

ANNUAL REPORT
2005



FIRST FIDELITY LEASING MODARABA

Managed by:
Fidelity Capital Management (Private) Limited

CORPORATE INFORMATION

Board of Directors

Fidelity Capital Management (Pvt.) Ltd.

Chairman	Siyyid Tahir Nawazish
Chief Executive	Mr. Wasim-ul-Haq Osmani
Directors	Sheikh Muhammad Nasim Mr. Shahid Iqbal Chaudhry Mr. Imran Hameed

Corporate Secretary / CFO Mr. Muhammad Naeem Baig

Auditors of Modaraba Taseer Hadi Khalid & Co.
Chartered Accountants

Audit Committee

Chairman	Siyyid Tahir Nawazish
Members	Mr. Shahid Iqbal Chaudhry Mr. Imran Hameed
Secretary	Mr. Muhammad Arshad

Credit Committee

Chairman	Siyyid Tahir Nawazish
Members	Mr. Wasim-ul-Haq Osmani Mr. Muhammad Naeem Baig Mr. Muhammad Younis Chaudhry

Legal Advisor Cornelius, Lane & Mufti
Salim & Baig (Advocate)

Bankers Crescent Commercial Bank Limited
MCB Bank Limited
PICIC Commercial Bank Limited

Registered Office Crescent Standard Tower
10-B, Block E-2, Gulberg-III
Lahore. Tel: 042-111-912-912 Fax: 042-5783761

Registrars Crescent Standard Business Management (Pvt.) Ltd.
Crescent Standard Tower
4th Floor, 10-B, Block E-2, Gulberg-III
Lahore. Tel: 042-111-912-912 Fax: 042-5875916





Vision

To excel in providing innovative Islamic financial services to customers in the best possible manner.

Mission

- To achieve a unique position in the Modaraba sector by developing products, foreseeing upcoming changes, endeavoring value addition, focusing economic and industrial growth of the country and seeking expansion in business activity.
- To offer attractive returns to stakeholders as per their expectations.
- To actively participate and support transformation of our mercantile and financial sector in accordance with Sharia.
- To build our institution with attributes of flexibility, innovation and foresight keeping intact prudence level and corporate discipline supported by dedicated management mindful of corporate and social obligation, maintaining high professional and ethical standards with eyes on the future.

KEY OPERATING DATA FOR LAST SIX YEARS

(Rupees in Millions)

	June 2005 Rupees	June 2004 Rupees	June 2003 Rupees	June 2002 Rupee	June 2001 Rupees	June 2000 Rupees
Operating results						
Revenues	142.91	129.95	135.31	108.06	137.53	86.61
Operating profit before management fee and taxation	21.10	27.96	34.89	25.85	27.11	29.06
Profit after taxation and management fee	24.01	25.35	31.72	23.50	24.65	26.20
Financial position						
Fixed assets (owned and leased out)	244.06	258.40	222.28	204.47	174.54	169.55
Total assets	662.07	588.02	438.81	395.07	438.10	361.74
Certificateholders equity	313.41	318.04	253.97	244.90	242.03	238.01
Paid up capital	264.13	206.33	206.33	206.33	206.33	206.33
Additional Metrics						
Earning per certificate	0.91	0.89	1.540	1.14	1.19	1.270
Profit distribution (%)	10.00	10.00	11.50	10.00	10.00	11.00
Break-up value per certificate	11.86	12.14	12.30	11.86	11.73	11.54

Figures for the year 2004 present combined figures of the Modaraba and merged entities namely First Hajveri Modaraba and Fidelity Securities (Private) Limited.



**FIDELITY
LEASING**

NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given that the Annual Review Meeting (ARM) of First Fidelity Leasing Modaraba to review performance of the Modaraba during the year ended June 30, 2005 will be held on October 31, 2005 at 12:30 P.M. at Crescent Standard Tower, 10-B, Block E-2, Gulberg-III, Lahore.

Certificateholders whose names are entered in the register of certificateholders 7 days before the date of ARM i.e. October 24, 2005 shall be entitled to attend the meeting.



**FIDELITY
LEASING**

By Order of the Board

Lahore
October 10, 2005

Muhammad Naeem Baig
Corporate Secretary

DIRECTORS' REPORT

The Directors of Fidelity Capital Management (Private) Limited are pleased to present 14th Annual Report of First Fidelity Leasing Modaraba together with the audited financial statements and the auditors' report thereon for the year ended June 30, 2005.

Financial Results

The financial results of the Modaraba are summarized as follows.

	Rupees in '000'	
	2005	2004
Income	142,917	129,954
Expenses	(121,810)	(101,986)
Operating profit before provisions and taxation	21,107	27,968
Provision for doubtful receivables	3,469	(776)
Modaraba Company's management fee	(2,234)	(1,833)
Profit before taxation	22,342	25,359
Taxation	1,673	-
Profit after taxation	24,015	25,359

Appropriations

Unappropriated profit brought forward	8,747	2,688
Net profit for the year	24,015	25,359
Profit available for appropriation	32,762	28,047

Appropriated as follows:

Transferred to statutory reserve	4,803	3,667
Transferred from general reserve	-	(5,000)
Merger adjustment	2,618	-
Profit distribution	26,414	20,633
Unappropriated profit carried forward	4,025	8,747

Earning Per Certificate

Earning per certificate stood at Rs. 0.91 (2004 : Rs. 0.96).

Profit Distribution

The Directors are pleased to announce cash dividend for the year @ 10% i.e Re. 1 per certificate (2004 : @ 10% i.e Re. 1 per certificate). The certificate transfer books of the Modaraba will remain closed from November 01, 2005 to November 14, 2005 (both days inclusive) for determination of dividend entitlement.

Restructuring and Reorganization

As already reported the Honorable Lahore High Court vide Order dated October 22, 2004 sanctioned the scheme of amalgamation of erstwhile First Hajveri Modaraba and Fidelity Securities (Private) Limited (the amalgamated entities) with and into the Modaraba. The effective date of merger was July 01, 2004. In terms of the Order of the Court and the scheme of amalgamation the whole undertaking of amalgamated entities stood transferred and vested in the Modaraba as from the effective date. The enclosed financial

statements reflect merged position of all three entities. This is the first Annual Report after the successful merger. Consequent to merger new modaraba certificates were issued to the certificateholders of erstwhile First Hajveri Modaraba on the basis of approved swap ratio of 1 : 3.552. The paid up certificate capital of the Modaraba after merger has increased to Rs. 264.13 million.

During the year with the approval of the Registrar Modaraba the entire shareholding of Fidelity Capital Management (Private) Limited, the management company of your Modaraba was acquired by Crescent Standard Business Management (Private) Limited. The envisaged change in directors reported earlier as yet has not been accomplished, the existing directors continue to perform their duties.

Review of Operations

The Modaraba during the year earned after tax profit of Rs. 24.57 million. After merger the balance sheet footings has considerably increased to Rs. 662.07 million from Rs. 422.81. The core activities of the Modaraba were conventional leases of vehicle and machinery and equity brokerage services. The Modaraba in addition to its above activities diverted some of its resources in property investment and infrastructure projects for capital appreciation and to earn rental income.

The capital market again witnessed a high volatile behavior during February-March 2005. The KSE - 100 index saw the low of 6,500 points after reaching its high of 10,000 points. There existed possibilities of defaults by clients as warranted by the situation however the management of your Modaraba closely monitored the position and handled stock market affairs prudently. However, the debacle did stunt capital market activities in the subsequent period.

The management continued its efforts for monitoring and recovery of stuck up receivables, which has given satisfactory results. The Modaraba was awarded a consent decree by the Honorable Lahore High Court in a recovery suit filed against a customer of erstwhile First Hajveri Modaraba whereby a substantial amount has been recovered. Some out of Court settlements were also made to the benefit of the Modaraba. The Pakland Cement Limited and Saadi Cement Limited were taken over by Dewan Mushtaq Group, the new owners proposed a 2nd scheme of arrangement to the creditors asking certain remissions which was approved by the Honorable Sindh High Court during the year under review. The profit payment and principal redemption on TFCs under the 2nd scheme of arrangement are regular. Flow of funds representing Modaraba's share out of sale proceeds of Kohinoor Industries Limited surplus factory land had started. More than Rs. 5 million were received during the year and Rs. 12.2 million has been received subsequent to the year end. It is expected that the balance amount would be received in next few months.

Corporate Governance Compliance

As required by the Code of Corporate Governance, directors are pleased to report that:

- (a) The financial statements prepared by the management of the Modaraba present fairly its true state of affairs, the results of its operations, cash flows and changes in equity.
- (b) Proper books of account of the Modaraba have been maintained.
- (c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

- (d) International accounting standards, as applicable in Pakistan have been followed in preparation of financial statements.
- (e) The system of internal control is sound and has been effectively implemented and monitored.
- (f) There are no significant doubts upon the Modaraba's ability to continue as a going concern.
- (g) There has been no material departure from the best practices of corporate governance as detailed in the listing regulations of the stock exchanges.
- (h) A statement setting out status of the compliance with the best practices of corporate governance is attached.

Key Operating and Financial Data

A statement summarizing key operating and financial data for the last six years is attached.

Trading in Modaraba certificates by Directors Etc.

None of the directors, chief executive, executives, auditors of the Modaraba or their spouses and minor children carried out any trade in the certificates of the Modaraba.

Board Meetings

During the year under review 11 meetings of the Board of Fidelity Capital Management (Pvt) Limited were held, which were attended by the directors as follows:

Name of Director	Meetings Attended
Siyid Tahir Nawazish	10
Mr. Wasim-ul-Haq Osmani	11
Mr. S.M. Nasim	02
Mr. Shahid Iqbal Chaudhry	11
Mr. Imran Hameed	07

Credit Rating

PACRA has updated Modaraba's long term rating to A- and short term to A2. These ratings denote Modaraba's strengthened risk absorption, mainly emanating from substantially improved asset quality and adoption of low risk growth strategy based on a low leveraged capital structure. The ratings also take into account diversified source of revenue.

Value of Provident Fund and Gratuity Fund Investment

The Modaraba operates a contributory provident fund for all its permanent employees. Equal monthly contributions are made, both by the Modaraba and the employee to the fund @ 10% of basic salary. The value of its investment as at June 30, 2005 works out to Rs. _____.

Modaraba also operates an approved funded gratuity scheme for its management staff who complete the qualifying period of service. Provision in the books of account has been made in accordance with actuarial recommendations.

Pattern of Certificateholdings

The pattern of certificateholdings is annexed to this report.

Change of Registered Office Address

The registered office of Modaraba has been shifted to Crescent Standard Tower, 10-B, Block E-2, Gulberg-III, Lahore.

Auditors

M/s Riaz Ahmed & Co., Chartered Accountants were auditors of the Modaraba for more than five years consequently they have retired in accordance with the Code of Corporate Governance. The Audit Committee suggested the name of M/s Taseer Hadi Khalid & Co., Chartered Accountants as new statutory auditors for the year 2004-2005. The Board of Directors endorsed the recommendation of Audit Committee. The Registrar Modaraba has also given approval of the said appointment of auditors.

The Board of Directors records its appreciation for the valuable services rendered by M/s Riaz Ahmed & Co., Chartered Accountants during their tenure of office as external auditors of the Modaraba.

Future Outlook

The management looks forward to better future attributed to a number of positive factors including stable macro-economic environment, strong economic growth, stable exchange rate, increase in discount rates, positive privatization process, visible improvement in Pak-India relationship, appropriate reforms initiated by SECP and SBP and availability of adequate liquidity in market.

Modarabas have begun to find different niches of operations having competition from other major financial players including commercial banks, Islamic banks and leasing companies. The management continuously review the business plans to explore new avenues of investment to ensure growth in longer term and thereby the returns to the stakeholders. To diversify business avenues management had applied to Registrar Modaraba for getting necessary permission to undertake housing finance and development activities etc. A meeting of the Religious Board was held on April 18, 2005 to consider Modaraba's proposed business activities and the Religious Board after due consideration looked optimistic towards said activities. However, formal approval is still awaited. With the increase in the discount rate by SBP the rates charged by financial institutions have increased and Modaraba would also be able to deploy its funds at better rates to earn good profits. The Modaraba has negotiated sale of its Lahore Stock Exchange and Commodity Exchange memberships whereby a substantial amount will be available to Modaraba to invest in its envisaged diversified business avenues.

Acknowledgement

The Board wishes to place on record its appreciation for the continued support, guidance and necessary measures taken by the Registrar Modaraba, Securities and Exchange Commission of Pakistan, Modaraba Association of Pakistan and other Regulators.

At the same time the Board appreciates the commitment, dedication and hard work put in by the management and staff members of the Modaraba and looks forward to their continued commitment in the coming years.

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

For and on behalf of the
Board of Directors

Lahore
October 7, 2005

Siyid Tahir Nawazish
Chairman

Auditors' Report To The Certificateholders

We have audited the annexed balance sheet of **First Fidelity Leasing Modaraba (“the Modaraba”)** as at 30 June 2005 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the Modaraba Company's (Fidelity Capital Management (Private) Limited) responsibility which is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

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

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

and respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2005 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 Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

The financial statements of the Modaraba for the year ended 30 June 2004 were audited by another firm of auditors, whose report dated 14 September 2004 expressed an unqualified opinion on those financial statements.

**Lahore: Taseer Hadi Khalid & Co.
Chartered Accountants**

**Review Report To The Certificateholders
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 Fidelity Capital Management (Private) Limited (“the Modaraba Company”) in respect of **First Fidelity Leasing Modaraba (“the Modaraba”)** to comply with the listing regulations of the stock exchanges where the Modaraba is listed.

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

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

Based on our review, nothing has come to our attention, which causes us to believe that the statement of compliance does not appropriately reflect the Modaraba’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.

Lahore:

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

Statement of Compliance with the Code of Corporate Governance

The statement is being presented to comply with the Code of Corporate Governance as contained in the listing regulations of Stock Exchanges.

Fidelity Capital Management (Private) Limited is the Management Company of First Fidelity Leasing Modaraba and is a private limited company. The Code of Corporate Governance is not applicable to the Management Company. However, First Fidelity Leasing Modaraba is listed at all Stock Exchanges, comes under the ambit of the Code. First Fidelity Leasing Modaraba being a Modaraba does not have its own Board. The Board of Directors of the Management Company manages the affairs of the Modaraba.

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

1. The Management Company encourages representation of independent non-executive directors. Board presently comprises five directors and all are non-executive directors. The Management Company not being a listed company does not have any minority interest.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to banking company, a DFI or an NBFC or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancy occurred in the Board of Management Company is filled up by the directors within 30 days thereof.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all directors and employees of the Management Company and Modaraba.
6. The Management Company has developed a vision/mission statement, overall corporate strategy and significant policies of the Modaraba along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. The terms of appointment and remuneration package of the CEO and directors are not approved by the Board.
8. The meetings of the Board were presided over by the Chairman or CEO (in case of absence of Chairman) and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working paper were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Management Company arranged orientation course for its directors to apprise them of their duties and responsibilities.

10. The Board has approved appointments of Chief Financial Officer, Company Secretary and Head of Internal Audit including their remuneration and terms and conditions of employment, as determined by the Chief Executive.
11. The report of the directors of the Management Company on the financial statement of the Modaraba of this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. CEO and CFO duly endorsed the financial statements of the Modaraba before approval of the Board.
13. The directors, chief executive and executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of certificateholdings.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code with respect to Modaraba.
15. The Board has formed an audit committee, which comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.
16. The meetings of the audit committee are held at least once every quarter prior to approval of interim and final results of the Modaraba as required by the Code. The terms of reference of the committee have been formed and advised to the Committee for compliance.
17. The Board has set-up an effective internal audit function.
18. The statutory auditors of the Modaraba had confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all of its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the person associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

Director
Director

Lahore
October 07 ,2006

For and on behalf of the

Board of Directors

Lahore
October 07, 2005
Chairman

Siyyid Tahir Nawazish

First Fidelity Leasing Modaraba

Notes to the Financial Statements

For the year ended 30 June 2005

1. LEGAL STATUS AND NATURE OF BUSINESS

First Fidelity Leasing Modaraba (“the Modaraba”) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Rules framed thereunder and is managed by Fidelity Capital Management (Private) Limited. The registered office of the Modaraba is situated at Crescent Standard Tower, 10-B, Block E-2, Gulberg-III, Lahore. The Modaraba commenced its business operations from 05 December 1991. The Modaraba is listed on all the stock exchanges in Pakistan.

The Modaraba is a perpetual, multipurpose and multidimensional modaraba and is primarily engaged in the business of leasing, musharika and morabaha financing, equity investment, brokerage and other related business. The Modaraba is a corporate member of the Lahore Stock Exchange (Guarantee) Limited, Islamabad Stock Exchange (Guarantee) Limited and National Commodity Exchange Limited.

The Lahore High Court vide Order dated 22 October 2004 sanctioned scheme of amalgamation of the former Fidelity Securities (Private) Limited and the former First Hajveri Modaraba (the amalgamated entities) with and into the Modaraba. The effective date of the scheme of amalgamation was 01 July 2004. In terms of the Order of the Court and the scheme of amalgamation the assets and liabilities of merged entities stand transferred to and vested in the Modaraba from the effective date. Consequently, these accounts reflect merged position of all these three entities. The assets and liabilities of the merged entities are adjusted to conform to the uniformity of the accounting policies of the combining enterprises. The financial statements have been prepared on a pooling of interest method of accounting in accordance with the International Accounting Standard-22 “Business Combinations”

Under the scheme of arrangement for amalgamation of the Fidelity Securities (Private) Limited and the First Hajveri Modaraba, the Modaraba has issued 5,780,405 certificates of Rs. 10 each in exchange of 20,532,000 certificates of Rs. 10 each to the certificateholders of First Hajveri Modaraba.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1) Accounting convention

These financial statements have been prepared under the historical cost convention except for available for sale investments, which

have been recognized at fair value and recognition of certain staff retirement benefits at present value.

2.2) Statement of compliance

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

The SECP vide Circular No. 10 of 2004 dated 13 February 2004 has deferred, till further orders, the applicability of the IAS 17 “Leases” with effect from 01 July 2003. Accordingly, this IAS has not been taken into consideration for the purposes of preparation of these financial statements.

2.3) Fixed assets

Assets in own use and depreciation

These are stated at cost less accumulated depreciation and impairments, if any. Depreciation is charged using “Straight line method” so as to write off the historical cost of an asset over its estimated useful life at the following rates:

	Rate in %
Furniture and fixture	10
Computer and equipment	10-20
Motor vehicles	20

Full year's depreciation is charged on additions during the year in which asset is acquired, while no depreciation is charged in the year of disposal.

Maintenance and normal repairs are charged to income as and when incurred.

Gain / (loss) on disposal of fixed assets is included in income currently.

Assets leased out and amortization

Assets leased out are stated at cost less amortization. Amortization is charged to income applying the annuity method whereby the depreciable value of assets is amortized over the lease period. In respect of additions and transfers during the year, amortization is charged proportionately to the period of lease.

2.4) Impairment

The carrying amounts of the Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated and impairment losses are recognized.

2.5) Cards and Rooms

These are stated at cost less impairment, if any. The carrying amounts are reviewed at each balance sheet date to assess whether these are recorded in excess of their recoverable amounts, and where carrying value is in excess of recoverable amount, these are written down to their estimated recoverable amount.

2.6) Investment properties

Properties held to earn rentals and for capital appreciation are classified as investment properties. Investment properties are initially measured at cost, being the fair value of the consideration given. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and impairment, if any, except for land, which is stated at cost. Depreciation is charged on building using "Straight line method" so as to write off the historical cost of an asset over its estimated useful life at the 2.5-10 percent per annum.

Full year's depreciation is charged on additions during the year in which asset is acquired, while no depreciation is charged in the year of disposal.

Maintenance and normal repairs are charged to income as and when incurred.

Gain / (loss) on disposal of investment properties is included in income currently.

2.7) Investments

The Modaraba classifies its investments as held to maturity, available for sale or held for trading.

Held to maturity

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

Available for sale

Investments intended to be held for an unidentified period of time, which may be sold in response to need for liquidity or changes to interest rates, exchange rates or equity prices are classified as available for sale.

Held for trading

Investments that are acquired principally for the purpose of generating profit from short-term fluctuations in price or dealer's margin are classified as held for trading.

All "regular way" purchases and sales of listed shares are recognized on the trade date, i.e. the date the Modaraba commits to purchase/sell the asset.

All investments are initially recognized at cost, being the fair value of the consideration given. Subsequent to initial recognition, in accordance with the requirements of IAS-39; Financial Instruments: investments held for trading and investments available for sale for which active market exists, are measured at their market value while investments held to maturity are stated / measured at amortized cost using the effective interest rate method.

Any surplus or deficit on revaluation of held for trading investments are charged to income currently, while in case of Available for Sale Investments the resulting surplus/(deficit) is charged to the shareholders' equity. At the time of disposals the respective surplus or deficit is transferred to income currently.

2.8) Securities under reverse repurchase agreements

Transactions of reverse repurchase of investment securities are entered into at contracted rates for specified periods of time and are accounted for as follows:

Reverse repurchase agreements

Investments purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the balance sheet. Amounts paid under these agreements are recorded as fund placements. The difference between purchase and resale price is treated as income from reverse repurchase transactions of listed shares and accrued over the life of the reverse repo agreement.

2.9) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and cash with banks in current and deposit accounts and short term placements with financial institutions.

2.10) Financial instruments

Financial assets

Financial assets are cash and bank balances, placements, investments, financing and other receivables. Finances and receivable from clients are stated at their nominal value as reduced by provision for doubtful finances and receivables, while other financial assets are stated at cost except for investments, which have been revalued as per accounting policy.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include borrowings, trade and other payables. Mark-up based financial liabilities are recorded at gross proceeds received. Other liabilities are stated at their nominal value.

Recognition and derecognition

All the financial assets and financial liabilities are recognized at the time when the Modaraba becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the Modaraba loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

Offsetting of financial assets and financial liabilities

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

2.11) Provisions

Provisions are recorded when the Modaraba has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

2.12) Staff retirement benefits

Employees compensated absences

Employees of the Modaraba are entitled to take privileged leave of 30 days every year. Privileged leave can be accumulated upto a maximum of 90 days. An employee is entitled to encash the accumulated privileged leave subject to a maximum of 90 days at the time of leaving the service. An employee can encash the unutilized privilege leave accrued during the year over and above the maximum permissible accumulation at the discretion of the management.

Actuarial valuation was carried out on 30 June 2005 to determine and adjust the liability on the balance sheet date. The Actuary, for ascertaining the fair value of liabilities, has adopted the projected unit credit method.

Assumptions used for valuation for the scheme are as under:

	Per annum
Discount rate	9%
Expected rate of increase in salary	8%
Average number of leaves utilized	19

Gratuity

The Modaraba operates an approved funded gratuity scheme for its management staff. Actuarial valuation was carried out in 30 June

2005 to determine and adjust the liability on the balance sheet date. The Actuary, for ascertaining the fair value of assets and liabilities, has adopted the projected unit credit method.

Assumptions used for valuation for the scheme are as under:

	Per annum
Discount rate	9%
Expected rate of return on plan assets	8%
Expected rate of increase in salary	8%

The Modaraba recognizes actuarial gains / losses over the expected future service of current members.

Provident fund

The Modaraba operates a recognized provident fund for all its regular employees. Equal monthly contributions are made to the fund both by the Modaraba and the employees at the rate of 10% of the basic salary. The fund is administrated by the Trustees.

2.13) Revenue recognition

Lease rentals are recognized as income when lease installment becomes due over the lease period.

Profit on morabaha and musharika finances is recognized on accrual basis.

Brokerage commission is recognized when such services are provided.

Dividend income is recognized when the right to receive payment is established.

Revenue from ISP Division is recognized at the time of sale of internet hours.

Return on bank deposit and placements are recognized on time proportionate basis.

2.14) Borrowing cost

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

2.15) Deferred cost

Deferred cost is amortized over maximum period of five years.

2.16) Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits available, rebates and exemptions, if any.

Deferred

Deferred tax is provided, using the balance sheet method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized.

In accordance with clause 100 of Part-1 of Second Schedule of the Income Tax Ordinance, 2001, the Modaraba considers itself exempt from income tax application as it distributes 90 percent of its profit to the certificateholders and the management intends to continue to avail the tax exemption. Therefore, no provision for current and deferred taxation is required.

2.17) Related party transactions

The Company enters into transactions with related parties on an arm's length basis. Prices for transactions with related parties are determined using admissible valuation methods.

First Fidelity Leasing Modaraba

Balance Sheet

As at 30 June 2005

	<i>Note</i>	2005	2004
		Rupees	Restated Rupees
ASSETS			
Current Assets			
Cash and bank balances	3	32,378,232	65,683,876
Short term placements	4	4,138,679	36,482,685
Short term investments	5	8,493,992	3,709,445
Finances under musharika arrangements	6	47,500,000	-
Finances under morabaha arrangements	7	40,920,000	34,680,000
Advances, deposits, prepayments and other receivables	8	111,903,159	106,758,406
Current maturities of long term investments	9	2,788,018	-
		<u>248,122,079</u>	<u>247,314,412</u>
Non-Current Assets			
Long term investments	9	28,945,493	34,264,977
Deferred cost	10	665,892	19,180
Investment properties	11	117,099,765	26,821,150
Cards and rooms	12	23,177,950	21,207,950
Fixed assets	13	244,063,545	258,400,394
		<u>413,952,645</u>	<u>340,713,651</u>
Total assets		662,074,724	588,028,063
LIABILITIES			
Current Liabilities			
Finances under musharika arrangements	14	20,000,000	36,600,000
Creditors, accrued and other liabilities	15	169,695,439	110,185,848
Profit distribution		26,413,804	20,633,399
Current maturities of non-current liabilities	16	23,764,892	26,829,201
		<u>239,874,135</u>	<u>194,248,448</u>
Long term and deferred liabilities			
Security deposits from lessees	17	67,306,176	61,056,969
Refinance facility	18	34,434,152	-
Finances under morabaha arrangements	19	6,666,664	13,333,332
Employee benefits	20	375,836	1,342,903
		<u>108,782,828</u>	<u>75,733,204</u>
Total liabilities		348,656,963	269,981,652
NET ASSETS		313,417,761	318,046,411
FINANCED BY			
Certificate capital	21	264,138,040	206,333,990
Reserves	22	49,279,721	111,712,421
		<u>313,417,761</u>	<u>318,046,411</u>
Contingencies and Commitments	23		

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

CHIEF EXECUTIVE

Fidelity Capital Management
(Private) Limited

DIRECTOR

Fidelity Capital Management
(Private) Limited

DIRECTOR

Fidelity Capital Management
(Private) Limited

First Fidelity Leasing Modaraba

Profit and Loss Account

For the year ended 30 June 2005

	Note	2005 Rupees	2004 Restated Rupees
INCOME			
Lease rentals		96,748,284	104,197,930
Profit on morabaha/musharika finances		1,934,694	2,107,408
Return on investments	24	4,047,899	13,067,436
Brokerage commission		28,131,094	2,024,320
Other income	25	11,946,597	3,853,093
Negative goodwill written back		-	5,433,608
Profit/(loss) on operations of ISP Division	26	108,774	(729,598)
		<u>142,917,342</u>	<u>129,954,197</u>
EXPENSES			
Amortization of assets leased out		77,368,659	82,271,641
Administrative and general expenses	27	30,595,655	10,890,991
Stock exchange and CDC charges		3,070,954	953,510
Financial and other charges	28	10,775,115	7,869,873
		<u>121,810,383</u>	<u>101,986,015</u>
Operating profit before provisions and taxation		<u>21,106,959</u>	27,968,182
Provision reversal/(incorporated) for doubtful receivables		3,468,823	(775,639)
		<u>24,575,782</u>	27,192,543
Modaraba Company's management fee		2,234,162	1,833,186
Profit before taxation		<u>22,341,620</u>	25,359,357
Taxation	29	(1,673,421)	-
Profit after taxation		<u>24,015,041</u>	25,359,357
Unappropriated profit brought forward		8,747,392	2,687,807
Profit available for appropriation		<u>32,762,433</u>	28,047,164
Appropriations			
Transferred to statutory reserve		(4,803,008)	3,666,373
Transferred from general reserve		-	(5,000,000)
Merger adjustment		2,618,316	-
Profit distribution @ 10% (2004: @ 10%)		(26,413,804)	20,633,399
		<u>(28,598,496)</u>	19,299,772
Unappropriated profit carried forward		<u>4,163,937</u>	8,747,392
Earnings per share-basic and diluted	30	0.91	0.96

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

CHIEF EXECUTIVE
Fidelity Capital Management

DIRECTOR
Fidelity Capital Management

DIRECTOR
Fidelity Capital Management

(Private) Limited

(Private) Limited

(Private) Limited

First Fidelity Leasing Modaraba

Cash Flow Statement

For the year ended 30 June 2005

	Note	2005 Rupees	2004 Restated Rupees
Cash flow from operating activities			
Cash generated from operations	38	107,943,711	136,285,143
Financial charges paid		(9,984,020)	(9,669,176)
Profit received on morabaha/musharika finances		830,181	3,190,272
Profit received on TFC,s		1,096,340	-
Profit on bank deposits		3,744,660	-
Return on placements		2,029,466	11,914,487
Deferred cost		(998,834)	-
Retirement benefits paid		(1,324,637)	(287,871)
Income tax paid		(2,398,266)	(80,604)
Net cash generated from operating activities		100,938,601	141,352,251
Cash flow from investing activities			
Dividend received		-	836,178
Lessees security deposits		4,183,414	21,175,931
Proceeds from sale of fixed assts - Leased out		47,389,150	60,826,038
Fixed assets acquired - Leased out		(91,172,103)	(167,612,161)
Investments		(4,482,968)	15,529,552
Short term placements		32,344,006	(18,824,550)
Acquisition of subsidiary (net of cash acquired)		-	24,885,073
Proceeds from sale of own assets		3,815,191	1,168,275
Fixed assets acquired - Own use		(25,937,834)	(11,004,698)
Investment properties acquired		(108,986,861)	(26,821,150)
Proceeds from sale of investment properties		20,450,000	-
Rooms and membership cards		(1,970,000)	(700,000)
Net cash (used in) investing activities		(124,368,005)	(100,541,512)
Cash flow from financing activities			
Finances under musharika arrangements		(16,600,000)	(13,900,000)
Finances under morabaha arrangement		(15,276,615)	(13,438,621)
Refinance facility		42,045,583	-
Cash and cash equivalent transferred from merged entity		-	23,941,424
Profit distribution		(20,045,209)	(23,113,987)
Net cash (used in) financing activities		(9,876,241)	(26,511,184)
Net (decrease)/ Increase in cash and cash equivalents		(33,305,645)	14,299,555
Cash and cash equivalents at the beginning of the year		65,683,876	51,384,321
Cash and cash equivalents at the end of the year		32,378,231	65,683,876

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

CHIEF EXECUTIVE
Fidelity Capital Management
(Private) Limited

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Fidelity Capital Management
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(Private) Limited

First Fidelity Leasing Modaraba

Statement of changes in equity

For the year ended 30 June 2005

	Certificate Capital	Statutory Reserve	Fair Value Reserve	Amalgamation Reserve	General Reserve	Unappropriated Profit	Total
Rupees							
Balance as at 30 June 2003	206,333,990	38,876,290	1,079,720		5,000,000	2,687,807	253,977,807
Net profit for the year	-	-	-			25,359,357	25,359,357
Transfer during the year	-	3,666,373	-		(5,000,000)	1,333,627	-
Profit distribution @ 10%	-	-	-			(20,633,399)	(20,633,399)
Reserve as per scheme of amalgamation	-	-	-	60,422,366	-	-	60,422,366
Fair value gain realized during the year	-	-	(1,079,720)			-	(1,079,720)
Balance as at 30 June 2004 as restated	206,333,990	42,542,663	-	60,422,366	-	8,747,392	318,046,411
Net profit for the year	-	-	-		-	24,015,041	24,015,041
Excess of net capital acquired in First Hajveri Modaraba				(2,618,316)		2,618,316	-
Issued to certificateholders of First Hajveri Modaraba under scheme of amalgamation	57,804,050	-	-	(57,804,050)	-	-	-
Transfer during the year	-	4,803,008	-		-	(4,803,008)	-
Profit distribution @ 10%	-	-	-		-	(26,413,804)	(26,413,804)
Revaluation (loss)	-	-	(2,229,887)		-	-	(2,229,887)
Balance as at 30 June 2005	264,138,040	47,345,671	(2,229,887)	-	-	4,163,937	313,417,761

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

CHIEF EXECUTIVE

Fidelity Capital Management
(Private) Limited

DIRECTOR

Fidelity Capital Management
(Private) Limited

DIRECTOR

Fidelity Capital Management
(Private) Limited

	<i>Note</i>	2005 Rupees	2004 Rupees
12 Cards and rooms			
Corporate membership of Islamabad and Lahore Stock Exchanges		14,260,000	14,260,000
Membership of National Commodity Exchange Limited		1,010,000	1,010,000
Rooms		7,907,950	5,937,950
		23,177,950	21,207,950
13 Fixed assets			
Assets leased out	<i>13.1</i>	211,821,819	245,407,525
Assets in own use	<i>13.2</i>	13,741,726	12,992,869
		225,563,545	258,400,394
Work in progress			
Property in course of construction	<i>13.3</i>	18,500,000	-
		244,063,545	258,400,394

13.1 Assets leased out

	Cost Rupees				Depreciation Rupees			Book value Rupees	
	As at 01 July 2004			As at 30 June 2005	As at 01 July 2004	For the year/(On transfers)	As at 30 June 2005	As at 30 June 2005	
	Without effect of merger	Transfer due to merger	Total						
Plant and machinery	160,675,652	-	160,675,652	21,085,575 (35,402,267)	146,358,960	61,215,792	37,126,710 (31,671,052)	66,671,450	79,687,510
Vehicles	211,957,413	-	211,957,413	66,568,768 (104,511,624)	174,014,557	71,569,654	37,724,845 (61,478,325)	47,816,174	126,198,383
Office equipments	6,205,939	-	6,205,939	2,687,960 (1,618,451)	7,275,448	1,949,423	1,997,199 (1,100,829)	2,845,793	4,429,655
Household equipments	1,692,566	-	1,692,566	829,800 (353,916)	2,168,450	389,176	519,905 (246,902)	662,179	1,506,271
2005	380,531,570	-	380,531,570	91,172,103 (141,886,258)	329,817,415	135,124,045	77,368,659 (94,497,108)	117,995,596	211,821,819
2004	413,230,741	-	413,230,741	167,612,161 (200,311,332)	380,531,570	192,337,697	82,271,641 (139,485,293)	135,124,045	245,407,525

13.1.1 Transfers represent the assets disposed through negotiation after expiry/termination of leases. However, in view of large number of disposals, detail of each disposal has not been given.

13.2 Assets in own use

	Cost Rupees					Depreciation Rupees			Book value Rupees
	As at 01 July 2004			Additions/ (Disposals and transfers)	As at 30 June 2005	As at 01 July 2004	For the year/(On disposals)	As at 30 June 2005	As at 30 June 2005
	Without effect of merger	Transfer due to merger	Total						
Land	26,821,150	-	26,821,150	(26,821,150)	-	-	-	-	-
Vehicles	4,120,579	1,634,058	5,754,637	4,786,000	5,012,300	2,594,332	1,002,460	1,579,002	3,433,298
				(5,528,337)			(2,017,790)		
Computer and equipments	7,472,855	2,776,977	10,249,832	2,471,362	12,421,194	1,937,376	1,700,481	3,607,857	8,813,337
				(300,000)			(30,000)		
Furniture and fixtures	752,479	1,184,946	1,937,425	180,472	2,022,897	417,316	202,290	527,806	1,495,091
				(95,000)			(91,800)		
2005	39,167,063	5,595,981	44,763,044	7,437,834	19,456,391	4,949,024	2,905,231	5,714,665	13,741,726
				(32,744,487)			(2,139,590)		
2004	10,128,230	-	10,128,230	11,014,598	18,349,122	5,106,236	2,011,208	5,356,253	12,992,869
				(2,793,706)			(1,761,191)		

13.2.2 Detail of operating fixed assets disposed off during the year are as follows:

	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain/(Loss)	Mode of disposal	Sold/Transferred to
	Rupees						
Vehicles							
Suzuki Khyber	383,079	306,463	76,616	76,616	-	As per policy	Mr. M. Younas Chaudhry, Lahore
Suzuki Cultus	529,000	423,200	105,800	105,800	-	As per policy	Mr. M. Waheed, Lahore
Suzuki Bolan	125,000	25,000	100,000	105,000	5,000	Negotiation	Mr. Zahid Suleman Khan, Lahore
Honda CD 70 Motorcycle	58,500	11,700	46,800	52,844	6,044	As per policy	Mr. Abdul Hameed, Lahore
Honda City	802,000	320,800	481,200	690,000	208,800	Negotiation	Mrs. Kausar Shaheen, Faisalabad
Suzuki Mehran	287,200	287,200	-	180,000	180,000	Negotiation	Mr. Shahid Ghuman, Lahore
Hyundai Santro	330,000	66,000	264,000	275,000	11,000	Negotiation	Mr. Abdul Basit, Lahore
Honda Accord	931,500	186,300	745,200	511,500	(233,700)	Negotiation	But Brothers, Lahore
Suzuki Cultus	539,058	431,246	107,812	107,812	-	As per policy	Mr. Mansoor A. Siddiqui, Lahore
Suzuki Cultus	585,000	-	585,000	585,000	-	Negotiation	Mr. Sudhir Ahmad, Lahore
Honda Civic	958,000	-	958,000	958,000	-	Negotiation	Mr. Irfan Mashkoor, Lahore
Furniture and fixtures							
Air conditioners	63,000	63,000	1	4,000	3,999	Negotiation	Amjad & Brothers, Lahore
Tables	32,000	28,800	3,200	2,000	(1,200)	Negotiation	Amjad & Brothers, Lahore
Equipments							
ISP equipments	300,000	30,000	270,000	121,500	(148,500)	Negotiation	Mr. Faiq, Lahore

13.3 This represents advance paid to Rehman Construction Company under a Memorandum of Understanding (MOU) for construction of four villas in a project known as “Murree Holiday Resorts” at a value of Rs 5 million each. The project is likely to be completed by June 2006.

11 Investment properties

	Cost Rupees				Depreciation Rupees			Book value Rupees	Market value Rupees
	As at 01 July 2005	Transfer from fixed assets	Additions/ (Disposals)	As at 30 June 2005	As at 01 July 2004	For the year/(On disposals)	As at 30 June 2005	As at 30 June 2005	As at 30 June 2005
Land	-	26,821,150	57,825,543 (17,129,213)	67,517,480	-	-	-	67,517,480	81,457,500
Building	-	-	51,161,318	51,161,318	-	1,579,033	1,579,033	49,582,285	72,135,000
2005	-	26,821,150	108,986,861 (17,129,213)	118,678,798	-	1,579,033	1,579,033	117,099,765	153,592,500

- 11.1 Building represents a commercial property comprising basement, lower ground and second to sixth floors in Shafi Mansion, Montgomery Road, Lahore having covered area aggregating 27,073 sq.fts alongwith land right of 17 marlas at a total cost of Rs. 76,161,318. Modaraba has rented out this property to Telenor Pakistan (Private) Limited for 15 years at a monthly rent of Rs. 813,460 with 12% increase every three years. This property has been mortgaged by Modaraba with International Housing Finance Limited against a refinance facility.
- 11.2 Land includes a plot of land measuring 11 kanals and 11 marlas at main canal road near Jallo at cost of Rs. 14,312,250 acquired for development of physical infrastructural project. In October 2004 the owner of an adjacent land filed a Pre-emption (Haq Shufa) suit in the Civil Court on the ground that she wanted to build houses on her 19 kanals land and the land purchased by the Modaraba, for her son and daughters. The plaintiff has shown interest in buying the land at the price the Modaraba had paid for it. The case is malafide and has been filed with the intention to capitalize the increase in prices in the area. By virtue of the suit the plaintiff has got stay on the property. Modaraba is defending the suit and management is hopeful that it will be decided in Modaraba's favour.
- 11.3 Land also includes a commercial/industrial plot measuring 10 kanals and 10 marlas situated at Main Bund Road, Lahore acquired by the Modaraba for Rs. 23,000,000 in a Court auction by Muslim Commercial Bank Limited. The auction price was paid to the Court and sale was to be confirmed by the Court through execution of a registered sale certificate in Modaraba's favour. Prior to issuance of the registered sale certificate, judgment debtors have filed an objection to the auction in the Court. The objection of judgment debtors apparently is not likely to succeed as it lacks merit.

	<i>Note</i>	2005 Rupees	2004 Rupees
6 Finances under musharika arrangements			
Related parties-Unsecured and considered good			
International Asset Management Company Limited-Associated Company		2,500,000	-
Crescent Standard Investment Bank Limited - Associated Company		45,000,000	-
		47,500,000	-

These are unsecured finances under musharika arrangements on profit and loss sharing basis receivable in 3 to 6 months. The estimated share of profit of Modaraba ranges from 8.00% to 15.00 % p.a.

7 Finances under morabaha arrangements

Secured and considered good		22,370,000	-
Considered doubtful		256,066,968	278,242,579
Less: Provision for doubtful debts	7.1	237,516,968	243,562,579
		18,550,000	34,680,000
		40,920,000	34,680,000

These represent receivables against morabaha transactions on deferred payment basis at a specified profit margin. These are secured against mortgage of properties, hypothecation and pledge of stocks, personal guarantees and demand promissory notes. As a matter of prudence, Modaraba is carrying provision of Rs. 237,516,968 in respect of classified facilities pertaining to the morabaha arrangements of First Hajveri Modaraba fully provided for in these accounts. In respect of these facilities certain recovery suits are pending adjudication in the Lahore High Court and Banking Court, which are likely to be decided in Modaraba's favour, however, due to inadequate securities chances of any substantial recovery are slim.

7.1 Particulars of provision for doubtful finances

Opening balance		243,562,579	245,603,892
Charge for the year		-	5,599,687
Less: Reversals		(6,045,611)	(7,641,000)
Net reversal		(6,045,611)	(2,041,313)
Closing balance		237,516,968	243,562,579

8 Advances, deposits, prepayments and other receivables

Advances to employees-Considered good	8.1	537,716	259,567
Securities and deposits		3,071,048	2,033,888
Short term prepayments		390,564	753,038
Lease rentals receivable	8.2	11,064,211	13,047,315
Kohinoor Industries Limited	8.3	50,088,753	50,542,841
Advance to suppliers		-	1,543,000
Profit on musharika and morabaha finances		1,104,513	-
Profit accrued on bank deposits		-	1,979,044
Profit accrued on Term Finance Certificates		1,054,179	132,086
Income tax refundable/advance tax		2,726,904	524,475
Receivable from clients	8.4	24,903,101	22,857,200
Hajveri Modaraba Management Co. (Pvt) Ltd.	8.5	5,576,032	5,576,032
Receivable against sale of land	8.6	5,133,900	-
Miscellaneous receivables - considered good		6,252,238	7,509,920
		111,903,159	106,758,406

8.1 The maximum aggregate amount due from staff at the end of any month during the year was Rupees 537,716 (2004: Rupees 418,452).

	<i>Note</i>	2005 Rupees	2004 Rupees
8.2 Lease rental receivables - Secured and considered good		2,409,280	13,047,315
Considered doubtful		10,913,856	3,058,618
Less: Provision for doubtful debts	8.2.2	2,258,925	3,058,618
		8,654,931	-
		11,064,211	13,047,315
8.2.2 Particulars of provision for doubtful lease rental receivables			
Opening balance		3,058,618	5,955,060
Charge for the year		672,238	3,921,160
Less: Reversals/written off		(1,471,931)	(6,817,602)
Net reversal		(799,693)	(2,896,442)
Closing balance		2,258,925	3,058,618
8.3 This represents settlement made with Kohinoor Industries Limited (KIL) for assets provided on lease to KIL in prior years which defaulted on its payments due to the Modaraba and had also defaulted on its loan repayments to various other financial institutions. For the purpose of repaying its major debts, KIL in February 2000 entered into an agreement through the order of the Lahore High Court with financial institutions whereby it offered its surplus factory land of Faisalabad for sale and distribution amongst its creditors including the Modaraba. According to the agreement, at 31 December 2000 the Modaraba had a receivable balance of Rs. 81.35 million from KIL including Rs. 28.26 million receivables which has not been accrued. Subsequently an amount of Rs. 8 million has been received which has been partly taken to income, the remaining receivable of Rupees 73.35 million is to be adjusted by proportionate sale proceeds of land, the unadjusted balance after disposal of land, if any, will be a sustainable loan on KIL in due course of business. The management feels that the Modaraba's proportionate share from sale proceeds of land would at least cover the receivable balance. Development of land are simultaneously in progress. Sale proceeds are to be received in installments synchronized with completion of development work. Any surplus amounts left after development are being distributed amongst creditors of KIL. Pending receipts of sale proceeds of land and consequent adjustment of receivable, Modaraba has not transferred its ownership of leased assets to KIL and also not released other securities including personal guarantees of certain directors.			
8.4 Receivable from clients - Secured			
Considered good		24,903,101	22,857,200
Considered doubtful		2,049,190	-
Less: Provision against doubtful receivables		2,049,190	-
		-	-
		24,903,101	22,857,200
8.4.1 These comprise of receivables generated as a consequence of carrying on the business of brokerage.			
8.5 This represents amount withdrawn by previous management company of First Hajveri Modaraba from time to time during prior years out of Modaraba Fund on account of remuneration in violation of section 17 and 18 of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. The present management has filed civil suit against the company for recovery of the amount which is pending adjudication. The Court has framed issues and has recorded evidence of Modaraba. Case has now been fixed for evidence of defendant company through Court appointed commission. The present management came in possession of 2,053,200 certificates of erstwhile First Hajveri Modaraba subsequently converted into 578,041 of First Fidelity Leasing Modaraba consequent to amalgamation. The present management has prayed to the Court that these certificates be attached and sold for adjustment of claim of the Modaraba. In view of this no provision has been made in these financial statements against this receivable.			

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

	<i>Note</i>	2005 Rupees	2004 Rupees
9 Long term investments			
Term finance certificates-Held to maturity			
Pakland Cement Limited (PCL)			
Series "A"		17,417,859	19,046,000
Series "B"		2,822,677	2,822,677
		20,240,536	21,868,677
Saadi Cement Limited (SCL)			
Series "A"		9,656,675	10,560,000
Series "B"		1,836,300	1,836,300
		11,492,975	12,396,300
		31,733,511	34,264,977
Current maturity		(2,788,018)	-
		28,945,493	34,264,977

9.1 The Term Finance Certificates (TFCs) represent conversion of lease liabilities of PCL and SCL under schemes of arrangement sanctioned by Sindh High Court on 24 December 2001 and 22 November 2001 respectively. The Modaraba transferred all rights, titles and interests in the amounts due in respect of lease receivables from PCL and SCL in favor of National Bank of Pakistan and Faysal Bank Limited respectively which are trustees for the issuance of said TFCs. In a subsequent development, the controlling shares of PCL and SCL were purchased by Dewan Mushtaq Group of Companies (DMG) from the sponsors of PCL and SCL. As an arrangement in purchase of such shares DMG approached creditors of PCL and SCL asking certain remissions and got a revised second scheme of arrangement in respect of TFCs approved by Honorable High Court of Sindh on 26 November 2004. Salient features of revised TFCs are:

9.1.1 These are secured by pari passu hypothecation charge on fixed assets including leased assets transferred by lessor, pledge of shares by sponsors and associates, personal guarantees of directors.

9.1.2 Series "A" TFCs carry mark-up rate of six months ASK KIBOR + 2.5% per annum payable from 01 June 2004. Repayment of principal and current mark-up is to be made in six monthly front loaded installments spread over a period of seven years starting January 2005 and ending July 2011.

9.1.3 Series "B" TFCs carry zero mark-up. Repayment is to be made in six monthly installments spread over a period of two years commencing from the date of last installments of series "A" TFCs.

10 Deferred cost

Opening balance		19,180	22,377
Capitalized during the year	<i>10.1</i>	998,834	-
Amortization charged to income		(352,122)	(3,197)
Closing balance		665,892	19,180

10.1 This represents various expenses incurred in connection with the amalgamation of First Hajveri Modaraba and Fidelity Securities (Private) Limited with and into Modaraba, which have been deferred as per Clause No. 3 of the Third Schedule of the Modaraba Companies and Modaraba Rules, 1981.

14 Finances under musharika arrangements

These represent unsecured finances obtained from financial institutions, companies and other persons under musharika arrangements on profit and loss sharing basis repayable within one year. The estimated share of profit payable on these finances ranges from 8% to 11.75% per annum.

	<i>Note</i>	2005 Rupees	2004 Rupees
15 Creditors, accrued and other liabilities			
Accrued financial charges		1,127,505	336,409
Lease rentals received in advance		395,143	515,175
Management fee payable		2,234,162	1,833,186
Due to customers		67,676,171	87,884,443
Fidelity Capital Management (Private) Limited	15.1	19,995,598	-
Accrued and other payables		17,548,845	7,617,552
Provision for Income Tax		305,659	2,174,917
Advance against sale of memberships	15.2	50,000,000	-
Unclaimed profit distribution		10,412,356	9,824,166
		<u>169,695,439</u>	<u>110,185,848</u>

15.1 This represents interest free advance from Modaraba Company. The maximum outstanding balance at the end of any month during the year was Rs. 19,995,598 (2004: Rs. Nil).

15.2 Modaraba has entered into an agreement with Crescent Leasing Corporation Limited (an associated company) as regards sale of memberships of Lahore Stock Exchange (Guarantee) Limited and National Commodity Exchange Limited together with trading and room rights. The amount represents advance received by Modaraba under the above mentioned agreement.

16 Current maturities of non-current liabilities

Security deposits from lessees	17	9,486,793	11,552,586
Refinance facility	18	7,611,431	-
Finances under morabaha arrangements	19	6,666,668	15,276,615
		<u>23,764,892</u>	<u>26,829,201</u>

17 Security deposits from lessees

Long term security deposits from lessees		76,792,969	72,609,555
Less: current portion shown under current liabilities	16	9,486,793	11,552,586
		<u>67,306,176</u>	<u>61,056,969</u>

18 Refinance facility-Secured

Less: current maturity	16	42,045,583	-
		7,611,431	-
		<u>34,434,152</u>	<u>-</u>

This represents refinance facility obtained from International Housing Finance Limited against property owned by the Modaraba. The facility is payable in 60 equal monthly installments ending 31 December 2009 with expected markup rate of 10% p.a for the first year and thereafter 6 months KIBOR+6% p.a.

19 Finances under morabaha arrangements-Secured

Less: current maturity	16	13,333,332	28,609,947
		6,666,668	15,276,615
		<u>6,666,664</u>	<u>13,333,332</u>

This represents finance obtained from a financial institution under morabaha arrangement whereby purchase price of morabaha goods is payable in equal quarterly installments over a period of three years on an expected profit margin of 6 months KIBOR+5% p.a. The finance is secured against hypothecation of specific leased out assets.

	<i>Note</i>	2005 Rupees	2004 Rupees
20 Employee benefits			
Gratuity	20.1	146,999	1,198,826
Compensated absences	20.2	228,837	144,077
		<u>375,836</u>	<u>1,342,903</u>

20.1 Gratuity

The amounts recognized in the balance sheet are as follows:

Liability as at 01 July	1,198,826	1,162,413
Amount recognized during the year	181,094	324,284
Contribution made during the year	(1,232,921)	(287,871)
Liability as at 30 June	<u>146,999</u>	<u>1,198,826</u>
Present value of defined benefit obligations	723,485	1,418,862
Fair value of plan assets	(575,491)	(287,871)
Unrecognized actuarial gains / (losses)	(995)	67,835
Liability as at 30 June	<u>146,999</u>	<u>1,198,826</u>

Actual return on plan assets of gratuity scheme was Rs. 22,035 (2004: Rs. 67,835)

20.1.1 Amount charged to income is as follows:

Current service cost	161,535	65,864
Interest cost	43,546	42,191
Amortization of non-vested past service cost	-	197,455
Expected return on plan assets	(23,030)	-
Actuarial (gain)/loss charge	(957)	-
Increase in liability due to change in benefits during the year	-	18,774
Transfer from merged entity	-	874,536
	<u>181,094</u>	<u>1,198,820</u>

20.2 Compensated absences

The amounts recognized in the balance sheet are as follows:

Liability as at 01 July	144,077	150,659
Amount recognized during the year	176,476	(6,582)
Contribution made during the year	(91,716)	-
Liability as at 30 June	<u>228,837</u>	<u>144,077</u>
Present value of defined benefit obligations	<u>228,837</u>	<u>144,077</u>

	<i>Note</i>	2005 Rupees	2004 Rupees
21 Certificate capital			
Authorized certificate capital			
62,500,000 (2004: 30,000,000) modaraba certificates		<u>625,000,000</u>	<u>300,000,000</u>
Issued, subscribed and paid-up certificate capital			
16,656,491 modaraba certificates of Rupees 10 each fully paid up in cash.		166,564,910	166,564,910
3,976,908 modaraba certificates of Rupees 10 each issued as fully paid bonus certificates.		39,769,080	39,769,080
5,780,405 modaraba certificates of Rupees 10 each issued to certificateholders of First Hajveri Modaraba in accordance with the Scheme of Amalgamation.		<u>57,804,050</u>	-
		<u>264,138,040</u>	<u>206,333,990</u>

Fidelity Capital Management (Pvt.) Limited, Management Company, holds 4,616,614 (2004:4,547,114) modaraba certificates in the Modaraba.

22 Reserves

Capital reserve			
Statutory reserve	22.1	47,345,671	42,542,663
Fair value reserve		(2,229,887)	-
Revenue reserve			
Unappropriated profits		4,163,937	8,747,392
Reserve as per scheme of amalgamation		-	60,422,366
		<u>49,279,721</u>	<u>111,712,421</u>

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

23 Contingencies and Commitments

23.1 Contingencies

23.1.1 The Modaraba has provided a counter guarantee amounting to Rupees 4.965 million on behalf of Kohinoor Industries Limited (KIL) favoring National Bank of Pakistan (NBP) for the payment guarantee provided by NBP in favour of Pakistan Industrial Credit and Investment Corporation (PICIC) for settlement of dues of KIL.

23.1.2 The Modaraba has a tax contingency pertaining to tax assessment of First Hajveri Modaraba (FHM) for the assessment year 2000 - 2001. While finalizing assessment for the assessment year 2000 - 2001 the Deputy Commission of Income Tax (DCIT) made certain additions in the income declared by the FHM. Main additions were made on account of classified finances, diminution in the value of investments and some other add backs out of expenses. FHM claimed exemption as it distributed more than ninety percent of its total profit by way of cash dividend. The DCIT made its own computation and contended that due to above additions ninety percent of total profits have not been distributed by the FHM and raised tax demand of Rs. 11.356 million. Modaraba has filed appeal before the Commissioner of Income Tax (CIT) (Appeals) that the additions/ add backs and contention of the DCIT regarding non distribution of ninety percent profits are illegal, bad in law, erroneous and contrary to the provisions of law. In deciding pending appeals for the years prior to 2000-2001 the similar matters have been decided in Modaraba's favour. Modaraba is hopeful for a favourable outcome of the appeal on merit, therefore, no provision has been made in these financial statements.

23.2 Commitments

The Modaraba ("Seller") has entered into an agreement to sell with Crescent Leasing Corporation Limited ("Buyer") dated 02 May 2005 pertaining to sale of membership rights of Lahore Stock Exchange (Gurantee) Limited and National Comodity Exchange Limited together with trading rights, lease rights of certain rooms, and related fixed assets at a price of Rs. 52 million out of which Rs. 50 million has been received by the Modaraba during the year. Further, it has been agreed between the seller and buyer that pending transfer of memebrships the brokerage business will be carried through the Seller. The net profit of brokerage shall be shared between Buyer and Seller in the ratio of 95:5 respectively on a montgly basis. Accordinly, the Modaraba has accrued only its share out of the last two months profit of the brokerage business.

	<i>Note</i>	2005 Rupees	2004 Rupees
24 Return on investments			
Dividend income		-	836,178
Return on placements		2,029,466	11,914,487
Return on term finance certificates		2,018,433	132,086
Gain on revaluation of investments		-	184,685
		<u>4,047,899</u>	<u>13,067,436</u>
25 Other income			
Return on bank deposits		1,765,616	2,111,319
Fees, commission and other charges		1,403,753	414,118
Return on advances to employees		16,127	8,896
Rental income		6,507,680	-
Gain on sale of vehicles		347,998	1,183,000
Gain on sale of land		3,320,787	-
Share of profit of Crescent Leasing Corporation Limited in brokerage division	23.2	(1,446,808)	-
Gain on sale of fixed assets		31,444	135,760
		<u>11,946,597</u>	<u>3,853,093</u>
26 Profit/(Loss) on operation of ISP division			
Net sales		10,419,294	11,699,001
Direct costs		(6,676,945)	(7,877,002)
Gross profit		3,742,349	3,821,999
Operating expenses		(3,633,575)	(4,872,067)
Operating gain/(loss)		108,774	(1,050,068)
Other income		-	320,470
Profit/(loss) for the year		<u>108,774</u>	<u>(729,598)</u>
27 Administrative and other operating expenses			
Salaries, wages and other benefits	27.1	15,556,487	5,020,213
Legal and professional		1,358,114	827,949
Printing and stationery		1,536,109	660,323
Traveling, conveyance and vehicles' running		931,611	439,981
Insurance		767,881	246,811
Fee, subscription and taxes		845,409	651,583
Auditors' remuneration	27.2	241,105	133,580
Rent and taxes		535,325	-
Repair and maintenance		487,105	113,982
Electricity, water and gas		413,250	81,377
Entertainment		372,284	-
Zakat		485	77,225
Advertisement		101,590	445,350
Telephone and postage		1,420,203	119,420
Donation	27.3	-	46,840
Depreciation on fixed assets		4,484,265	1,712,258
Amortization of deferred cost		352,122	3,197
Miscellaneous		1,192,310	310,902
		<u>30,595,655</u>	<u>10,890,991</u>

27.1 Salaries and other benefits include Rs. 181,094 (2004: Rs. 1,198,820) in respect of gratuity as per detail given in note 20.1.1 and Rs. 502,400 (2004: Rs. 228,146) on account of provident fund contribution.

	2005 Rupees	2004 Rupees
27.2 Auditors' remuneration		
Audit fee	100,000	87,000
Review of half yearly accounts	60,000	30,000
Certifications	30,000	2,000
Out of pocket expenses	51,105	14,580
	<u>241,105</u>	<u>133,580</u>
27.3 None of the Directors of the Modaraba Company or any of their spouses have any interest in or are otherwise associated with any of the recipients of donations made by the Modaraba in the year 2004.		
28 Financial and other charges		
Return on morabaha/musharika finances	10,662,082	7,790,887
Bank and other charges	113,033	78,986
	<u>10,775,115</u>	<u>7,869,873</u>
29 Taxation		
Reversal of provision for taxation – prior years	(3,686,871)	-
Presumptive tax – current	2,013,450	-
	<u>(1,673,421)</u>	<u>-</u>
	2005	2004
30 Earnings per certificate-basic and diluted		
Profit for the year after taxation (Rupees)	<u>24,015,041</u>	<u>25,359,357</u>
Weighted average number of ordinary certificates	<u>26,413,804</u>	<u>26,413,804</u>
Earnings per certificate (Rupees)	<u>0.91</u>	<u>0.96</u>
30.1 No figure for diluted earnings per certificate has been computed as the Modaraba has not issued any instrument which would have an impact on its earnings per certificate.		
31 Future lease rental receivable		
Aggregate amount of future lease rentals receivable on the basis of agreements executed upto 30 June 2005, approximate to Rs. 160,159,263 (2004: Rs. 342,694,320). The amount of future lease rentals receivable and period during which they fall due are:		
Upto one year	75,153,340	166,520,949
Above one year and upto five years	85,005,923	176,173,371
32 Transactions with related parties		
The related parties and associated undertakings comprise of associated companies, Modaraba Company, directors and key management personnel. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel under the term of employment are as follows:		
Associated companies:		
Transactions during the year		
Musharika finances (repaid)/obtained net	(30,000,000)	35,000,000
Musharika finances (disbursed)/repaid net	(47,500,000)	25,725,000
Lease rentals	218,844	310,983
Modaraba Company's management fee	2,234,162	1,833,186
Balance at year end		
Musharika finances receivable	47,500,000	-

Assets leased out

-

2,628,200

33 Remuneration of officers and other employees

	2005		
	Officers	Other	Total
	Rupees		
Remuneration	5,438,862	267,543	5,706,405
House rent	1,458,025	73,495	1,531,520
Gratuity	13,225	-	13,225
Provident fund contribution	479,132	23,268	502,400
Other allowances	2,141,124	161,709	2,302,833
	9,530,368	526,015	10,056,383
Number of employees at the year end	32	8	40
	2004		
	Officers	Other	Total
	Rupees		
Remuneration	2,008,786	613,013	2,621,799
House rent	575,994	151,484	727,478
Gratuity	324,284	0	324,284
Provident fund contribution	163,186	64,960	228,146
Other allowances	884,027	234,479	1,118,506
	3,956,277	1,063,936	5,020,213
Number of employees at the year end	21	16	37

33.1 In addition to above three (2004: six) officers were provided with use of Modaraba maintained cars.

	2005	2004
	Rupees	Rupees
34 Statement of particulars of provision against non-performing receivables		
Opening balance	3,058,618	15,204,773
Charge for the year	2,721,428	3,921,160
Reversed during the year	(7,517,542)	(3,145,521)
Net charge for the year	(4,796,114)	775,639
Transfer from merged entity	243,562,579	-
Provision adjusted against balances written off	-	(12,270,656)
Provision adjusted against assets acquired of ISP Division	-	(651,138)
	241,825,083	3,058,618

34.1 **Break up of balance**

Provision for classified morabaha facilities	237,516,968	-
Provision against doubtful receivables	2,049,190	-
Provision against doubtful rentals	2,258,925	3,058,618
	241,825,083	3,058,618

	2005 Rupees	2004 Rupees
38 Cash generated from operations		
Profit before taxation	22,341,620	25,359,357
Adjustment for non cash expenses and other items:		
Provision (reversed) / charged for doubtful debts and receivables	(3,468,823)	124,501
Depreciation/amortization	81,852,923	83,983,898
Financial charges	10,775,115	7,869,873
Dividend income	-	(836,178)
Profit on morabaha/musharika finances	(1,934,694)	(2,107,408)
Return on term finance certificates	(2,018,433)	(132,086)
Return on bank deposits	(1,765,616)	
(Gain) / loss on sale of fixed assets	(31,444)	(135,760)
Gain on sale of investment property	(3,320,787)	-
Return on placements under reverse repo	(2,029,466)	(11,914,487)
Gain on revaluation of investment	-	(184,685)
Provision for retirement benefits	357,570	324,284
Amortization of deferred cost	352,122	3,197
Negative goodwill written back	-	(5,433,603)
Working capital changes	6,833,624	39,364,240
	<u>107,943,711</u>	<u>136,285,143</u>
Working capital changes		
(Increase)/decrease in operating assets		
Finances under musharika arrangements	(47,500,000)	36,675,000
Finances under morabaha arrangements	(6,240,000)	-
Advances, deposits, prepayments and other receivables	574,061	50,202,856
	<u>(53,165,939)</u>	<u>86,877,856</u>
Increase/(decrease) in operating liabilities		
Creditors, accrued and other liabilities	59,999,563	(47,513,616)
	<u>6,833,624</u>	<u>39,364,240</u>

39 Date of authorization for issue

The financial statements of Modaraba were approved by the directors of Modaraba Management Company and authorized for issue on 07 October 2005.

40 General

- i) Figures have been rounded off to the nearest rupee.
- ii) Previous year's figures have been rearranged, wherever necessary for the purpose of comparison. Material rearrangements are summarized below:
 - a) Corresponding figures stated in these financial statements present combined figures of the Modaraba and merged entities namely First Hajveri Modaraba and Fidelity Securities (Private) Limited after elimination of inter company balances and transactions. Amalgamation of First Hajveri Modaraba was carried on the basis of net assets i.e. balance of capital and reserves net of accumulated losses, therefore the profit and loss account of corresponding period do not include the impact of profit and loss position of First Hajveri Modaraba.
 - b) Current assets and liabilities have been presented separately in accordance with the third schedule to the Modaraba and Modaraba Companies Ordinance, 1980 for better presentation and understanding of the users.
 - c) Held for trading investments in listed shares has been reclassified as secured placements for better presentation and understanding of the users.

CHIEF EXECUTIVE
Fidelity Capital Management

DIRECTOR
Fidelity Capital Management

DIRECTOR
Fidelity Capital Management

(Private) Limited

(Private) Limited

(Private) Limited

	Note	2005 Rupees	2004 Rupees
3 Cash and bank balances			
Cash in hand		37,543	83,423
Cash with banks			
Current accounts		7,715	566,853
Deposit accounts	3.1	32,332,974	45,533,600
		32,340,689	46,100,453
Short term deposits with financial institutions		-	19,500,000
		32,378,232	65,683,876

3.1 Rate of return on these accounts range from 1.5% to 2% per annum (2004: 1.5% to 8% per annum).

4 Short term placements

Secured under reverse repurchase agreements 4,138,679 36,482,685

This represents secured placements carrying markup ranging from 15% to 20% per annum (2004:12% to 18%) , against which quoted shares having market value of Rs. 4,140,978 (2004: Rs. 36,482,685) were held as collateral security.

5 Short term investments

Quoted shares and certificates -Available for sale 5.1 8,493,992 3,709,445
8,493,992 3,709,445

5.1 Particulars of shares/certificates-Available for sale investments

All shares/ certificates have face value of Rs. 10 each.

Name	2005			2004		
	No. of shares	Cost	Market Value	No of shares	Cost	Market Value
		Rupees	Rupees		Rupees	Rupees
Banks						
National Bank of Pakistan Ltd	10,400	1,248,904	1,120,600	-	-	-
PICIC Commercial Bank Ltd	5,000	253,100	165,500	-	-	-
Muslim Commercial Bank Ltd	2,000	127,040	156,000	-	-	-
Bank Alfalah Ltd	250	11,380	9,888	-	-	-
Askari Commercial Bank Ltd	90	7,562	7,308	-	-	-
Modarabas						
First National Bank Modaraba	1,300	8,476	8,775	-	-	-
Textile						
Hamid Textile Mills Ltd	583,200	2,304,752	699,852	939,100	10,230,395	3,709,445
Cement						
Chakwal Cement Company Ltd	1,000	8,720	7,250	-	-	-
Fuel & Energy						
Oil and Gas Development Co. Ltd	28,200	3,179,550	2,977,920	-	-	-
Attock Refinery Ltd	10,000	1,700,200	1,590,000	-	-	-
Pakistan Petroleum Ltd	1,500	366,630	321,525	-	-	-
Bosicor Pakistan Ltd	1,000	16,620	12,950	-	-	-
Kot Addu Power Company Ltd	500	24,060	18,875	-	-	-
KESC Ltd	1,000	7,820	5,500	-	-	-
Sui Northern Gas Pipelines Ltd	8,000	462,560	492,000	-	-	-
Transport & Communication						
Pakistan Telecommunication Corporation Ltd	10,000	704,700	659,000	-	-	-
Fertilizer						
Fauji Fertilities Bin Qasim Ltd	3,000	90,060	80,850	-	-	-
Chemical & Pharmaceutical						
ICI Pakistan Ltd	2,000	195,540	156,000	-	-	-
Synthetics						
Dewan Salman Fibre Ltd	250	6,205	4,200	-	-	-
		10,723,879	8,493,992		10,230,395	3,709,445
Fair value reserve		(2,229,887)	-		(6,520,950)	-

8,493,992 8,493,992

3,709,445 3,709,445

35 Liquidity risk

Liquidity risk is the risk that the Modaraba will encounter difficulties in raising funds to meet commitments associated with financial instruments. Modaraba has diversified its funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The table below summarises the maturity profile of Modaraba's assets and liabilities:

2005				
Total	Within one year	One year and upto five years	Five years and above	
Rupees				
Assets				
Fixed assets	244,063,545	16,853,162	208,710,387	18,499,996
Investment properties	117,099,765	-	-	117,099,765
Cards and rooms	23,177,950	-	-	23,177,950
Deferred cost	665,892	352,122	313,770	-
Investments	40,227,503	11,282,010	28,945,493	-
Placements	4,138,679	4,138,679	-	-
Finances	88,420,000	88,420,000	-	-
Advances, deposits, prepayments and other receivables	111,903,159	111,903,159	-	-
Cash and bank balances	32,378,232	32,378,232	-	-
	662,074,725	265,327,364	237,969,650	158,777,711

Liabilities

Defered Liabilities	375,836	-	-	375,836
Refinance facility	42,045,583	7,611,431	34,434,152	-
Finances under morabaha arrangements	13,333,332	6,666,668	6,666,664	-
Security deposits from lessees	76,792,969	9,486,793	67,306,176	-
Finances under musharika arrangements	20,000,000	20,000,000	-	-
Creditors, accrued and other liabilities	169,695,439	169,695,439	-	-
Profit distribution	-	-	-	-
	322,243,159	213,460,331	108,406,992	375,836

Represented by:

Certificate capital and reserves

339,831,565

2004				
Total	Within one year	One year and upto five years	Five years and above	
Rupees				
Assets				
Fixed assets	258,400,394	25,384,474	233,015,920	-
Investment properties	26,821,150	-	-	26,821,150
Cards and rooms	21,207,950	-	-	21,207,950
Deferred cost	19,180	3,197	15,983	-
Investments	37,974,422	3,709,445	34,264,977	-
Placements	36,482,685	36,482,685	-	-
Finances	34,680,000	34,680,000	-	-
Advances, deposits, prepayments and other receivables	106,758,406	106,758,406	-	-
Cash and bank balances	65,683,876	65,683,876	-	-
	588,028,063	272,702,083	267,296,880	48,029,100

Liabilities

Defered Liabilities	1,342,903	-	-	1,342,903
Refinance facility	-	-	-	-
Finances under morabaha arrangements	28,609,947	15,276,615	13,333,332	-
Security deposits from lessees	72,609,555	11,552,586	61,056,969	-
Finances under musharika arrangements	36,600,000	36,600,000	-	-
Creditors, accrued and other liabilities	110,185,848	110,185,848	-	-
Profit distribution	20,633,399	20,633,399	-	-
	269,981,652	194,248,448	74,390,301	1,342,903

Represented by:

Certificate capital and reserves

318,046,411

36. CREDIT RISK EXPOSURE

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The management attempts to control credit risk through monitoring credit exposures, limiting transactions with specific counterparties, and continuous assessing of the credit worthiness of counterparties.

Concentration of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of a company's performance to developments affecting a particular industry.

Breakdown of credit risk exposure by class of business as at 30 June 2005 is as follows

2005					
Assets leased out	Morabaha Finance	Musharika Finance	Total	Percentage	
	Rupees				%
Energy, Oil and Gas	24,602,867	-	-	24,602,867	9.73
Engineering	553,661	-	-	553,661	0.22
Transport & Communications	7,030,433	-	-	7,030,433	2.78
Textiles	29,556,429	2,000,000	-	31,556,429	12.49
Banks & Financial Institutions	1,261,497	-	47,500,000	48,761,497	0.5
Insurance	299,363	-	-	299,363	0.12
Chemical & Pharmaceutical	33,899,006	-	-	33,899,006	13.41
Garments	118,135	3,520,000	-	118,135	1.44
Legal and Professional	2,989,401	-	-	2,989,401	1.18
Food and Beverages	13,180,250	8,000,000	-	13,180,250	8.38
Computers and IT Services	6,462,662	-	-	6,462,662	2.56
Electronics	521,475	-	-	521,475	0.21
Steel and Steel Casting	179,205	-	-	179,205	0.07
Trading Houses	79,670	-	-	79,670	0.03
Individuals	90,600,085	27,400,000	-	118,000,085	46.69
Miscellaneous	487,680	-	-	487,684	0.19
	211,821,819	40,920,000	47,500,000	288,721,823	100

2004					
Assets leased out	Morabaha Finance	Musharika Finance	Total	Percentage	
	Rupees				%
Energy, Oil and Gas	26,860,949	-	-	26,860,949	9.57
Engineering	1,198,283	-	-	1,198,283	0.43
Transport & Communication	20,011,208	-	-	20,011,208	7.13
Textiles	25,917,408	2,000,000	-	27,917,408	9.94
Banks & Financial Institution	4,983,497	-	-	4,983,497	1.78
Insurance	1,173,454	-	-	1,173,454	0.42
Chemical & Pharmaceutical	43,021,632	-	-	43,021,632	15.33
Garments	274,408	-	-	274,408	0.10
Legal and Professional	4,563,749	-	-	4,563,749	1.63
Food and Beverages	12,624,843	17,500,000	-	30,124,843	10.73
Computers and IT Services	6,624,843	-	-	6,624,843	2.36
Electronics	1,487,493	-	-	1,487,493	0.53
Printers	132,504	-	-	132,504	0.05
Steel and Steel Casting	260,156	6,630,000	-	6,890,156	2.45
Sugar Industries	4,928,894	-	-	4,928,894	1.76
Trading Houses	130,342	-	-	130,342	0.05
Individuals	88,868,568	8,550,000	-	97,418,568	34.70
Miscellaneous	2,977,419	-	-	2,977,419	1.06
	246,039,650	34,680,000	-	280,719,650	100

36.1 All the credit risk exposure is on private sector and there is no exposure on Government/Public Sector.

37 Profit rate risk exposure

The Modaraba's exposure to profit rate risk and effective rates on its financial assets and financial liabilities are summarized as follows:

	2005					2004
	TOTAL	Profit bearing			Non Profit bearing	TOTAL
		Within One Year	One Year To Five Years	Over Five Years		
FINANCIAL ASSETS						
Rupees						
Investments	40,227,503	11,282,010	24,286,516	-	4,658,977	37,974,422
Short term placements	4,138,679	4,138,679	-	-	-	36,482,685
Finances under musharika arrangements	47,500,000	47,500,000	-	-	-	-
Finances under morabaha arrangements	40,920,000	40,920,000	-	-	-	34,680,000
Advances, deposits and other receivables	108,785,691	-	-	-	108,785,691	105,480,893
Cash and bank balances	32,332,974	32,332,974	-	-	-	65,033,600
	273,904,847	136,173,663	24,286,516	-	113,444,668	279,651,600
FINANCIAL LIABILITIES						
Refinance facility	42,045,583	7,611,431	34,434,152	-	-	-
Finances under morabaha arrangements	13,333,332	6,666,668	6,666,664	-	-	13,333,332
Security deposits from lessees	76,792,969	-	-	-	76,792,969	61,056,969
Finances under musharika arrangements	20,000,000	20,000,000	-	-	-	36,600,000
Creditors, accrued and other liabilities	169,389,780	-	-	-	169,389,780	108,010,931
	321,561,664	34,278,099	41,100,816	-	246,182,749	219,001,232
Profit rate sensitivity gap	(47,656,818)	101,895,564	(16,814,300)	-	(132,738,082)	60,650,368
Cumulative profit rate sensitivity gap	-	101,895,564	85,081,264	85,081,264	(47,656,818)	(72,087,714)

37.1 Effective profit rates

	2005	2004
Financial assets		
Bank balances	1.5 to 2 percent per annum	1.5 to 8 percent per annum
Finances under musharika arrangements	12 to 8 percent per annum	7 to 8 percent per annum
Investments	10 to 12 percent per annum	10 to 12 percent per annum
Financial liabilities		
Finances under musharika arrangements	8.00 to 14.00 percent per annum	7 to 10.50 percent per annum
Finances under morabaha arrangements	8 to 13 percent per annum	7 to 18 percent per annum
Refinance facility	10 to 12 percent per annum	-

37.2 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

35 Liquidity risk

Liquidity risk is the risk that the company will encounter difficulties in raising funds to meet commitments associated with financial instruments. Modarab has diversified its funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The table below summaries the maturity profile of Modaraba's assets and liabilities:

2005			
Total	With in one year	one year and upto five years	Above five years

Rupees

Assets

Fixed assets	244,063,545	16,853,162	208,710,387	18,499,996
Investment properties	117,099,765	-	-	117,099,765
Cards and rooms	23,177,950	-	-	665,892
Deferred cost	665,892	352,122	39,875,381	-
Investments	40,227,503	2,788,018	37,439,485	-
Placements	4,138,679	4,138,679	-	-
Finances	88,420,000	88,420,000	-	-
Advances, deposits, prepayments and other receivables	111,903,159	111,903,159	-	-
Cash and bank balances	32,378,232	32,378,232	-	-
	662,074,724	256,833,371	286,025,253	136,265,653

Liabilities

Employees benefits	375,836	-	-	375,836
Refinance facility	42,045,583	7,611,431	34,434,152	-
Finances under morabaha arrangements	13,333,332	6,666,668	6,666,664	-
Security deposits from lessees	76,792,969	9,486,793	67,306,176	-
Finances under musharika arrangements	20,000,000	20,000,000	-	-
Creditors, accrued and other liabilities	169,695,439	169,695,439	-	-
Profit distribution	-	-	-	-
	322,243,159	213,460,331	108,406,992	375,836

Represented by:

Certificate capital and reserves 339,831,565

2004			
Total	With in one year	one year and upto five years	Above five years

Rupees

Assets

Fixed assets	258,400,394	25,384,474	233,015,920	-
Investment properties	26,821,150	-	-	26,821,150
Cards and rooms	21,207,950	-	-	21,207,950
Deferred cost	19,180	3,197	15,983	-
Investments	37,974,422	#REF!	#REF!	-
Placements	36,482,685	36,482,685	-	-
Finances	34,680,000	34,680,000	-	-
Advances, deposits, prepayments and other receivables	106,758,406	106,758,406	-	-
Cash and bank balances	65,683,876	65,683,876	-	-
	588,028,063	#REF!	#REF!	48,029,100

Liabilities

Employees benefits	1,342,903	-	-	1,342,903
Refinance facility	-	-	-	-
Finances under morabaha arrangements	28,609,947	15,276,615	13,333,332	-
Security deposits from lessees	72,609,555	11,552,586	61,056,969	-
Finances under musharika arrangements	36,600,000	36,600,000	-	-
Creditors, accrued and other liabilities	110,185,848	110,185,848	-	-
Profit distribution	20,633,399	20,633,399	-	-
	269,981,652	194,248,448	74,390,301	1,342,903

Represented by:

Certificate capital and reserves 318,046,411

36. CREDIT RISK EXPOSURE

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The management attempts to control credit risk through monitoring credit exposures, limiting transactions with specific counterparties, and continuous assessing of the credit worthiness of counterparties.

Concentration of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of a company's performance to developments affecting a particular industry.

Breakdown of credit risk exposure by class of business as at 30 June 2005 is as follows

2005					
Assets leased out	Morabaha Finance	Musharika Finance	Total	Percentage	
Rupees	Rupees	Rupees	Rupees	%	
Energy, Oil and Gas	24,602,867		24,602,867	9.73	
Engineering	553,661		553,661	0.22	
Transport & Communications	7,030,433		7,030,433	2.78	
Textiles	29,556,429	2,000,000	31,556,429	12.49	
Banks & financial institutions	1,261,497		47,500,000	0.5	
Insurance	299,363		299,363	0.12	
Chemical & Pharmaceutical	33,899,006		33,899,006	13.41	
Garments	118,135	3,520,000	118,135	1.44	
Legal and Professional	2,989,401		2,989,401	1.18	
Food and beverages	13,180,250	8,000,000	13,180,250	8.38	
Computers and IT services	6,462,662		6,462,662	2.56	
Electronics	521,475		521,475	0.21	
Steel and Steel Costing	179,205		179,205	0.07	
Trading Houses	79,670		79,670	0.03	
Individuals	90,600,085	27,400,000	118,000,085	46.69	
Miscellaneous	487,680		487,684	0.19	
	211,821,819	40,920,000	47,500,000	288,721,823	100

2004				
Assets leased out	Morabaha Finance	Musharika Finance	Total	Percentage
Rupees	Rupees	Rupees	Rupees	%
Energy, Oil and Gas	26,860,949		26,860,949	9.57
Engineering	1,198,283		1,198,283	0.43
Transport & Communication	20,011,208		20,011,208	7.13
Textiles	25,917,408	2,000,000	27,917,408	9.94
Banks & financial institution	4,983,497		4,983,497	1.78
Insurance	1,173,454		1,173,454	0.42
Chemical & Pharmaceutical	43,021,632		43,021,632	15.33
Garments	274,408		274,408	0.10
Legal and Professional	4,563,749		4,563,749	1.63
Food and beverages	12,624,843	17,500,000	30,124,843	10.73
Computers and IT services	6,624,843		6,624,843	2.36
Electronics	1,487,493		1,487,493	0.53
Printers	132,504		132,504	0.05
Steel and Steel Costing	260,156	6,630,000	6,890,156	2.45
Sugar Industries	4,928,894		4,928,894	1.76
Trading Houses	130,342		130,342	0.05
Individuals	88,868,568	8,550,000	97,418,568	34.70
Miscellaneous	2,977,419		2,977,419	1.06
	246,039,650	34,680,000	280,719,650	100

36.1 All the credit risk exposure is on private sector and there is no exposure on Government/Public Sector.

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Rupees						
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Short term placements	4,138,679	4,138,679	-	-	-	36,482,685
Finances under musharika arrangements	47,500,000	47,500,000	-	-	-	-
Finances under morabaha arrangements	40,920,000	40,920,000	-	-	-	34,680,000
Advances, deposits and other receivables	108,785,691	-	-	-	108,785,691	105,480,893
Cash and bank balances	32,332,974	32,332,974	-	-	-	65,683,876
	273,904,847	136,173,663	24,286,516	-	113,444,668	280,301,876
FINANCIAL LIABILITIES						
Refinance facility	42,045,583	7,611,431	34,434,152	-	-	-
Finances under morabaha arrangements	13,333,332	6,666,668	6,666,664	-	-	28,609,947
Security deposits from lessees	76,792,969	-	-	-	76,792,969	72,609,555
Finances under musharika arrangements	20,000,000	20,000,000	-	-	-	36,600,000
Creditors, accrued and other liabilities	169,389,780	-	-	-	169,389,780	108,010,931
	321,561,664	34,278,099	41,100,816	-	246,182,749	245,830,433
Profit rate sensitivity gap	(47,656,818)	101,895,564	(16,814,300)	-	(132,738,082)	34,471,443
Cumulative profit rate sensitivity gap	-	101,895,564	85,081,264	85,081,264	(47,656,818)	(72,087,714)

37.1 Effective profit rates

	2005	2004
Financial assets		
Bank balances	1.5 to 2 percent per annum	1.5 to 8 percent per annum
Finances under musharika arrangements	12 to 15 percent per annum	7 to 8 percent per annum
Investments	10 to 12 percent per annum	10 to 12 percent per annum
Financial liabilities		
Finances under musharika arrangements	8.00 to 14.00 percent per annum	7 to 10.50 percent per annum
Finances under morabaha arrangements	8 to 13 percent per annum	7 to 18 percent per annum
Refinance facility	10 to 12 percent per annum	-

37.2 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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