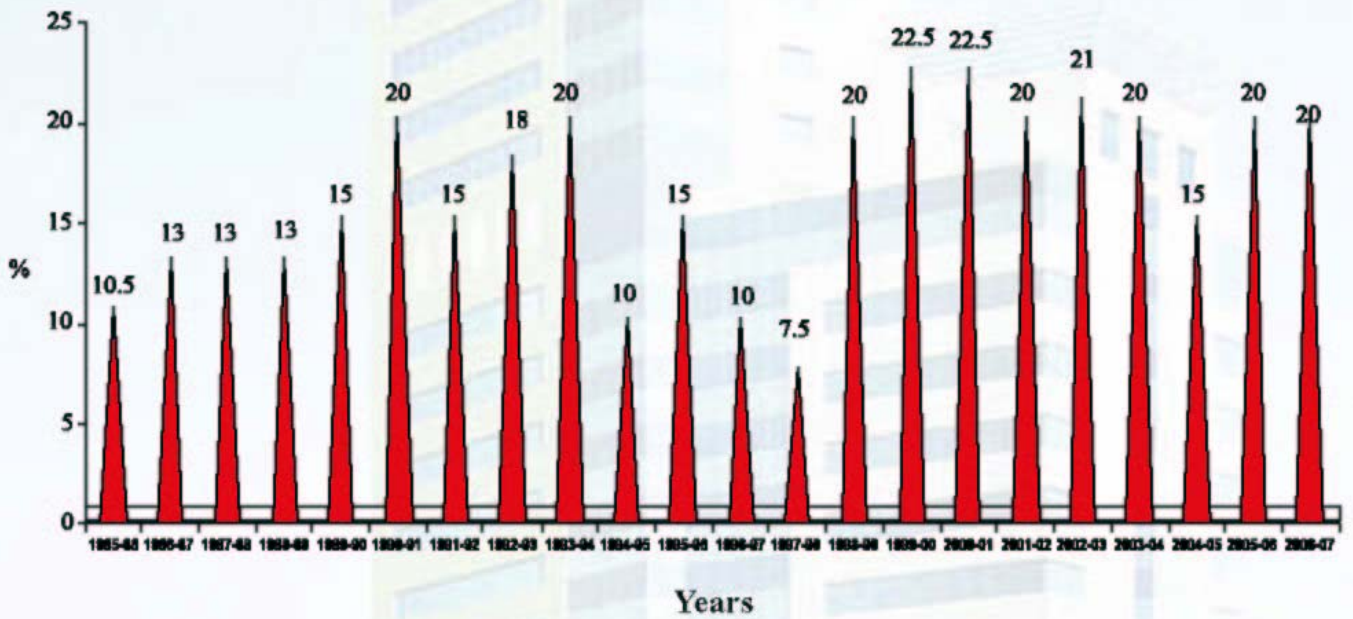




## *Our Vision...*

- achieve and maintain optimum customer satisfaction by consistently providing the highest level of quality services.
- apply professional and diligent management in order to secure a fair and competitive return to our certificate holders and investors.
- reach the highest level in the Modaraba sector in accordance with Sharia based, Islamic mode of financing.

## *Dividend Payout*



## *Our Mission...*

### *FHM ... ..*

- wishes to maintain financial discipline.
- is committed to comply with spirit of Islamic Sharia, which will govern entire business.
- Ambition to provide state-of-art financial services.
- Strives for Halal profit and prudent growth through operational efficiency.
- Desire to develop efficient and motivated workforce.
- Ensures continual improvement in business and profitability through effective governance.
- Focuses on services, clients and certificate holders by building relationship based on trust and mutual benefit.
- Committed to continuously creating value for certificate holders, providing efficient and quality service to clients and promote sound business practices.







# FHM

Single source that fulfils both  
your business finance and investment  
needs the Islamic way

One of the pioneers of the Islamic finance and investment systems,  
First Habib Modaraba caters to your capital and investment needs  
in a Sharia compliant manner.



Leasing



Morabaha



Musharaka



Equity  
Investment



Syndicate  
Arrangement

## CERTIFICATES OF MUSHARAKA

Individuals and companies who seek purely Islamic avenues of investment can always benefit from our Certificate of Musharaka, an Islamic instrument of investment that promises attractive returns with security, a choice of tenures and flexible profit payment options.

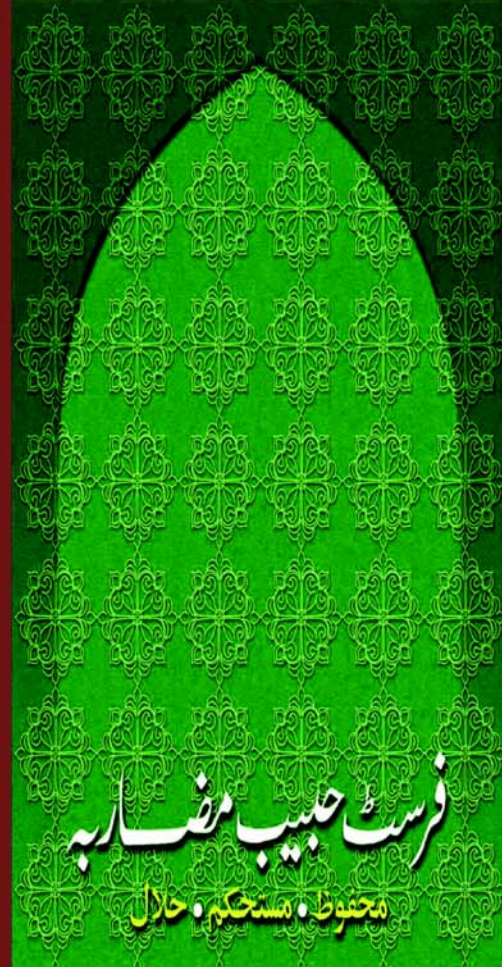
### First Habib Modaraba

5th Floor, HBZ Plaza (Hirani Centre), I.I. Chundrigar Road, Karachi Phone: (021) 2635949-51 Fax: (92-21) 2627373  
E-mail: fhm@habibmodaraba.com Website: www.habibmodaraba.com



# سرٹیفکیٹ آف مشارکہ

منافع بخش سرمایہ کاری



## فہمٹ حہیب مڈارابہ

میںجنوب • مستحکم • حلال

Long term AA Short term A1+

A1+ is the highest level in PACRA'S rating scale for short term rating





A1+ is the highest level  
in PACRA'S rating scale  
for short term rating

*Pacra*  
*Maintains Entity Rating of*



**First Habib Modaraba**

### **Pacra's Assessment about FHM**

- > A very low expectation of credit risk emanating from very strong capacity for timely payment of financial commitments.
- > Strong capital structure and sustained outstanding asset quality.
- > Continued ability of maintaining its performance and effective risk management policy.
- > Has strong equity and asset base which currently is the highest in the Modaraba sector.
- > Enjoying long term rating in "AA" category since last several years.



Get into the driving seat of  
your dream car with

# **FHM** **CarNama**

## **Islamic Auto Leasing**



First Habib Modaraba makes it easy for you to drive the car of your dreams. Avail our Car Nama auto lease facility that brings you your dream car the easy, affordable way, in compliance with the Sharia.

- **Simple application procedure**
- **Fast processing**
- **Your choice of vehicle**
- **Choice of tenure**

## **First Habib Modaraba**

5th Floor, HBZ Plaza (Hirani Centre)  
I. I. Chundrigar Road, Karachi Phone: 2635949-51 Fax: 2627373  
E-mail: [fhm@habibmodaraba.com](mailto:fhm@habibmodaraba.com) Website: [www.habibmodaraba.com](http://www.habibmodaraba.com)



# First Habib Modaraba



## *24<sup>th</sup> Corporate Excellence Award Presentation Ceremony*



*Mr. Muhammad Shoaib CEO is receiving the Corporate Excellence Certificate of Management Association of Pakistan (MAP)*

# First Habib Modaraba Annual Report 2007

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# First Habib Modaraba

## Annual Report 2007

### Corporate Information

#### Board of Directors

- Mr. Wazir Husain Jafree - Chairman
- Mr. Muhamamd Shoaib - Managing Director & CEO
- Mr. Abbas Ali Muhammad
- Mr. Sheikh Ehsanuddin
- Mr. Dara. F. Mirza

#### AUDITORS

Ford, Rhodes, Sidat, Hyder & Company  
Chartered Accountants

#### LEGAL ADVISOR

Mohsin Tayebaly & Company

#### AUDIT COMMITTEE

- Mr. Sheikh Ehsanuddin - Chairman
- Mr. Abbas Ali Muhammad - Member
- Mr. Dara F. Mirza - Member

#### COMPANY SECRETARY

Mr. Adnan Thanwey

#### BANKERS

Askari Commercial Bank Limited  
Bank Al-Habib Limited  
Faysal Bank Limited  
Habib Bank Limited  
Habib Metropolitan Bank Limited  
MCB Bank Limited  
PICIC Commercial Bank Limited  
Soneri Bank Limited  
Union Bank Limited

#### REGISTERED OFFICE

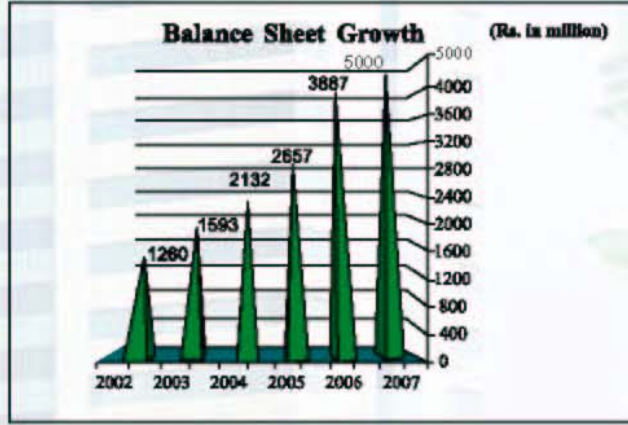
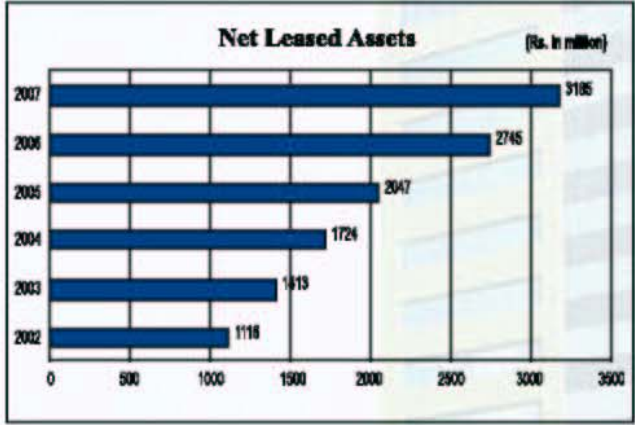
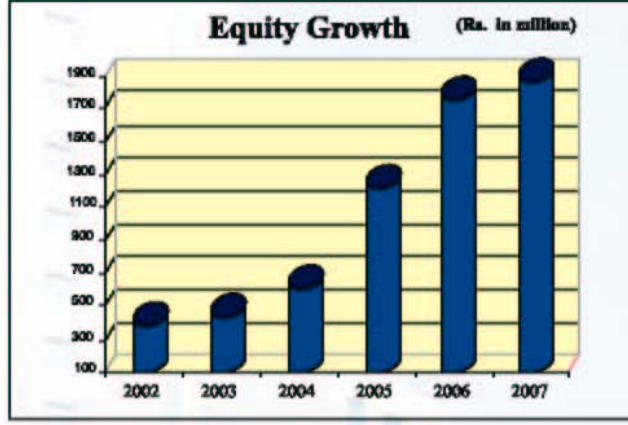
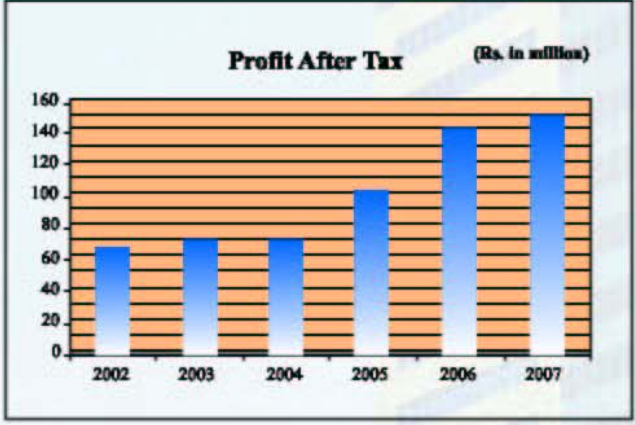
5th Floor, HBZ Plaza (Hirani Centre),  
I. I. Chundrigar Road, Karachi.  
Web: [www.habibmodaraba.com](http://www.habibmodaraba.com)  
Email : [fhm@habibmodaraba.com](mailto:fhm@habibmodaraba.com)

#### REGISTRAR

Noble Computer Services (Pvt) Limited  
2nd Floor, Sohni Centre, BS 5-& 6, Main Karimabad,  
Block-4, Federal B Area, Karachi.

## KEY FINANCIAL AND OPERATING DATA SIX YEARS AT A GLANCE

	(Rupees in million)					
	2007	2006 (Restated)	2005 (Restated)	2004	2003	2002
Total Assets	5000.902	3889.845	2657.047	2131.818	1529.586	1259.573
Assets Leased Out	3185.142	2744.844	2047.013	1723.615	1413.279	1115.600
Gross Lease Disbursements	1780.602	1719.955	1226.012	1093.301	943.927	651.217
Current assets	1808.282	1136.053	604.920	404.021	174.337	140.074
Current Liabilities	1811.583	531.279	943.454	1140.888	784.436	608.358
Total Liabilities	2503.211	2094.533	1330.245	1495.319	1120.875	785.937
Paid Up capital	504.000	504.000	504.000	252.000	252.000	252.000
Reserves	1993.691	1291.312	822.802	384.499	219.756	171.236
Certificate Holder's Equity	2497.691	1795.312	1326.802	636.499	471.756	423.236
Gross Revenue	1502.963	1206.401	1013.621	842.544	743.624	567.045
Profit after tax	149.310	141.078	101.774	71.278	69.565	65.057
Earning per Certificate-Rs. 5/- each	1.48	1.40	1.42	1.35	1.38	1.29
Cash Dividend	20%	20%	15%	20%	21%	20%







## Message from Chairman

Dear Certificate Holders,

The Financial Year under review has been another successful year of FHM. The year was characterized by continued growth in terms of assets size and profitability as well.

Today, by the grace of Almighty Allah the FHM is one of the most strong organization in the Modaraba sector, having high ethical values which are the binding force for it's growth momentum.

We have witnessed excellent profit in this year, which shows our dedicated efforts. Despite heavy competition in the present market we still able to reap the fruits for our certificate holders.

The sustainable success is most likely to be achieved by only those institutions that take the broadest view of their responsibilities. In pursuit of creation of higher and higher value for our Certificate holders we have remained absolutely and totally committed to Good Corporate Governance and Best Business Practices.

We remain firmly committed to our present well-defined and focused strategy. All our success stem from one common root, i.e. the skills and expertise of our team fueled by sheer commitment, dedication and hard work. I owe my sincere gratitude and appreciation to all of team members.

We are confident that long-held values of integrity, commitment to Best Business Practices will deliver consistently better results and also will continue to add value to our Certificate holders.

**Wazir Husain Jafree**  
Chairman

## BOARD OF DIRECTORS



### ***Mr. Wazir Husain Jafree***

Chairman

Mr. Wazir Husain Jafree is seasoned banker, his banking career spans over more than 45 years, he carries a diversified experience of working on various senior positions in Pakistan and abroad. He worked with various multinational and local banks.



### ***Mr. Muhammad Shoaib***

Managing Director & CEO

Mr. Shoaib did his Master of Business Administration (MBA) in Finance. He is also Certified Islamic Banker from Professional's Institute of Excellence who are academic partner of University of Morathon and Pakistan Institute of Banking Studies, Pakistan. Presently, he is also perusing his Post Graduate Diploma in Islamic Banking from Centre of Islamic Economics, Karachi Pakistan, which is now on completion stages.

His work experience of more than 20 years in Modaraba perhaps make him the senior most person with this sector.



### ***Mr. Abbas Ali Muhammad***

Director

Mr. Abbas has started his career with bank and also worked with various companies of Habib Group. He has over 50 years of experience in financial management.



### ***Mr. Sheikh Ehsanuddin***

Director

Mr. Sheikh Ehsanuddin is a very seasoned banker, his banking career spans over a period of 45 years. He remained on various senior positions and provided expertise on analytical decision making and total commitment in all financial and operational areas, he held many foreign postings for more than 26 years.



### ***Mr. Dara F. Mirza***

Director

Mr. Dara F. Mirza has over 31 years of experience in financial management.



## Directors' Report

*As Salamo Alaikum Wa Rahmatullah Wa Barakatuhu,*

The Directors are pleased to present the Annual Report along with the audited financial statements for the year ended 30th June, 2007.

### Financials

(RUPEES IN "000")

Profit before management fee	165,900
Less: Modaraba Company's Management Fee	16,590
Profit for the year	149,310
Add: Un-appropriated Profit B/F	926
Profit available for appropriation	<u>150,236</u>

Earning per Certificate of Rs.5/- each Rs.1.48

### Appropriations

(RUPEES IN "000")

Cash Dividend @ 20%	100,800
Transfer to Statutory Reserve@30%	44,793
Un-appropriated Profit C/F	4,643
	<u>150,236</u>

### Dividend

The Board is pleased to announce a cash dividend of 20% i.e. Rs.1/- of Certificate of Rs.5/- each.

### RIGHT ISSUE

The Board had also proposed to issue 100% Right Certificate of Rs.5/- each at premium of Rs.2.50 per certificate to all existing certificate holders of Modaraba.

### Economic Review

Economics plays a crucial role in dominating nations towards attaining higher growth, better living standards and helps in strengthening micro and macroeconomic stability in the country. During the past few decades our economy continuously strive towards achieving sustainable growth and so far succeeded in acquiring decent GDP growth levels.

Pakistan is in the midst of its strongest economic expansion phase and its growth momentum is broad based. All the three major sectors, namely, agriculture, industry and services have provided support to strong economic growth. As the economy grows, the pie of private investments in the overall GDP expands.



However, during the year under review the economy of the country was slightly down as compared the performance of last year. The country missed its major economic targets, including food inflation, large scale manufacturing, and current account of deficit, trade deficit, export and private sector credit.

The government had set the current account deficit target at 4.30 percent of the GDP, however, for the first time in the history of the country, the current account deficit reached 4.8 percent of GDP.

Country's export target has been missed by 1.6 billion dollars while its trade deficit has grown by 11.53 percent to all time high level of 13.528 billion dollars. During the last fiscal year, exports witnessed slow growth due to high international competition and overall exports have swelled only by 3.40 percent or 17.011 billion dollars as compared to 16.451 billion dollars in 2006 fiscal year.

The countries cost of doing business remained much higher than the other regional countries, including India and Bangladesh, which put a negative impact on the export. The Large Scale Manufacturing (LSM) is the second largest sector of the economy accounting for over 20 percent of GDP showed very poor performance in fiscal year 2006-07. Its growth target of 13 percent missed by 4 percent during the year in the wake of high interest rates and increasing cost of doing business in the country. Statistic shows that LSM growth has been declining for last three years due to high interest rates, besides increasing cost of production.

The rising inflation was a measure threat for the economy; therefore, the SBP adopted a tight monetary policy to control the inflation besides, liquidity in the market. However, significant improvements in Foreign Direct Investment (FDI) and worker's remittances have shown which support to minimize the high trade deficit. The Karachi stock exchange touches the index of 14,000 points. Overall sentiment of the market was positive. Remarkably Research Base activity of the Equity transaction played pivotal role in the market.

## OPERATION REVIEW

It gives us immense pleasure that your Modaraba has achieved an excellent result for the year ended 30th June 2007. All segments of the business showed strong performance in a highly competitive market.

At present, the total equity of your Modaraba stands at over Rs.2.497 billion and we are glad to say that last year, FHM stood with highest equity in the entire Modaraba sector and we are confident that Inshallah, this year we will maintain the same.

Significant progress in terms of writing of new leases has been made during this year and disbursement of approximately Rs.1.781 Billion was made. Rental collection also improved to Rs.1,500 million as compared to Rs.1,201 million of last year. The Modaraba recorded a profit of Rs.149 million after charging Management Fee, which is the highest in the history of Modaraba.

It is a matter of great satisfaction that the pattern of growth of FHM has once again been sustained.





## CREDIT RATING

By the grace of God, the credit rating of FHM i.e. “AA” for long term and “A1+” for short term, has been maintained. It is remarkable that since last almost ten years the FHM is maintaining its “A” category rating.

## MAP AWARD

During the year FHM has secured the “Corporate Excellence Certificate Award” from Management Association of Pakistan (MAP).

The MAP is a forum of reputable entrepreneurs and professionals. The Corporate Excellence Award was instituted by MAP in 1982 with the sole aim to recognizing and honoring companies showing outstanding performance and demonstrating progressive and enlightened management practice.

No doubt, it is a great achievement of FHM. This is due to hard and dedicated work of each and every staff of FHM as they all deserve appreciation of this Certificate of Excellence.

We thank Almighty Allah for his blessing and bestowing upon us of this success.

## HUMAN RESOURCE

In today's dynamic financial world, organizations are constantly evolving. The Human Assets always plays immense motivating factor towards fetching any target objective. FHM having excellent blend of professional person who have committed and focus in fostering the modaraba to run the path of achievement and prestige.

The management do value the importance of Human Resource. HR policies designed in such a way that always gives proper reward and sense of encouragement and motivation amongst the staff members.

## FUTURE OUTLOOK

The State Bank of Pakistan keeps on tightening its monetary policy since last more than 2 years.

These strict monetary policies are leading to increase in lending rates to the industrial sector of the country which may hamper their growth in coming years.

## FUTURE STRATEGY

The management of FHM will continue to exert all efforts to consolidate its position and to tap opportunities for sustained growth. To ensure efficient and profitable utilization of the available resources, the FHM will continue to spread its exposure on a broader spectrum on the excellent sectors of the economy.

The management is diversifying its business opportunities as Islamic Financial Service Provider Modaraba in Non-Banking sector. Documentations of various new Islamic products have already been send to Registrar of Modaraba, SECP, for their approval. Once these new modes of Islamic Finance are approved, the same will bring new energy in entire Modaraba sector.





By issuance of right certificates, this will more strengthen our equity based and will support us to further expand our business in diversified ventures.

We are also concentrating our efforts on equity market operation in high yield and better return scripts. So far we are very much successful in building excellent equity portfolio.

In equity market operation, during the year under review, we had earned good capital gain on investment portfolio.

The Management having confident legacy of prudent management with best business practices. Our strength lies in creating business synergies in a large and competitive market by providing an expanding range of innovative solutions to meet the needs of a growing customer base.

Our aim is to be remain a best Islamic Service Provider Modaraba and we believe the measure of our progress is not just our financial achievements, but it is whether our customers are satisfied with our services, our employees are proud to work for us and sector in which we work and values as a good venture.

Inshallallah, we will maintain our growth momentum and give more better results in years come.

#### **CODE OF CORPORATE GOVERNANCE**

We report that Modaraba has completed all necessary compliances with the provision of Code of Corporate Governance in its material respects as incorporated in the Listing Rules of the Stock Exchanges. In conformity with the requirements under the Code of Corporate Governance, the Board of Directors states that;

- The financial statements prepared by the management present fairly the state of affairs of the Modaraba including the results of its operations, Cash Flow and Changes in Equity.
- Proper books of accounts have been maintained.
- Appropriate Accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards (IAS), as applicable in Pakistan has been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- The Modaraba is financially sound and has the ability to continue as a going concern.
- There has been no change in Board of Directors during the year.
- The directors do not hold any interest in the certificates of Modaraba other than that has already been disclosed in the pattern of certificate holding.
- A summary of key operating and financial data of the Modaraba of last six years is annexed in this report.



### Pattern of Certificate Holding

A Statement showing pattern of Certificate Holding of the Modaraba and additional information as at June 30, 2007 is included in this report.

The Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any transaction in the certificates of the Modaraba during the year.

### PROVIDENT FUND AND GRATUITY

The value of investment of provident fund and gratuity based on audited accounts as at December 31, 2006 are Rs. 8.837 million and Rs. 5.028 million.

### ATTENDANCE OF BOARD MEETING

Four meetings of Board of Directors were held during the year, attendance by each director is appended hereunder.

Name of Directors	Number of meetings
	Attended
Mr. Wazir Hussain Jafree	4
Mr. Muhammad Shoaib	4
Mr. Sheikh Ehsanuddin	2
Mr. Dara F. Mirza	3
Mr. Abbas Ali Muhammad	3

### AUDITORS

Present auditor M/s Ford Rhodes Sidat Hyder & Co., Chartered Accountant, has completed their five years as auditor of FHM. According to Code of Corporate Governance they are not eligible to offer themselves for re-appointment as auditor for the year 30th June, 2008.

### ACKNOWLEDGEMENT

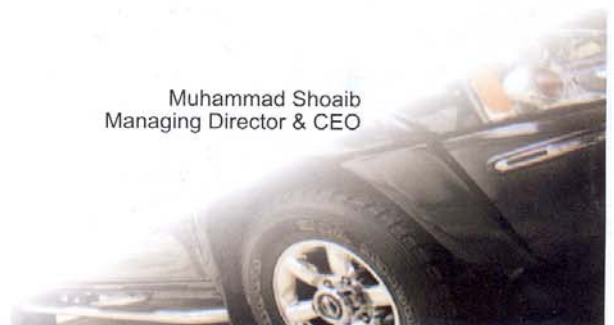
The Board would like to place on record its thanks for the continued support and guidance provided by Securities & Exchange Commission of Pakistan, Registrar Modaraba Companies, financial institutions and State Bank of Pakistan from time to time, customers of the Modaraba for their patronage and business, Certificate holders who have remained committed to First Habib Modaraba.

In the end, the Board appreciates dedication, high level of professionalism and hard work of employees of your Modaraba for achieving excellent results.

For and on behalf of  
Board of Directors

Karachi: September 07, 2007

Muhammad Shoaib  
Managing Director & CEO







## NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given that Annual Review Meeting of certificate-holders of First Habib Modaraba (FHM) will be held on October 22, 2007 at 9.00 a.m. at The Institute of Bankers, Moulvi Tamizuddin Khan Road, Karachi, to review the performance of the Modaraba for the year ended June 30, 2007.

The certificate-holders whose names appear on the register of Certificate-holders of FHM as on October 17, 2007 will be eligible to attend the Annual Review Meeting.

By order of the Board

**Adnan Thanwey**  
Company Secretary  
First Habib Modaraba  
Karachi: September 25, 2007



## STATEMENT OF COMPLIANCE WITH THE BEST PRACTICE OF CODE OF CORPORATE GOVERNANCE – YEAR ENDED JUNE 30, 2007

This statement is being presented to comply with the code of Corporate Governance (CCG) contained in Regulation No. 37 of Listing Regulations of Karachi Stock Exchange (Guarantee) Limited, the Chapter XIII of Listing regulations of Lahore Stock Exchange (Guarantee) Limited and Chapter XI of Listing Regulations of the Islamabad Stock Exchange (Guarantee) Limited, for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Modaraba has applied principles contained in the CCG in the following manner:

1. All the directors of the Management Company are non-executive directors except for the Chairman and Chief Executive.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Modaraba.
3. All the directors of the Management Company are registered as tax payers and none of them have defaulted in payment of any loan to a banking company, a DFI or a 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 during the year.
5. The Modaraba has prepared a Statement of Ethics and Business Practices, which has been approved by BOD and signed by the employees of the Modaraba.
6. The Board has developed a vision / mission statement and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence by a director elected by the board for this purpose and the board met at least once in every quarter. Written notice of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.
9. The Board comprises of senior bankers with a wide range of skills and experience. The directors are fully aware of the relevant laws applicable to the Modaraba, its policies, procedures and provisions of the Prospectus of the Modaraba to manage the affairs of the Modaraba on behalf of the certificate holders.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.



11. The director's report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Modaraba were fully endorsed by the CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold and interest in the certificates of the Modaraba other than that disclosed in the pattern of certificate holding.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises three members, of whom two are non-executive directors of the Management Company including the Chairman of the Committee.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and 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 employed adequate personnel for internal audit function to ensure the establishment and maintenance of sound and effective internal controls, compliance and review policies and procedures.
18. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the CCG have been complied with.

Karachi: September 07, 2007

**Muhammad Shoaib**  
Managing Director & CEO



## 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 before the year ended June 30, 2007 prepared by the Board of Directors of Habib Modaraba Management (Private) Limited (the Management Company) in respect of First Habib Modaraba (the Modaraba) to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited, the chapter XIII of the listing Regulations of the Lahore Stock Exchange (Guarantee) Limited, and chapter XI of Listing Regulations of Islamabad Stock Exchange (Guarantee) Limited, where the Modaraba is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management 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 of Corporate Governance.

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance, in all material respects, which the best practices contained in the Code of Corporate Governance, for the year ended June 30, 2007.

Karachi: September 07, 2007

**Ford Rhodes Sidat Hyder & Company**  
Chartered Accountants

(MEMBER FIRM OF ERNST & YOUNG INTERNATIONAL)





## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

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

These financial statements are the modaraba company's [Habib Modaraba Management (Private) Limited] responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of 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 misstatements. 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 account have been kept by the Modaraba Company in respect of First Habib Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981;
- (b) In our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba

Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981 and are in agreement with the books of account and are further in agreement with accounting policies consistently applied except for the change as stated in note 2.4 to the financial statements with which we concur.

- (ii) the expenditure incurred during the year was for the purpose of the modaraba's business and
- (iii) the business conducted, investment 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 statement of the modaraba's affairs as at June 30, 2007 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the modaraba and deposit in the Central Zakat Fund established under section 7 of that Ordinance.

Karachi: September 07, 2007

**Ford Rhodes Sidat Hyder & Company**  
Chartered Accountants

(MEMBER FIRM OF ERNST & YOUNG INTERNATIONAL)



**FIRST HABIB MODARABA**  
**BALANCE SHEET AS AT JUNE 30, 2007**

<b>ASSETS</b>		<b>2007</b>	<b>2006</b>
<b>NON-CURRENT ASSETS</b>	<b>Note</b>	<b>Rupees</b>	<b>Rupees (Re-stated)</b>
Fixed assets – tangible	3.1	3,185,142,412	2,744,844,126
Assets leased out	3.3	6,166,893	7,328,096
Assets in own use		<b>3,191,309,305</b>	<b>2,752,172,222</b>
Intangible assets	4	147,259	213,181
Long-term advances and deposit	5	1,163,697	1,406,962
		<b>3,192,620,261</b>	<b>2,753,792,365</b>
<b>CURRENT ASSETS</b>			
Investments – available-for-sale	6	1,679,755,743	987,037,140
Short-term Murabaha finance	7	-	72,114,600
Lease rentals receivable – secured, considered good	8	694,022	1,429,265
Advances, deposits, prepayments and other receivables	9	2,679,299	1,979,753
Cash and bank balances	10	125,152,564	73,492,296
		<b>1,808,281,628</b>	<b>1,136,053,054</b>
<b>TOTAL ASSETS</b>		<b>5,000,901,889</b>	<b>3,889,845,419</b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Certificate capital			
Authorised capital			
120,000,000 (2006: 120,000,000) certificates of Rs. 5/- each		<b>600,000,000</b>	<b>600,000,000</b>
Issued, subscribed and paid-up capital	11	504,000,000	504,000,000
Reserves	12	1,993,691,178	1,291,312,368
Certificate holders' equity		<b>2,497,691,178</b>	<b>1,795,312,368</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term Murabaha finance – secured	13	442,850,790	360,293,146
Certificates of Musharaka – unsecured	14	29,961,459	14,370,000
Security deposits against assets leased out	15	218,815,473	188,591,225
		<b>691,627,722</b>	<b>563,254,371</b>
<b>CURRENT LIABILITIES</b>			
Deferred Murabaha income		-	2,436,207
Murabaha finance – current portion	13	318,473,541	265,302,608
Certificates of Musharaka – current portion	14	1,161,797,269	991,629,383
Security deposits – current portion	15	60,354,810	40,544,153
Short-term Musharaka finance – secured	16	100,000,000	150,000,000
Short-term Murabaha finance – secured	17	73,370,990	-
Advance lease rentals received		19,306,867	19,241,025
Accrued and other liabilities	18	64,583,432	49,724,524
Taxation – net		1,648,700	1,482,815
Unclaimed profit distribution		12,047,380	10,917,965
		<b>1,811,582,989</b>	<b>1,531,278,680</b>
<b>COMMITMENTS</b>	19	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,000,901,889</b>	<b>3,889,845,419</b>

The annexed notes from 1 to 36 form an integral part of these financial statements.

Sd/  
Chief Executive

Sd/  
Director

Sd/  
Director



**FIRST HABIB MODARABA  
PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2007**

	Note	2007 Rupees	2006 Rupees
<b>Operating Income</b>			
Lease rentals		1,500,453,901	1,200,665,344
Profit on Murabaha finance		2,508,798	5,735,693
		<b>1,502,962,699</b>	<b>1,206,401,037</b>
<b>Operating Costs</b>			
Depreciation on fixed assets leased out	3.1	1,213,962,379	945,712,484
Administrative expenses	20	34,653,943	24,923,306
		<b>1,248,616,322</b>	<b>970,635,790</b>
		<b>254,346,377</b>	<b>235,765,247</b>
Other income	21	92,820,553	34,379,722
		<b>347,166,930</b>	<b>270,144,969</b>
Financial charges	22	181,266,454	113,391,403
		<b>165,900,476</b>	<b>156,753,566</b>
Modaraba company's management fee		<b>(16,590,048)</b>	<b>(15,675,357)</b>
<b>Profit for the year</b>		<b>149,310,428</b>	<b>141,078,209</b>
Earnings per certificate	30	<b>1.48</b>	<b>1.40</b>

Appropriations have been disclosed in the statement of changes in equity.

The annexed notes from 1 to 36 form an integral part of these financial statements.

Sd/-  
Chief Executive

Sd/-  
Director

Sd/-  
Director



**FIRST HABIB MODARABA  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2007**

	Note	2007 Rupees	2006 Rupees
<b>Cash flow from operating activities</b>			
Cash generated from operations	31	1,460,367,706	1,181,842,047
Purchase of assets leased out		(1,780,601,864)	(1,719,955,757)
Short-term Murabaha finance		72,114,600	(69,678,393)
Proceeds from transfer of assets leased out		135,116,370	80,305,942
Lessees' security deposits:			
Received		97,877,216	82,617,628
Refunded / adjusted		(47,842,311)	(40,732,997)
Net lessees' security deposits		50,034,905	41,884,631
Financial charges paid		(168,558,406)	(102,817,866)
Tax deducted at source		165,885	(82,888)
Gratuity paid		(1,426,193)	(565,000)
Net cash used in operating activities		(232,786,997)	(589,067,284)
<b>Cash flow from investing activities</b>			
Purchase of owned assets (including intangibles)		(1,009,348)	(5,569,662)
Proceeds from disposal of owned assets		34,000	1,033,466
Purchase of investments – available-for-sale		(127,428,340)	(39,742,289)
Proceeds from disposal of investments		156,406,574	43,556,056
Dividend received		11,012,787	8,992,960
Long-term advances and deposits received / (disbursed)		243,265	(607,277)
Net cash generated from investing activities		39,258,938	7,663,254
<b>Cash flow from financing activities</b>			
Profit distribution paid		(99,670,585)	(74,761,052)
Long-term finances		135,728,577	282,936,748
Certificates of Musharaka		185,759,345	417,751,886
Short-term Musharaka finance from banks		23,370,990	(3,000,000)
Net cash generated from financing activities		245,188,327	622,927,582
<b>Net increase in cash and cash equivalents</b>		<b>51,660,268</b>	<b>41,523,552</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>73,492,296</b>	<b>31,968,744</b>
<b>Cash and cash equivalents at the end of the year</b>	10	<b>125,152,564</b>	<b>73,492,296</b>

The annexed notes from 1 to 36 form an integral part of these financial statements.

Sd/-  
Chief Executive

Sd/-  
Director

Sd/-  
Director