

Financial Link Modaraba Annual Report 2001

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CORPORATE INFORMATION

MODARABA COMPANY Financial Link Limited

BOARD OF DIRECTORS	Shahid Hameed Chairman	Nominee Director Pak Libya Holding Co. (Pvt) Ltd.
	Syed Ghazanfar Ali	Nominee Director Pak Libya Holding Co. (Pvt) Ltd.
	Tasnimul Haq Farooqui	Nominee Director Pakistan Kuwait Investment Co. (Pvt) Ltd.
	Muhammad Saeed Akhtar	Nominee Director Saudi Pak Industrial & Agricultural Investment Co. (Pvt) Ltd.
	Sajid Ali Abbasi	Nominee Director The Bank of Khyber
	Shahid Abdulla	Nominee Director International Brands (Pvt) Ltd.
	Farooq Hashmi	Proposed Director

COMPANY SECRETARY Farooq Hashmi

AUDITORS Husain Rahman, Chartered Accountants.

Banker Muslim Commercial Bank Limited

REGISTRAR Husain Rahman
1st Floor, Modern Motor House,

Beaumont Road, Karachi.

REGISTERED OFFICE1st Floor, Modern Motors House,
Beaumont Road, Karachi.**POSTAL ADDRESS**1st Floor, N.I.C. Building, Abbasi Shaheed Road,
Off Shakra-e-Faisal, Karachi.**DIRECTORS' REVIEW**

The Board of Directors of Financial Link Limited take pleasure in presenting the audited accounts of the Financial Link Modaraba for the year ended June 30, 2001.

FINANCIAL HIGHLIGHTS*Rupees in thousand*

Operating Income/(Loss)	20
Less: Expenses	7572
Loss of diminution in value of investments	2
Write off of Profit receivable	11,626
Financial Charges on lease assets	2

	1,927

Operating (loss) / Profit for the period	(1,907)
Other income	19

	(1,888)
Unappropriated Loss brought forward	(96,770)

Profit (loss) carried forward	98,558
	=====

PROFIT DISTRIBUTION

The Board of Directors of Madaraba Company have not recommended any dividend for the year ended June 30, 2001. Accordingly, no management fee has been given to the company for the period under review.

FUTURE OUTLOOK

All the investments, pledged with various financial institutions, have been already settled. Presently, FLM is actively pursuing a "Settlement Plan" according to which the management of the Modaraba may be "taken-over" by financial institution. After finalization of "Management take-over," the modaraba is envisaged to be reactivated by way of injection of fresh capital, ensuring its revival and safeguarding the interests of the certificate holders.

AUDITORS

The Present auditors Messrs. Husain Rahman, Chartered Accountants being due for retirement, have offered themselves for re-appointment for the year ending June 30, 2002. Their appointment has been confirmed by the Board of Directors, subject to the approval by the Registrar of Madaraba Companies and Modaraba.

ACKNOWLEDGEMENT

The Board wishes to place on record its appreciation for the dedicated, untiring and positive efforts of all the members of staff and valuable guidance and assistance extended to us by the Board of Directors, Registrar of Modaraba and the State Bank of Pakistan.

on behalf of the Board

FAROOQ HASHMI
Company Secretary

Karachi: December 24, 2001.

**Pattern of holding of certificates held by the
Certificate holders as on June 30, 2001**

<i>No. of Shareholders</i>	<i>Share From</i>	<i>Holding To</i>	<i>Total Shares Held</i>
24	1	100	2,400
2,519	101	500	1,248,800
52	501	1000	49,400
60	1001	5000	159,700
38	5001	10000	336,500
6	10001	15000	72,500
3	15001	20000	55,500
2	20001	25000	42,300
5	25001	30000	145,100
2	30001	35000	67,000
2	40001	45000	82,300
1	45001	50000	50,000
3	55001	60000	173,500
5	60001	65000	324,000
1	65001	70000	66,500
2	95001	100000	200,000
1	115001	120000	116,300
1	145001	150000	145,400
1	290001	295000	290,500
3	295001	300000	900,000
1	340001	345000	345,000
1	345001	350000	348,600
1	370001	375000	375,000
1	375001	380000	376,000
1	580001	585000	580,800
1	695001	700000	696,900
1	745001	750000	750,000
1	1995001	2000000	2,000,000
-----			-----
2,739			10,000,000
=====			=====

CATEGORIES OF SHARE HOLDERS

NUMBER SHARES HELD PERCENTAGE

1. JOINT STOCK COMPANIES 13 2,449,600 24.50

2. FINANCIAL INSTITUTIONS	6	1,222,300	12.22
3. LEASING/MODARABA COMPANIES	4	172,200	1.72
4. MODARABA COMPANIES	1	2,000,000	20.00
5. INSURANCE COMPANIES	2	87,500	0.88
6. INVESTMENT COMPANIES	7	1,267,600	12.68
7. INDIVIDUALS	2706	2,800,800	28.00
8. ASSOCIATED COMPANIES	0	0	0.00
9. FOREIGN INVESTORS	0	0	0.00
10. OTHERS	0	0	0.00
	-----	-----	-----
	2,739	10,000,000	100.00
	=====	=====	=====

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet as at June 30, 2001 and the related profit and loss account and statement of changes in financial position together with the notes to the financial statements for the year ended June 30, 2001 of Financial Link Modaraba which are Modaraba Company's (Financial Link Limited) representation and we state that we have obtained all the information and explanation which we required and after due verification thereof, we report that:

(a) in our opinion, proper books of account have been kept by the Modaraba Company in respect of Financial Link Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Modaraba Companies and Modaraba Rules, 1981;

(b) in our opinion, the balance sheet and the profit and loss account have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Modaraba Companies and Modaraba Rules, 1981; and

(c) in our opinion and to the best of our information and according to the explanations given to us:

(i) the balance sheet and the related profit and loss account and statement of changes in financial position, which are in agreement with the books of account, exhibit respectively a true and fair view of the state of the Modaraba's affairs as at June 30, 2001 and the losses and the changes in the financial position for the year ended on that date;

(ii) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980; and

(iii) the business conducted, investments made and expenditure incurred by the Modaraba are in accordance with the objects, terms and conditions of the Modaraba.

Without qualifying our opinion, we draw attention to the following:

(a) note 1.2 to the financial statements which inter alia states that the Modaraba has accumulated losses of Rs. 98.66 million (2000: Rs. 96.77 million). Management is working on a plan to reduce expenses. Therefore, these financial statements have been prepared on a going concern assumption; and

(b) note 1.3 to the financial statements; the Board of Directors of the Modaraba company is consider-

ing an offer from a financial institution for management takeover of the Modaraba; and

(c) note 1.4 to the financial statements; due to pending approval for appointment of Chief Executive of the Modaraba Company from Securities and Exchange Commission of Pakistan, the financial statements of the Modaraba have been signed by three directors of the Modaraba Company. This is in contravention of section 12(1) of the Modaraba Companies and Modaraba Rules, 1981.

Karachi: December 24, 2001.

HUSAIN RAHMAN
Chartered Accountants

BALANCE SHEET AS AT JUNE 30, 2001

	<i>Note</i>	<i>2001 Rupees</i>	<i>2000 Rupees</i>
CAPITAL AND RESERVES			
Authorised capital			
25,000,000 modaraba certificates of Rs. 10 each		250,000,000	250,000,000
		=====	=====
Issued, subscribed and paid-up capital			
10,000,000 modaraba certificates of Rs. 10/- each			
fully paid in cash	3	100,000,000	100,000,000
	3	1,812,104	1,812,104
Statutory reserve			
	3	(98,658,664)	(96,770,428)
Accumulated Loss		-----	-----
		3,153,440	5,041,676
		-----	-----
		3,767,229	5,747,422
		=====	=====
CURRENT LIABILITIES			
Current maturity of obligation under finance lease	4	--	2,756
Accrued expenses		544,773	633,974
Unclaimed profit distribution		69,016	69,016
		-----	-----
		613,789	705,746
		-----	-----
		3,767,229	5,747,422
		=====	=====

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

TANGIBLE FIXED ASSETS	5	43,340	41,657
LONG TERM INVESTMENTS	6	4,175	4,560
CURRENT ASSETS			
Short term investments	7	25,473	27,122
Musharika investment	8	3,352,019	3,252,019
Advances, prepayments and other receivables	9	236,218	1,437,840
Cash and bank balances	10	106,004	984,224
		-----	-----
		3,719,714	5,701,205

-----	-----
3,767,229	5,747,422
=====	=====

Director
Financial Link Limited

Director
Financial Link Limited

Director
Financial Link Limited

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2001**

	<i>Note</i>	<i>2001</i> <i>Rupees</i>	<i>2000</i> <i>Rupees</i>
Profit on musharika		3,507	733,710
Loss on sale of investment		(13)	(18,476,900)
Dividend Income		16,875	181,748
		-----	-----
		20,369	(17,561,442)
Operating expenses	11	757,285	1,231,573
Write off of profit receivable		1,166,719	--
Write off of other receivables		--	266,001
Finance charges on leased assets		1,953	2,435
		-----	-----
		1,925,957	1,500,009
Operating loss for the year		-----	-----
		(1,905,588)	(19,061,451)
(Provision) of/Reversal for diminution in value of investments		(1,871)	23,178,330
		-----	-----
Other income	12	(1,907,459)	4,116,879
		19,223	324,158
		-----	-----
(Loss)/profit for the year		(1,888,236)	4,441,037
Appropriation			
Transfer to statutory reserve		--	444,104
		-----	-----
Accumulated loss brought forward		(96,770,428)	(100,767,361)
		-----	-----
Accumulated loss carried forward		(98,658,664)	(96,770,428)
		=====	=====
(Loss)/earnings per certificate	13	(0.19)	0.44
		=====	=====

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

Director
Financial Link Limited

Director
Financial Link Limited

Director
Financial Link Limited

**STATEMENT OF CHANGES IN FINANCIAL POSITION
(CASH FLOW STATEMENT)
FOR THE YEAR ENDED JUNE 30, 2001**

	<i>2001</i> <i>Rupees</i>	<i>2000</i> <i>Rupees</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations (Note 14)	(919,649)	2,100,802
Dividend received	16,875	182,221
Interest received	35,160	--
	-----	-----
Net cash (used in)/generated from operations	(867,614)	2,283,023
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(8,000)	(14,400)
proceeds from sale of long term investments	150	--
	-----	-----
Net cash used in investing activities	(7,850)	(14,400)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of musharika obligation	--	(2,475,000)
Payment against finance lease	(2,756)	(14,545)
	-----	-----
Net cash used in financing activities	(2,756)	(2,489,545)
	-----	-----
NET DECREASE IN CASH AND BANK BALANCES	(878,220)	(220,922)
OPENING CASH AND BANK BALANCES AS AT JULY 01	984,224	1,205,146
	-----	-----
CASH AND BANK BALANCES AS AT JUNE 30	106,004	984,224
	=====	=====

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

Director
Financial Link Limited

Director
Financial Link Limited

Director
Financial Link Limited

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 The Financial Link Modaraba was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed thereunder and is managed by Financial Link Limited. The Modaraba is a perpetual and multipurpose modaraba, and is engaged in venture capital, equity investment, musharika financing arrangement and financial advisory services. The Modaraba is listed on the Karachi Stock Exchange.

1.2 The Modaraba has accumulated losses of Rs. 98.66 million as at June 30, 2001 (2000: Rs. 96.77

million) as against its paid-up capital of Rs. 100 million and statutory reserve of Rs. 1.81 million (2000: Rs. 1.81 million). The Modaraba earned a net loss of Rs. 1.89 million during the year (2000: Net Profit of Rs. 4.44 million). Expenses of the Modaraba have been reduced significantly. Therefore, these financial statements have been prepared under the going concern assumption.

1.3 A financial institution has offered for management takeover of the Modaraba. The Board of Directors of the Modaraba Company is considering the offer for final approval. The takeover will take place subject to approval by Securities and Exchange Commission of Pakistan.

1.4 The Board of Directors in their 27th meeting held on December 20, 2000 have appointed Mr. Farooq Hashmi as Chief Executive of the Modaraba Company. The Management Company is still awaiting approval of appointment from the Securities and Exchange Commission of Pakistan. Due to pending approval of the Chief Executive, these financial statements have been signed by three directors of the Modaraba Company. This is in contravention of section 12(1) of the Modaraba Companies and Modaraba Rules, 1981.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These financial statements have been prepared under the "historical cost convention".

2.2 Fixed assets and depreciation

2.2.1 Owned

Fixed assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight-line method. Full year's depreciation is charged on additions while no depreciation is charged on assets disposed off during the year.

Normal repairs and maintenance are charged to income as and when required. Gains and losses if any, on disposal of assets are taken to the profit and loss account.

2.2.2 Asset subject to finance lease

Asset subject to finance lease is stated, at the inception of the lease, at the lower of fair value of the asset and present value of minimum lease payments under the lease agreement. The related obligation under the lease is accounted for as liability. Depreciation is charged to income applying the straight-line method in the same manner as for owned assets.

2.3 Investments in listed securities

Long term investments are stated at cost and provisions as made for other than temporary diminution in value, if any.

Short term investments are carried at the lower of average cost and market value determined on an aggregate portfolio basis.

2.4 Revenue recognition

- (a) Profit from musharika transactions is recognised on the basis of pro-rata accrual of the estimated profit during the year.
- b) Gain/loss on sale of investments is accounted for in the period in which it arises.
- c) Dividend income is recognised when the right to the dividend is established.
- d) Profit on PLS account is recognised on accrual basis.

3. CHANGES IN EQUITY

	<i>Issued subscribed and paid-up capital</i>	<i>Reserve under Prudential Regulations for Modarabas</i>	<i>Accumulated loss</i>	<i>Total</i>
Rupees				
Balance as at July 1, 1999	100,000,000	1,368,000	(100,767,361)	600,639
Net profit for the year	--	--	4,441,037	4,441,037
Transfer from profit and loss acco	--	444,104	(444,104)	--
Balance as at June 30, 2000	100,000,000	1,812,104	(96,770,428)	5,041,676
Net loss for the year	--	--	(1,888,236)	(1,888,236)
Balance as at June 30, 2001	100,000,000	1,812,104	(98,658,664)	3,153,440

In accordance with the Prudential regulations for Modarabas, the Modaraba is required to transfer 10% of its after tax profits to statutory reserve until the reserve equals the paid-up capital. Thereafter, 5% of the tax profits are required to be transferred to the reserve.

4. OBLIGATIONS UNDER FINANCE LEASE

	<i>2001 Rupees</i>	<i>2000 Rupees</i>
Year ending June 30, 2001	--	2,830
Finance charges allocated to future periods	--	(74)
Current maturity of obligation under finance lease	--	2,756
	--	(2,756)

5. TANGIBLE FIXED ASSETS

	<i>COST</i>		<i>DEPRECIATION</i>				
	<i>As on July 1, 2000</i>	<i>Additions/ *transfer/ (disposal) during the year</i>	<i>As at June 30, 2001</i>	<i>For the year</i>	<i>As at June 30, 2001</i>	<i>Written down value as at June 30, 2001</i>	<i>Rate of Depreciation per annum %</i>
Owned:							
Furniture and fixtures	17,600	--	17,600	1,760	4,000	13,600	10
Office equipment	--	8,000	45,570	4,557	15,830	29,740	10
		*35,570					
Leased:							
Office equipment	37,570	*(35,570)	--	--	--	--	10

2001	55,170	8,000	63,170	6,317	19,830	43,340
2000	40,770	14,400	55,170	5,517	13,513	41,657

6. LONG TERM INVESTMENTS - Listed securities

<i>No. of ordinary shares</i>		<i>Name of companies</i>		
<i>Rs. 10 each</i>			<i>2001</i>	<i>2000</i>
<i>2000</i>	<i>2001</i>		<i>Rupees</i>	<i>Rupees</i>
100		100 Kohinoor Raiwind Ltd.	1,150	1,150
300		300 Lucky Cement Ltd.	8,265	8,265
			9,415	9,415
		Less: Provision for diminution in value of investments	(5,240)	(4,855)
			4,175	4,560

Included in the above are securities costing Rs. 9,415 (2000: Rs. 9,415) not transferred in the name of the Modaraba

The aggregated market value of these securities as at June 30, 2001 is Rs. 4,175 (2000: Rs. 4,560).

7. SHORT TERM INVESTMENTS - Listed securities

<i>No. of ordinary shares</i>		<i>Name of companies</i>		
<i>Rs. 10 each</i>			<i>2001</i>	<i>2000</i>
<i>2000</i>	<i>2001</i>		<i>Rupees</i>	<i>Rupees</i>
		Investment companies and banks		
		Pakistan Industrial Credit and		
750		850 Investment Corporation	76,884	77,970
1,940		1,940 Union Bank Limited	34,534	34,534
		Textile Spinning:		
140		140 Saif Textile Mills Ltd.	9,614	9,614
			121,032	122,118
		Less: Provision for diminution in value of investments	(95,559)	(94,996)
			25,473	27,122

The aggregate market value of shares held by the Modaraba as at June 30, 2001 is Rs. 25,473 (2000: Rs. 27,122).

8. MUSHARIKA INVESTMENT - Unsecured

The Modaraba had entered into a musharika agreement with a non-bank financial institution (NBFI) and the provisional profit rate under musharika agreement is 22.5% per annum (2000: 22.5% per annum). Subsequently, the Modaraba has made a final settlement of the arrangement whereby it was agreed that the Modaraba Will not claim any profit on its investment for the period from December 1998 to June 2001 and NBFI will pay full amount of principal outstanding to the Modaraba as at June 30, 2001. Hence, all profit accrued in prior years amounting to Rs. 1,166,719 was written off during the year, while no profit was accrued during the year in accordance with the arrangement. Subsequent to the balance sheet date, the Modaraba has received full amount of principal balance outstanding from the NBFI.

During the current year, the Modaraba had entered into a musharika agreement with a non-bank financial institution and the provisional profit rate under musharika agreement is 16% per annum.

	<i>2001</i> <i>Rupees</i>	<i>2000</i> <i>Rupees</i>
9. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES		
Advance to staff (note 9.1)	71,501	82,910
Advance income tax	148,895	148,154
Prepaid rent	9,600	9,600
Profit receivable on musharika investment	3,507	1,166,719
Other receivables	2,715	30,457
	-----	-----
	236,218	1,437,840
	=====	=====

9.1 The maximum amount at the end of the month during the period due from the staff was Rupees 71,501 (2000: Rs. 82,910).

10. CASH AND BANK BALANCES

Cash in hand	20,000	20,000
Pay orders in hand	--	550,000
Cash with banks on - PLS account	16,988	45,208
- State Bank of Pakistan account	--	300,000
- Dividend account	69,016	69,016
	-----	-----
	106,004	984,224
	=====	=====

11. OPERATING EXPENSES

Salaries, allowances and benefits (Note 11.1)	385,743	383,288
Travelling and conveyance	9,270	43,881
Entertainment	406	3,483
Rent, rates and taxes	38,300	19,200
Telephone and communication	24,049	31,858
Printing, stationery and advertising	71,838	43,017
Repairs and maintenance	4,500	--
Fee and subscriptions	75,500	53,700

14. CASH GENERATED FROM OPERATING ACTIVITIES

Profit/(Loss) for the year	(1,888,236)	4,441,037
Adjustments for:		
Write off of other receivable	--	266,001
Write off of profit receivable	1,503,504	--
Depreciation	6,317	5,517
Loss on sale of investments	13	18,476,900
Dividend income	(16,875)	(181,748)
Profit on PLS A/c	(7,418)	--
Reversal of liabilities no longer payable	(11,805)	(263)
Provision/(Reversal of) for diminution in value of investments	1,871	(23,178,330)
	-----	-----
Operating(loss)/profit before working capital changes	(412,629)	(170,886)
Decrease/(increase) in working capital		
Advances, prepayments and other receivable	(329,625)	3,959,690
Musharika investment	(100,000)	--
Accrued expenses	(77,395)	(1,688,002)
	-----	-----
Cash (used in)/generated from operations	(919,649)	2,100,802
	=====	=====

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of all financial assets and financial liabilities is estimated to approximate their carrying value as at June 30, 2001.

16. MARK-UP RATE RISK EXPOSURE

The information about modaraba's exposure to mark-up rate risk based on contractual refinancing or maturity dates whichever is earlier is as follows:

	2001					2000				
	Mark-up bearing		Non Mark-up bearing			Mark-up bearing		Non Mark-up bearing		
	Maturity upto one year	Maturity after one year	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Maturity upto one year	Maturity after one year	Total
Financial Assets										
Long term investments	--	--	--	4,175	4,175	--	--	--	4,560	4,560
Short term investments	--	--	25,473	--	25,473	--	--	27,122	--	27,122
Musharika investments	3,352,019	--	--	--	3,352,019	3,252,019	--	--	--	3,252,019
Advances and other receivables	--	--	77,722	--	77,722	--	--	1,280,086	--	1,280,086
Cash and bank balances	16,988	--	89,016	--	106,004	45,208	--	939,019	--	984,227
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	3,369,007	--	192,211	4,175	3,565,393	3,297,227	--	2,246,227	4,560	3,548,014
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Financial Liabilities										
Obligation under finance lease	--	--	--	--	--	--	--	2,756	--	2,756
Accrued expenses	--	--	544,773	--	544,773	--	--	633,974	--	633,974
Unclaimed profit distribution	--	--	69,016	--	69,016	--	--	69,016	--	69,016

	--	--	613,789	--	613,789	--	--	705,746	--	705,746
On-balance sheet gap (a)	3,369,007	--	(421,578)	--	--	3,297,227	--	1,540,481	--	--
Total mark-up rate sensitivity gap	3,369,007	--	--	--	--	3,297,227	--	--	--	--

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

(b) The effective mark-up rates for financial assets and liabilities are as follows:

	2001	2000
	%	%
<i>Financial assets</i>		
Musharika investments	16 and 22.5	22.5
Cash and bank balances	8.00	8.00

17. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Modaraba attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties and continually assessing the credit worthiness of counter-parties.

18. CORRESPONDING FIGURES

Corresponding figures have been re-arranged and re-classified, wherever necessary, for the purpose of comparison.

Director
Financial Link Limited

Director
Financial Link Limited

Director
Financial Link Limited