



FIRST FIDELITY LEASING MODARABA

Annual Report
2008



Managed by :
Fidelity Capital Management (Private) Limited

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CORPORATE INFORMATION

Board of Directors Fidelity Capital Management (Private) Limited

Chairman	Siyyid Tahir Nawazish
Chief Executive	Mr. Wasim -ul-Haq Osmani
Directors	Sheikh Muhammad Nasim Mr. Shahid Iqbal Chaudhry Mr. Imran Hameed
Company Secretary / CFO	Mr. Muhammad Waheed
Auditors of Modaraba	KPMG Taseer Hadi & 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 Sheikh Muhammad Nasim Mr. Muhammad Younis Chaudhry
Legal Advisor	Salim & Baig (Advocates)
Bankers	Crescent Commercial Bank Limited MCB Bank Limited NIB Bank Limited Faysal Bank Limited
Registered Office	6 th Floor, M.M. Tower 28-A, Block - K, Gulberg-II Lahore. Tel: 042-2402868-72, 2405555 Fax: 042-2402873
Website e-mail	www.fidelitymodaraba.com fidelity@xcess.net.pk
Registrars	Corporate Business Management (Pvt.) Ltd. The Bank of Punjab Tower (Crescent Standard Tower) 4th Floor, 10-B, Block E-2, Gulberg-III, Lahore. Tel: 042-5783827-9 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 2008 Rupees	June 2007 Rupees	June 2006 Rupees	June 2005 Rupees	June 2004 Rupees	June 2003 Rupees
Operating results						
Revenues	118.95	82.61	130.86	142.91	129.95	135.31
Profit after taxation and management fee						
	41.68	33.21	27.83	24.01	25.35	31.72
Financial position						
Fixed assets (owned and leased out)						
	181.43	158.93	221.39	244.06	258.40	222.28
Total assets	494.24	516.76	577.43	662.07	588.02	438.81
Certificateholders equity	351.54	348.72	315.94	313.41	318.04	253.97
Paid up capital	264.13	264.13	264.13	264.13	206.33	206.33
Earning per certificate	1.58	1.26	1.05	0.91	0.89	1.540
Profit distribution (%)	10.00	10.00	10.00	10.00	10.00	11.50
Break-up value per certificate	13.31	13.20	12.00	11.86	12.14	12.30

NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given that the Annual Review Meeting of First Fidelity Leasing Modaraba to review the performance of Modaraba during the year ended June 30, 2008 will be held on October 31, 2008 at 4:00 P.M. at 6th Floor, M.M. Tower, 28-A, Block - K, Gulberg-II, Lahore. Certificateholders whose names are entered in the Register of Certificateholders seven days before the date of Annual Review Meeting i.e. October 24, 2008 shall be entitled to attend the meeting.

Lahore
October 09, 2008

Muhammad Waheed
(Company Secretary)

DIRECTORS' REPORT

The Board of Directors of Fidelity Capital Management (Private) Limited is pleased to present the 17th Annual Report of First Fidelity Leasing Modaraba together with the audited financial statements and the auditors' report thereon for the year ended June 30, 2008.

Financial Results

The financial results of the Modaraba are summarized as follows.

	Rupees in '000'	
	2008	2007
Income	118,948	82,615
Expenses	(71,806)	(73,299)
Operating profit before provisions and taxation	47,140	9,316
(Provision) / Reversal for doubtful receivables	(830)	27,581
Modaraba Company's management fee	(4,631)	(3,689)
Profit before taxation	41,679	33,208
Taxation	-	-
Profit after taxation	41,679	33,208

Appropriations

Appropriated as follows:

Transferred to statutory reserve	(12,504)	(6,641)
Profit distribution	(26,414)	(26,414)

Earnings per Certificate

Earnings per certificate stood at Rs. 1.58 (2007: Rs. 1.26).

Profit Distribution

The Board of Directors is pleased to announce cash dividend for the year @ 10% i.e Re. 1 per certificate (2007: @ 10% i.e Re. 1 per certificate). The certificate transfer books of the Modaraba will remain closed from November 01, 2008 to November 14, 2008 (both days inclusive) for determination of dividend entitlement.

Review of Operations

The Financial year 2007-08 was a difficult year for Pakistan. While the real GDP growth of Pakistan was about 7% in previous 5 years it scaled down to 5.8% during the year 2007-08. The reduced growth rate is the result of unexpected changes both on internal and external fronts. These included disturbed political conditions, deteriorating law and order situation, turmoil in the international financial markets and abnormal increase in food and oil prices.

Performance of the financial markets was checkered during the year 2007-08. The KSE-100 index was at 13772 at the beginning of the year it surged to 15741 at its peak, plummeted to 9739 and ended at 12289. These peaks and lows very badly affected small and medium investors in the capital market and caused negative sentiments and low volumes. Sensing these events and future plans of SECP to demutualize stock exchanges the management took the decision to sell its membership card and room rights at Lahore Stock Exchange (G) Limited. Hitherto inactive membership at Islamabad Stock Exchange (G) Limited. however was activated to keep the brokerage division

The Modaraba earned a pre-tax profit of Rs.41.679 million during the year as compared to Rs.33.208 million earned in the corresponding period. This increase in profitability is mainly due to gain on sale of LSE membership card and room rights. Contribution of other revenue resources remained at almost the same level except brokerage which as mentioned above was subdued.

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 except that the chairman purchased 30,000 certificates of the Modaraba during the year.

Board Meetings

During the year under review 5 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
Siyyid Tahir Nawazish	4
Mr. Wasim-ul-Haq Osmani	5
Sheikh Muhammad Nasim	5
Mr. Shahid Iqbal Chaudhry	5
Mr. Imran Hameed	5

Credit Rating

PACRA has maintained Modaraba's long term rating of "A-" and short term of "A2". These ratings denote a low expectation of credit risk and a strong capacity for timely payment of financial commitments. The ratings of the Modaraba reflect its sustained risk absorption capacity, emanating from substantially improved asset quality and adoption of low risk credit expansion with focus on investment strategy based on a low leveraged capital structure.

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, 2008 works out to Rs.1,934,931.

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.

Auditors

M/s KPMG Taseer Hadi & Co., Chartered Accountants were auditors of the Modaraba for the year ended June 30, 2008. They being eligible have offered themselves for re-appointment for the year ending June 30, 2009. The Audit Committee has recommended their re-appointment. Subject to approval by the Registrar Modaraba, their appointment has been approved by the Board.

Future Outlook

The coming year is a year of economic challenges. The new government has before it a huge task of controlling galloping inflation, energy crisis and pressure on the rupee. In a highly integrated and interdependent world, the impact of economic events in one country has its ramifications in other countries. The infection of sub-prime loans in US has rocked many big financial institutions. Their impact on financial and stock markets is already pinching large and established economies and especially hurting small economies like Pakistan.

The market is also suffering liquidity crunch and interest rates are on the rise. Like other sectors which depend upon bank borrowings for their operations, the Modaraba sector will also feel its impact. The volumes at stock market are at their record low of the decade. The KSE-100 index has been floored at 9144 points.

Cautious about ramifications of a collapse of US financial markets and its effects world over the US government has approved a bailout plan for their financial institutions which will have good effect on the world economies. The economy of Pakistan because of inherent internal weaknesses and above referred external factors has become more vulnerable. Government of Pakistan is taking steps to arrest economic meltdown and is seeking help of Friends of Pakistan consortia in this regard. Fortunately, the oil prices are coming down lately and the balance of payment will improve in the coming months reducing pressure on the rupee.

The Management of the Modaraba is not oblivious of the above developments; it is aligning itself with the changed circumstances and is cautious in its investment strategies.

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 08, 2008

Wasim ul Haq Osmani

Chief Executive

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 two of them are executive directors and three 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. No casual vacancy occurred in the Board of Management Company during the year.
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 Board. The Term of appointment and determination of remuneration and terms and conditions of employment of the CEO and directors are 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.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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, it comprises of three members, of whom, one is executive director, who is the Chairman of the Committee and others are non-executive directors.
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.

For and on behalf of the
Board of Directors

Lahore
October 08, 2008

Wasim ul Haq Osmani
Chief Executive

REVIEW REPORT TO THE CERTIFICATE HOLDERS ON STATEMENT OF COMPLIANCE WITH THE 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 as applicable to Modaraba for the year ended 30 June, 2008.

Lahore
October 08, 2008

KPMG Taseer Hadi & Co.
Chartered Accountants

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **First Fidelity Leasing Modaraba (“the Modaraba”)** as at 30 June 2008 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of the 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 agreement with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981 in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2008 and of the profit or loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Lahore
October 08,2008

KPMG Taseer Hadi & Co
Chartered Accountants

BALANCE SHEET

AS AT 30 JUNE 2008

ASSETS	Note	2008 Rupees	2007 Rupees
Current assets			
Cash and bank balances	3	34,160,960	40,429,392
Short term investment	4	10,386,349	716,500
Short term musharika investment - secured	5	-	45,000,000
Short term morabaha investment - secured	6	48,432,156	64,397,431
Lease rentals receivable	7	3,283,380	5,505,535
Advances, deposits, prepayments and other receivables	8	47,319,602	33,227,290
Current maturities of long term investments	9	-	4,393,670
Current maturity of long term morabaha investment	10	12,108,540	10,745,874
		155,690,987	204,415,692
Non current assets			
Long term investments	9	-	20,158,153
Long term morabaha investment - secured	10	7,194,745	14,487,923
Long term musharika investment - secured	11	50,000,000	-
Investment properties	12	89,398,478	95,597,324
Cards and rooms	13	10,530,000	23,177,950
Fixed assets	14	181,426,449	158,927,605
		338,549,672	312,348,955
Total assets		494,240,659	516,764,647
LIABILITIES			
Current liabilities			
Finances under musharika arrangements		-	30,000,000
Creditors, accrued and other liabilities	15	29,024,339	48,658,701
Current maturities of non-current liabilities	16	31,756,163	22,388,009
		60,780,502	101,046,710
Long term and deferred liabilities			
Security deposits from lessees	17	32,043,988	34,415,130
Refinance facility	18	-	17,006,817
Finances under morabaha arrangements	19	43,750,000	-
Employee benefits	20	1,288,189	599,144
Deferred morabaha income	21	4,833,299	14,972,696
		81,915,476	66,993,787
Total liabilities		142,695,978	168,040,497
Net assets		351,544,681	348,724,150
Financed by			
Certificate capital	22	264,138,040	264,138,040
Reserves	23	87,406,641	84,586,110
Contingencies and commitments			
	24	-	-
		351,544,681	348,724,150

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

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2008

	<i>Note</i>	2008 Rupees	2007 Rupees
Income			
Lease rentals		48,901,025	64,071,855
Profit on morabaha/musharika finances		27,793,606	6,945,930
Return on investments	25	1,562,586	2,632,381
Brokerage commission		5,019,544	8,352,515
Other income	26	39,416,009	2,369,428
Loss on operations of ISP Division	27	(3,745,263)	(1,756,305)
		118,947,507	82,615,804
Expenses			
Amortization of assets leased out		33,652,376	44,397,436
Administrative and general expenses	28	24,960,308	22,105,732
Stock exchange and CDC charges		800,467	1,054,485
Financial and other charges	29	12,393,730	5,741,861
		71,806,881	73,299,514
Operating profit before provisions and taxation		47,140,626	9,316,290
(Provision)/reversal of provision for doubtful receivables	34	(830,008)	27,581,126
		46,310,618	36,897,416
Modaraba Company's management fee		4,631,062	3,689,742
Profit before taxation		41,679,556	33,207,674
Taxation		-	-
Profit after taxation		41,679,556	33,207,674
Earnings per certificate - basic and diluted	30	1.58	1.26

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 Rupees	2007 Rupees
Cash flow from operating activities			
Cash generated from operations	38	8,739,926	32,521,932
Financial charges paid		(11,074,840)	(6,668,416)
Profit received on morabaha/musharika finances		14,718,097	6,640,610
Profit received on TFCs		2,750,356	2,736,927
Profit on bank deposits		193,893	1,120,662
Retirement benefits paid		(454,562)	(355,616)
Income tax paid		(150,796)	(1,373,198)
Net cash generated from operating activities		14,722,074	34,622,901
Cash flow from investing activities			
Lessees security deposits		(9,110,961)	(30,645,274)
Proceeds from transfer of fixed assts - Leased out		42,194,237	55,087,474
Fixed assets acquired - Leased out		(51,998,495)	(34,411,891)
Investments		2,436,753	4,393,671
Proceeds from sale of fixed assets		695,715	170,602
Proceeds from sale of stock exchange card and room		46,000,000	-
Fixed assets acquired - Own use		(1,157,300)	(3,771,100)
Work in progress - property in course of construction		(47,313,750)	-
Investment properties acquired		(16,995,060)	(3,802,500)
Proceeds from sale of investment properties		26,659,659	23,000,000
Net cash generated from (used in) investing activities		(8,589,202)	10,020,982
Cash flow from financing activities			
Finances under musharika arrangements		(30,000,000)	20,000,000
Finances under morabaha arrangement		68,750,000	(6,666,664)
Refinance facility		(26,214,437)	(7,912,550)
Profit distribution		(24,936,867)	(25,102,923)
Net cash (used in) financing activities		(12,401,304)	(19,682,137)
Net increase/(decrease) in cash and cash equivalents		(6,268,432)	24,961,746
Cash and cash equivalents at the beginning of the year		40,429,392	15,467,646
Cash and cash equivalents at the end of the year	3	34,160,960	40,429,392

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	Certificate capital Rupees	Capital Reserve		Revenue reserve	Total Rupees
		Statutory Rupees	Fair value Rupees	Un-appropriated	
				profit Rupees	
Balance as at 30 June 2006	264,138,040	52,911,948	(1,118,852)	26,429,044	342,360,180
Net profit for the year	-	-	-	33,207,674	33,207,674
Transfer to statutory reserve during the year	-	6,641,535	-	(6,641,535)	-
Profit distribution for the year ended 30 June 06 @ 10%	-	-	-	(26,413,804)	(26,413,804)
Unrealized loss on available for sale investment	-	-	(429,900)	-	(429,900)
Balance as at 30 June 2007	<u>264,138,040</u>	<u>59,553,483</u>	<u>(1,548,752)</u>	<u>26,581,379</u>	<u>348,724,150</u>
Net profit for the year	-	-	-	41,679,556	41,679,556
Transfer to statutory reserve during the year	-	12,503,867	-	(12,503,867)	-
Profit distribution for the year ended 30 June 07 @ 10%	-	-	-	(26,413,804)	(26,413,804)
Unrealized loss on available for sale investment	-	-	(12,445,221)	-	(12,445,221)
Balance as at 30 June 2008	<u>264,138,040</u>	<u>72,057,350</u>	<u>(13,993,973)</u>	<u>29,343,264</u>	<u>351,544,681</u>

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

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 there under and is managed by Fidelity Capital Management (Private) Limited. The registered office of the Modaraba is situated at M.M Tower, 28-A, Block K, Gulberg-II, Lahore. The Modaraba commenced its business operations from 5 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 Islamabad Stock Exchange (Guarantee) Limited and National Commodity Exchange Limited.

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 and estimates

2.2.1 Statement of compliance

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

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.

2.2.2 Standards, Interpretations and amendments to published approved accounting standards

The following amendments to existing standards have been published that are applicable to the Modaraba's financial statements covering annual periods, beginning on or after the following dates:

Amendments to published standards effective in current year

Amendments to IAS 1 'Presentation of Financial Statements' - Capital disclosure is mandatory for the Company's accounting period beginning on 01 July 2007. Its adoption by the Modaraba only impacts the format and extent of disclosures presented in the financial statements.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

Amendments and Interpretations to publish standards applicable to the Company not yet effective

The following amendments and interpretations to existing standards have been published and are mandatory for the Modaraba's accounting periods beginning on or after their respective effective dates:

- Certain amendments to IAS 23 'Borrowing Costs' have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after 01 July 2009. Adoption of these amendments would require the Modaraba to capitalize the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing these borrowing costs will be removed. Its adoption will not have any impact on the Company's financial statements.

- IFRS 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction; is effective from 01 July 2008. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Company will apply IFRIC 14 from 01 July 2008, but it is not expected to have any significant impact on the Modaraba's financial statements.

Standards and interpretations to existing standards that are not applicable to the Modaraba and not yet effective

Standards or interpretation	Effective date (accounting periods beginning on or after)
IFRS 2 - Share based payment	01 July 2009
IFRS 7 - Financial instruments disclosures	01 July 2008
IFRS 8 - Operating Segments	01 July 2009
IFRIC 12 - Service concession arrangements	01 July 2009
IFRIC 13 - Customer loyalty programmes	01 July 2009
IFRIC 15 - Accounting for agreements for the construction of real estate	01 July 2009
IFRIC 16 - Hedge of net investment in a foreign operation	01 July 2009

In addition to the above, a new standard 'IFRS 4 - Insurance Contracts' has been issued by the International Accounting Standards Board but has not yet been adopted by the Institute of Chartered Accountants of Pakistan (ICAP) or notified by the SECP and, hence, presently do not form part of the local financial reporting framework.

2.2.3 Change in accounting estimates

During the year the modaraba has changed the method of amortization of depreciation of assets leased out from annuity method to straight line method. Assets leased out are amortized on a straight line basis over the shorter of lease term or assets useful life.

The change in depreciation method from annuity to straight line has been accounted for as a change in accounting estimate and applied prospectively as per the requirements of IAS - 8 "Change in accounting policies and estimates". Had the depreciation method not been changed, the profit for the year would have been higher by Rs. 3,029,277.

2.2.4 Significant estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying companies accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

a)	Useful life and residual value of fixed assets	Note 2.3
b)	Defined benefit plans	Note 2.11
c)	Provisions for taxation	Note 2.15
d)	Accrued liabilities	Note 2.10
e)	Provision for doubtful debts	Note 2.10

2.2.5 Adoption of IFAS 1 - Morabaha

Securities and Exchange Commission of Pakistan (SECP) through its SRO 865 (1)/2005 dated 24 August 2005 notified and modaraba has adopted the Islamic financial Reporting Standard - 1 (IFAS-I). As per requirement of IFAS-1, purchases and sales under Morabaha and the resultant profit should be accounted for on the culmination of Morabaha transaction. The profit on sales revenue not due for payment should be deferred and shown in balance sheet as liability under "Deferred Morabaha Income" with debit to "Unearned Morabaha Income." As per previous policy, the unrecognised profit was not presented in financial statements. The adoption of IFAS has no impact on the results of the Modaraba.

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

The assets residual values and useful lives are reviewed at each financial year end, and adjusted if impact on depreciation is significant.

Normal repairs and maintenance are charged to income as and when incurred. Major improvements and modifications are capitalized and the assets so replaced, if any, are retired.

Fully depreciated assets are being shown at a token value of Re. 1 each.

In respect of acquisition and disposal of an asset during the year, depreciation is charged from the month in which assets are put to use upto the month preceeding the month of disposal.

Profit or loss on disposal of operating fixed assets represented by the difference between the sale proceeds and the carrying amount of the asset is included in income.

Asset leased out and amortisation

All lease arrangements are accounted for as operating lease.

During the year the modaraba has changed the method of amortization of depreciation of assets leased out from annuity method to straight line method. Assets leased out are amortized on a straight line basis over the shorter of lease term or assets useful life.

In respect of additions and transfers during the year, amortization is charged proportionately to the period of lease.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

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 impairments, if any.

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 rate of 2.5-10 percent per annum.

The assets residual values and useful lives are reviewed at each financial year end, and adjusted if impact on depreciation is significant.

Normal repairs and maintenance are charged to income as and when incurred. Major improvements and modifications are capitalized and the assets so replaced, if any, are retired.

In respect of acquisition and disposal of an asset during the year, depreciation is charged from the month in which assets are put to use up to the month preceeding the month of disposal.

Profit or loss on disposal of investment properties represented by the difference between the sale proceeds and the carrying amount of the asset is included in income.

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 till maturity are classified as held to maturity.

Available for sale

Investments intended to be held for an indefinite 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 financial assets at fair value through profit or loss.

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

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 available for sale investments for which active market exists, are measured at their market value while held to maturity investments are stated/measured at amortized cost using the effective interest rate method.

Any surplus or deficit on revaluation of investments held for trading is 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 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 saving accounts and short term placements with financial institutions.

2.9 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 setoff the recognized amount and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.10 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

2.11 Staff retirement benefits

Employees compensated absences

Employees of 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 2008 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	10%
Expected rate of increase in salary	9%
Average number of leaves utilized	17 days

Gratuity

The Modaraba operates an approved funded gratuity scheme for its management staff. Actuarial valuation was carried out on 30 June 2008 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	10%
Expected rate of return on plan assets	9%
Expected rate of increase in salary	9%

The Modaraba recognizes its actuarial gains and losses as income and expense if the net cumulative actuarial gains and losses at the end of previous reporting period exceeded the greater of:

- a) 10% of the present value of the defined benefit obligation at the date (before deducting plan assets); and
- b) 10% of the fair value of any plan assets at that date.

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.

2.12 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.
- 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.
- Brokerage commission is recognized when such services are provided.
- Dividend income is recognized when the right to receive payment is established.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

2.13 Borrowing cost

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

2.14 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 certificate holders and the management intends to continue to avail the tax exemption. Therefore, no provision is made for current and deferred tax during the year.

2.15 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.

2.16 Lease rentals and Musharika Investments

Lease rentals and Musharika finances are stated net of provision. Provision is recognized for lease rentals and Musharika Investments receivables in accordance with the Prudential Regulations for Modaraba's issued by the Security and Exchange Commission of Pakistan. Bad debts are written off when identified.

2.17 Morabaha Investments

Morabaha investments are stated net of provision. Provision is recognized for Morabaha Investments in accordance with the Prudential Regulations for Modaraba's issued by the Securities and Exchange Commission of Pakistan. Bad debts are written off when identified.

Morabaha receivable are recorded by the Modaraba at the invoiced amount and disclosed as such in the balance sheet.

Purchase and sales under Morabaha and the resultant profit are accounted for on the culmination of Morabaha transaction.

The profit on that portion of sales revenue not due for payment are deferred by accounting for a debit to "Unearned Morabaha Income" account with the corresponding credit to "Deferred Morabaha Income" account and shown in the balance sheet as a liability.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 Rupees	2007 Rupees
3 Cash and bank balances			
Cash in hand		70,147	193,423
Cash at bank			
Current account - State Bank of Pakistan		10,133	22,999
- Others		-	2,026,613
Saving account	3.1	34,080,680	38,186,357
		34,090,813	40,235,969
		34,160,960	40,429,392

3.1 Rate of return on these accounts range from 2% to 5% (2007: 2% to 3%) per annum.

	Note	2008 Rupees	2007 Rupees
4 Short term investment			
Quoted shares - available for sale	4.1	10,386,349	716,500

4.1 Particulars of shares available for sale

		2008		
		Shares	Cost	Market value
		Number	Rupees	Rupees
Hamid Textile Mills Limited		573,200	2,265,252	573,200
Shakarganj Sugar Mills Limited	4.2	513,240	22,115,070	9,813,149
Fair value reserve			(13,993,973)	-
			10,386,349	10,386,349
		2007		
		Shares	Cost	Market value
		Number	Rupees	Rupees
Hamid Textile Mills Limited		573,200	2,265,252	716,500
Fair value reserve			(1,548,752)	-
			716,500	716,500

All shares have face value of Rs. 10 each.

4.2 This represents shares acquired in settlement of amount of Rs. 22.5 million receivable from Innovative Investment Bank Limited - IIBL (erstwhile Crescent Standard Investment Bank Limited - CSIBL) against musharika facility of Rs 45 million given to them as referred in note 5.1.

	Note	2008 Rupees	2007 Rupees
5 Short term musharika investment - secured			
Innovative Investment Bank Limited (formerly Crescent Standard Investment Bank Limited)	5.1	-	45,000,000

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

- 5.1 During the year, as per settlement agreement dated July 14, 2007 between Innovative Investment Bank Limited - IIBL (erstwhile Crescent Standard Investment Bank Limited - CSIBL) and Crescent Standard Business Management (Private) Limited - CSBM representing a group of depositors substantively comprising undertakings relating to ex-sponsors of CSIBL group, receivables and payables to and from IIBL were to be settled in the form of cash and in kind. Since the Modaraba previously remained part of CSIBL group, its receivables amounting to Rs. 45 million were also subject to above settlement. As an imminent resolution, the Modaraba gave consent to receive 427,700 shares in Shakarganj Sugar Mills Limited - SGML being equivalent to then prevalent market value of Rs. 22.5 million and balance amount of Rs. 22.5 million in cash. The settlement, due to certain disputes between IIBL and CSBM, was culminated when on April 5, 2008, the Modaraba received the agreed number of shares of SGML alongwith bonus shares and the amount equivalent to dividend declared during the intervening period.

Of the remaining amount of Rs 22.5 million, Rs 18 million has been received in cash and Rs 4.5 million has been offset against management fee payable to Fidelity Capital Management (Private) Limited as referred to in note 13.

	<i>Note</i>	2008 Rupees	2007 Rupees
6 Short term morabaha investment - secured			
Considered good		41,080,000	48,616,500
Considered doubtful		205,708,968	203,497,968
		246,788,968	252,114,468
Add: Unearned morabaha income		4,192,156	13,988,931
		250,981,124	266,103,399
Less: Provision for doubtful finances		202,548,968	201,705,968
		48,432,156	64,397,431

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.

Modaraba is carrying provision included in above provision an amount of Rs. 201,705,968 in respect of classified facilities of erstwhile First Hajveri Modaraba. 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.

	<i>Note</i>	2008 Rupees	2007 Rupees
7 Lease rentals receivable			
Secured, considered good		3,283,380	5,505,535
Considered doubtful		10,878,726	10,891,718
Less: Provision for doubtful debts	7.1	10,878,726	10,891,718
		-	-
		3,283,380	5,505,535

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 Rupees	2007 Rupees
7.1 Provision for doubtful lease rentals receivable			
Opening balance		10,891,718	10,913,856
Charge for the year		-	5,680
Less: Reversals		(12,992)	(27,818)
Net charge/(reversal)		(12,992)	(22,138)
Closing balance		10,878,726	10,891,718
8 Advances, deposits, prepayments and other receivables			
Advances to employees-considered good	8.1	647,125	623,888
Securities and deposits		2,077,614	3,036,412
Prepayments		581,631	647,471
Profit on musharika and morabaha finances		15,446,915	2,371,406
Profit receivable on bank deposits		-	84,060
Other advances and profit receivable on deposit with court		-	308,520
Profit receivable on Term Finance Certificates		-	1,187,770
Income tax refundable		4,145,100	3,994,304
Receivable from clients	8.2	13,898,478	8,165,143
Hajveri Modaraba Management Company (Private) Limited	8.3	5,576,032	5,576,032
Receivable against sale of land		-	5,133,900
Miscellaneous receivables - considered good		4,946,707	2,098,384
		47,319,602	33,227,290

8.1 The maximum aggregate amount due from staff at the end of any month during the year was Rs. 705,650 (2007: Rs. 623,888).

	2008 Rupees	2007 Rupees
8.2 Receivable from clients - secured		
Considered good	13,898,478	8,165,143
Considered doubtful	2,217,424	2,217,424
Less: Provision against doubtful receivables	2,217,424	2,217,424
	-	-
	13,898,478	8,165,143

These comprise of receivables generated as a consequence of carrying on the business by brokerage

8.3 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 certificates 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 Rupees	2007 Rupees
9 Long term investments		
Term finance certificates - held to maturity		
Dewan Cement Limited (DCL)		
Series "A"	-	12,802,520
Series "B"	-	2,822,677
	-	15,625,197
Dewan Hattar Cement Limited (DHCL)		
Series "A"	-	7,090,326
Series "B"	-	1,836,300
	-	8,926,626
	-	24,551,823
Less: Current maturity	-	(4,393,670)
	-	20,158,153

9.1 Consequent to a meeting dated 07 September, 2007 between Dewan Cement Limited (erstwhile Pakland/Saadi Cement Ltd.) and its TFC's holders, the TFCs issued by Dewan Cement Ltd have been fully redeemed as follows.

- Entire principal amount with respect to series "A" TFCs along-with mark-up @ 12.43% p.a. for the period up to 12 March 2008 has been received in full.
- Present value of Series "B" TFCs as of 12 March, 2008(using discount rate of 12.43%) which was due in 2012-2013 has been received.

	Note	2008 Rupees	2007 Rupees
10 Long term morabaha investment - secured			
Balance receivable		17,654,129	23,760,000
Add: Unearned morabaha income		1,649,156	1,473,797
		19,303,285	25,233,797
Less: Current portion of long term morabaha investment	10.1	12,108,540	10,745,874
		7,194,745	14,487,923

10.1 Current portion of long term morabaha investment

Morabaha investment	10,459,384	10,255,842
Unearned morabaha income	1,649,156	490,032
	12,108,540	10,745,874

10.2 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.

	Note	2008 Rupees	2007 Rupees
11 Long term musharika investment - secured			
Enplan (Private) Limited	11.1	50,000,000	-

11.1 These represent receivable against musharika transaction. These are secured against mortgage of property, personal guarantee of directors and demand promissory note. This arrangement is jointly financed by the Modaraba and Trust Investment Bank Limited - TIBL (Rs. 50 million each). The Modaraba is acting as an agent on behalf of TIBL.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

12 Investment properties

	Cost			Depreciation			value as at 30 June 2008	Market value
	As at 01 July 2007	As at 30 June 2008	As at 01 July 2007	For the year	As at 30 June 2008			
	Rupees	Rupees	Rupees	Rupees	Rupees			
Land	44,517,480	15,355,060	(20,560,290)	39,312,250	-	-	39,312,250	113,518,390
Building	51,936,318	1,640,000	(972,500)	52,603,818	3,656,474	1,295,627	4,952,101	101,186,231
Electrical installation	4,000,000	-	-	4,000,000	1,200,000	400,000	1,600,000	8,090,879
2008	100,453,798	16,995,060	(21,532,790)	95,916,068	4,856,474	1,697,585	6,517,590	222,795,500

	Cost			Depreciation			value as at 30 June 2007	Market value
	As at 01 July 2006	As at 30 June 2007	As at 01 July 2006	For the year	As at 30 June 2007			
	Rupees	Rupees	Rupees	Rupees	Rupees			
Land	67,517,480	-	(23,000,000)	44,517,480	-	-	44,517,480	113,518,390
Building	48,133,818	3,802,500	-	51,936,318	2,358,066	1,298,408	3,656,474	101,186,231
Electrical installation	4,000,000	-	-	4,000,000	800,000	400,000	1,200,000	8,090,879
2007	119,651,298	3,802,500	(23,000,000)	100,453,798	3,158,066	1,698,408	4,856,474	222,795,500

12.1 Building includes 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.ft.s 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. 911,075 with 12% increase after every three years. This property has been mortgaged by Modaraba with Faysal Bank Limited against a morabaha finance facility referred to in note 19.

12.2 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.

12.3 Building includes a commercial property comprising a hall measuring 2,550 sq.ft.s along with proportionate share of land situated at first floor Ghalib Center, 17/B, Bll, Ghalib Market, Gulberg III Lahore at cost of Rs.5,442,500.

Note
2008
Rupees

2007
Rupees

13 Cards and rooms

Corporate membership of Lahore Stock Exchange	12.1	-	8,510,000
Corporate membership of Islamabad Stock Exchange		5,750,000	5,750,000
Membership of National Commodity Exchange Limited		1,010,000	1,010,000
Rooms	13.1	3,770,000	7,907,950
		10,530,000	23,177,950

13.1 During the year, the Modaraba has sold its corporate membership of LSE alongwith room at a price of Rs. 46 million.

14 Fixed assets

Assets leased out	14.1	102,105,723	124,256,253
Assets in own use	14.2	9,006,976	11,671,352
		111,112,699	135,927,605
Work-in-progress - property in course of construction	14.3	70,313,750	23,000,000
		181,426,449	158,927,605

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

14.1 Assets leased out

	Cost			Depreciation		Book value	
	As at	As at	As at	For the	As at	as at	
	01 July	30 June	01 July	year/(on	30 June	30 June	
2007	(transfers)	2008	2007	transfers)	2008	2008	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
Plant and machinery	51,059,200	11,977,000 (28,145,000)	34,891,200	26,144,462	5,784,197 (20,488,249)	11,440,410	23,450,790
Vehicles	146,095,651	39,466,145 (71,752,652)	113,809,144	48,823,661	25,438,805 (38,211,577)	36,050,886	77,758,258
Office equipments	3,871,731	555,350 (2,673,681)	1,753,400	2,092,146	540,064 (1,850,844)	781,366	972,034
Household equipments	485,800	- (335,800)	150,000	195,860	191,725 (162,226)	225,359	(75,359)
2008	201,512,382	51,998,495 (102,907,133)	150,603,744	77,256,129	31,954,791 (60,712,896)	48,498,021	102,105,723

	Cost			Depreciation		Book value	
	As at	As at	As at	For the	As at	as at	
	01 July	30 June	01 July	year/(on	30 June	30 June	
2006	(transfers)	2007	2006	transfers)	2007	2007	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
Plant and machinery	122,548,332	3,157,800 (74,646,932)	51,059,200	63,712,618	14,168,479 (51,736,635)	26,144,462	24,914,738
Vehicles	171,277,470	30,150,400 (55,332,219)	146,095,651	46,016,541	27,047,721 (24,240,601)	48,823,661	97,271,990
Office equipments	5,746,263	920,191 (2,794,723)	3,871,731	3,010,071	1,274,072 (2,191,997)	2,092,146	1,779,585
Household equipments	1,260,834	183,500 (958,534)	485,800	462,805	208,756 (475,701)	195,860	289,940
2007	300,832,899	34,411,891 (133,732,408)	201,512,382	113,202,035	42,699,028 (78,644,934)	77,256,129	124,256,253

14.1.1 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

14.2 Assets in own use

	Cost			Depreciation			Book value
	As at 01 July 2007	Additions (deletions)	As at 30 June 2008	As at 01 July 2007	For the year/(on deletions)	As at 30 June 2008	as at 30 June 2008
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Vehicles	6,136,950	4,300 (475,000)	5,666,250	2,457,673	1,184,215 (126,667)	3,515,221	2,151,029
Computer and equipments	13,931,414	1,153,000 (258,925)	14,825,489	6,979,916	1,747,222 (230,356)	8,496,782	6,328,707
Furniture and fixtures	1,946,352	- (628,151)	1,318,201	905,775	194,524 (309,338)	790,961	527,240
2008	22,014,716	1,157,300 (1,362,076)	21,809,940	10,343,364	3,125,961 (666,361)	12,802,964	9,006,976

	Cost			Depreciation			Book value
	As at 01 July 2006	Additions (deletions)	As at 30 June 2007	As at 01 July 2006	For the year/(on deletions)	As at 30 June 2007	as at 30 June 2007
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Vehicles	3,195,300	3,366,650 (425,000)	6,136,950	1,799,860	1,082,813 (425,000)	2,457,673	3,679,277
Computer and equipments	13,542,564	404,450 (15,600)	13,931,414	5,411,927	1,572,445 (4,456)	6,979,916	6,951,498
Furniture and fixtures	1,946,352	- -	1,946,352	711,140	194,635 -	905,775	1,040,577
2007	18,684,216	3,771,100 (440,600)	22,014,716	7,922,927	2,849,893 (429,456)	10,343,364	11,671,352

14.2.1 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	Rupees	Rupees	Rupees	Rupees		
Vehicles						
Suzuki Cultus	475,000	126,666	348,334	355,000	6,666	As per policy Mr. Ahsan

Other deletions represents assets with book value less than Rs. 50,000

14.3 This includes advance paid to Rehman Construction Company under a Memorandum of Understanding (MOU) for construction of four villas in a project known as "Muree Holiday Resort" at a value of Rs. 5 million each. The project is likely to be completed by June 2009.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

	<i>Note</i>	2008 Rupees	2007 Rupees
15 Creditors, accrued and other liabilities			
Accrued financial charges		1,348,479	29,589
Lease rentals received in advance		648,162	267,652
Management fee payable	15.1	131,062	3,689,742
Due to customers		9,708,608	22,971,783
Fidelity Capital Management (Private) Limited		-	5,773,270
Accrued and other payables		2,729,766	2,945,340
Provision for Income Tax		305,659	305,659
Unclaimed profit distribution		14,152,603	12,675,666
		<u>29,024,339</u>	<u>48,658,701</u>

15.1 The management fee payable has been offset against Rs. 4.5 million receivable from Fidelity Capital Management (Pvt.) Limited against settlement of amount due from CSIBL as referred to in note 5.1.

	<i>Note</i>	2008 Rupees	2007 Rupees
16 Current maturities of non-current liabilities			
Security deposits from lessees	17	5,748,150	12,487,969
Refinance facility		-	9,207,622
Finances under morabaha arrangements	19	25,000,000	-
Employee benefits		-	202,386
Deferred morabaha income	21	1,008,013	490,032
		<u>31,756,163</u>	<u>22,388,009</u>

17 Security deposits from lessees

Long term security deposits from lessees		37,792,138	46,903,099
Less: Current portion	16	5,748,150	12,487,969
		<u>32,043,988</u>	<u>34,415,130</u>

18 The outstanding amount of refinance facility which was obtained from International Housing Finance Limited against property owned by the Modaraba was fully adjusted/repaid to its lender during the year.

	<i>Note</i>	2008 Rupees	2007 Rupees
19 Finances under morabaha arrangements			
Finances under morabaha arrangements-secured		68,750,000	-
Less: Current maturity	16	25,000,000	-
		<u>43,750,000</u>	<u>-</u>

This represents secured finance of Rs. 75 million obtained from a financial institution, under morabaha arrangement repayable in 12 equal quarterly installments over a period of three years commencing May 2008. The estimated share of profit payable on this finance is KIBOR plus 2.25% per annum. The loan is secured against property as referred in Note 12.1.

	<i>Note</i>	2008 Rupees	2007 Rupees
20 Employee benefits			
Staff gratuity	20.1	672,220	234,203
Leave encashment	20.2	615,969	364,941
		<u>1,288,189</u>	<u>599,144</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 Rupees	2007 Rupees
20.1 Staff gratuity-net		
The amounts recognised in the balance sheet are as follows:		
Present value of defined benefit obligation	2,151,058	1,110,981
Less fair value of plan assets	(1,098,907)	(778,520)
Unrecognised actuarial (losses)/gains	(205,779)	(98,258)
Less Past Service Cost to recognized in later periods	(174,152)	-
	<u>672,220</u>	<u>234,203</u>
a) Change in present value of net staff gratuity		
Liability as at 01 July	234,203	146,999
Charge for the year	672,220	234,203
Contributions during the period	(234,203)	(146,999)
Liability as at 30 June	<u>672,220</u>	<u>234,203</u>
b) Movement in liability for defined benefit obligation		
Present value of defined benefit obligation as at 01 July	1,110,981	825,782
Current service cost	395,794	197,252
Interest cost	111,098	74,320
Vested past service liability of new members	243,180	-
Non vested past service liability of new members	174,152	-
Actuarial (gain)/loss on present value of defined benefit obligation	115,853	13,627
Present value of defined benefit obligation as at 30 June	<u>2,151,058</u>	<u>1,110,981</u>
c) Movement in fair value of plan assets		
Fair value of plan assets as at 01 July	778,520	415,214
Expected return on plan assets	77,852	37,369
Contributions during the year	234,203	355,616
Benefits paid during the year	-	-
Actuarial gain/(loss) on plan assets	8,332	(29,679)
Fair value of plan assets as at 30 June	<u>1,098,907</u>	<u>778,520</u>
d) Actual return on plan assets	<u>86,184</u>	<u>7,690</u>
e) Plan assets consist of the following:		
Debt instruments	300,000	700,000
Cash at Bank	798,907	78,520
	<u>1,098,907</u>	<u>778,520</u>
f) Movement in actuarial losses		
Un recognised actuarial losses as at 01 July	(98,258)	(54,952)
Actuarial losses arising during the year	(107,521)	(43,306)
Un recognised actuarial losses as 30 June	<u>(205,779)</u>	<u>(98,258)</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

g) Charge for the year	2008	2007
	Rupees	Rupees
Current service cost	395,794	197,252
Interest cost	111,098	74,320
Loss on PVDBO due to settlements	243,180	-
Expected return on plan assets	(77,852)	(37,369)
	672,220	234,203

h) Historical Information	2008	2007	2006	2005	2004
	Rupees	Rupees	Rupees	Rupees	Rupees
Present value of defined benefit obligation	2,151,058	1,110,981	825,782	723,485	544,320
Present value of defined benefit assets	(1,098,907)	(778,520)	(415,214)	(575,491)	N/A
Deficit in the plan	1,052,151	332,461	410,568	147,994	544,320
Experience adjustment arising on plan liabilities	115,853	13,627	7,064	46,478	(109,899)
Experience adjustment arising on plan assets	8,332	(29,687)	(46,893)	(21,395)	N/A

i) Assumptions used for valuation of the defined benefit schemes for management and non-management staff are as under:

	Per annum	
	2008	2007
Discount rate	12%	10%
Expected rate of increase in salary	11%	9%
Average expected remaining working life time of employee	15 years	15 years

j) The Company expects to pay Rs. 475,018 in contributions to defined benefit plan in 2009.

20.2 Leave encashment	2008	2007
	Rupees	Rupees
Opening balance	364,941	207,344
Expenses recognized	259,725	359,983
Liability due to new members joined with past service	202,386	-
Payments made	(211,083)	-
	615,969	567,327
Payable within one year	-	(202,386)
Closing balance	615,969	364,941

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 Rupees	2007 Rupees
a) Movement in liability for defined benefit obligation		
Present value of defined benefit obligation as at 01 July	364,941	207,344
Current service cost	53,722	248,631
Interest cost	36,494	18,661
Liability due to new members joined with past service	202,386	-
Benefits paid during the period	(211,083)	-
Payable within one year	-	(202,386)
Actuarial (gain)/loss on present value of defined benefit obligation	169,509	92,691
Present value of defined benefit obligation as at 30 June	615,969	364,941

b) Charge for the year		
Current service cost	53,722	248,631
Interest cost	36,494	18,661
Actuarial losses charge	169,509	92,691
	259,725	359,983

	2008 Rupees	2007 Rupees	2006 Rupees	2005 Rupees	2004 Rupees
c) Historical information					
Present value of defined benefit obligation	615,969	364,941	207,344	207,344	144,077
Experience adjustment arising on plan liabilities	169,509	92,691	6,732	37,087	(55,548)

	Per annum	
	2008	2007
Discount rate	12%	10%
Expected rate of increase in salary	11%	9%
Average Number of Leaves Utilized per annum	16 days	15 days

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

	<i>Note</i>	2008	2007
		Rupees	Rupees
21 Deferred morabaha income			
Short term deferred morabaha income		4,192,156	13,988,931
Long term deferred morabaha income		1,649,156	1,473,797
		<u>5,841,312</u>	<u>15,462,728</u>
Less: Current maturity of long term deferred morabaha income	16	(1,008,013)	-
		<u>4,833,299</u>	<u>14,972,696</u>
22 Certificate capital			
Authorized certificate capital			
62,500,000 modaraba certificates of Rs.10 each.		<u>625,000,000</u>	<u>625,000,000</u>
Issued, subscribed and paid-up certificate capital			
16,656,491 modaraba certificates of Rs 10 each fully paid up in cash		166,564,910	166,564,910
3,976,908 modaraba certificates of Rs 10 each issued as fully paid bonus certificates		39,769,080	39,769,080
5,780,405 modaraba certificates of Rs 10 each issued to certificate holders of First Hajveri Modaraba in accordance with the Scheme of Amalgamation		57,804,050	57,804,050
		<u>264,138,040</u>	<u>264,138,040</u>
Fidelity Capital Management (Private) Limited, management company, holds 5,869,614 (2007: 5,7820,614) modaraba certificates in the Modaraba.			
	<i>Note</i>	2008	2007
		Rupees	Rupees
23 Reserves			
Capital reserve			
Statutory reserve	23.1	72,057,350	59,553,483
Fair value reserve		(13,993,973)	(1,548,752)
Revenue reserve			
Unappropriated profits		29,343,264	26,581,379
		<u>87,406,641</u>	<u>84,586,110</u>
23.1	This represents special reserve created in compliance with the Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan.		

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

24 Contingencies and commitments

Contingencies

24.1 In the case of erstwhile First Hajveri Modaraba (FHM), merged in the Modaraba, the Taxation Officer disallowed provisions against Morabaha Finances at Rs. 182.208 million, and also made some other add backs at Rs. 47.579 million in the assessment year 2001-02. Resultantly tax demand of Rs. 12.631 million was raised. The add backs were contested before Commissioner of Income Tax (Appeals) [CIT (A)] who upheld order of Taxation Officer. The ITAT has now decided the matter in favour of the Modaraba vide its order 7277/LB/2006 dated March 12, 2008, hence no provision is required.

	2008 Rupees	2007 Rupees
25 Return on investments		
Return on term finance certificates	1,562,586	2,632,381
	1,562,586	2,632,381
26 Other income		
Return on bank deposits	109,833	1,156,220
Fees, commission and other charges	897,555	1,033,998
Return on advances to employees	29,702	19,752
Gain on sale of fixed assets	-	159,458
Gain on sale of stock exchange card & room	33,252,050	-
Gain on sale of investment properties	5,126,869	-
	39,416,009	2,369,428
27 Loss on operations of ISP division		
Net sales	2,452,155	6,750,115
Direct costs	(4,907,542)	(6,927,706)
Gross loss	(2,455,387)	(177,591)
Operating expenses	(1,292,817)	(1,618,565)
Operating loss	(3,748,204)	(1,796,156)
Other income	2,941	39,851
Loss for the year	(3,745,263)	(1,756,305)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 Rupees	2007 Rupees
28 Administrative and general expenses			
Salaries, wages and other benefits	28.1	11,938,843	10,947,882
Legal and professional		1,198,720	944,500
Printing and stationery		931,558	940,482
Travelling, conveyance and vehicles' running		881,152	946,335
Insurance		497,871	588,481
Fee, subscription and taxes		726,922	635,423
Auditors' remuneration	28.2	293,000	286,500
Rent and taxes		1,343,849	831,878
Repair and maintenance		357,779	393,519
Electricity, water and gas		231,159	427,778
Entertainment		323,611	286,129
Zakat		3,653	5,150
Advertisement		125,150	111,258
Telephone and postage		1,548,074	1,301,066
Bad Debts		695,312	-
Depreciation on fixed assets	13.2	3,125,962	2,849,893
Amortization of deferred cost		-	332,952
Loss on sale of fixed assets		273,267	-
Miscellaneous		464,426	276,506
		24,960,308	22,105,732

28.1 Salaries and other benefits include Rs. 672,220 (2007: Rs. 234,203) in respect of gratuity and Rs. 525,698 (2007: Rs. 508,839) on account of provident fund contribution.

	2008 Rupees	2007 Rupees
28.2 Auditors' remuneration		
Audit fee	132,000	120,000
Review of half yearly accounts	85,000	80,000
Certifications	70,000	80,500
Out of pocket expenses	6,000	6,000
	293,000	286,500

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

	<i>Note</i>	2008 Rupees	2007 Rupees
29 Financial and other charges			
Return on morabaha/musharika finances		10,118,406	5,689,012
Discount on premature redemption of TFC's	9.1	1,975,895	-
Bank and other charges		299,429	52,849
		<u>12,393,730</u>	<u>5,741,861</u>

		2008	2007
30 Earnings per certificate-basic and diluted			
Profit for the year after taxation	Rupees	<u>41,679,556</u>	<u>33,207,674</u>
Weighted average number of ordinary certificates	Numbers	<u>26,413,804</u>	<u>26,413,804</u>
Earnings per certificate	Rupees	<u>1.58</u>	<u>1.26</u>

30.1 There is no dilution in earning per certificate 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 2008, approximate to Rs.159,646,905 (2007: Rs. 99,424,115). The amount of future lease rentals receivable and period during which they fall due are:

	2008 Rupees	2007 Rupees
Upto one year	46,714,213	39,824,804
Above one year and upto five years	112,932,692	59,599,311

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:

	2008 Rupees	2007 Rupees
Associated companies		
Transactions during the year		
Musharika finances received	-	1,500,000
Modaraba Company's management fee	4,631,062	3,689,742

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

	2008		
	Officers Rupees	Other Rupees	Total Rupees
33 Remuneration of officers and other employees			
Remuneration	6,515,810	679,962	7,195,772
House rent	1,564,964	155,643	1,720,607
Gratuity	672,220	-	672,220
Provident fund contribution	485,306	40,392	525,698
Other allowances	1,720,784	103,762	1,824,546
	10,959,084	979,759	11,938,843
Number of employees at the year end	17	10	27
	2007		
	Officers Rupees	Other Rupees	Total Rupees
Remuneration	5,621,980	307,566	5,929,546
House rent	1,447,246	77,904	1,525,150
Gratuity	234,203	-	234,203
Provident fund contribution	488,066	20,773	508,839
Other allowances	2,647,006	103,138	2,750,144
	10,438,501	509,381	10,947,882
Number of employees at the year end	26	11	37
	<i>Note</i>	2008 Rupees	2007 Rupees
34 Statement of particulars of provision against non-performing receivables			
Opening balance		214,815,110	242,396,236
Charge for the year		843,000	612,780
Reversed during the year		(12,992)	(28,193,906)
Net (reversal)/charge for the year		830,008	(27,581,126)
		215,645,118	214,815,110
34.1 Break up of balance			
Provision for classified morabaha facilities	6	202,548,968	201,705,968
Provision against doubtful receivables	8.2	2,217,424	2,217,424
Provision against doubtful rentals	7.1	10,878,726	10,891,718
		215,645,118	214,815,110

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

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:

	Upto one year	Over one year to five years	Over five years	2008 Total
	Rupees	Rupees	Rupees	Rupees
Assets				
Fixed assets	13,386,742	169,568,955	-	182,955,697
Investment properties	-	-	90,898,478	90,898,478
Cards and rooms	-	-	10,530,000	10,530,000
Investments	10,386,349			10,386,349
Finances	61,894,129	50,000,000	-	111,894,129
Lease rental receivables	3,283,380	-	-	3,283,380
Advances, deposits, prepayments and other receivables	34,292,100	13,027,502	-	47,319,602
Cash and bank balances	34,160,960	-	-	34,160,960
	157,403,660	232,596,457	101,428,478	491,428,595

Liabilities

Deferred liabilities	-	-	1,131,063	1,131,063
Security deposits from lessees	5,748,150	32,043,988	-	37,792,138
Finances under musharika arrangements	68,750,000	43,750,000	-	112,500,000
Creditors, accrued and other liabilities	14,869,005	14,458,262	-	29,327,267
	89,367,155	90,252,250	1,131,063	180,750,468

Represented by:

Certificate capital and reserves	351,544,681
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	Upto one year	One year and upto five years	Over five years	2007 Total
	Rupees	Rupees	Rupees	Rupees
Assets				
Fixed assets	16,832,366	142,095,239	-	158,927,605
Investment properties	-	-	95,597,324	95,597,324
Cards and rooms	7,020,000	-	16,157,950	23,177,950
Investments	5,110,170	15,499,176	4,658,977	25,268,323
Finances	105,212,500	13,956,000	-	119,168,500
Lease rental receivables	5,505,535	-	-	5,505,535
Advances, deposits, prepayments and other receivables	30,190,878	3,036,412	-	33,227,290
Cash and bank balances	40,429,392	-	-	40,429,392
	210,300,841	174,586,827	116,414,251	501,301,919

Liabilities

Deferred Liabilities	202,386	-	599,144	801,530
Refinance facility	9,207,622	17,006,817	-	26,214,439
Security deposits from lessees	12,487,969	34,415,130	-	46,903,099
Finances under musharika arrangements	30,000,000	-	-	30,000,000
Creditors, accrued and other liabilities	29,904,106	18,754,595	-	48,658,701
	81,802,083	70,176,542	599,144	152,577,769

Represented by:

Certificate capital and reserves	348,724,150
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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

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 2008 is as follows:

	Assets leased out Rupees	Morabaha finance Rupees	Musharika finance Rupees	2008 Total Rupees	% age
Energy, oil and gas	4,483,113	-	-	4,483,113	2.07
Engineering and engineering goods	-	-	-	-	-
Transport and communications	1,686,691	-	-	1,686,691	0.78
Textiles	16,196,426	6,160,000	-	22,356,426	10.30
Banks and financial institutions	-	-	-	-	(0.01)
Chemical and pharmaceutical	-	-	-	-	-
Legal and professional	-	-	-	-	-
Food and beverages	2,618,750	11,500,000	-	14,118,750	6.51
Computers and IT services	-	-	-	-	-
Construction	-	-	50,000,000	50,000,000	23.04
Individuals	-	-	-	-	-
Miscellaneous	80,150,022	44,234,129	-	124,384,151	57.31
	<u>105,135,002</u>	<u>61,894,129</u>	<u>50,000,000</u>	<u>217,029,131</u>	<u>100.00</u>
	Assets leased out Rupees	Morabaha finance Rupees	Musharika finance Rupees	2007 Total Rupees	% age
Energy, oil and gas	5,248,669	-	-	5,248,669	2.16
Engineering and engineering goods	85,928	-	-	85,928	0.04
Transport and communications	2,847,720	-	-	2,847,720	1.17
Textiles	17,006,390	7,362,000	-	24,368,390	10.01
Banks and financial institutions	304,432	-	45,000,000	45,304,432	18.61
Chemical and pharmaceutical	-	-	-	-	-
Legal and professional	11,694,891	30,766,500	-	42,461,391	17.44
Food and beverages	3,237,901	-	-	3,237,901	1.33
Computers and IT services	2,699,908	-	-	2,699,908	1.10
Electronics	4,608,016	-	-	4,608,016	1.89
Individuals	73,028,670	36,040,000	-	109,068,670	44.81
Miscellaneous	3,493,728	-	-	3,493,728	1.44
	<u>124,256,253</u>	<u>74,168,500</u>	<u>45,000,000</u>	<u>243,424,753</u>	<u>100.00</u>

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

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:

	Profit bearing			Non profit bearing	2008 Total	2007 Total
	Within one year	Over one year to five years	Over Five years			
	Rupees	Rupees	Rupees			
Financial assets						
Investments	-	-	-	10,386,349	10,386,349	25,268,323
Finances under musharika arrangements	-	-	-	-	-	45,000,000
Finances under morabaha arrangements	35,652,156	-	-	12,780,000	48,432,156	74,168,500
Advances, deposits and other receivables	-	-	-	47,319,602	47,319,602	33,227,290
Cash and bank balances	-	-	-	34,160,960	34,160,960	40,429,392
	35,652,156	-	-	104,646,911	140,299,067	218,093,505
Financial liabilities						
Refinance facility	-	-	-	-	-	26,214,439
Finances under morabaha arrangements	-	-	-	-	-	-
Security deposits from lessees	-	-	-	37,792,138	37,792,138	46,903,099
Finances under musharika arrangements	25,000,000	43,750,000	-	-	68,750,000	30,000,000
Creditors, accrued and other liabilities	-	-	-	29,024,339	29,024,339	48,658,701
	25,000,000	43,750,000	-	66,816,477	135,566,477	151,776,239
Profit rate sensitivity gap	10,652,156	(43,750,000)	-	37,830,434	4,732,590	66,317,266
Cumulative profit rate sensitivity gap	10,652,156	(33,097,844)	(33,097,844)	37,830,434	4,732,590	66,317,266

37.1 Effective profit rates

	2008	2007
Financial assets		
Bank balances	2 to 5 percent per annum	2 to 3 percent per annum
Finances under musharika/morabaha arrangements	16 to 33 percent per annum	8 to 17 percent per annum
Advances to employees	5 percent per annum	5 percent per annum
Investments	12 to 21 percent per annum	10 to 12 percent per annum
Financial liabilities		
Finances under musharika arrangements	-	8.00 percent per annum
Finances under morabaha arrangements	KIBOR plus 2.25% per annum.	8 to 13 percent per annum
Refinance facility	-	10 to 14 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.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2008

	<i>Note</i>	2008 Rupees	2007 Rupees
38 Cash generated from operations			
Profit before taxation		41,679,556	33,207,674
Adjustment for non cash expenses and other items:			
Provision (reversed)/charged for doubtful debts and receivables		830,008	(27,581,126)
Depreciation/amortization		36,778,338	47,247,329
Financial charges		12,393,730	5,741,861
Profit on morabaha/musharika finances		(27,793,606)	(6,945,930)
Return on term finance certificates		(1,562,586)	(2,632,381)
Return on bank deposits		(109,833)	(1,156,220)
(Gain) / loss on sale of fixed assets		-	(159,458)
(Gain) / loss on sale of investment properties		(5,126,869)	-
Profit on sale of stock exchange room & card		(33,252,050)	-
Provision for retirement benefits	19	931,945	594,186
Amortization of deferred cost		-	332,952
Working capital changes	38.1	(16,028,707)	(16,126,955)
		<u>8,739,926</u>	<u>32,521,932</u>
38.1 Working capital changes			
(Increase)/decrease in operating assets			
Finances under musharika arrangements		(5,000,000)	1,500,000
Finances under morabaha arrangements		11,432,371	23,035,940
Lease rental receivables		2,165,683	(3,636,301)
Advances, deposits, prepayments and other receivables		(2,196,572)	20,906,939
		<u>6,401,482</u>	<u>41,806,578</u>
Increase/(decrease) in operating liabilities			
Creditors, accrued and other liabilities		(22,430,189)	(57,933,533)
		<u>(16,028,707)</u>	<u>(16,126,955)</u>
39 Profit distribution			

Subsequent to the year ended 30 June 2008 the Board of Directors of the management company have declared a final profit distribution of Re. 1/- per certificate, amounting to total profit distribution of 26.414 million (2007: Re. 1/- per certificate, amounting to total profit distribution of 26.414 million) in their meeting held on October 08, 2008.

40 General

The financial statements of Modaraba were approved by the directors of Modaraba Management Company and authorized for issue on October 08, 2008.

Figures have been rounded off to the nearest rupee.

Corresponding figures have been re-arranged and reclassified, where necessary, for the purpose of comparison. Morabaha investments which were previously being clubbed have now been classified into Short term and long term Morabaha investments - secured.

Chief Executive
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

Director
Fidelity Capital Management
(Private) Limited

PATTERN OF CERTIFICATEHOLDING FOR THE YEAR ENDED 30 JUNE 2008

No. of Certificateholders	Certificateholding		Total Certificates held
	From	To	
3,662	1	100	149,327
2,772	101	500	685,891
1,046	501	1,000	813,168
1,264	1,001	5,000	2,582,345
190	5,001	10,000	1,384,104
82	10,001	15,000	985,538
35	15,001	20,000	632,332
30	20,001	25,000	673,745
6	25,001	30,000	165,545
12	30,001	35,000	395,205
7	35,001	40,000	262,081
8	40,001	45,000	339,205
8	45,001	50,000	382,800
5	50,001	55,000	260,367
3	55,001	60,000	172,619
5	60,001	65,000	314,183
1	65,001	70,000	69,000
1	70,001	75,000	73,000
1	75,001	80,000	78,500
2	85,001	90,000	173,632
2	90,001	95,000	183,000
2	95,001	100,000	200,000
1	100,001	105,000	101,090
1	110,001	115,000	113,000
1	115,001	120,000	115,500
1	135,001	140,000	140,000
3	145,001	150,000	449,000
1	150,001	155,000	151,000
1	155,001	160,000	160,000
1	175,001	180,000	180,000
1	200,001	205,000	200,153
2	350,001	355,000	704,304
1	390,001	395,000	391,500
1	475,001	480,000	477,000
1	575,001	580,000	578,041
1	1,025,001	1,030,000	1,028,078
1	1,030,001	1,035,000	1,034,931
1	1,055,001	1,060,000	1,059,006
1	1,215,001	1,220,000	1,220,000
1	1,465,001	1,470,000	1,466,000
1	5,865,001	5,870,000	5,869,614
9,166	Total		26,413,804

CATEGORIES OF CERTIFICATEHOLDING FOR THE YEAR ENDED 30 JUNE 2008

Categories of certificateholders	Number of Certificate held	Percentage of total capital
Directors, Chief Executive Officer, Their Spouse and Children		
Directors		
Siyid Tahir Nawazish (CDC)	54,552	0.21
	54,552	0.21
Associated Companies, Undertakings & Related Parties		
Fidelity Capital Management (Pvt) Limited (CDC)	5,869,614	22.22
	5,869,614	22.22
NIT & ICP (Name Wise Detail)		
National Bank of Pakistan, Trustee Deptt. (CDC)	1,028,078	3.89
	1,028,078	3.89
Banks, DFI's, NBFI's		
Banks, DFI's, NBFI's	12,242	0.05
Banks, DFI's, NBFI's (CDC)	1,078,274	4.08
	1,090,516	4.13
Insurance Companies		
Insurance Companies	40	0.00
Insurance Companies (CDC)	1,055,679	4.00
	1,055,719	4.00
Modaraba and Mutual Funds		
Modaraba and Mutual Funds	358	0.00
	358	0.00
Other Companies		
Other Companies	659,828	2.50
Other Companies (CDC)	1,059,961	4.01
	1,719,789	6.51
General Public		
A. Local	3,802,050	14.39
A. Local (CDC)	11,793,128	44.65
	15,595,178	59.04
	26,413,804	100.00
Certificateholders holding more than 10.00%		
Fidelity Capital Management (Pvt) Limited (CDC)	5,869,614	22.22

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