) Limited up to 8% of the equity of the Modaraba as of 30 June 2006. Accordingly, the Modaraba is allowed to invest up to Rs. 29.814 million.

**15.3.2** During the year ended 30 June 2006, the Modaraba entered into a partnership agreement with two other parties namely, Universal Textile Mills (Private) Limited (Universal) and Madni Petroleum & CNG Service (Private) Limited (Madni). Under the agreement, a partnership firm UMA Enterprises (UMA) has been established for a minimum period of 20 years with an option to renew the said partnership deed for a further period of 10 years with the mutual consent of all the parties. UMA shall be engaged in the business of procurement, instalment, maintenance and operation of a retail outlet / CNG station, etc. Universal is responsible for providing land on which the CNG station would be established (for twenty years lease renewable for another ten years). Madni is responsible for the completion of the retail outlet / CNG station, comprising the installation of equipments, construction of structure, etc., the commissioning of the project and the management of the project. The Modaraba is responsible for providing the finances up to Rs. 25 million required for the establishment of the project. Financial

control of the Enterprise vests with the Modaraba. The financial statements of UMA Enterprises as of 30 June 2007 have been audited by another firm of Chartered Accountants.

The above carrying value represents the funds invested by the Modaraba up to 30 June 2007. Once operational, the profit and losses from the project would be shared by the Modaraba at 40%. The project commenced its operations in July 2007.

**15.3.3** During the year the Modaraba acquired 500,000 (1.1%) shares of Crescent Leasing Corporation Limited (CLCL) at an agreed price of Rs. 13 per share along with a group of other sponsors as part of the of the transfer of ownership of the controlling shares of 27.06 million (59.62%) from the then sponsors of Crescent Leasing Corporation Limited under the approval of Securities and Exchange Commission of Pakistan dated 22 March 2007. The investment has been accounted for under equity method due to the significant influence of the Modaraba over CLCL. The Modaraba's Chief Executive is a Director of CLCL.

The summarised financial information and the share of profit given below are based on unaudited unconsolidated financial statements of Crescent Leasing Corporation Limited as of 30 June 2007.

	<b>Total current assets</b>	<b>Total assets</b>	<b>Total current liabilities</b>	<b>Total liabilities</b>	<b>Revenue for the year</b>	<b>Net loss for the year</b>
----- Rupees in '000 -----						
Crescent Leasing Corporation Limited	<u>1,977,289</u>	<u>3,837,224</u>	<u>1,667,537</u>	<u>3,237,407</u>	<u>415,317</u>	<u>(105,943)</u>

CLCL's paid-up share capital is Rs. 453.9 million comprising 45.39 million ordinary shares of Rs. 10 each. Its equity as at 30 June 2007 based on the above unaudited unconsolidated financial statements was Rs. 599.817 million.

	<b>2007</b>	<b>2006</b>
Detail of the investment is as follows:		
Investment made	<b>6,651,300</b>	-
Post acquisition share of loss	<b>(487,711)</b>	-
Post acquisition share of reserve on revaluation of available-for-sale investments	<u>227,766</u>	-
	<i>Rupees</i> <u><b>6,391,355</b></u>	<u>-</u>

In addition to the above, CLCL is proposed to be merged with its subsidiary company. The above information and accounting under the equity basis of accounting is based on unaudited and unconsolidated financial statements. However, the management is of the view that the financial impact, had the equity basis of accounting been applied on the consolidated audited financial statements, would not be materially different from the above reported data / results.

The market value of the Modaraba's holding in CLCL at 30 June 2007 amounted to Rs. 4 million.

## 16. LONG TERM SECURITY DEPOSITS AND ADVANCES

Security deposits		<b>9,656,366</b>	3,247,532
Long term advances	16.1	<u>1,025,000</u>	<u>8,832,499</u>
	<i>Rupees</i>	<u><b>10,681,366</b></u>	<u>12,080,031</u>

**16.1** This represents security deposits paid in respect of assets obtained under finance lease, for utility services, office premises, etc.

## 17. ASSETS IN OWN USE

Operating assets	17.1	<b>154,762,688</b>	20,260,837
Capital work in progress	17.2	<u>70,872,836</u>	<u>11,233,804</u>
	<i>Rupees</i>	<u><b>225,635,524</b></u>	<u>31,494,641</u>

## 17.1 Operating assets

		2007									
		Cost				Accumulated depreciation				Net book	
		As at 01 July 2006	Additions/ (disposals) during the year	Transfers	As at 30 June 2007	As at 01 July 2006	For the year/(on disposals)	Transfers	As at 30 June 2007	value as at 30 June 2007	Rate %
<b>Owned-tangible</b>											
	Freehold land	-	*100,691,189	-	100,691,189	-	-	-	-	100,691,189	-
	Building	-	7,789,349	-	7,789,349	-	182,395	-	182,395	7,606,954	5
	Office premises	6,922,600	-	-	6,922,600	2,019,092	346,129	-	2,365,221	4,557,379	5
	Office equipment	7,881,477	2,350,968 (249,971)	-	9,982,474	4,370,571	1,217,109 (176,421)	-	5,411,259	4,571,215	20
	Furniture and fixtures	6,912,841	7,298,218	-	14,211,059	4,238,325	816,538	-	5,054,863	9,156,196	10
	Vehicles	5,182,550	6,697,575 (2,691,650)	6,197,321	15,385,796	3,014,279	1,927,937 (2,198,483)	3,785,027	6,528,760	8,857,036	20
	Plant and machinery	-	15,953,711 (688,750)	-	15,264,961	-	1,888,185 (34,437)	-	1,853,748	13,411,213	10
		26,899,468	140,781,010 (3,630,371)	6,197,321	170,247,428	13,642,267	6,378,293 (2,409,341)	3,785,027	21,396,246	148,851,182	
<b>Owned - intangible</b>											
	Computer software	736,800	-	-	736,800	368,402	147,360	-	515,762	221,038	20
<b>Leased - tangible</b>											
	Vehicles	10,812,321	4,014,000 (395,000)	(6,197,321)	8,234,000	4,177,083	2,171,226 (19,750)	(3,785,027)	2,543,532	5,690,468	20
2007	Rupees	38,448,589	144,795,010 (4,025,371)	-	179,218,228	18,187,752	8,696,879 (2,429,091)	-	24,455,540	154,762,688	

Details of CNG / Diesel related projects, included above are as follows:

		2007									
		Cost				Accumulated depreciation / amortisation				Net book	
		As at 01 July 2006	Additions/ (disposals) during the year	Transfers	As at 30 June 2007	As at 01 July 2006	For the year/(on disposals)	Transfers	As at 30 June 2007	value as at 30 June 2007	Rate %
<b>Owned - intangible</b>											
	Freehold land	-	*100,691,189	-	100,691,189	-	-	-	-	100,691,189	
	Building	-	7,789,349	-	7,789,349	-	182,395	-	182,395	7,606,954	5
	Plant and machinery	-	15,953,711 (688,750)	-	14,576,211	-	1,888,186 (34,438)	-	1,853,748	12,722,463	10
	Furniture and fixture	-	42,400	-	42,400	-	1,936	-	1,936	40,464	10
	Office equipment	-	36,628	-	36,628	-	6,715	-	6,715	29,913	20
		-	124,513,277 (688,750)	-	123,135,777	-	2,079,232 (34,438)	-	2,044,794	121,090,983	

Above details are in respect of the CNG / Diesel related projects namely Star Petroleum, Faisalabad and Al Zamin Services, Rawat near Islamabad.

\* Freehold land of Rs. 61.576 million is mortgaged against a morabaha borrowing from a commercial bank.

		2006									
		Cost				Accumulated depreciation				Net book	
		As at 01 July 2006	Additions/ (disposals) during the year	Transfers	As at 30 June 2007	As at 01 July 2006	For the year (disposals)	Transfers	As at 30 June 2007	value as at 30 June 2007	Rate %
<b>Owned - tangible</b>											
	Office premises	6,922,600	-	-	6,922,600	1,672,962	346,130	-	2,019,092	4,903,508	5
	Office equipment	8,208,889	2,170,659 (2,498,071)	-	7,881,477	5,469,061	1,354,990 (2,453,480)	-	4,370,571	3,510,906	20
	Furniture and fixtures	5,979,579	965,547 (32,285)	-	6,912,841	3,787,287	466,248 (15,210)	-	4,238,325	2,674,516	10
	Vehicles	6,380,360	367,800 (1,565,610)	-	5,182,550	3,093,955	1,201,456 (1,281,132)	-	3,014,279	2,168,271	20
		27,491,428	3,504,006 (4,095,966)	-	26,899,468	14,023,265	3,368,824 (3,749,822)	-	13,642,267	13,257,201	
<b>Intangible</b>											
	Computer software	736,800	-	-	736,800	221,040	147,362	-	368,402	368,398	20
<b>Leased</b>											
	Vehicles	9,521,966	1,899,000 (608,645)	-	10,812,321	2,209,481	2,129,907 (162,305)	-	4,177,083	6,635,238	20
2006	Rupees	37,750,194	5,403,006 (4,704,611)	-	38,448,589	16,453,786	5,646,093 (3,912,127)	-	18,187,752	20,260,837	



### 17.1.1 Disposal of fixed assets

Details	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain/(loss)	Sold to / insurance claim	Address
<b>Equipment</b>							
Sale of 4 air conditioners	147,771	126,023	21,748	6,000	(15,748)	Mass Cooling	B-26 Apsara Apartment # 2 F.B Area Karachi.
Sale of 1 unit of computer note book	74,000	22,200	51,800	51,800	-	Computer Products Corporation (Pvt) Ltd	Mehran Heights, Ist Floor, Block 8, Scheme 5, Clifton Karachi
Sale of 1 unit dispenser	9,700	9,699	1	200	199	Abdul Latif	House# L-180 Gulshan-e-Malir Karachi.
Sale of 1 UPS	18,500	18,499	1	12,000	11,999	Net Line (pk)	40-E,B1-6 PECHS Society off Shahra-e-Fallsal, Karachi
	249,971	176,421	73,550	70,000	(3,550)		
<b>Vehicles</b>							
One unit Toyota Corolla	1,235,450	1,070,723	164,727	545,000	380,273	Ms.Sidra Arif	House#5C Street No 47 Sector G-7-4 Islamabad
One unit Honda City	785,000	667,250	117,750	400,000	282,250	Mr.Hameed Hussain	Safi square 2nd Floor Shabirabad off Amir Khusro Road, Karachi
One unit Suzuki Cults	609,000	426,300	182,700	438,000	255,300	Mr.Waseem Mirza	A-32 Gulshan-e-Iqbal, Block-10-A, Karachi
One unit Suzuki sprinter	62,200	34,210	27,990	22,000	(5,990)	Mr.Asghar Ali	House#D 680 New Muzaffarabad Landhi, Karachi .
	2,691,650	2,198,483	493,167	1,405,000	911,833		
<b>Plant &amp; machinery (project)</b>							
One unit CNG dispenser	688,750	34,437	654,313	800,000	145,687	Gondals CNG	15-B/1, Satellite Town, Rawalpindi.
<b>Vehicles-Leased</b>							
One unit Suzuki Mehran	395,000	19,750	375,250	394,945	19,695	Adamjee Insurance Company Limited (insurance claim)	404-405 Shaheen Centre,Block-7, KDA Scheme No-5, Clifton Karachi
2007 Rupees	4,025,371	2,429,091	1,596,280	2,669,945	1,073,665		
2006 Rupees	4,704,611	3,912,127	792,484	1,484,600	692,116		

### 17.1.2 Depreciation for the year have been allocated as follow:

	2007	2006
CNG / Diesel Operations	2,079,232	-
Others	6,617,647	5,646,093
<i>Rupees</i>	<b>8,696,879</b>	<b>5,646,093</b>

### 17.2 Capital work-in-progress

Leasehold improvements		-	1,654,400
CNG Project	17.2.1		
- Civil works		21,218,875	2,183,110
- Plant and machinery		28,482,510	6,384,058
- Other direct cost		548,891	1,012,236
		50,250,276	9,579,404
Advances for the purchase of premises at Faisalabad	17.2.2	20,622,560	-
<i>Rupees</i>		<b>70,872,836</b>	<b>11,233,804</b>

**17.2.1** This includes capital expenditure of Rs. 24.214 million (2006: 9.579 million) incurred for the construction of a CNG Project at Kamoki, near Lahore. For this purpose, the Modaraba has obtained four kanals of land at a rent of Rs. 5,000 per month on 15 years finance or operating lease, renewable for further 15 years at mutually agreed terms (with the landlord). The land is to be used for commercial utilisation as CNG / filling station. Further, the Modaraba has also entered into an agreement with the landlord under which the Modaraba shall make payment to the landlord equivalent to 13% of the gross sale net of 11% of technical losses. The construction work is in progress. The project commenced its operations subsequently in July 2007.

This also includes capital expenditure of Rs.20.835 million (2006: Nil) incurred in relation to the renovation being carried out at Al Zamin Services CNG filling station.

**17.2.2** This represents partial payment for the acquisition of office premises for Rs. 82.490 million.

		2007	2006
<b>18. SHORT TERM MUSHRAKA BORROWINGS AND BANK FINANCE FACILITIES</b>			
<b>Musharaka borrowings - unsecured</b>			
Financial institutions (other than leasing companies and modarabas)			
- Associates	18.3	<b>60,000,000</b>	79,858,811
- Others		<b>342,000,000</b>	304,962,099
		<b>402,000,000</b>	384,820,910
Leasing companies and modarabas			
- Associates	18.4	<b>2,000,000</b>	2,000,000
- Others		<b>15,000,000</b>	30,000,000
		<b>17,000,000</b>	32,000,000
	<i>Rupees</i>	<b>419,000,000</b>	416,820,910

**18.1** Above finances have been obtained for 90 to 365 days at profit rates between 11% to 12.75% per annum (2006: 11% to 13 per annum).

**18.2** The Modaraba has also arranged finance facilities from certain banks amounting to Rs. 95 million (including Rs. 50 million from a related party) which at the year end had not been utilized. The facilities carry mark-up rates ranging between 6 months KIBOR+ 3% to 3 month KIBOR+3.1% (with a floor rate ranging between 7.5% to 11%) per annum (2006: 6 month KIBOR+3% to 3 months KIBOR+3% with a floor ranging between 7% to 11%) per annum and are secured against floating charge on leased assets.

**18.3** These finances have been obtained at the profit rate of 11.95% per annum (2006: 6 months average KIBOR plus 2.75% with a floor of 7.5% per annum) and is due for repayment by 16 July 2007.

**18.4** This finance has been obtained for 122 days at a profit rate of 12.5% per annum (2006: 13% per annum) and is due for repayment by 1 September 2007.

**19. SHORT TERM CERTIFICATES OF MUSHARAKA BORROWINGS - unsecured**

Financial institutions		<b>275,000,000</b>	15,000,000
Public and private companies		<b>14,080,000</b>	41,390,000
Individuals - key management person	19.3	<b>200,000</b>	2,270,000
- others		<b>130,370,000</b>	35,590,000
Others - associated undertaking	19.4	<b>11,460,000</b>	6,500,000
- others		<b>82,470,000</b>	27,500,000
	<i>Rupees</i>	<b>513,580,000</b>	128,250,000

**19.1** Above finances have been obtained for 90 to 365 days at a profit rates ranging between 9.25% to 13.1% per annum (2006: 9.75% to 13% per annum).

**19.2** Under the terms and conditions for the issuance of certificates of musharika [both long term (note 23.3) and short term], the Modaraba is required to maintain a Redemption Reserve Fund equal to at least 5% of the contribution received, which may be utilised for redemption purposes. The amount so set aside in the Redemption Reserve Fund can be invested in a manner considered prudent by the Modaraba. Accordingly, at the year-end, Rs. 30 million had been invested in short term musharika finance (refer note 8.2).

**19.3** Certificate of musharika borrowings from key management personnel carry rate of profit at 12% per annum and is due for repayment on 7 March 2008.

**19.4** Certificate of musharika borrowings from associated undertaking carry rate of profit ranging between 10.75% to 12.5% per annum and is due for repayment on 21 February 2008.

		2007	2006
<b>20. CREDITORS, ACCRUED AND OTHER LIABILITIES</b>			
Profit payable on			
- Long term Musharaka and Morabaha borrowings		<b>6,540,134</b>	2,209,629
- Short term Musharaka borrowings		<b>8,160,256</b>	7,694,141
- Musharaka term finance certificates borrowings		<b>3,183,457</b>	3,148,287
- Certificates of Musharaka borrowings		<b>14,277,181</b>	3,838,348
Retention money payable		<b>476,408</b>	84,192
Provision for compensated absences		<b>1,799,894</b>	1,134,211
Advance lease rent / security deposits	20.1	<b>26,892,823</b>	32,540,187
Accrued expenses		<b>329,868</b>	346,659
Management fee	20.2	<b>4,912,380</b>	3,965,730
Others	20.3	<b>3,234,926</b>	2,065,072
	<i>Rupees</i>	<b><u>69,807,327</u></b>	<b><u>57,026,456</u></b>

**20.1** This represents the amount of lease rentals received in advance and security deposits received against the leases approved but not disbursed as at 30 June 2007.

**20.2** The Modaraba Management Company is entitled to a remuneration for services rendered to the Modaraba under the provisions of the Modaraba Ordinance, 1980 up to a maximum of 10% per annum of the net annual profits of the Modaraba. The fee is being recognised at 10% per annum.

**20.3** This includes gratuity balance of Rs. 121,930 (2006: Rs. 121,930) pertaining to the staff of former First Professional Modaraba (FPM - note 1) and is due for payment at the time of separation / retirement from the Modaraba.

#### **21. CURRENT MATURITY OF LONG TERM LIABILITIES**

Security deposits from lessees		<b>158,237,342</b>	140,315,346
Certificates of musharaka borrowings		<b>14,396,843</b>	14,226,641
Liabilities under finance lease arrangements		<b>5,111,379</b>	3,447,021
Long term musharaka borrowings		<b>164,289,696</b>	109,913,968
Musharaka Term Finance Certificates		<b>206,000,000</b>	100,000,000
	<i>Rupees</i>	<b><u>548,035,260</u></b>	<b><u>367,902,976</u></b>

#### **22. SECURITY DEPOSITS FROM LESSEES**

Deposit on lease contracts		<b>821,594,440</b>	643,728,613
Current portion		<b>(158,237,342)</b>	(140,315,346)
	<i>Rupees</i>	<b><u>663,357,098</u></b>	<b><u>503,413,267</u></b>

These represent security deposits received against lease contracts and are repayable / adjustable on the expiry of lease period.

		2007	2006
<b>23.</b>	<b>LONG TERM CERTIFICATES OF MUSHARAKA BORROWINGS - unsecured</b>		
	Certificates of Musharaka - associated undertaking	23.2	6,650,000
	- others		6,650,000
			<u>93,091,843</u>
			<u>50,333,332</u>
			<u>99,741,843</u>
	Payable within one year shown under current liabilities		(14,226,641)
		<i>Rupees</i>	<u>42,756,691</u>
			<u>85,345,000</u>

**23.1** These represent the mobilization of funds under the scheme of certificates of musharika introduced by the Modaraba. These carry profit rates ranging between 11.25% to 16% per annum. (2006: 11% to 16% per annum) and are due for repayment between 31 July 2007 and 29 June 2012.

**23.2** This carry profit rates of 13% per annum (2006: 13% per annum) and due for repayment between 26 January 2008 to 26 March 2008.

**23.3** Refer note 19.2 for the details of Redemption Reserve Fund.

**24. LIABILITIES AGAINST ASSETS  
SUBJECT TO FINANCE LEASE**

	2007			2006		
	Due within one year	Due after one year but within five years	Total	Due within one year	Due after one year but within five years	Total
Minimum lease payments	6,653,243	11,387,224	18,040,467	3,713,180	1,496,621	5,209,801
Finance charge for future periods	(1,541,864)	(1,250,865)	(2,792,729)	(266,159)	(66,727)	(332,886)
Principal outstanding <i>Rupees</i>	<u>5,111,379</u>	<u>10,136,359</u>	<u>15,247,738</u>	<u>3,447,021</u>	<u>1,429,894</u>	<u>4,876,915</u>

These liabilities carry profit rates ranging between 6.2% to 14.02% per annum (2006: 6.2% to 14.02% per annum) and are repayable by May 2010 in monthly / quarterly instalments.

		2007	2006
<b>25.</b>	<b>LONG TERM MUSHARAKA AND MORABAHA BORROWINGS - secured</b>		
	<b>Musharaka</b>		
	Commercial banks		2,083,333
	Leasing companies and modarabas	25.1	20,455,811
	Others	25.2	15,000,000
			<u>37,539,144</u>
	<b>Morabaha (note 25.3)</b>		
	Commercial banks - associate	25.4	25,000,000
	- others	25.5	48,505,467
	Other financial institutions - associates	25.6	-
	- others	25.7	30,409,043
			<u>103,914,510</u>
			<u>141,453,654</u>
	Payable within one year shown under current maturity		(109,913,968)
		<i>Rupees</i>	<u>31,539,686</u>
			<u>614,273,417</u>

- 25.1** These finances carry rate of profit ranging from 17% per annum (2006: 10% to 17% per annum) and are payable in monthly instalments. These are secured against hypothecation of specific leased assets, floating charge on the assets of the modaraba and corporate guarantee by a management company.
- 25.2** The finance carries rate of profit of 7% (2006: 7%) per annum and is payable in equal half-yearly instalments. This finance is secured against hypothecation of specific leased assets of the modaraba.

	<b>2007</b>	2006
<b>25.3 Morabaha borrowings</b>		
Morabaha payable - gross	<b>1,042,262,582</b>	114,122,673
Deferred morabaha expense	<b>(269,674,637)</b>	(8,268,499)
Profit payable shown in creditors, accrued and other liabilities	<b>(6,397,863)</b>	(1,939,664)
Morabaha payable	<b><u>766,190,082</u></b>	<u>103,914,510</u>

- 25.4** This finance carry rate of profit at six months average ask KIBOR plus 3% over and above with floor of 7.5% per annum (2006: six months average ask KIBOR plus 3% over and above with floor of 7.5% per annum) and are payable in monthly and quarterly instalments of Rs 1.388 million and Rs 4.167 million respectively. These are secured against hypothecation of leased assets and corporate guarantee by the management company of the Modaraba. These facilities is due for repayment by 15 December 2009.

- 25.5** These finances carry rate of profit ranging from six months average KIBOR plus 2.5% to 3.75% per annum and three months KIBOR plus 2.5% to 2.75% per annum (2006: 10% to six months average ask KIBOR plus 4% with a floor of 8% per annum) payable in monthly and quarterly instalments. These are secured against hypothecation of specific leased assets, floating charge on the assets of the modaraba and corporate guarantee by a modaraba management company of the modaraba. The facility is due for repayment between 21 September 2007 to 05 February 2012.

- 25.6** These finances carry rate of profit ranging from 6 months average KIBOR plus 3% per annum payable in half yearly instalments. The facility is due for repayment by December 2009.

- 25.7** These finances carry rate of profit ranging from six months average KIBOR plus 3% to 3.25% per annum and three months KIBOR plus 3% per annum (2006: six months average ask KIBOR plus 4% to 5.82% per annum with a floor of 7% per annum and cap of 13% per annum) payable in monthly, quarterly and half yearly instalments. These are secured against hypothecation of specific leased assets, floating charge on the assets of the modaraba and corporate guarantee by a modaraba management company of the modaraba. The facility is due for repayment between 21 September 2007 and 5 February 2012.

	<b>2007</b>	2006
<b>26. REDEEMABLE CAPITAL - MUSHARIKA TERM FINANCE CERTIFICATES (MTFCs)</b>		
Balance as on 1 July	<b>625,000,000</b>	625,000,000
Paid during the period	<b>(96,000,000)</b>	-
	<b><u>529,000,000</u></b>	<u>625,000,000</u>
Current maturity	<b>(206,000,000)</b>	(100,000,000)
	<b><u>323,000,000</u></b>	<u>525,000,000</u>
Total initial transaction cost	<b>10,383,663</b>	10,383,663
Amortization to date	<b>(6,905,891)</b>	(3,827,753)
	<b><u>3,477,772</u></b>	<u>6,555,910</u>
	<b><u>Rupees 319,522,228</u></b>	<u>518,444,090</u>

The MTFCs are secured by a floating charge on the un-encumbered leased assets and associated lease receivables of the Modaraba. The MTFCs are listed on the Karachi Stock Exchange and currently carry an instrument rating of A (Single A) by JCR VIS Credit Rating Company Limited dated 11 July 2007.

## **26.1 Profit and loss sharing**

The minimum profit expected on 1st tranche of MTFCs is 8% per annum and on the second tranche at 9.5% per annum to be paid on half yearly basis (after considering the initial costs, the effective yield is 8.5% and 9.9% per annum respectively). The basis of profit sharing will be the sum of the revenue from Modaraba's lease and musharika investment portfolio after adjusting for operating expenses and provision for lease losses (but excluding financial charges, provision for diminution in value of investments and other provisions).

If the Modaraba generates profit in excess of minimum 8% on the 1st tranche and 9.5% on the 2nd tranche as mentioned above, the MTFC investors will have a share in the excess profit in the same ratio as have been the basis of sharing minimum expected profit.

If the Modaraba suffers any business loss in any given year during the tenor of MTFCs, the loss will be allocated to the MTFCs investors in the ratio of capital provided by all the long term funds providers to the Modaraba including the equity holders. The share in loss of each MTFC investors will be first applied against the Takaful Fund (discussed below) maintained by the Modaraba for this purpose. However, at the time of repayment of principal, if the loss remains unadjusted then the loss will be adjusted against the principal amount of the respective MTFCs.

The balance of 1st tranche is due for repayment between 23 December 2007 to 22 December 2008 and 2nd tranche is due for repayment between 31 May 2008 to 30 May 2010.

In addition, a commercial bank is entitled to remuneration for the financial advisory and placement services rendered in connection with the issuance of 2nd tranche of MTFC.

## **26.2 Takaful Reserve Fund**

Under the Scheme of Musharika based Term Finance Certificates (MTFC) issued by the Modaraba, a Takaful Reserve Fund (Takaful) is required to be maintained for the purpose of mitigating the risk of losses attributable to the MTFC investors.

At 30 June 2007 investments of Rs.47.298 million were being held in Takaful as detailed in note 7 to these financial statements. In addition, the Modaraba will arrange to contribute, on behalf of the MTFC holders, to the Takaful Fund an amount equal to 1/10th of the excess of the minimum profit every year during which MTFCs remains outstanding. In case 1/10th of the minimum expected profit or, the excess profit is insufficient, then whatever the excess profit will be transferred to the Takaful Fund as the contribution of the MTFC investors. The contribution, thus calculated, shall be made in the form of admissible securities.

Upon repayment of the principal amount at each maturity of the MTFC, the balance of Takaful Fund, if any will be distributed amongst the MTFC investors and the Modaraba in the ratio of their contribution in the Takaful Reserve Fund.

**27. ISSUED, SUBSCRIBED AND PAID-UP CERTIFICATES**

	2007	2006		2007	2006
	<b>10,000,000</b>	10,000,000	Modaraba certificates of Rs. 10 each fully paid in cash	<b>100,000,000</b>	100,000,000
	<b>2,650,000</b>	2,650,000	Modaraba certificates of Rs. 10 each issued as fully paid bonus certificates	<b>26,500,000</b>	26,500,000
	<b>5,054,752</b>	5,054,752	Modaraba certificates of Rs. 10 each issued as fully paid up under scheme of arrangement of amalgamation with Ghandhara Leasing Company Limited	<b>50,547,520</b>	50,547,520
	<b>7,767,360</b>	7,767,360	Modaraba certificates of Rs.10 each issued as fully paid up under scheme of arrangement of amalgamation with First Professionals Modaraba	<b>77,673,600</b>	77,673,600
<i>Number</i>	<u><b>25,472,112</b></u>	<u>25,472,112</u>		<i>Rupees</i>	<u><b>254,721,120</b></u>
					<u>254,721,120</u>

**27.1 Following certificates are held by associated companies:**

			<b>Name of the associated company</b>		
	<b>3,015,519</b>	3,015,519	Al Zamin Modaraba Management (Private) Limited (Modaraba's management company)	<b>30,155,190</b>	30,155,190
<i>Number</i>	<u><b>3,015,519</b></u>	<u>3,015,519</u>		<i>Rupees</i>	<u><b>30,155,190</b></u>
					<u>30,155,190</u>

## 28. CONTINGENCIES AND COMMITMENTS

### 28.1 Tax contingencies

**28.1.1** Appeal in respect of former Ghandhara Leasing Limited (merged with Al-Zamin Leasing Modaraba in 2001) before the Commissioner of Income Tax (Appeal) relating to the assessment years 1999-2000 and 2000-2001 against certain disallowances have been set aside for reassessment. In case of adverse decision, additional tax liability of Rs. 11.03 million (30-June-2006 Rs 11.03 million ) may arise which has not been provided in these financial statements as the management expects favourable outcome of these appeals.

**28.1.2** Appeals in respect of former First Professionals Modaraba (merged with Al-Zamin Leasing Modaraba in 2003) for the assessment year 1998-1999 was filed with the Commissioner of Income Tax (Appeals) (CIT (A)) against the tax demand of Rs. 0.73 million. Appeals filed with the CIT (A) has been decided in the Modaraba's favour but the appeal effect order has not been passed as yet. Being aggrieved with the appellate order passed by the CIT (A), the Income Tax department has filed an appeal with the Income Tax Appellate Tribunal (ITAT), which has been dismissed by ITAT. The set-aside proceedings have not yet commenced. No provision has been made in these financial statements as the management expects favourable outcome of these appeals.

### 28.2 Others

**28.2.1** Aggregate amount of guarantee given by a bank on behalf of the Modaraba in respect of the performance of contract aggregated Rs. 3 million (2006: Rs. 3 million). This guarantee was given to Sui Northern Gas Pipeline Limited on 1 August 2006 in respect of Centre Gas (Private) Limited.

### 28.3 Commitments

**28.3.1** Lease financing contracts committed but not executed at the balance sheet date amounted to Rs. 129.490 million (2006: Rs. 87.599 million).

**28.3.2** Morabaha / musharika finances agreed but not yet disbursed to the counter parties as at 30 June 2007 amounted to Rs. 26.620 million (2006: Rs. 80.825 million).

**28.3.3** Letters of comfort issued against Letter of Credits (in respect of Leases / Musharika investments) to the counter parties as at 30 June 2007 amounted to Rs. 58.211 million (2006: Rs. 21.26 million).

		2007	2006
<b>28.3.4</b>	Commitments in respect of capital expenditure	<i>Rupees</i> <b><u>64,556,869</u></b>	<u>84,420,596</u>

## 29. INCOME FROM LEASING OPERATIONS

Lease income	<b>229,170,131</b>	179,132,566
Gain on early termination of lease contracts	<b>1,758,085</b>	2,032,554
Others	<b>8,878,509</b>	3,103,488
	<i>Rupees</i> <b><u>239,806,725</u></b>	<u>184,268,608</u>



	2007	2006
<b>30. INCOME FROM TRADING OPERATIONS</b>		
Sales - CNG Storage Cylinders	<b>825,000</b>	4,713,800
Cost of goods sold		
Opening Stock - CNG storage cylinders	<b>(1,689,800)</b>	-
Purchase - CNG storage cylinders	-	(5,793,601)
Transfer for own use	<b>965,600</b>	-
Closing Stock - CNG storage cylinders	-	1,689,800
	<b>(724,200)</b>	(4,103,801)
	<b>100,800</b>	609,999
<i>Rupees</i>	<b>100,800</b>	609,999

At beginning of the year, the Modaraba had 70 units of CNG Storage cylinders, out of which 30 units have been sold, while the remaining 40 units have been transferred for own use to the Kamoki CNG filling station.

**31. INCOME FROM DIESEL / CNG FILLING STATIONS**

Sale of Diesel / CNG	<b>39,636,582</b>	-
Cost of Diesel / CNG sold	<b>(27,483,667)</b>	-
Plant repair and maintenance	<b>(2,331,469)</b>	-
Depreciation	<b>(2,079,232)</b>	-
Other expenses	<b>(5,755,363)</b>	-
	<b>(37,649,731)</b>	-
	<b>1,986,851</b>	-
<i>Rupees</i>	<b>1,986,851</b>	-

**32. FINANCIAL CHARGES**

Profit on long term musharika and morabaha borrowings	<b>41,540,653</b>	28,766,250
Profit on short term musharika borrowings	<b>62,895,145</b>	38,062,470
Profit on redeemable capital - musharika term finance certificates	<b>56,310,379</b>	58,602,112
Front end fee and bank charges	<b>1,244,103</b>	1,212,681
Profit on certificates of musharika borrowings	<b>42,637,048</b>	14,599,176
	<b>204,627,328</b>	141,242,689
<i>Rupees</i>	<b>204,627,328</b>	141,242,689

		2007	2006
<b>33. OPERATING EXPENSES</b>			
Salaries and benefits	37	<b>38,324,748</b>	25,391,865
Rent, rates and taxes		<b>6,342,477</b>	3,254,613
Telecommunication		<b>2,363,674</b>	2,033,068
Printing and stationery		<b>1,649,823</b>	326,568
Fees and subscription		<b>5,820,197</b>	3,146,228
Electricity and gas		<b>1,680,181</b>	1,406,717
Insurance		<b>808,159</b>	795,133
Legal and professional		<b>1,560,741</b>	1,398,324
Postage and stamps		<b>1,674,691</b>	1,357,118
Repairs and maintenance		<b>2,048,256</b>	989,981
Vehicles running and maintenance		<b>2,610,809</b>	3,158,726
Travelling and conveyance		<b>1,278,197</b>	894,003
Advertisement		<b>1,292,391</b>	235,154
Auditor's remuneration	33.1	<b>446,069</b>	306,070
Staff training and seminars		<b>1,196,719</b>	6,480
Newspapers and periodicals		<b>174,943</b>	93,482
Entertainment		<b>2,544,950</b>	759,503
Depreciation on own assets	17.1	<b>6,617,647</b>	5,646,093
Donation		-	255,906
Brokerage and commission		<b>3,074,070</b>	1,112,157
Zakat		<b>34,122</b>	220,640
Others		<b>297,378</b>	167,146
	<i>Rupees</i>	<b><u>81,840,242</u></b>	<b><u>52,954,975</u></b>
<b>33.1 Auditor's remuneration</b>			
Audit fee		<b>214,500</b>	214,500
Half yearly review		<b>125,500</b>	48,000
Other certifications		<b>60,000</b>	-
Out of pocket expenses		<b>46,069</b>	43,570
	<i>Rupees</i>	<b><u>446,069</u></b>	<b><u>306,070</u></b>
<b>34. OTHER INCOME</b>			
Gain on sale of fixed assets	17.1.1	<b>1,073,665</b>	692,116
Others		<b>3,882,833</b>	975,108
	<i>Rupees</i>	<b><u>4,956,498</u></b>	<b><u>1,667,224</u></b>
<b>35. TAXATION</b>			
Current - for the year		-	359,159
- for prior years		-	3,369,518
	<i>Rupees</i>	<b><u>-</u></b>	<b><u>3,728,677</u></b>

**35.1** No provision for tax on the Modaraba's income has been made in view of the exemption available if not less than 90% of the Modaraba's profits are distributed to the certificates holders. Refer note 43 for the distribution of profit.

**35.2** The income tax assessment of the Modaraba have been finalised up to and including the financial year ended 30 June 2002. Returns of income for the financial years ended on 30 June 2003, 2004, 2005 and 2006 have been filed which are deemed to be assessed under section 120 of the Income Tax ordinance, 2001 unless selected for audit under the Ordinance.

**35.3** At 30 June 2007, Modaraba had not recognised deferred tax asset balance against the net deductible temporary differences of Rs 33.19 million due to the exemption available to the Modaraba if not less than 90 % of its profit from non-trading activities is distributed. The Modaraba expects to so distribute the profit in future.

**36. EARNING PER CERTIFICATE - basic and diluted**

		<b>2007</b>	2006
Profit after taxation	<i>Rupees</i>	<b><u>44,211,423</u></b>	<u>31,962,892</u>
Weighted average number of ordinary certificates	<i>Number</i>	<b><u>25,472,112</u></b>	<u>25,472,112</u>
Earning per certificate	<i>Rupees</i>	<b><u>1.74</u></b>	<u>1.25</u>

There is no dilutive effect on the basic earning per certificate.

**37. REMUNERATION OF EXECUTIVES AND OTHER EMPLOYEES**

	<u>2007</u>			<u>2006</u>		
	Executive	Other Employees	Total	Executive	Other Employees	Total
Basic Salary	3,970,200	14,397,607	18,367,807	3,420,600	9,323,863	12,744,463
Bonus	498,000	1,452,270	1,950,270	130,000	1,013,850	1,143,850
Provident fund	397,020	1,163,597	1,560,617	342,060	801,236	1,143,296
House rent allowance	1,786,400	6,149,935	7,936,335	1,538,400	4,162,604	5,701,004
Utility allowance	257,400	764,857	1,022,257	225,000	918,604	1,143,604
Fuel Allowance	-	2,199,721	2,199,721	-	-	-
Leave encashment	98,750	825,183	923,933	33,000	497,763	530,763
Medical	236,941	859,247	1,096,188	78,036	702,329	780,365
Gratuity	394,970	1,245,430	1,640,400	285,050	683,905	968,955
Contribution to E.O.B.I	11,520	284,520	296,040	8,640	171,300	179,940
Others	166,520	1,164,660	1,331,180	109,008	946,617	1,055,625
	<i>Rupees</i>	<b><u>7,817,721</u></b>	<b><u>30,507,027</u></b>	<b><u>6,169,794</u></b>	<b><u>19,222,071</u></b>	<b><u>25,391,865</u></b>
Number of persons	<i>Number</i>	<u>4</u>	<u>115</u>	<u>4</u>	<u>89</u>	<u>93</u>

**37.1** Certain executives and officers are also provided with free use of vehicles maintained by the Modaraba.

### 38. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

The Modaraba attempts to control the credit risk and concentration of credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continuously assessing the credit worthiness of counter parties.

The Modaraba follows its operating policy approved by the Board of Directors of the Modaraba Management Company.

Details of the industry sector analysis of Modaraba's credit portfolio is given below :

	2007	%	2006	%
Individuals	845,527,940	29.85	553,205,179	27.35
Energy, oil and gas	496,302,769	17.52	364,950,298	18.04
Transport	328,095,964	11.58	331,275,488	16.38
Banks and development financial institutions	256,468,635	9.05	38,723,581	1.91
Construction	173,073,421	6.11	32,542,808	1.61
Textile and cotton	108,125,011	3.82	104,132,562	5.15
Printing	42,026,278	1.48	16,709,471	0.83
Engineering	38,961,083	1.38	47,455,166	2.35
General trading	36,135,167	1.28	143,828,220	7.11
Chemicals and pharmaceutical	35,746,389	1.26	40,197,539	1.99
Health care	24,717,615	0.87	28,579,084	1.41
Advertising and recording	21,006,756	0.74	20,067,591	0.99
Cement	16,119,965	0.57	18,556,400	0.92
Information technology and communication	15,743,727	0.56	23,738,888	1.17
Electrical	12,891,450	0.46	16,448,053	0.81
Plastic industries	9,559,527	0.34	5,013,009	0.25
Packaging	9,527,234	0.34	19,388,578	0.96
Food and beverages	9,431,698	0.33	8,472,266	0.42
Paper and board	8,651,468	0.31	6,963,539	0.34
Education	5,655,432	0.20	429,966	0.02
Travel services	4,082,848	0.14	2,819,168	0.14
Sugar	3,901,926	0.14	14,852,016	0.73
Glass and ceramics	2,925,000	0.10	–	–
Hotels	576,134	0.02	254,016	0.01
Dairy and poultry	–	–	7,973,243	0.39
Banaspati and allied	–	–	8,259,017	0.41
Others	327,704,627	11.57	167,818,781	8.30
	<b>Rupees</b>			
	<b>2,832,958,064</b>	<b>100.00</b>	<b>2,022,653,927</b>	<b>100.00</b>
Net Investment in finance lease / Ijarah	2,281,534,327	80.54	1,841,648,762	91.05
Short term musharika and morabaha	417,361,955	14.73	136,135,150	6.73
Long term musharika	134,061,782	4.73	44,870,015	2.22
	<b>Rupees</b>			
	<b>2,832,958,064</b>	<b>100.00</b>	<b>2,022,653,927</b>	<b>100.00</b>

### 39. PROFIT / MARKUP RATE RISK MANAGEMENT

The Modaraba manages this risk by matching the repricing of assets and liabilities. The Modaraba's mark-up / profit rate sensitivity position, based on the earlier of contractual repricing or maturity dates, is as follows:

	2007					Non-profit/ mark-up bearing	Total
	Profit / mark-up bearing				Sub-total		
	Less than one year	One to five years	Over five years				
Cash and bank balances	206,434,431	-	-	206,434,431	6,159,655	212,594,086	
Short term investments	-	-	-	-	53,926,953	53,926,953	
Takaful reserve fund investment	-	-	-	-	47,298,558	47,298,558	
Lease rentals receivable	-	-	-	-	-	-	
Short term Musharika and Murabaha	394,445,955	-	-	394,445,955	22,916,000	417,361,955	
Advances and prepayments	581,385	-	-	581,385	17,791,061	18,372,446	
Other receivables	-	-	-	-	60,531,660	60,531,660	
Long term Musharika	86,163,446	47,898,336	-	134,061,782	-	134,061,782	
Net investment in finance lease	714,122,492	746,057,754	-	1,460,180,246	821,354,081	2,281,534,327	
Long term investments	19,581,312	69,092,093	59,652,249	148,325,654	12,741,908	161,067,562	
Long term security deposits and advances	-	-	-	-	10,681,366	10,681,366	
	<b>1,421,329,021</b>	<b>863,048,183</b>	<b>59,652,249</b>	<b>2,344,029,453</b>	<b>1,053,401,242</b>	<b>3,397,430,695</b>	
Short term Musharika borrowings	419,000,000	-	-	419,000,000	-	419,000,000	
Short term certificates of Musharika borrowings	513,580,000	-	-	513,580,000	-	513,580,000	
Creditors, accrued and other liabilities	-	-	-	-	69,807,328	69,807,328	
Profit distribution payable	-	-	-	-	4,465,318	4,465,318	
Security deposits from lessees	-	-	-	-	821,594,440	821,594,440	
Long term certificates of Musharika borrowings	14,396,843	85,345,000	-	99,741,843	-	99,741,843	
Liabilities against assets subject to finance lease	5,111,379	10,136,359	-	15,247,738	-	15,247,738	
Long term Musharika and Murabaha borrowings	164,289,696	614,273,417	-	778,563,113	-	778,563,113	
Redeemable capital - Musharika term finance certificate	206,000,000	323,000,000	-	529,000,000	-	529,000,000	
	<b>1,322,377,918</b>	<b>1,032,754,776</b>	<b>-</b>	<b>2,355,132,694</b>	<b>895,867,086</b>	<b>3,250,999,780</b>	
On balance sheet gap 2007 (a) <i>Rupees</i>	<b>98,951,103</b>	<b>(169,706,593)</b>	<b>59,652,249</b>	<b>(11,103,241)</b>	<b>157,534,156</b>	<b>146,430,915</b>	

(a) The on-balance sheet gap represents the net amounts of on-balance sheet items.

	2006					Total
	Profit / mark-up bearing			Sub-total	Non-profit/ mark-up bearing	
	Less than one year	One to five years	Over five years			
Cash and bank balances	27,216,988	-	-	27,216,988	2,118,160	29,335,148
Short term investments	-	-	-	-	52,406,008	52,406,008
Takaful reserve fund investment	-	-	-	-	47,081,868	47,081,868
Lease rentals receivable	-	-	-	-	25,617	25,617
Short term Musharika and Murabaha	119,035,150	-	-	119,035,150	17,100,000	136,135,150
Advances and prepayments	255,000	-	-	255,000	15,944,083	16,199,083
Other receivables	-	-	-	-	68,867,074	68,867,074
Long term Musharika	38,125,134	6,744,881	-	44,870,015	-	44,870,015
Net investment in finance lease	475,338,414	722,897,279	-	1,198,235,693	643,413,069	1,841,648,762
Long term investments	19,581,312	120,539,229	10,420,751	150,541,292	2,669,308	153,210,600
Long term security deposits and advances	-	-	-	-	12,080,031	12,080,031
	<u>679,551,998</u>	<u>850,181,389</u>	<u>10,420,751</u>	<u>1,540,154,138</u>	<u>861,705,218</u>	<u>2,401,859,356</u>
Short term Musharika borrowings	416,820,910	-	-	416,820,910	-	416,820,910
Short term certificates of Musharika borrowings	128,250,000	-	-	128,250,000	-	128,250,000
Creditors, accrued and other liabilities	-	-	-	-	57,026,456	57,026,456
Profit distribution payable	-	-	-	-	3,757,108	3,757,108
Security deposits from lessees	-	-	-	-	643,728,613	643,728,613
Long term certificates of Musharika borrowings	14,226,641	42,756,691	-	56,983,332	-	56,983,332
Liabilities against assets subject to finance lease	3,447,021	1,429,894	-	4,876,915	-	4,876,915
Long term Musharika and Murabaha borrowings	109,913,968	31,539,686	-	141,453,654	-	141,453,654
Redeemable capital - Musharika term finance certificate	100,000,000	525,000,000	-	625,000,000	-	625,000,000
	<u>772,658,540</u>	<u>600,726,271</u>	<u>-</u>	<u>1,373,384,811</u>	<u>704,512,177</u>	<u>2,077,896,988</u>
On balance sheet gap 2006 (a) Rupees	<u>(93,106,542)</u>	<u>249,455,118</u>	<u>10,420,751</u>	<u>166,769,327</u>	<u>157,193,041</u>	<u>323,962,368</u>

(a) The on-balance sheet gap represents the net amounts of on-balance sheet items.

(b) Rates of profit / mark-up on financial assets and liabilities are as follows:

	2007 %	2006 %
Bank balances	<b>1.5-3.5</b>	2.5-4
Short term Musharaka and Morabaha investments	<b>8.8-33.75</b>	10.5-26
Long term Musharaka investments	<b>10-32.38</b>	10.5-30
Net investment in lease finance	<b>8-30</b>	9-30
Long term investments- held to maturity	<b>12.01-13.06</b>	8.51-11.63
Short term Musharaka borrowings	<b>11-12.75</b>	9.75-13
Short term certificates of Musharaka borrowings	<b>9.25-13.1</b>	10-13
Long term certificates of Musharaka borrowings	<b>11.25-16</b>	11-16
Liability against assets subject to finance lease	<b>6.2-14.02</b>	6.2-14
Long term Musharaka and Morabaha borrowings	<b>7-17</b>	7-17
Redeemable capital - Musharaka term finance certificates [effective rates being 8.03% & 9.9% (2006: 8.03% & 9.9%)]	<b>8-9.5</b>	8-9.5

#### 40. FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIQUIDITY RISK

**40.1** Fair value is the amount for which an asset can be exchanged or a liability settled, between knowledgeable willing parties in arms length transaction. In the opinion of the management, the estimated fair value of all on and off balance sheet financial instruments are not significantly different from their book values as on June 30, 2007.

**40.2** Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Modaraba matches availability of liquid funds before committing for liabilities. An analysis of liquid funds with maturities of liabilities due is also performed on regular basis.

#### 41. RELATED PARTY TRANSACTIONS

The related parties comprise of Al-Zamin Modaraba Management (Private) Limited, being the modaraba management company, major certificate holders and their close family members, directors of the modaraba management company and their close family members, key management personnel of the Modaraba and the management company and their close family members, the provident fund and entities with common directors or under common management.

The profit due on term finance certificates of Dewan Cement Limited has been agreed under a scheme of arrangement. Contribution to the provident fund is made in accordance with the service rules. The details of remuneration to key management personnel are given in note 40 to these financial statements.

Details of transactions with related parties and balances with them as at the year-end, if not mentioned else where, are as follows:

41.1 Balances outstanding at year end:		2007	2006
<b>Associates</b>			
Musharika and morabaha borrowings from associate	18 & 26	Rupees <u>151,668,662</u>	<u>106,858,811</u>
Certificate of Musharika borrowing from trust under common directorship/trusteeship	19 & 23	Rupees <u>18,110,000</u>	<u>13,150,000</u>
Musharika Term Finance Certificate borrowings		Rupees <u>18,761,200</u>	<u>27,595,000</u>
Investment in Term Finance Certificates of Dewan Cement Limited	15.1	Rupees <u>81,977,571</u>	<u>99,485,095</u>
Modaraba management fee payable to the management company	20.2	Rupees <u>4,912,380</u>	<u>3,965,730</u>
Investment in Crescent Leasing Corporation Limited	15.3.3	Rupees <u>6,391,355</u>	<u>-</u>
<b>Joint ventures</b>			
Investment in shares of Centre Gas (Private) Limited	15.3.1	Rupees <u>28,260,894</u>	<u>29,903,656</u>
Investment in Horizon Compression		Rupees <u>-</u>	<u>4,624,142</u>
Investment in UMA Enterprises	15.3.2	Rupees <u>25,000,000</u>	<u>12,310,319</u>
Guarantee given to SNGPL in favour of Centre Gas (Private) Limited - off balance sheet item	28.2	Rupees <u>3,000,000</u>	<u>3,000,000</u>
Guarantee given to BRR International Modaraba in favour of Horizon Compression - off balance sheet item		Rupees <u>-</u>	<u>14,100,000</u>
<b>Other related parties</b>			
Certificate of musharika borrowings from key management personnel	19.3	Rupees <u>200,000</u>	<u>2,270,000</u>

For the year ended 30 June

2007                      2006

**41.2 Transactions during the year**

***Associates***

Modaraba management fee	<i>Rupees</i> <u>4,912,380</u>	<u>3,965,730</u>
Musharika borrowings receipt from financial institution	<i>Rupees</i> <u>149,000,000</u>	<u>276,000,000</u>
Repayment of musharika borrowings to financial institution	<i>Rupees</i> <u>149,000,000</u>	<u>286,000,000</u>
Musharika borrowings from Modaraba management company	<i>Rupees</i> -	<u>3,000,000</u>
Repayment of Musharika borrowings to Modaraba management company	<i>Rupees</i> -	<u>3,000,000</u>
Mark-up / expense on musharika borrowings - financial institution under common directorship	<i>Rupees</i> <u>13,931,614</u>	<u>14,457,891</u>
Mark-up / expense on musharika borrowings - Trust under common directorship / trusteeship	<i>Rupees</i> <u>1,870,786</u>	<u>1,829,866</u>
Mark-up / expense on musharika borrowings - Modaraba management company	<i>Rupees</i> -	<u>21,000</u>
Mark-up / expense on musharika term finance certificates borrowings	<i>Rupees</i> <u>2,419,436</u>	<u>2,615,638</u>
Profit / (income) on Term Finance Certificates of Dewan Cement Limited	<i>Rupees</i> <u>4,743,322</u>	<u>11,547,210</u>
Service charges from Unicap Modaraba - under common management	<i>Rupees</i> -	<u>132,000</u>

***Joint ventures***

Share of profit from Centre Gas (Private) Limited	<i>Rupees</i> <u>4,505,043</u>	<u>492,803</u>
Cash dividend received - Centre Gas (Private) Limited	<i>Rupees</i> <u>6,147,805</u>	<u>-</u>

***Other related parties***

Remuneration of key management personnel	<i>Rupees</i> <u>7,817,721</u>	<u>6,169,794</u>
Contribution to the provident fund	<i>Rupees</i> <u>1,560,617</u>	<u>1,143,296</u>

**42. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Management Company have approved dividend at the rate of Rs. 1.25 per certificate for the year ended 30 June 2007, resulting in a total distribution of profit amounting to Rs. 31.840 million, in their meeting held on 30th August, 2007 which is more than 90% of the profit for the year ended 30 June 2007. These financial statements do not reflect this proposed issue of dividend, in compliance with circular no 6/2006 dated 19 June 2006 of Institute of Chartered Accountants of Pakistan (which will be recognised in the next period's financial statements).

**43. DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorised for issue by the Board of Directors of the Management Company in their meeting held on 30th August, 2007.

  
**Basheer A. Chowdry**  
Chief Executive

  
**Zafar Iqbal**  
Chairman

  
**M.H.S Kazmi**  
Director





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We Lease	We Provide	We Handle
<ul style="list-style-type: none"> <li>■ Industrial Equipment</li> <li>■ Transport Fleets</li> <li>■ Motor Vehicles</li> <li>■ Computer Hardware</li> <li>■ Office Equipment</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial Advisory</li> <li>■ Services on Leasing</li> <li>■ Syndication for Leasing of Large Projects</li> <li>■ Assistance in Private Placement of Long and Short Term Financing</li> </ul>	<ul style="list-style-type: none"> <li>■ Trading</li> <li>■ Equity Market Operations</li> <li>■ Project Financing</li> <li>■ Management of Stocks and Shares Portfolios</li> </ul>



## الضامن Al-Zāmin Leasing Modaraba

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