



**KASB Modaraba**  
An Islamic Financial Institution



**ANNUAL REPORT 2011**

صاف اور شفاف آمدنی،  
سچا سکون ہے...

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# CORPORATE INFORMATION

## Board of Directors

Syed Waseem-ul-Haq Haqqie  
Syed Majeedullah Husaini  
Mir Mujahid Ali Khan  
Syed Muhammad Rehmanullah

Chairman  
Chief Executive Officer  
Director  
Director

## Company Secretary & Chief Financial Officer

Ms. Faiqa Naz

## Management Company

KASB Invest (Private) Limited  
[Formerly KASB Modaraba Management (Private) Limited]

## Auditors

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants

## Audit Committee

Syed Waseem-ul-Haq Haqqie  
Syed Muhammad Rehmanullah  
Mir Mujahid Ali Khan

Chairman  
Member  
Member

## Bankers

KASB Bank Limited  
Al-Baraka Islamic Bank  
Burj Bank [Formerly Dawood Islamic Bank]  
Meezan Bank  
Summit Bank Limited [Formerly MyBank Limited]  
Bank Al-Falah Limited  
Silk Bank Limited

## Registered Office

80-C, 13th Commercial Street,  
D.H.A. Phase II Extension  
Karachi.  
Telephone: 021-35313939-43

## Certificate Transfer Office

C&K Management Associates (Private) Limited  
404, Trade Tower,  
Abdullah Haroon Road,  
Near Metropole Hotel  
Karachi – 75530  
Telephone: 021-35687839 – 021-35685930

## Legal Advisor

Ghulam Ali & Co.  
Ahmed & Qazi

## Branch Offices

### Gulshan-e-Iqbal Branch - I

Mezzanine Floor,  
Friends Paradise, SB-36,  
Block No. 13-B, University Road, Karachi.  
Telephone: 021-34822814-18

### Gulshan-e-Iqbal Branch - II

B-9, Allama Shabbir Ahmed Usmani Road  
Gulshan-e-Iqbal, Block I  
Opposite Shaheen Public School, Karachi  
Phone No.: 021-34983034-35  
Fax No. : 021-34965081

### D.H.A. Branch

80-C, 13th Commercial Street,  
D.H.A. Phase II Extension  
Karachi.  
Telephone: 021-35313939-43

## Web Address

[www.kasbmodaraba.com](http://www.kasbmodaraba.com)

## E-mail

[info.modaraba@kasb.com](mailto:info.modaraba@kasb.com)





## DIRECTORS' REPORT



The Board of Directors of KASB Invest (Private) Limited (Formerly KASB Modaraba Management (Private) Limited), the Management Company of KASB Modaraba (the Modaraba) is pleased to present the twentieth annual report together with the audited financial statements of Modaraba for the year ended June 30, 2011 to the Certificate Holders.

### FINANCIAL HIGHLIGHTS

The operating results are summarized as under:

Description	June 2011 Rupees	June 2010 Rupees
Income from Leasing / Ijarah Operations	11,344,091	20,869,614
Profit on Musharaka Finance	8,375,250	11,142,665
Profit on Murabaha Finance	73,575,017	32,231,553
Profit on Modaraba Finance	13,195,593	1,908,404
Profit on Diminishing Musharaka Finance	38,862,735	10,175,831
Profit on Bank Deposit	11,893,342	8,765,437
Profit on Investments	2,889,780	2,628,790
Other Income	6,762,593	2,008,090
<b>Total Income</b>	<b>167,843,379</b>	<b>89,730,384</b>
Total Expenses	(123,244,988)	(70,735,173)
Modaraba Company Management Fee	(4,459,839)	(1,899,521)
<b>Net Profit</b>	<b>40,138,552</b>	<b>17,095,690</b>
Earning per Certificate	1.42	0.60
<b>Total Assets</b>	<b>1,113,872,460</b>	<b>953,667,713</b>
Total Liabilities	806,232,805	678,915,073
Net Equity	307,639,655	274,752,669





## OPERATIONS AND PERFORMANCE

### Profitability:

During the year ended June 30, 2011; KASB Modaraba continued to adopt a steady approach towards business focusing on qualitative growth and Institutional strength. The Modaraba recorded a profit of Rs. 40,138,552 with an Earning per Certificate of Rs. 1.42 and return on equity of 13.78%. Keeping market conditions in perspective, and the short time the Modaraba has operated; the results are very good and indicate a strong base for future growth.

The total income of the Modaraba increased from Rs. 89.73 million in 2010 to Rs. 167.84 million in the year ended June 2011; showing an increase of approximately 1.87 times. This remarkable growth in total income reflects the capacity of the Modaraba to acquire business and create a dependable revenue stream.

The growth in total income was made possible by adopting a proactive business policy that spontaneously met market needs for Islamic products. Our resources have been prudently spread over a wide array of Islamic assets which reveal our thrust for innovation and our aspirations to genuinely serve a craving Islamic market. As a result of these efforts we have attained an impressive increase in our Asset portfolio comprising of well known Islamic products like Musharakah finance, Murabaha, Modaraba and Diminishing Musharakah.

It is understood that expansion of this size, for a company in its infancy cannot be accomplished without the acquisition of meaningful resources, be it funds, human expertise or infrastructure. KASB Modaraba has uncompromisingly pursued these prerequisites but at the same time ensured that wastage and extravagance does not creep into our working culture, at all.

Total expenditure increased from Rs.70.74 million in 2010 to Rs.123.24 million in the year ended June 2011. The increase was mainly on account of the following:

- Financial charges incurred on retail deposits mobilized in the form of Certificate of Musharakah amounted to Rs. 73.90 million.
  - Financial charges incurred for availing credit line from financial institution amounted to Rs. 15.13 million.
- Administrative expenses increased by Rs 9.21 million in current year (2010: Rs 24.89 million; 2011: Rs 34.10 million). The rise in administrative expenses is mainly because of following reasons:
- To ensure effective management of our expanding business operations, KASB Modaraba's staff strength was increased from 43 to 46 employees including a qualified chartered accountant, a trade finance specialist, ICMA qualified accountants, MBAs, etc. Resultantly, salary expense rose from Rs. 12.174 million in FY 2010 to Rs. 14.88 million in FY 2011.
  - Rise in other expenses like utilities, stationery, fees etc was also growth oriented, and we hope that economies of scale will further improve our profitability and returns as we gradually expand business.

### Balance sheet growth:

#### Diversification is our hallmark!

The statement is supported by the perfect mix of our finance portfolio as evident by the balance sheet position.

The balance sheet standing of the Modaraba in terms of total assets has improved substantially, i.e. 16.80 %, from Rs. 953.668 million in 2010 to Rs. 1,113.872 million in 2011.

The major increase was in Diminishing Musharaka from Rs. 131.600 million in 2010 to Rs. 279.101 million in 2011, Murabaha from Rs. 362.561 million in 2010 to Rs. 480.436 million in 2011, Musharaka Finance decreased from Rs. 83.634 million in 2010 to Rs. 42.798 million in 2011, Modaraba Finance decreased from Rs. 154.440 million in 2010 to Rs. 75.630 million in 2011, Investments from Rs. 29.148 million in 2010 to Rs. 32.342 million in 2011 and increase in fixed assets

Type of Financing	2011	2010
	Rs	Rs
Murabaha Finance	480,436,030	362,561,002
Modaraba Finance	75,630,285	154,440,342
Musharaka Finance	42,797,914	83,633,662
Diminishing Musharaka Finance	279,100,639	131,599,686
Finance Lease	7,329,083	45,001,505
Ijarah Assets	56,235,042	65,996,757





## DIRECTORS' REPORT



from Rs. 8.089 million in 2010 to Rs. 10.534 million in 2011. It clearly shows that the increase in the balance sheet footing was largely on account of growth in business indices.

In order to ensure better management of liquidity and cash flow we secured a credit line of Rs.300 million. The availability of credit line assisted us in procuring business including profitable trading deals.

### YEAR AT A GLANCE

During the last one year KASB Modaraba has shown substantial growth in all areas of Islamic Finance. As a result, a fairly diversified revenue stream was added, with income coming in from other non traditional sources and lessening our dependence on pure Ijarah. We will continue to look for innovative 'Shariah compliant' asset products in order to create a more substantive Islamic portfolio and at the same time diversify risk.

### FUTURE PROSPECTS

KASB Modaraba will endeavor to raise its business portfolio in areas of trade finance and commodity financing. Moreover, it will strive to generate quality revenues with a good customer base. The management realizes that future growth of our Modaraba depends on product innovation and our adaptation to international developing trends in the field of Islamic finance.

### SIGNIFICANT EVENTS

In the month of February, this year, we opened our third high street branch in Gulshan-e-Iqbal area of Karachi.

The portfolio of Certificate of Musharaka, a liability scheme floated, has shown tremendous growth and generated funds to the tune of Rs. 210 million during the year ended June 30, 2011. The Modaraba intends to keep this funding mode largely retail and individual based, to ensure stable deposits.

### CREDIT RATING

JCR-VIS has reaffirmed the long term entity rating to BBB+ and short term entity rating of A3 with a "positive" outlook to the Modaraba.

On 8 May 2009, Registrar Modaraba (Specialized Companies Division) imposed a fine of Rs. 55,000/- each on the directors of Modaraba Management Company for non compliance of IAS-19 and violation of Regulation '7(3)' of the Prudential Regulation of Modaraba. However, being dis-satisfied with the penalty order, an appeal under section 32(2) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 was filed against the above-mentioned order.

On 18 September 2009, SECP through its order no. SC/M/KASB/2009/385 waived the fine amounting to Rs 5,000 but Rs 50,000 remained intact. Further to the order, an application is made to SECP for filing of the appeal before appellate bench of the Commission under section 33 of the SECP Act 1997.

On 1 June 2011, the appellate bench heard the case of the Modaraba and waived the penalty on the directors. However, the penalty remained intact on the CEO, which has been paid by CEO during the year.

### CORPORATE AND FINANCIAL REPORTING

The Board of Directors is fully aware of its duties and responsibilities under Code of Corporate Governance issued by Securities and Exchange Commission of Pakistan. The following statements demonstrate the Board's

- philosophy and commitment towards maintaining high standards of Corporate Governance:  
The financial statements prepared by the management of the Modaraba, present fairly its state of affairs, the
- result of its operations, cash flows and changes in equity.  
Proper books of accounts of the Modaraba have been maintained.



## DIRECTORS' REPORT



- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards (IASs) as applicable in Pakistan have been followed in preparation of Financial Statements and any departure there from has been adequately disclosed.
- The system of internal controls is sound in design and has been effectively implemented and monitored.
- The Modaraba is financially sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The Modaraba operates an unapproved unfunded gratuity scheme for its permanent employees, value of which is Rs.541,182 as at June 30, 2011.
- Key operating and financial data for the last six years in summarized form is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges outstanding as on June 30, 2011 except as disclosed in the financial statements.
- None of the directors of Modaraba, CEO, CFO, Company Secretary and their spouses and minor children has carried out trading of certificates of the Modaraba, except as reported below:

Name of Director	No. of Shares	Nature	Amount
Syed Waseem Haqqie	90,500	Purchase	273,215

- During the year, four meetings of the Board of Directors were held. Attendance by each director is as follows:

Name of Directors	Number of Meetings Attended
Syed Waseem Haqqie	04
Syed M. Husaini	04
Mir Mujahid Ali Khan	02
S. M. Rehmanullah	04

- The pattern of holding of Certificates by the Certificate-holders is included in this annual report.

### COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The requirements of the Code of Corporate Governance set out by the Karachi & Lahore Stock Exchanges in its listing regulations relevant for the year ended June 30, 2011 have been adopted by the Modaraba and have been duly complied with. A statement to this effect is annexed with the report.

### HUMAN RESOURCES

The Board is confident that the management and employees of your Modaraba will continue to work with the integrity and zeal that has been their hallmark, and your Modaraba shall Insha'Allah continue to prosper. Investment in Human Resources is the cornerstone of our policy.

### STATUTORY RESERVES

The Board has transferred 50% of net profit after tax amounting Rs. 20,069,276 million to its statutory reserve as per the requirement of Rule 2 of Part III of Prudential Regulation for Modarabas as issued by Securities and Exchange Commission of Pakistan through Circular No. 4 of 2004 dated January 28, 2004.





## DIRECTORS' REPORT



### DIVIDEND

The Board is pleased to announce a cash dividend of 6.4% i.e: Rs 0.64 / certificate.

### AUDITORS

On the recommendation of the Audit Committee, the Board has approved the re-appointment of the present auditors Messrs. Ernst and Young Ford Rhodes Sidat Hyder & Co., Chartered Accountants, as auditors for the year ending June 30, 2012, subject to approval by the Registrar of Modaraba Companies and Modaraba.

### ACKNOWLEDGEMENT

The Board would like to take this opportunity to thank for the support and guidance provided by Securities and Exchange Commission of Pakistan, Registrar Modaraba Companies, valued customers and Certificate Holders, all of whom have made our task so pleasant.

We pray to Almighty Allah for the success of your Modaraba.

For and behalf of  
Board of Directors

**Syed M. Husaini**  
CEO  
Dated: August 29, 2011  
Karachi





## KEY FINANCIAL AND OPERATIONAL DATA AT A GLANCE



	2011	2010	2009	2008	2007	2006
	----- Rupees in Thousand -----					
Total Assets	1,113,872	953,667	450,397	233,723	54,764	52,360
Musharika Finance	42,798	83,634	39,594	24,968	640	6,367
Murabaha Finance	480,436	362,561	70,777	20,231	-	-
Modaraba Finance	75,630	154,440	20,774	-	-	-
Diminishing Musharaka	279,101	131,600	-	-	-	-
Ijarah Assets	56,235	65,997	55,337	-	-	-
Investment in Lease	7,329	45,002	97,718	146,916	1,776	5,884
Equity	307,640	274,753	258,322	62,674	52,873	50,684
Current Assets	769,492	762,536	309,109	126,254	53,111	48,050
Current Liabilities	633,387	665,904	166,594	81,526	1,398	1,010
Income	167,843	89,730	42,948	11,688	5,329	2,328
Taxation	-	-	-	(650)	(180)	44
Profit/(Loss) after Tax	40,139	17,096	16,023	(8,078)	2,227	(814)
Dividend (Rs.)	-	0.28	-	-	0.25	-
EPS (Rs.)	1.42	0.60	0.65	(1.10)	0.30	(0.11)



KEY FINANCIAL AND OPERATIONAL DATA AT A GLANCE

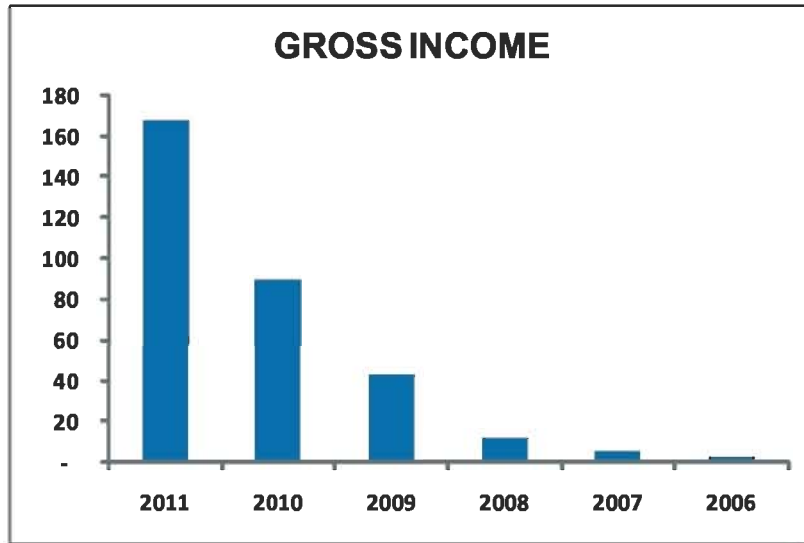


Table showing movement in total income for last six years

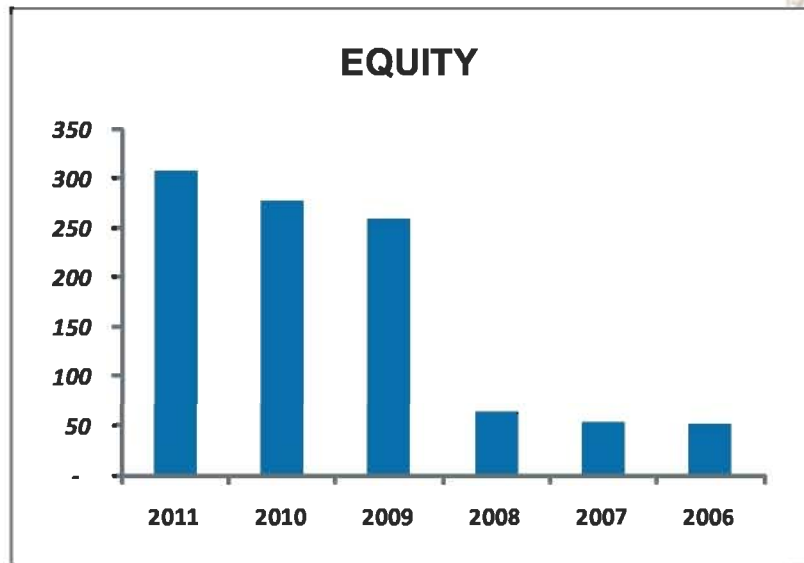


Table showing movement in equity for last six years

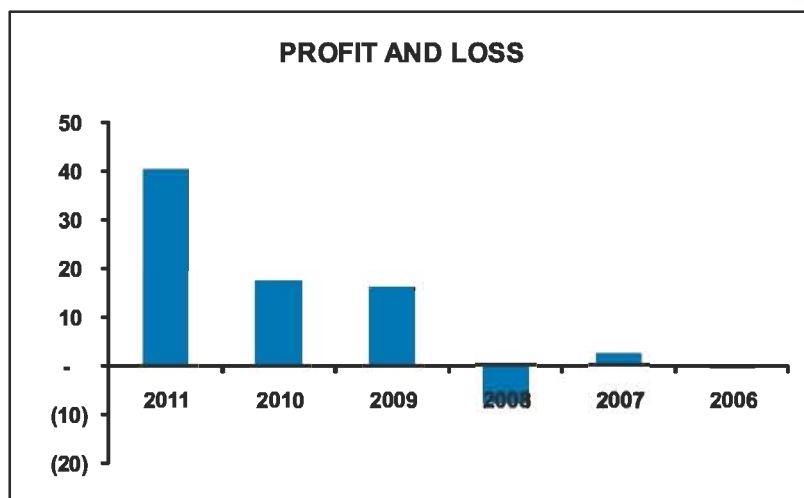


Table showing movement in profit / (loss) for last six years

## KEY FINANCIAL AND OPERATIONAL DATA AT A GLANCE

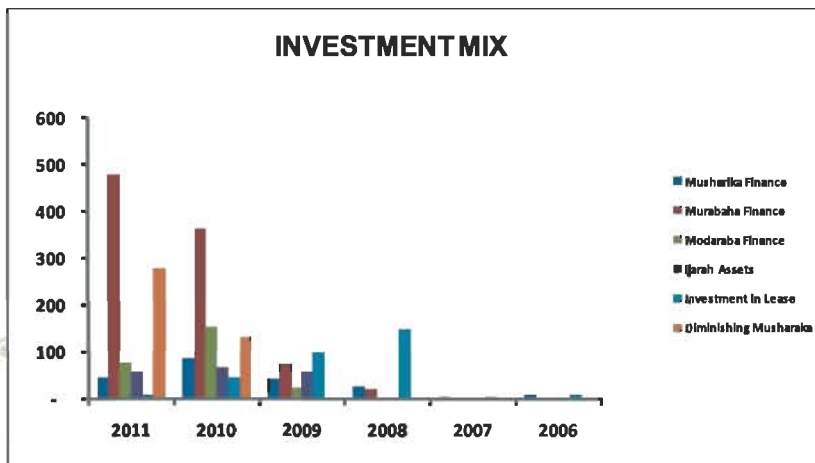


Table showing change in investment mix for last six years

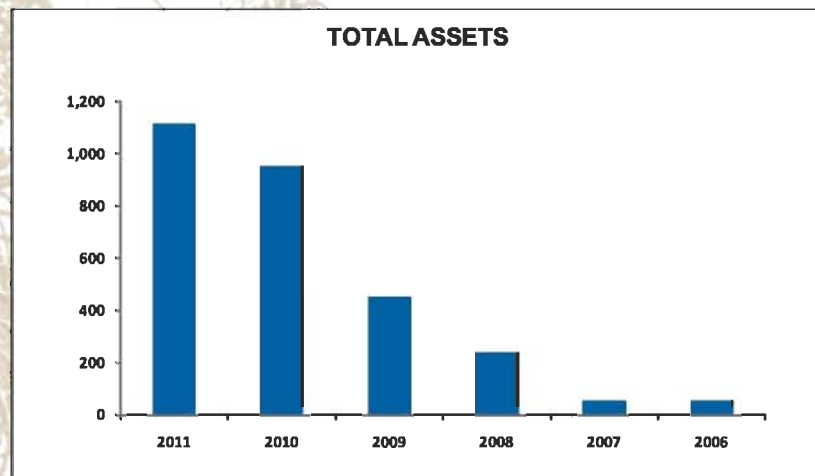


Table showing comparison of total assets for last six years







## STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE



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

Regardless of the fact that KASB Invest (Private) Limited [Formerly KASB Modaraba Management (Private) Limited], the management company of KASB Modaraba, is a Private Limited Company, the Board of Directors of management company are pleased to confirm that the code of corporate governance is being complied with in all material respects.

Modaraba Management Company (hereafter referred as Company) has applied the principles contained in the Code in the following manner.

1. The Board comprises of four directors including three non-executive directors.
2. The directors have confirmed that none of them is serving as director in more than ten listed companies, including this company.
3. All the directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year no casual vacancy occurred on the Board.
5. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Modaraba at the time of their appointment. In addition list for annual approval of directors and employee has been prepared and circulated.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies is maintained with relevant department of the Modaraba.
7. All the powers of the Board have been duly exercised and decisions 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 meeting of the Board were presided over by the Chairman of the Board. The Board of Directors have met four times in the year and notices of meetings, along with agenda and related papers are always endeavored to be circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors are aware of their fiduciary responsibilities and most of them have attended orientation course. Further, the directors have also been provided with the copies of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, Listing Regulation, Code of Corporate Governance, Companies Ordinance 1984, Prudential Regulation, Modaraba's Prospectus and all other relevant rules and regulations and the directors are conversant with relevant laws applicable to the Modaraba, its policies and procedures and provision of the prospectus and are aware of their duties and responsibilities.
10. The Board has approved appointment of CFO and Company Secretary including remuneration and terms and conditions of employment as determined by CEO.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. CEO and CFO have duly endorsed the financial statements of the Modaraba before approval of the Board.
13. The Directors, CEO and Executives do not hold any interest in the Certificates of Modaraba, except as mentioned in this annual report.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee that also ensures the independence of the internal audit function and the independence and objectivity of the external auditors.
16. The Audit Committee of the Board comprises of three members who are non-executives directors, including chairman of the committee.
17. The meetings of the audit committee were held at least once in 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, approved by the Board and advised to the committee for compliance.

## STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

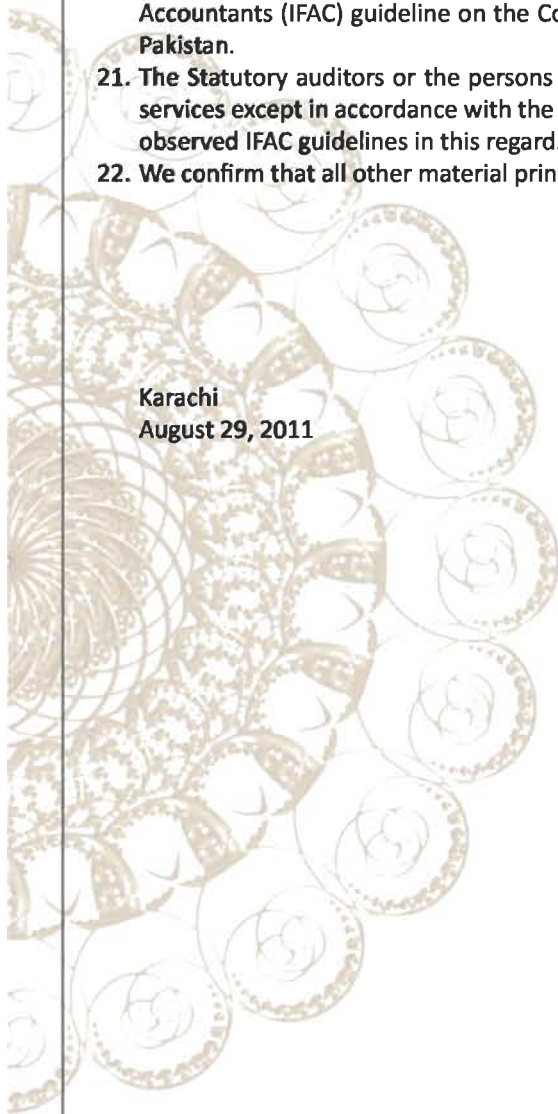


18. The related party transactions have been placed before the audit committee and approved by the Board of directors with justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in arm's length transactions only if such terms can be substantiated.
19. The Board has outsourced the internal audit function to a firm of chartered accountants.
20. 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) guideline on the Code of Ethics as adopted by Institute of Chartered Accountants of Pakistan.
21. 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.
22. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

**Syed M. Husaini**  
CEO

Karachi  
August 29, 2011





Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants  
Progressive Plaza, Beaumont Road  
P.O. Box 15541, Karachi 75530, Pakistan  
Tel: +9221 3565 0007  
Fax: +9221 3568 1965  
www.ey.com

**REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) for the year ended 30 June 2011 prepared by the Board of Directors of KASB Invest (Private) Limited [formerly KASB Modaraba Management (Private) Limited] (the Management Company) to comply with the Listing Regulations of the Karachi and Lahore Stock Exchanges, where the Modaraba is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control systems 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.

Further, Listing Regulation of the Karachi and Lahore Stock Exchanges require the Modaraba to place before the Board of Directors of the Management Company for their consideration and approval related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee of the Management Company. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee of the Management Company. We have not carried out any procedure to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Modaraba's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Modaraba for the year ended 30 June 2011.

Chartered Accountants

Date: 29 August 2011

Karachi



## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS



**ERNST & YOUNG**

Ernst & Young Ford Rhodes Sijal Hyder  
Chartered Accountants  
Progressive Plaza, Beaumont Road  
P.O. Box 15541, Karachi 75530, Pakistan  
Tel: +9221 3565 0007  
Fax: +9221 3569 1965  
www.ey.com

### AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of KASB Modaraba (the Modaraba) as at 30 June 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. The financial statements of the Modaraba for the year ended 30 June 2010 were audited by another firm of Chartered Accountants, whose report dated 27 September 2010 expressed an unqualified opinion on such statements.

These financial statements are the Modaraba Management Company's [KASB Invest (Private) Limited (formerly KASB 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 above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said 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 as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 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 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 accordance with accounting policies consistently applied except for the changes as stated in note 4.1 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, investments made and the expenditure incurred during the year were in accordance with the objects 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, statement of comprehensive income, 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 2011 and of the profit, its comprehensive 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, was deducted by the Modaraba and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

*Ernst & Young*

Chartered Accountants

Audit Engagement Partner: Arslan Khalid

Date: 29 August 2011

Karachi

Member firm of Ernst & Young Global Limited



ANNUAL REPORT 2011



## BALANCE SHEET

AS AT JUNE 30, 2011



	Note	2011	2010
----- (Rupees) -----			
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	7	109,828,648	59,225,467
Short-term investments	8	13,383,500	9,805,640
Short term modaraba finance	9	75,630,285	154,440,342
Short term musharaka finance	10	42,797,914	83,633,662
Current portion of long term murabaha finance - gross	11	413,289,799	358,503,935
Current portion of long term diminishing musharaka finance	12	121,415,169	45,012,173
Current portion of long term net investment in finance lease	13	5,789,101	37,971,580
Ijarah rentals receivable	14	3,157,976	1,963,147
Advances, prepayments and other receivables	15	6,035,316	5,708,246
Accrued profit	16	8,771,921	5,367,988
Stores		117,337	14,570
Advance tax	17	1,027,928	889,702
		<b>801,244,895</b>	<b>762,536,452</b>
<b>Non-current assets</b>			
Long-term deposits		528,000	28,000
Long-term investments	8	18,958,750	19,342,250
Long-term murabaha finance - gross	11	67,146,231	4,057,067
Long-term diminishing musharaka finance	12	157,685,470	86,587,513
Long-term net investment in finance lease	13	1,539,982	7,029,925
Ijarah assets	18	56,235,042	65,998,757
Fixed assets	19	10,534,090	8,089,749
		<b>312,627,565</b>	<b>191,131,261</b>
<b>TOTAL ASSETS</b>		<b>1,113,872,460</b>	<b>953,667,713</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Short-term finances	20	61,854,581	158,935,196
Current portion of long term deposits	21	506,035,000	461,990,000
Current portion of long term security deposits	22	7,386,054	10,341,557
Current portion of long term deferred murabaha income	11	27,734,291	11,153,821
Creditors, accrued and other liabilities	23	29,669,716	23,008,612
Unclaimed profit distribution		706,678	478,790
		<b>633,386,520</b>	<b>665,903,976</b>
<b>Non-current liabilities</b>			
Long term deposits	21	149,985,000	-
Long term security deposits	22	4,873,872	12,593,311
Long-term deferred murabaha income	11	17,446,231	57,067
Deferred liabilities - staff gratuity	24	541,182	360,719
		<b>172,846,285</b>	<b>13,011,097</b>
<b>TOTAL LIABILITIES</b>		<b>806,232,805</b>	<b>678,915,073</b>
<b>NET ASSETS</b>		<b>307,639,655</b>	<b>274,752,640</b>
<b>REPRESENTED BY</b>			
<b>CAPITAL AND RESERVES</b>			
Certificate capital			
Authorised:			
50,000,000 (June 30, 2010: 50,000,000) certificates of Rs 10/- each			
		<b>500,000,000</b>	<b>500,000,000</b>
Issued, subscribed and paid-up capital			
	25	<b>282,744,000</b>	<b>282,744,000</b>
Statutory reserve	26	<b>40,555,253</b>	<b>20,485,977</b>
Accumulated loss		<b>(15,659,598)</b>	<b>(27,812,042)</b>
Unrealised loss on remeasurement of investment classified as 'available for sale'- net		-	<b>(665,295)</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	27		
		<b>307,639,655</b>	<b>274,752,640</b>

The annexed notes 1 to 42 form an integral part of these financial statements.

For KASB Invest (Private) Limited  
[Formerly KASB Modaraba Management (Private) Limited]  
(Management Company)

Chief Executive

Director

Director

# PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2011



	Note	2011 ----- (Rupees)	2010 -----
Income from leasing operations	28	11,344,091	15,869,614
Income from service ijarah		-	5,000,000
Profit on:			
- musharaka finance		8,375,250	11,142,665
- murabaha finance		73,575,017	32,231,553
- modaraba finance		13,195,593	1,908,404
- diminishing musharaka finance		38,862,735	10,175,831
- sukuk bonds		2,889,780	2,628,790
- bank deposits		11,893,342	8,765,437
Gain on sale of investments - net	29	869,978	796,228
Loss on dairy farming business activities		-	(933,413)
Reversals of Musharaka & Ijarah losses		75,000	60,000
		<b>161,080,786</b>	<b>87,645,109</b>
Financial charges	30	(89,143,307)	(45,839,712)
		<b>71,937,479</b>	<b>41,805,397</b>
Other income	31	6,762,593	2,085,275
Administrative and operating expenses	32	(34,101,681)	(24,895,461)
		<b>44,598,391</b>	<b>18,995,211</b>
Modaraba management company's fee	33	(4,459,839)	(1,899,521)
		<b>40,138,552</b>	<b>17,095,690</b>
Profit before taxation			
Taxation	17	-	-
		<b>40,138,552</b>	<b>17,095,690</b>
Net profit for the year			
Earnings per certificate	34	<b>1.42</b>	<b>0.60</b>

The annexed notes 1 to 42 form an integral part of these financial statements.

For KASB Invest (Private) Limited  
[Formerly KASB Modaraba Management (Private) Limited]  
(Management Company)

Chief Executive

Director

Director





## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2011



	30 June 2011	30 June 2010
	(Rupees)	
<b>Net profit for the year</b>	<b>40,138,552</b>	<b>17,095,690</b>
<b>Other comprehensive income / (loss)</b>		
Unrealised loss on remeasurement of investments classified as 'available for sale'	-	(665,295)
Reclassification to profit and loss account upon disposal of investments	<b>665,295</b>	-
<b>Total comprehensive income for the year</b>	<b>40,803,847</b>	<b>16,430,395</b>

The annexed notes 1 to 42 form an integral part of these financial statements.

For KASB Invest (Private) Limited  
[Formerly KASB Modaraba Management (Private) Limited]  
(Management Company)

Chief Executive

Director

Director

# CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011



	30 June 2011	30 June 2010
	-----Rupees-----	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	40,138,552	17,095,690
<b>Adjustments for non-cash charges and other items:</b>		
Dividend income	(269,000)	(29,604)
(Gain) on sale of investments - net	(889,978)	(796,228)
Loss / (gain) on disposal of fixed assets	47,490	(300,439)
(Gain) on disposal of Ijarah assets	(978,163)	-
Loss on sale of biological assets	-	930,500
Depreciation	25,388,695	24,077,552
Amortisation	334,145	305,613
Provision for Workers' Welfare Fund	802,771	662,371
Provision for gratuity	160,463	158,961
Financial charges	89,143,307	45,839,712
Write-off	152,708	30,331
	<b>154,070,990</b>	<b>87,974,459</b>
<b>(Increase) / decrease in assets</b>		
Net investment in finance lease	37,519,714	52,716,045
Musharaka finance	40,835,746	(44,039,333)
Murabaha finance	(117,875,028)	(291,783,898)
Modaraba finance	76,610,057	(133,666,094)
Diminishing musharaka finance	(147,500,953)	(131,599,686)
Ijarah rentals receivable	(1,194,829)	(1,152,480)
Advances, prepayments and other receivables	(327,070)	(63,667)
Accrued profit	(3,403,934)	(4,127,081)
Stores	(102,767)	(14,570)
Long-term deposits	(500,000)	100,000
	<b>(113,739,062)</b>	<b>(553,630,764)</b>
<b>Increase / (decrease) in liabilities</b>		
Security deposits	(10,674,942)	(3,023,550)
Deferred murabaha income	33,969,634	4,326,750
Creditors, accrued and other liabilities	2,689,558	2,814,087
	<b>25,984,250</b>	<b>4,117,287</b>
Dividend paid	(7,686,744)	-
Taxes paid	(138,226)	(150,020)
Financial charges paid	(85,830,618)	(33,918,693)
Workers' welfare fund paid	(341,914)	(320,457)
	<b>(93,797,502)</b>	<b>(34,389,170)</b>
<b>Net cash utilised in operating activities</b>	<b>(27,481,324)</b>	<b>(495,928,188)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(4,495,495)	(14,345,095)
Sales proceeds from disposal of fixed assets	65,900	12,349,000
Purchase of Ijarah assets	(23,964,544)	(33,195,810)
Sales proceeds from disposal of Ijarah assets	10,919,346	2,800
Purchase of biological assets	-	(3,474,000)
Sales proceeds from disposal of biological assets	-	2,543,500
Dividends received	269,000	29,604
Purchase of investments - net	(1,659,087)	(7,770,954)
<b>Net cash used in investing activities</b>	<b>(18,864,880)</b>	<b>(43,860,955)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Short-term musharaka finance	(97,080,615)	158,935,196
Deposits	194,030,000	311,365,000
<b>Net cash generated from financing activities</b>	<b>96,949,385</b>	<b>470,300,196</b>
<b>Net Increase / (decrease) in cash and cash equivalents</b>	<b>50,603,181</b>	<b>(69,488,947)</b>
Cash and cash equivalents at the beginning of the year	59,225,467	128,714,414
<b>Cash and cash equivalents at the end of the year</b>	<b>109,828,648</b>	<b>59,225,467</b>

The annexed notes 1 to 42 form an integral part of these financial statements.

For KASB Invest (Private) Limited  
[Formerly KASB Modaraba Management (Private) Limited]  
(Management Company)

Chief Executive

Director

Director



## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2011



	Certificate capital	Statutory reserve	Unrealised loss on available for sale investments (Rupees)	Accumulated loss	Total
Balance as at 30 June 2009	282,744,000	11,938,132	-	(36,359,887)	258,322,245
Total comprehensive income for the year ended 30 June 2010	-	-	(665,295)	17,095,690	16,430,395
Transfer to statutory reserve	-	8,547,845	-	(8,547,845)	-
Balance as at 30 June 2010	282,744,000	20,485,977	(665,295)	(27,812,042)	274,752,640
Profit distribution for the year ended - 30 June 2010	-	-	-	(7,916,832)	(7,916,832)
Total comprehensive income for the year ended 30 June 2011	-	-	665,295	40,138,552	40,803,847
Transfer to statutory reserve	-	20,069,276	-	(20,069,276)	-
Balance as at 30 June 2011	<b>282,744,000</b>	<b>40,555,253</b>	<b>-</b>	<b>(15,659,598)</b>	<b>307,639,655</b>

The annexed notes 1 to 42 form an integral part of these financial statements.

For KASB Invest (Private) Limited  
[Formerly KASB Modaraba Management (Private) Limited]  
(Management Company)

Chief Executive

Director

Director



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**



**1. LEGAL STATUS AND NATURE OF BUSINESS**

KASB Modaraba (the Modaraba) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the rules framed thereunder and is managed by KASB Invest (Private) Limited (formerly KASB Modaraba Management (Private) Limited) (the management company), a company incorporated in Pakistan. The registered office of the Modaraba is located at 80-C, 13th Commercial Street, DHA Phase-II, Extension, Karachi. The Management Company is a subsidiary of KASB Bank Limited, which holds 3,985,000 shares out of total issued capital of 4,150,000 shares of the management company.

The Modaraba is a multipurpose perpetual modaraba and is primarily engaged in ijarah financing, musharaka financing, murabaha financing, modaraba financing, diminishing musharaka and investing in listed securities. The Modaraba is listed on the Karachi and Lahore Stock Exchanges.

**2. STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and directives issued by SECP differ with the requirements of IFRS, the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 or the directives issued by SECP prevail.

**3. BASIS OF MEASUREMENT**

These financial statements have been prepared on the historical cost basis, except for available for sale financial assets that are carried at fair value and certain staff retirement benefits that are carried at present value of defined benefit obligation.

These financial statements are presented in Pak Rupees, which is Modaraba's functional currency and presentation currency.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as describe below:

**4.1 New and amended standards and Interpretations**

The Modaraba has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

IFRS 2 – Group Cash-settled Share-based Payment Arrangements  
IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues (Amendment)  
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

Improvements to various standards issued by IASB

Issued in 2009

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

IFRS 8 – Operating Segments

IAS 1 – Presentation of Financial Statements

IAS 7 – Statement of Cash flows Presentation of Financial Statements

IAS 17 – Leases

IAS 36 – Impairment of Assets

IAS 39 – Financial Instruments : Recognition and Measurement

Issued in April 2010

IFRS 3 – Business Combinations

IAS 27 – Consolidated and Separate Financial Statements

The adoption of the above standards, amendments / improvements and interpretations did not have any effect on the financial statements.





**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**



**4.2 Cash and cash equivalents**

These comprise cash in hand and balances with banks in current and deposit accounts.

**4.3 Financial assets**

**4.3.1 Classification**

The Modaraba classifies its financial assets in accordance with the requirements of IAS 39 - Financial Instruments: Recognition and Measurement as 'fair value through profit or loss', 'loans and receivables', 'held to maturity' and 'available for sale'.

**At fair value through profit or loss**

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in market prices are classified under 'financial assets at fair value through profit or loss' category.

**Loans and receivables**

These are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market.

**Held to maturity**

These are financial assets with fixed or determinable payments and fixed maturity which the Modaraba has positive intent and ability to hold till maturity.

**Available for sale financial assets**

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'available for sale'. Available for sale financial instruments are those non-derivative financial assets that are not classified as held to maturity and financial assets at fair value through profit or loss.

**4.3.2 Initial recognition and measurement**

Financial assets are initially measured at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially measured at fair value and transaction costs associated with these financial assets are taken directly to the profit and loss account.

**4.3.3 Subsequent measurement**

Subsequent to initial recognition, financial assets are valued as follows:

**'Financial asset at fair value through profit or loss' and 'available for sale'**

The investment in listed equity securities are marked to market using the closing market rates and are carried on the balance sheet at fair value.

Gains and losses arising from the difference between the carrying amount and the value determined in accordance with the criteria mentioned above in respect of financial assets at fair value through profit or loss are taken to the profit and loss account.

Net gains and losses arising from the excess of value determined in accordance with the above mentioned criteria over the carrying amount in respect of 'available for sale' financial assets are recognised in other comprehensive income until the 'available for sale' investment is derecognised. At this time, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the profit and loss account.

**'Loans and receivables' and 'held to maturity'**

Loans and receivables and held to maturity financial assets are carried at amortised cost.

**4.3.4 Regular way contracts**

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Modaraba commits to purchase or sell the assets.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**



**4.3.5 Impairment**

The management assesses at each balance sheet date whether there is objective evidence that the financial asset or a group of financial assets is impaired.

**i) Financial assets carried at amortised cost**

For financial assets carried at amortised cost, provision for impairment is made at each reporting date in accordance with the requirements of Prudential Regulations for Modaraba issued by the SECP.

**ii) Financial assets classified as 'available for sale'**

In the case of equity securities classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from comprehensive income and recognised in the profit and loss account. Impairment losses recognised on equity instruments are not reversed through profit and loss.

**4.3.6 Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the Modaraba has transferred substantially all the risks and rewards of ownership.

**4.4 Net Investment In Finance lease**

Leasing transactions entered into by the Modaraba prior to 1 July 2008 whereby assets are provided under leasing arrangements are included in the financial statements as "Net investment in finance lease" at an amount equal to the present value of the lease payments, including estimated residual value. Unearned income i.e. excess of aggregate rentals over the cost of the asset is recorded at the inception of the lease and is amortised over the term of the lease so as to produce a constant rate of return on net investment in lease. Allowance for non-performing leases are made in accordance with the Prudential Regulations for Modarabas issued by SECP and is charged to the profit and loss account currently.

**4.5 Receivable from terminated / matured contracts**

These are stated net of impairment loss. Impairment loss is recognised for doubtful receivables on the basis of Prudential Regulations for Modarabas issued by the SECP or based on the judgment of management, whichever is higher. Receivables that becomes irrecoverable are written off.

**4.6 Ijarah rentals , murabaha finance, musharaka finance, diminishing musharaka finance and modaraba finance**

Ijarah rentals receivables, murabaha finance, musharaka finance, diminishing musharaka finance and modaraba finance receivables are stated net of provisions and suspense income, Provision is recognised for non performing receivables, in accordance with Prudential Regulations for Modaraba. Receivables that becomes irrecoverable are written off.

**4.7 Offsetting of financial assets and liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

**4.8 Financial liabilities**

All financial liabilities are recognised at the time when the Modaraba becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.







**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**



**4.9 Fixed assets - Tangible**

**4.9.1 Owned assets**

Assets are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written-off over its estimated useful life. Depreciation is charged on additions from the month the asset is available for use and on disposals up to the month preceding the month of disposal.

Repairs and maintenance are charged to income as and when incurred.

**4.9.2 Ijarah assets**

Leased assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method whereby the cost of an asset less salvage value is written off over the lease period, which is considered to be the estimated useful life of the asset. In respect of additions and disposals during the year, depreciation is charged on monthly basis from the date of commencement of lease. While no depreciation is charged in the month of maturity / termination.

**4.9.3 Gain or loss on disposal**

Gains / losses on disposal of fixed assets / ijarah assets are charged to the profit and loss account currently.

**4.9.4 Impairment**

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

**4.9.5 Intangible assets**

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only where it is probable that the future economic benefits associated with the asset will flow to the Modaraba and the cost of item can be measured reliably. Amortisation is charged to income using the straight line method in accordance with the rates specified in note 16 to these financial statements after taking into account residual value, if any. The residual values, useful lives and amortisation method are reviewed and adjusted, as appropriate, at each balance sheet date. Amortisation is charged from the month the asset is available for use while in the case of assets disposed of, it is charged till the month preceding the month of disposal.

Intangible assets having an indefinite useful life are stated at cost less accumulated impairment losses, if any. These assets are not amortised as they are expected to have an indefinite life and are marketable.

Gain and loss on disposal of intangible assets, if any, are taken to the profit and loss account.

**4.10 Loans, advances and other receivables**

These are stated at cost less estimates made for doubtful receivables based on a review of all outstanding amounts at the balance sheet date. Balances considered bad and irrecoverable are written off when identified.

**4.11 Taxation**

**4.11.1 Current**

The income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate-holders. The Modaraba has decided to continue availing the tax exemption and hence no provision has been made in these financial statements for tax liability in the current year.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**



**4.11.2 Deferred**

The Modaraba has not recognised any amount in respect of deferred tax in these financial statements as the Modaraba intends to continue availing the tax exemption in future years by distributing at least 90% of its profits, as reduced by transfer to statutory reserve, to its certificate holders every year.

**4.12 Creditors, accrued and other liabilities**

These are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services.

**4.13 Provisions**

Provisions are recognised when the Modaraba has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

**4.14 Staff retirement benefits**

**Unfunded gratuity scheme**

The Modaraba operates an unfunded gratuity scheme for all eligible employees who have completed the minimum qualifying period of service. Annual provision is made on the basis of actuarial recommendations. The actuarial valuations are carried out using The Projected Unit Credit method. Cumulative net unrecognised actuarial gains and losses at the end of the previous year which exceed 10% of the higher of the present value of the Modaraba's gratuity obligation and the fair value of the Modaraba's assets are amortised over the expected average remaining working lives of the employees.

**4.15 Revenue recognition**

**4.15.1 Finance Lease**

The Modaraba follows the finance method for recognising income on Finance lease. Under this method the unearned income i.e. the excess of aggregate lease rentals (including residual value) over the net investment (cost of finance lease) outstanding is deferred and then amortised over the term of the lease, so as to produce a constant periodic rate of return on net investment in the lease. Documentation charges, front-end fee and other lease income are recognised as income on receipt basis.

**4.15.2 Ijarah**

Income on Ijarah is recognised on an accrual basis. In case of Ijarah arrangements with staggered rentals, the income is recognised on a straight line basis over the Ijarah term.

**4.15.3 Musharaka Finance**

Profit on Musharaka arrangements is recognised on the basis of the projected rate of profit. The effect of adjustments, if any, between actual rate and projected rate of profit is accounted for at the end of the transaction after determination of the actual rate.

**4.15.4 Murabaha Finance**

The Modaraba follows the finance method in recognising income on murabaha finance. Under this method the unearned income i.e. the excess of aggregate murabaha installments over the cost of the asset under murabaha facility is deferred and then amortised over the term of the murabaha, so as to produce a constant rate of return on murabaha finance. Documentation charges, front-end fee and other murabaha income are recognised as income on a receipt basis.

**4.15.5 Modaraba Finance**

Profit on modaraba finance is recognised on the basis of pre-agreed profit / loss sharing ratio when actual gain / loss on transaction is computed upon termination / completion of transaction.





**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**



**4.15.6 Non-performing financing arrangements**

Unrealised income in respect of non-performing financing arrangements is held in suspense account, where necessary, in accordance with the requirements of Prudential Regulations for Modarabas issued by the SECP.

**4.15.7 Dividend Income**

Dividend income is recognised when the Modaraba's right to receive the dividend is established.

**4.16 Proposed profit distribution to modaraba certificate holders**

Profit distribution to certificate holders is recognised as a liability in the period in which such distribution is announced.

**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires management to exercise judgment in application of the Modaraba's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both the current and future periods.

The Modaraba reviews its loan portfolio of Ijarah, Musharaka and Murabaha financing to assess amount of non-performing contracts and provision required there against on a regular basis. The provision is made in accordance with the prudential regulations issued by the SECP. The areas where various assumptions and estimates are significant to the Modaraba's financial statements or where judgment was exercised in application of accounting policies are as follows:

- i) Classification and valuation of investments (notes 4.3 and 8)
- ii) Provision for non-performing finance lease (notes 4.4 and 13.3)
- iii) Provision for non-performing finance arrangements (notes 4.6 and 10)
- iv) Determining the residual values and useful lives of fixed assets (notes 4.9, 18 and 19)
- v) Accounting for staff retirement benefits (notes 4.14 and 24)

**6. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE**

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (annual periods beginning on or after)
IAS 1 – Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	01 July 2012
IFRS 7 – Financial Instruments : Disclosures - Amendments enhancing disclosures about transfers of financial assets	01 July 2011
IAS 12 – Income Tax (Amendment) – Deferred Taxes : Recovery of Underlying Assets	01 January 2012
IAS 19 – Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	01 January 2013
IAS 24 – Related Party Disclosures (Revised)	01 January 2011
IFRIC 14 – Prepayments of a Minimum Funding Requirement - Amendment	01 January 2011

The Modaraba expects that the adoption of the above revisions, amendments and interpretations of the standards will not affect the Modaraba's financial statements in the period of initial application.



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In addition to the above, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2011. The Modaraba expects that such improvements to the standards will not have any material impact on the Modaraba's financial statements in the period of initial application.

Further, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standards	IASB Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments	1 January 2013
IFRS 10 – Consolidated Financial Statements	1 January 2013
IFRS 11 – Joint Arrangements	1 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013

**7. CASH AND BANK BALANCES**

	Note	2011	2010
----- (Rupees) -----			
Cash at bank in :			
- current accounts	7.1	2,878,943	482,170
- saving accounts	7.1 & 7.2	51,936,459	33,728,745
- term deposits	7.3	55,000,000	25,000,000
		<b>109,815,402</b>	59,210,915
Cash in hand		10,646	12,702
Stamp papers		2,600	1,850
		<b>109,828,648</b>	59,225,467

7.1 Balances with banks include an amount of Rs 12,644,560 (2010: Rs 33,970,923) held with KASB Bank Limited, a related party.

7.2 The expected profit rates on these accounts range between 5% to 12.15% (2010: 5% to 12.3%).

7.3 The expected profit rates on these deposits range between 12.50% to 16.15% (2010: 12.30%). These term deposits mature by 6 July 2011.

**8. INVESTMENTS**

**8.1 Short-term investments**

	Note	2011	2010
----- (Rupees) -----			
Available for sale			
- Ordinary shares - listed		-	9,797,140
- Ordinary shares - unlisted	8.1.1	13,000,000	-
Held to maturity			
Current portion of Sukuk Bonds - unlisted	8.2	383,500	8,500
		<b>13,383,500</b>	9,805,640





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**8.1.1 Ordinary shares - Unlisted**

Name of the investee company	No. of shares	2011	
		Cost per share	Total
		----- (Rupees) -----	
(Fully paid ordinary shares of Rs.10 each)			
New Horizon Exploration & Production Limited (6.93%) (Related Party)	2,600,000	5	13,000,000

**8.2 Long-term investment - held to maturity**

**Sukuk bonds - unlisted**

Name of investee company	Profit	Carrying amount	
		2011	2010
		----- (Rupees) -----	
(Sukuk bonds of Rs.5,000 each)			
Kohat Cement Company Limited	15.35% (3M KIBOR + 1.80%)	8,980,000	8,980,000
Maple Leaf Cement Factory Limited - 1st issue	14.57% (3M KIBOR + 1.00%)	9,987,250	9,995,750
Maple Leaf Cement Factory Limited - 2nd issue	14.53% (3M KIBOR + 1.00%)	375,000	375,000
Total Sukuk Bonds		19,342,250	19,350,750
Less: Current portion of sukuk bonds		(383,500)	(8,500)
		18,958,750	19,342,250

**9. MODARABA FINANCE - considered good**

The Modaraba has provided funds under modaraba arrangements on profit and loss sharing basis to various entities. The profit / loss is to be shared in pre-agreed ratios. All modaraba arrangements are secured against hypothecation of assets, personal guarantees and promissory notes.

	2011	2010
	----- (Rupees) -----	
<b>10. MUSHARAKA FINANCE</b>		
Musharaka finance - considered good	42,797,914	83,633,662
- considered doubtful	606,844	640,000
	43,404,758	84,273,662
Less: provision for non-performing musharaka arrangements	(606,844)	(640,000)
	42,797,914	83,633,662

**10.1** The Modaraba has provided funds under musharaka arrangements for working capital requirements on profit and loss sharing basis. Expected rate of profit ranges between 17.5% to 20.00% (2010: 16.76% to 18.00%) per annum. All musharaka arrangements are secured against hypothecation of assets, personal guarantees and promissory notes.

**11. MURABAHA FINANCE - considered good**

Murabaha finance - gross	480,436,030	362,561,002
Murabaha finance - due after one year	(67,146,231)	(4,057,067)
Current portion of murabaha finance	413,289,799	358,503,935

**11.1 Deferred murabaha income**

Deferred murabaha income	45,180,522	11,210,888
Deferred murabaha income - due after one year	(17,446,231)	(57,067)
Current portion of deferred murabaha income	27,734,291	11,153,821

**11.2** The profit rates on these murabaha arrangements range between 14.50% to 20.00%. (2010: 14.50% to 20.00%). All murabaha arrangements are secured against hypothecation of assets, personal guarantees and promissory notes.

**12. DIMINISHING MUSHARAKA FINANCE - considered good**

Diminishing musharaka finance - gross	352,051,754	168,706,721
Unearned Income	(72,951,115)	(37,107,035)
	279,100,639	131,599,686
Diminishing musharaka due after one year	(157,685,470)	(86,587,513)
Current portion of diminishing musharaka	121,415,169	45,012,173

The profit rates on these diminishing musharaka arrangements range between 16.00% to 20.00%. (2010: 15.00% to 20.00%). All diminishing musharaka arrangements are secured against hypothecation of assets, personal guarantees and promissory notes.

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**13. NET INVESTMENT IN FINANCE LEASE**

Note	2011			2010		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	(Rupees)					
Minimum lease payments receivable	3,557,299	1,152,032	4,709,331	30,035,148	4,056,472	34,091,620
Add: Residual value	2,687,240	410,050	3,097,290	10,341,557	3,214,060	13,555,617
	6,244,539	1,562,082	7,806,621	40,376,705	7,270,532	47,647,237
Less: Unearned finance income	(180,457)	(22,100)	(202,557)	(2,068,073)	(240,607)	(2,308,680)
Suspended income	13.2 (72,287)	-	(72,287)	(92,514)	-	(92,514)
Allowance for non-performing leases	13.3 (202,694)	-	(202,694)	(244,538)	-	(244,538)
	<u>5,789,101</u>	<u>1,539,982</u>	<u>7,329,083</u>	<u>37,971,580</u>	<u>7,029,925</u>	<u>45,001,505</u>

**13.1** There are no lease contracts receivable over five years. The Modaraba's implicit rate of return on lease finance ranges between 8.89% to 18.14% per annum (2010: 8.89% to 28.02%). Finance lease arrangements are secured against leased assets, personal guarantees and promissory notes.

**13.2 Suspended Income**

	2011	2010
	(Rupees)	
Balance at beginning of the year	92,514	432,214
Income suspended during the year	45,834	27,625
Reversals during the year	(66,061)	(367,325)
	<u>72,287</u>	<u>92,514</u>

**13.3 Allowance for non-performing losses**

	2011	2010
Opening Balance	244,538	304,538
Reversal during the year	(41,844)	(60,000)
Closing Balance	<u>202,694</u>	<u>244,538</u>

**13.3.1** As at 30 June 2011, leases with outstanding principal of Rs 0.203 million (2010: Rs 0.245 million) have been classified as non-performing as per the requirements of Prudential Regulations for Modarabas issued by the SECP.

**14. IJARAH RENTAL RECEIVABLES**

	2011	2010
Ijarah rentals receivable - considered good	3,157,976	1,963,147
- considered doubtful	15,625	-
	3,173,601	1,963,147
Less: provision for non-performing ijarah receivables	(15,625)	-
	<u>3,157,976</u>	<u>1,963,147</u>

**15. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES**

		2011	2010
Advances to:			
- executives	15.1	513,278	405,607
- employees	15.1	1,405,050	1,009,574
Advances to suppliers		548,230	750,700
Prepayments		2,259,299	2,022,473
Others		1,309,459	1,519,892
		<u>6,035,316</u>	<u>5,708,246</u>

**15.1** Represents short term advances to executives and employees of the Modaraba, for domestic purposes, carrying markup at the rate of 10% (2010: 10%) per annum.







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	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>16. ACCRUED PROFIT</b>		-----	-----
		(Rupees)	
Accrued profit on modaraba		960,377	182,155
Accrued profit on Sukuk Certificates		3,704,735	1,820,013
Accrued profit on bank deposits	16.1	1,257,010	377,375
Accrued profit on musharaka arrangements - net of provision		2,849,799	2,988,445
		<u>8,771,921</u>	<u>5,367,988</u>

16.1 Accrued profit on bank accounts include an amount of Rs 9,171 (2010: Rs 15,088) receivable from KASB Bank Limited.

**17. TAXATION**

17.1 The income of the Modaraba is exempt from tax subject to the condition that not less than ninety per cent of its total profits in the year as reduced by the amount transferred to a mandatory reserve, required under the provisions of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) are distributed amongst the shareholders.

No provision for current taxation has been made in these financial statements as the Modaraba intends to distribute at least 90 percent of its total income for the year after transfer to mandatory reserve.

	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>18. IJARAH ASSETS</b>		-----	-----
		(Rupees)	
Equipment		529,497	575,026
Plant and machinery		42,094,988	33,415,822
Motor vehicles		13,810,557	32,005,909
	18.1	<u>56,235,042</u>	<u>65,996,757</u>

18.1 The following is a statement of ijarah assets:

	2011									
	Cost			Accumulated Depreciation				Book value		Rate of depreciation %
	As at 01 July 2010	Additions	Deletions	As at 30 June 2011	As at 01 July 2010	Charge for the year	Deletions	As at 30 June 2011	As at 30 June 2011	
	(Rupees)									
Equipment	710,000	153,000	-	863,000	134,974	198,529	-	333,503	529,497	33
Plant and machinery	46,867,719	22,977,144	-	69,844,863	13,451,897	14,297,978	-	27,749,875	42,094,988	14 - 33
Motor Vehicles	46,154,092	834,400	(18,046,192)	28,942,300	14,148,183	9,288,589	(8,105,009)	15,331,743	13,810,557	20 - 50
	<u>93,731,811</u>	<u>23,964,544</u>	<u>(18,046,192)</u>	<u>99,650,163</u>	<u>27,735,054</u>	<u>23,785,076</u>	<u>(8,105,009)</u>	<u>43,415,121</u>	<u>56,235,042</u>	
	2010									
	Cost			Accumulated Depreciation				Book value		Rate of depreciation %
	As at 01 July 2009	Additions	Deletions	As at 30 June 2010	As at 01 July 2009	Charge for the year	Deletions	As at 30 June 2010	As at 30 June 2010	
	(Rupees)									
Equipment	-	710,000	-	710,000	-	134,974	-	134,974	575,026	33
Plant and machinery	30,867,719	16,000,000	-	46,867,719	2,294,910	11,156,987	-	13,451,897	33,415,822	14 - 33
Motor vehicles	29,711,192	16,485,810	(42,910)	46,154,092	2,959,662	11,196,865	(8,344)	14,148,183	32,005,909	20 - 50
Computers and accessories	28,000	-	(28,000)	-	15,400	9,800	(25,200)	-	-	33
	<u>60,606,911</u>	<u>33,195,810</u>	<u>(70,910)</u>	<u>93,731,811</u>	<u>5,269,972</u>	<u>22,498,626</u>	<u>(33,544)</u>	<u>27,735,054</u>	<u>65,996,757</u>	

**18.2 Disposal of Ijarah Assets**

The following assets were disposed off during the year having carrying value of more than Rs 50,000:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain / (Loss)	Mode of disposal	Particulars of buyer
	(Rupees)						
Motor vehicle	16,762,192	7,519,706	9,242,486	10,115,965	873,479	Negotiation	M/s Rite logistics - Karachi
Motor vehicle	642,000	246,477	395,523	444,518	48,995	Negotiation	Imran Ghaffar - Karachi
Motor vehicle	642,000	338,826	303,174	358,863	55,689	Negotiation	Mohammad Ali - Karachi
<b>2011</b>	<b>Rupees</b>	<u>18,046,192</u>	<u>8,105,009</u>	<u>9,941,183</u>	<u>10,919,346</u>	<u>978,163</u>	

	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>19. FIXED ASSETS</b>		-----	-----
		(Rupees)	
Tangible assets	19.1	10,143,848	7,385,362
Intangible assets	19.2	390,242	694,387
		<u>10,534,090</u>	<u>8,089,749</u>

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	2011			2010			2009			Rate of depreciation %
	Cost			Accumulated Depreciation			Book value			
	As at 01 July 2010	Additions	Deletions	As at 30 June 2011	As at 01 July 2010	Charge for the year	Deletions	As at 30 June 2011	As at 30 June 2010	
(Rupees)										
<b>Owned</b>										
Furniture and fixtures	3,673,608	1,179,044	(23,000)	4,829,652	522,370	357,404	(5,941)	873,833	3,955,819	10
Office equipment	24,200	-	-	24,200	19,482	1,103	-	20,585	3,615	10
Electrical equipment	1,877,459	417,727	-	2,295,186	448,403	324,922	-	773,325	1,521,861	20
Motor vehicles	2,669,040	2,493,965	(45,000)	5,118,005	430,304	628,804	(3,000)	1,057,108	4,060,897	20
Computers and accessories	1,276,643	374,759	(151,392)	1,500,010	705,029	290,386	(97,061)	898,354	501,658	30
Plant and machinery	-	-	-	-	-	-	-	-	-	10
	<b>9,520,950</b>	<b>4,465,495</b>	<b>(219,392)</b>	<b>13,767,053</b>	<b>2,125,588</b>	<b>1,603,619</b>	<b>(106,002)</b>	<b>3,623,205</b>	<b>10,143,848</b>	

	2011			2010			2009			Rate of depreciation %
	Cost			Accumulated Depreciation			Book value			
	As at 01 July 2009	Additions	Deletions	As at 30 June 2010	As at 01 July 2009	Charge for the year	Deletions	As at 30 June 2010	As at 30 June 2009	
(Rupees)										
<b>Owned</b>										
Furniture and fixtures	3,658,108	15,500	-	3,673,608	165,737	356,633	-	522,370	3,151,238	10
Office equipment	24,200	-	-	24,200	18,254	1,228	-	19,482	4,718	10
Electrical equipment	1,716,244	161,215	-	1,877,459	95,025	353,378	-	448,403	1,429,056	20
Motor vehicles	2,159,340	1,906,680	(1,439,890)	2,669,040	251,856	290,092	(119,988)	430,304	2,238,736	20
Computers and accessories	1,020,793	261,700	(5,850)	1,276,643	404,625	302,597	(2,193)	705,029	571,614	30
Plant and machinery	-	11,000,000	(11,000,000)	-	-	274,998	(274,998)	-	-	10
	<b>8,578,685</b>	<b>13,388,005</b>	<b>(12,445,740)</b>	<b>9,520,950</b>	<b>935,497</b>	<b>1,587,270</b>	<b>(397,179)</b>	<b>2,125,588</b>	<b>7,395,362</b>	

19.1. Disposal of fixed assets

The following assets were disposed off during the year having carrying value of more than Rs 50,000:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain / (Loss)	Mode of disposal	Particulars of buyer
	(Rupees)						
Computers	151,392	97,061	54,331	11,000	(43,331)	Negotiation	M/s. D. J. Electronics - Karachi
<b>2011</b>	<b>151,392</b>	<b>97,061</b>	<b>54,331</b>	<b>11,000</b>	<b>(43,331)</b>		
Plant and machinery	11,000,000	274,998	10,725,002	11,000,000	274,998	Negotiation	Monolite CNG Int. (Pvt) Ltd. - Karachi
Motor vehicle	1,439,890	119,988	1,319,902	1,345,000	25,098	Negotiation	Al Fateh Motors - Karachi
<b>2010</b>	<b>12,439,890</b>	<b>394,986</b>	<b>12,044,904</b>	<b>12,345,000</b>	<b>300,096</b>		

19.2 Intangible assets

	2011			2010			2009			Rate of amortization %
	Cost			Accumulated Amortization			Book value			
	As at 01 July 2010	Additions	Deletions	As at 30 June 2011	As at 01 July 2010	Charge for the year	Deletions	As at 30 June 2011	As at 30 June 2010	
(Rupees)										
Computer software	1,145,000	30,000	-	1,175,000	450,613	334,145	-	784,758	390,242	33
<b>2010</b>	<b>145,000</b>	<b>1,000,000</b>	<b>-</b>	<b>1,145,000</b>	<b>145,000</b>	<b>305,613</b>	<b>-</b>	<b>450,613</b>	<b>694,387</b>	<b>33</b>





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**20. SHORT TERM FINANCES**

The Modaraba has availed a short term running finance facility from KASB Bank Limited, a related party, amounting to Rs 300 million (2010: Rs 300 million). The rate of profit payable on this facility ranges between 14.85% to 16.02% (2010: 14.91% to 15.32%).

**20.1** KASB Bank Limited, a related party, has also provided letter of credit and letter of guarantee to various customers of the Modaraba amounting to Rs 350 million (2010: Rs 350 million).

**20.2** The above facilities are secured by way of supplemental letter of hypothecation over the present and future current assets of the Modaraba amounting to Rs 860 million (2010: Rs 430 million).

	Note	2011	2010
		(Rupees)	
<b>21. DEPOSITS</b>			
Certificates of Musharaka	21.1	654,020,000	444,390,000
Others		2,000,000	17,600,000
		<u>656,020,000</u>	<u>461,990,000</u>
Less: Certificate of Musharaka due after one year		<u>(149,985,000)</u>	-
		<u>506,035,000</u>	<u>461,990,000</u>

**21.1** The estimated share of profit payable on Certificate of Musharaka ranges between 9.65% to 14.75% (2010: 9.65% to 14.50%) per annum. It includes an amount of Rs 17,300,000 (2010: NIL) due to related parties carries profit at a rate ranging between 12% to 14.75%.

**22. SECURITY DEPOSITS**

	2011			2010		
	Finance lease	Ijarah	Total	Finance lease	Ijarah	Total
	(Rupees)					
Security deposits received	3,097,290	9,162,636	12,259,926	13,555,617	9,379,251	22,934,868
Less: adjustable after one year	410,050	4,463,822	4,873,872	3,214,060	9,379,251	12,593,311
Current portion of security deposits	<u>2,687,240</u>	<u>4,698,814</u>	<u>7,386,054</u>	<u>10,341,557</u>	-	<u>10,341,557</u>

**22.1** Represent sums received under ijarah / finance lease arrangements, adjustable at the expiry of the lease period.

	Note	2011	2010
		(Rupees)	
<b>23. CREDITORS, ACCRUED AND OTHER LIABILITIES</b>			
Management fee payable	23.1	4,459,839	1,899,521
Sundry creditors		4,796,125	2,997,710
Accrued expenses		1,572,314	1,322,290
Accrued financial charges	23.1	17,268,554	13,755,865
Advance received against Certificates of Musharaka		225,000	2,125,000
Advance ijarah rentals		464,733	196,884
Other liabilities		883,151	709,342
		<u>29,669,716</u>	<u>23,006,612</u>

**23.1** Amounts due to associated undertakings as at 30 June 2011 aggregated to Rs 8,863,357 (2010: Rs 10,083,783).

**24. STAFF RETIREMENT BENEFIT SCHEME**

**24.1 Staff Gratuity Scheme**

As disclosed in note 4.14, the Modaraba operates an unapproved, unfunded gratuity scheme for its permanent employees. The latest actuarial valuation was carried out by actuaries at 30 June 2011, using the Projected Unit Credit Method.



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**24.2 Principal actuarial assumptions used:**

The following significant assumptions have been used for the valuation of this scheme:

	2011	2010
- Valuation discount rate	14%	14%
- Expected rate of increase in salaries	12%	13%

**24.3 Amount recognised in the profit and loss account:**

The following amounts have been charged in the profit and loss account during the current year in respect of the scheme:

	Note	2011 ----- (Rupees)	2010
Current service cost		129,126	121,337
Interest cost		54,071	37,624
Transitional (asset) / liability recognised		(2,734)	-
		<u>180,463</u>	<u>158,961</u>

**24.4 Liability recognised in the balance sheet:**

Present value of obligation	24.6	476,825	295,618
Unrecognised actuarial gains / (losses)		64,357	65,101
		<u>541,182</u>	<u>360,719</u>

**24.5 Movement in liability:**

Opening liability		360,719	201,758
Expense	24.3	180,463	158,961
<b>Liability to be recognised in the balance sheet</b>		<u>541,182</u>	<u>360,719</u>

**24.6 Reconciliation of present value of defined benefit obligation**

Present value of defined benefit obligation as at 1 July 2010		295,618	195,968
Current service cost		129,126	121,337
Interest cost		54,071	37,624
Actuarial gain		(1,990)	(59,311)
<b>Present value of defined benefit obligation as at 30 June 2011</b>		<u>476,825</u>	<u>295,618</u>

**24.7 Actuarial (gain) / loss in obligation**

	<u>64,357</u>	<u>65,101</u>
--	---------------	---------------

**24.8** Based on actuarial advice, the Modaraba estimates a gratuity expense of Rs 223,676 during the year ending 30 June 2012.

**25. CERTIFICATE CAPITAL**

Authorised certificate capital 2011	2010		2011	2010
			----- (Rupees)	
<b>Number of certificates</b>				
<u>50,000,000</u>	<u>50,000,000</u>	Modaraba Certificates of Rs 10/- each	<u>500,000,000</u>	<u>500,000,000</u>
<b>Issued, subscribed and paid-up capital</b>				
<u>24,958,400</u>	<u>24,958,400</u>	Modaraba Certificates of Rs 10/- each fully paid in cash	<u>249,584,000</u>	<u>249,584,000</u>
<u>3,316,000</u>	<u>3,316,000</u>	Modaraba Certificates of Rs 10/- each issued as fully paid bonus certificates	<u>33,160,000</u>	<u>33,160,000</u>
<u>28,274,400</u>	<u>28,274,400</u>		<u>282,744,000</u>	<u>282,744,000</u>

**25.1** As at 30 June 2011, the Management Company held 4,141,695 certificates (2010: 4,031,581 certificates) whereas KASB Bank Limited held 10,446,767 Certificates of the Modaraba.





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**26. STATUTORY RESERVE**

Statutory reserve represents profits set aside to comply with the Prudential Regulations for Modarabas issued by the SECP. These regulations require a modaraba to transfer not less than 20% and not more than 50% of its after tax profit till such time that reserves equal 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred to the reserve.

During the current year the Modaraba has transferred an amount of Rs 20,069,275 (2010: Rs 8,547,845) which represents 50% (2010: 50%) of the profit after tax for the year ended 30 June 2011.

**27. CONTINGENCIES AND COMMITMENTS**

27.1 The Modaraba has provided guarantees amounting to Rs 8,100,000 (2010: Rs 80,133,960) on behalf of customers to various banks.

27.2 There were no contingencies as at 30 June 2011.

**28. INCOME FROM LEASING OPERATIONS**

**Finance lease**

Mark-up earned

Plant and machinery

Motor vehicles

Other

Gain on termination

**Less:**

Suspended income

**Ijarah**

Rentals

Plant and machinery

Motor vehicle

Other

Gain on disposal of ijarah assets

**Less:**

Direct cost associated with Ijarah assets

Suspended income

Depreciation on ijarah assets

2011                      2010  
----- (Rupees) -----

794,182	4,436,489
694,439	2,541,018
349,369	1,848,092
16,173	318,294
<b>1,854,163</b>	<b>9,143,893</b>
<b>(45,834)</b>	<b>(27,625)</b>
<b>1,808,329</b>	<b>9,116,268</b>

19,402,347	14,749,742
12,685,740	14,339,581
274,313	186,299
978,163	-
<b>33,340,563</b>	<b>29,275,622</b>

4,100	23,650
15,625	-
<b>23,785,076</b>	<b>22,498,626</b>
<b>(23,804,801)</b>	<b>(22,522,276)</b>
<b>9,535,762</b>	<b>6,753,346</b>
<b>11,344,091</b>	<b>15,869,614</b>

**29. GAIN ON SALE OF INVESTMENTS - net**

Investments 'at fair value through profit or loss'

Investments 'available for sale'

-	796,228
<b>869,978</b>	-
<b>869,978</b>	<b>796,228</b>

**30. FINANCIAL CHARGES**

Profit on short-term finance

Profit on Certificates of Musharaka

Bank charges

15,135,065	13,281,444
73,900,205	32,500,866
108,037	57,402
<b>89,143,307</b>	<b>45,839,712</b>

**31. OTHER INCOME**

(Loss) / gain on disposal of fixed assets

Dividend income (net of zakat)

Miscellaneous income

Documentation charges

Front end fee

TT Gold

Commission on bank guarantee

Insurance income

(47,490)	300,439
269,000	29,604
4,494,867	348,281
1,339,502	695,819
216,500	260,000
-	121,510
-	15,482
490,214	314,140
<b>6,762,593</b>	<b>2,085,275</b>

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	Note	2011	2010
		------(Rupees)-----	
<b>32. ADMINISTRATIVE AND OPERATING EXPENSES</b>			
Salaries and benefits	32.1	14,888,379	12,173,627
Utilities		2,042,652	1,611,889
Insurance		1,254,890	1,041,485
Vehicle running and maintenance		927,662	784,097
Postage		388,894	110,296
Repairs and maintenance		141,837	66,736
Entertainment		532,514	353,269
Printing and stationery		952,331	935,513
Travelling and conveyance		416,390	363,862
Fee and subscriptions		1,021,337	888,042
Auditors' remuneration	32.2	435,999	449,911
Legal and professional charges		1,792,848	987,016
Depreciation		1,603,619	1,578,926
Amortization		334,145	305,613
Advertisements		2,683,214	272,811
Rent, rate and taxes		2,079,073	1,282,316
Generator expenses		322,539	345,859
Newspapers and periodicals		119,100	47,981
CIB charges		20,044	22,813
Donations		24,000	12,000
Write-off		152,708	30,331
Verysis charges		40,274	27,820
Security services		46,200	-
Workers' Welfare Fund		802,771	662,371
Others		1,078,261	540,877
		<b>34,101,681</b>	<b>24,895,461</b>
<b>32.1 REMUNERATION OF OFFICERS</b>			
Basic salary		9,124,679	7,740,023
Medical allowance		912,479	774,050
House rent allowance		2,737,408	2,322,004
Utility allowance		912,455	773,959
Employee benefits		589,775	188,021
EOBI contribution		176,750	126,900
Bonus		434,833	248,670
		<b>14,888,379</b>	<b>12,173,627</b>
		<b>Number</b>	<b>Number</b>
Total number of persons at end of the year		<b>46</b>	<b>43</b>

**32.1.1** The CFO has been provided with a Modaraba maintained car and is also entitled for reimbursement of fuel expenses.

**32.1.2** On 8 May 2009, Registrar Modaraba (Specialized Companies Division) imposed a fine of Rs. 55,000/- each on the directors of Modaraba Management Company for non compliance of IAS-19 and violation of Regulation '7(3)' of the Prudential Regulation of Modaraba. However, being dis-satisfied with the penalty order, an appeal under section 32(2) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 was filed against the above mentioned order.

On 18 September 2009, SECP through its order no. SC/MKASB/2009/385 waived the fine amounting to Rs 5,000 but Rs 50,000 remained intact. Further to the order, an application is made to SECP for filing of the appeal before appellate bench of the Commission under section 33 of the SECP Act 1997.

On 1 June 2011, the appellate bench heard the case of the Modaraba and waived the penalty on the directors. However, the penalty remained intact on the CEO, which has been paid by CEO during the year.







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	2011	2010
	----- (Rupees) -----	
<b>32.2 Auditors' Remuneration</b>		
Annual audit fee	275,000	255,000
Review of interim financial statements	75,000	50,000
Out of pocket expenses	85,999	144,911
	<u>435,999</u>	<u>449,911</u>

**33. MODARABA MANAGEMENT COMPANY FEE**

In accordance with the Modaraba Companies and Modaraba Rules, 1981 management fee at the rate of 10% of annual profits is payable to the Management Company amounting to Rs 4,459,839 (2010: Rs 1,899,521).

	2011	2010
	----- (Rupee) -----	
<b>34. EARNINGS PER CERTIFICATE</b>		
Profit for the year (Rupees)	<u>40,138,552</u>	<u>17,095,690</u>
Weighted average number of certificates	<u>28,274,400</u>	<u>28,274,400</u>
Earning per certificate	<u>1.42</u>	<u>0.60</u>

**35. FINANCIAL INSTRUMENTS BY CATEGORY**

	30 June 2011			
	Loans and receivables	Available for sale	Held to maturity	Total
	----- (Rupees) -----			
<b>FINANCIAL ASSETS</b>				
Cash and bank balances	109,828,648	-	-	109,828,648
Investments	-	13,000,000	19,342,250	32,342,250
Murabaha finance	480,436,030	-	-	480,436,030
Modaraba finance	75,630,285	-	-	75,630,285
Musharaka finance	42,797,914	-	-	42,797,914
Diminishing musharaka finance	279,100,639	-	-	279,100,639
Net investment in finance lease	7,329,083	-	-	7,329,083
Ijarah rental receivable	3,157,976	-	-	3,157,976
Advances and other receivables	3,776,017	-	-	3,776,017
Accrued profit	8,771,921	-	-	8,771,921
Long-term deposits	528,000	-	-	528,000
	<u>1,011,356,514</u>	<u>13,000,000</u>	<u>19,342,250</u>	<u>1,043,698,764</u>

	30 June 2011 (Rupees)
<b>FINANCIAL LIABILITIES</b>	
Short-term musharaka finance	61,854,581
Deposits	656,020,000
Security deposits	12,259,926
Creditors, accrued and other liabilities	29,669,716
Unclaimed profit distribution	706,878
Deferred liabilities - staff gratuity	541,182
	<u>761,052,283</u>

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	30 June 2010			Total
	Loans and receivables	Available for sale	Held to maturity	
	------(Rupees)-----			
<b>FINANCIAL ASSETS</b>				
Cash and bank balances	59,225,467	-	-	59,225,467
Investments	-	9,797,140	19,350,750	29,147,890
Murabaha finance	362,561,002	-	-	362,561,002
Modaraba finance	154,440,342	-	-	154,440,342
Musharaka finance	83,633,662	-	-	83,633,662
Diminishing musharaka finance	131,599,686	-	-	131,599,686
Net investment in lease finance	45,001,505	-	-	45,001,505
Ijarah rental receivable	1,963,147	-	-	1,963,147
Advances and other receivables	3,685,773	-	-	3,685,773
Accrued profit	5,367,988	-	-	5,367,988
Long-term deposits	28,000	-	-	28,000
	<u>847,506,572</u>	<u>9,797,140</u>	<u>19,350,750</u>	<u>876,654,462</u>

**30 June 2010**  
**(Rupees)**

**FINANCIAL LIABILITIES**

Short-term musharaka finance	158,935,196
Deposits	461,990,000
Security deposits	22,934,868
Creditors, accrued and other liabilities	23,006,612
Unclaimed profit distribution	476,790
Deferred liabilities - staff gratuity	360,719
	<u>667,704,185</u>

**36. FINANCIAL RISK MANAGEMENT**

The Modaraba finances its operations through equity and borrowings. The Modaraba utilises funds in ijarah financing, modaraba financing, musharaka financing, diminishing musharaka and murabaha financing. These activities are exposed to a variety of financial risks that are market risk, credit risk and liquidity risk.

The Board of Directors of the Management Company has the overall responsibility for the establishment and oversight of the Modaraba's risk management framework.

**36.1 Market risk**

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market interest rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises of three types of risk namely currency risk, interest rate risk and other price risk.

**36.1.1 Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Modaraba, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

**36.1.2 Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market interest rates.





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Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date.

		2011					
Effective yield / profit rate %	Total	Up to one month	Over one month to 3 months	Over three months to one year	Over one year to five years	Not	
						exposed to yield / profit risk	
(Rupees)							
<b>Assets</b>							
Cash and bank balances	5.00% - 12.15%	109,828,648	106,922,249	-	-	-	2,906,399
Investments	14.53% - 15.35%	32,342,250	-	2,125	381,375	18,958,750	13,000,000
Murabaha finance	14.50% - 20.00%	480,436,030	102,817,989	98,136,191	189,565,971	49,700,000	60,215,879
Modaraba Finance	-	75,630,285	6,575,023	-	51,000,000	-	18,055,262
Musharaka finance	17.50% - 20.00%	42,797,914	5,894,878	20,498,918	16,404,118	-	-
Diminishing musharaka finance	16.00% - 20.00%	279,100,639	8,257,105	22,314,210	88,332,749	157,654,987	2,541,568
Net investment in Ijarah finance	8.89% - 18.14%	7,329,083	791,423	632,570	1,228,478	982,911	3,693,701
Ijarah rentals receivable	-	3,157,976	-	-	-	-	3,157,976
Advances, prepayments and other receivables	10.00%	6,035,316	-	-	-	1,918,326	4,116,988
Accrued profit	-	8,771,921	-	-	-	-	8,771,921
Long-term Deposit	-	528,000	-	-	-	-	528,000
<b>Total Financial Assets as at 30 June 2011</b>		<b>1,045,958,062</b>	<b>231,258,667</b>	<b>141,584,014</b>	<b>326,912,691</b>	<b>229,214,976</b>	<b>116,987,714</b>
<b>Liabilities</b>							
Deposits	9.65% - 14.75%	656,020,000	104,665,000	140,435,000	259,285,000	149,635,000	2,000,000
Short-term finance	16.02%	61,854,581	61,854,581	-	-	-	-
Security deposits	-	12,259,926	-	-	-	-	12,259,926
Creditors, accrued and other liabilities	-	27,734,291	-	-	-	-	27,734,291
Unclaimed profit distribution	-	706,878	-	-	-	-	706,878
Deferred Liabilities - staff gratuity	-	541,182	-	-	-	-	541,182
<b>Total Financial Liabilities as at 30 June 2011</b>		<b>759,116,858</b>	<b>166,519,581</b>	<b>140,435,000</b>	<b>259,285,000</b>	<b>149,635,000</b>	<b>43,242,277</b>
<b>Total yield / profit risk sensitivity gap</b>			<b>64,739,088</b>	<b>1,149,014</b>	<b>67,627,691</b>	<b>79,579,976</b>	
<b>Cumulative yield / profit risk sensitivity gap</b>			<b>64,739,086</b>	<b>85,888,100</b>	<b>133,515,791</b>	<b>213,095,767</b>	

		2010					
Effective yield / profit rate %	Total	Up to one month	Over one month to 3 months	Over three months to one year	Over one year to five years	Not	
						exposed to yield / profit risk	
(Rupees)							
<b>Assets</b>							
Cash and bank balances	5.00% - 12.30%	59,225,467	33,728,745	25,000,000	-	-	496,722
Investments	13.22% - 14.12%	29,147,890	-	-	8,500	19,342,250	9,797,140
Murabaha finance	14.50% - 20.00%	362,561,002	97,594,285	103,236,000	136,028,125	4,000,000	21,702,592
Modaraba finance	-	154,440,342	-	-	154,100,000	-	340,342
Musharaka finance	16.67% - 18.00%	83,633,662	30,477,940	19,707,025	28,448,697	-	5,000,000
Diminishing musharaka finance	15.00% - 20.00%	131,599,686	3,436,038	8,222,076	32,978,396	85,912,513	1,050,663
Net investment in Ijarah finance	8.89% - 28.00%	45,001,505	6,724,521	5,476,011	14,701,701	3,969,879	14,129,393
Ijarah rentals receivable	8.00% - 21.00%	1,963,147	-	-	-	-	1,963,147
Advances, prepayments and other receivables	10.00%	3,685,773	-	-	-	1,415,181	2,270,592
Accrued profit	-	5,367,988	-	-	-	-	5,367,988
Long-term Deposit	-	28,000	-	-	-	-	28,000
<b>Total Financial Assets as at 30 June 2010</b>		<b>876,654,462</b>	<b>171,961,529</b>	<b>161,641,112</b>	<b>366,265,419</b>	<b>114,639,823</b>	<b>62,146,579</b>
<b>Liabilities</b>							
Deposits	9.65% - 14.50%	461,990,000	59,030,000	139,950,000	245,410,000	-	17,600,000
Short-term finance	14.91%	158,935,196	158,935,196	-	-	-	-
Security deposits	-	22,934,868	-	-	-	-	22,934,868
Creditors, accrued and other liabilities	-	23,006,612	-	-	-	-	23,006,612
Unclaimed profit distribution	-	476,790	-	-	-	-	476,790
Deferred Liabilities	-	360,719	-	-	-	-	360,719
<b>Total Financial Liabilities as at 30 June 2010</b>		<b>667,704,185</b>	<b>217,965,196</b>	<b>139,950,000</b>	<b>245,410,000</b>	<b>-</b>	<b>64,378,989</b>
<b>Total yield / profit risk sensitivity gap</b>			<b>(46,003,667)</b>	<b>21,691,112</b>	<b>120,855,419</b>	<b>114,639,823</b>	
<b>Cumulative yield / profit risk sensitivity gap</b>			<b>(46,003,667)</b>	<b>(24,312,555)</b>	<b>96,542,864</b>	<b>211,182,687</b>	



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**Sensitivity analysis for financial instruments**

The sensitivity of the net income for the year is the effect of the assumed changes in interest rates on the floating rate financial instruments held at the year end. The following table demonstrates the sensitivity of the Modaraba's income for the year to a reasonably possible change in interest rates, with all other variables held constant.

	Impact on profit or loss	
	2011	2010
	----- (Rupees) -----	
Changes in basis point		
+100	2,427,651	(445,318)
-100	(2,427,651)	445,318

In practice, the actual results may differ from the sensitivity analysis shown above.

**36.1.3 Price risk**

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Modaraba is exposed to price risk in respect of sukuk bonds held at year end amounting to Rs 19,342,250 (2010: Rs 19,350,750).

**36.2 Credit risk**

**36.2.1** Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Modaraba is exposed to credit risk in respect of net investment in finance lease, musharaka, murabaha, modaraba and term deposit receipts.

Concentrations 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 an entity's performance to developments affecting a particular industry.

The Modaraba attempts to control credit risk by diversification of financing activities to avoid undue concentration of credit risk with individuals or groups of customers in specific locations or businesses, monitoring credit exposures, limiting transactions to specific counterparties and continually assessing the credit worthiness of counterparties. It also obtains securities when appropriate.

The Modaraba follows two sets of guidelines. It has its own operating policy and the management of the Modaraba also adheres to the regulations issued by the SECP. The operating policy defines the extent of fund and non-fund based exposures with reference to a particular sector or group.

Out of the total financial assets of Rs 1,043.698 million (2010: Rs 876.654 million) the financial assets which are subject to credit risk amounted to Rs 1,043.685 million (2010: Rs 876.640 million).

**36.2.2** The analysis below summarises the credit quality of the Modaraba's financial assets:

	2011	2010
	----- (Rupees) -----	
<b>Bank balances</b>		
A	40,011,725	-
A2	15,522,852	34,112,691
A-	54,254,111	-
Others	26,714	82,966
<b>Sukuk certificates ratings</b>		
BB+	10,362,250	-
Un-rated	8,980,000	19,350,750





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**36.2.3** An analysis of the age of significant financial assets that are past due but not required to be impaired by applicable laws are as under:

	30 June 2011		30 June 2010	
	Total outstanding amount	Payment overdue (in days)	Total outstanding amount	Payment overdue (in days)
Net investment in finance lease	732,026	1 - 348 Days	464,462	1 - 73 Days
Ijarah rentals receivable	111,684	1 - 68 Days	101,946	1 - 68 Days
Murabaha Finance	9,025,063	1 - 30 Days	2,678,082	1 - 19 Days
Modaraba Finance	19,015,640	1 - 90 Days	340,432	1-55 Days
Musharaka Finance	-	-	6,120,706	1 - 53 Days
Diminishing Musharaka Finance	353,015	1 - 45 Days	73,479	1 - 2 Days

**36.2.4** An analysis of the financial assets that are individually impaired as per the requirements of the Prudential Regulations for Modarabas are as under:

	As at 30 June 2011				
	OAEM	Substandard	Doubtful	Loss	Total
Net investment in finance lease	-	-	-	202,694	202,694
Musharaka Finance	-	-	-	606,844	606,844

	As at 30 June 2010				
	OAEM	Substandard	Doubtful	Loss	Total
Net investment in finance lease	-	-	-	244,538	244,538
Musharaka Finance	-	-	-	640,000	640,000

**36.2.5 Concentration of credit risk**

**36.2.5.1 Net Investment in Finance Lease**

	2011		2010	
	(Rupees)	%	(Rupees)	%
Fuel and energy	1,943,174	26.51	16,903,149	37.56
Pharmaceutical and chemicals	1,185,425	16.17	1,935,092	4.30
Food and beverage	-	-	6,853,268	15.23
Dairy and poultry	-	-	551,628	1.23
Health and care	-	-	74,927	0.17
Textile	-	-	776,406	1.72
Electrical and engineering	428,087	5.84	1,407,501	3.13
Paper and board	649,117	8.86	2,281,119	5.07
Construction	-	-	5,023,753	11.16
Individuals	3,123,280	42.62	6,224,333	13.83
Others	-	-	2,970,329	6.60
	<b>7,329,083</b>	<b>100.00</b>	<b>45,001,505</b>	<b>100.00</b>

**36.2.5.2 Ijarah Assets**

	2011		2010	
	(Rupees)	%	(Rupees)	%
Fuel and energy	16,012,951	28.48	34,049,619	51.59
Food and beverage	463,300	0.82	666,700	1.01
Dairy and poultry	344,440	0.61	509,776	0.77
Financial institutions	2,013,499	3.58	2,680,147	4.06
Travel and transport	5,992,500	10.66	10,011,000	15.17
Textile	21,047,933	37.43	393,042	0.60
Electrical and engineering	1,177,783	2.09	1,894,447	2.87
Paper and board	2,535,000	4.51	4,875,000	7.39
Leather	-	-	-	-
Distribution	-	-	3,416,665	5.18
Individuals	3,264,256	5.80	4,684,641	7.09
Others	3,383,380	6.02	2,815,720	4.26
	<b>56,235,042</b>	<b>100.00</b>	<b>65,996,757</b>	<b>99.99</b>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2011



	Note	2011		2010	
		(Rupees)	%	(Rupees)	%
<b>36.2.5.3 For Musharaka, Murabaha, Modaraba and Diminishing Musharaka Finance</b>					
Textile and allied		136,690,135	15.57	43,820,914	5.98
Trading		105,181,865	11.98	239,720,812	32.73
Leather		76,299,670	8.69	97,615,715	13.33
Pharmaceutical and chemicals		3,661,692	0.42	-	-
Food and beverage		102,945,961	11.73	59,836,758	8.17
Construction		39,143,178	4.46	35,977,342	4.91
Fuel and energy		130,014,953	14.81	20,845,051	2.84
Financial institutions		30,784,010	3.51	3,965,977	0.54
Paper and board		183,512	0.02	330,338	0.04
Sugar and allied		4,966,028	0.57	48,718,026	6.65
Distribution		67,473,594	7.69	-	-
Travel and transport		62,992,877	7.17	30,849,911	4.21
Dairy and poultry		7,188,000	0.82	43,840,342	5.98
Technology and telecommunication		-	-	15,768,043	2.15
Electrical and engineering		13,253,422	1.51	20,348,915	2.77
Others		97,185,971	11.07	70,596,548	9.64
	36.2.5.4	<u>877,964,868</u>	<u>100.00</u>	<u>732,234,692</u>	<u>100.00</u>

**36.2.5.4 Finance arrangements**

	2011	2010
	(Rupees)	
Murabaha finance	480,436,030	362,561,002
Musharaka finance	42,797,914	83,633,662
Diminishing Musharaka finance	279,100,639	131,599,686
Modaraba finance	75,630,285	154,440,342
	<u>877,964,868</u>	<u>732,234,692</u>

**36.3 Liquidity risk**

Liquidity risk is the risk that the Modaraba will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Modaraba will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Modaraba's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Modaraba's reputation.

The table below analyses the Modaraba's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	As at 30 June 2011			
	Total	Upto three months	More than three months and upto one year	More than one year
	Rupees			
<b>Current liabilities</b>				
Deposits	656,020,000	247,100,000	259,285,000	149,635,000
Short-term finance	61,854,581	61,854,581	-	-
Current maturity of security deposits	7,151,062	1,967,390	5,183,672	-
Creditors, accrued and other liabilities	27,734,291	27,734,291	-	-
Unclaimed profit distribution	706,878	-	-	706,878
<b>Total current liabilities</b>	<b>753,466,812</b>	<b>338,656,262</b>	<b>264,468,672</b>	<b>150,341,878</b>
<b>Non-current liabilities</b>				
Long-term finance	-	-	-	-
Security deposits	5,108,864	-	-	5,108,864
Deferred liabilities - staff gratuity	541,182	-	-	541,182
<b>Total non-current liabilities</b>	<b>5,650,046</b>	<b>-</b>	<b>-</b>	<b>5,650,046</b>
	<u>759,116,858</u>	<u>338,656,262</u>	<u>264,468,672</u>	<u>155,991,924</u>







**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**



	As at 30 June 2010			
	Total	Upto three months	More than three months and upto one year	More than one year
	Rupees			
<b>Current liabilities</b>				
Deposits	461,990,000	198,980,000	263,010,000	-
Short-term finance	158,935,196	158,935,196	-	-
Current maturity of security deposits	10,341,557	116,000	10,225,557	-
Creditors, accrued and other liabilities	23,006,612	23,006,612	-	-
Unclaimed profit distribution	476,790	-	-	476,790
<b>Total current liabilities</b>	<b>654,750,155</b>	<b>381,037,808</b>	<b>273,235,557</b>	<b>476,790</b>
<b>Non-current liabilities</b>				
Long-term finance	-	-	-	-
Security deposits	12,593,311	-	-	12,593,311
Deferred liabilities - staff gratuity	360,719	-	-	360,719
<b>Total non-current liabilities</b>	<b>12,954,030</b>	<b>-</b>	<b>-</b>	<b>12,954,030</b>
	<b>667,704,185</b>	<b>381,037,808</b>	<b>273,235,557</b>	<b>13,430,820</b>

**36.4 Fair value of financial assets and liabilities**

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Modaraba is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The estimated fair value of financial assets and liabilities is considered not significantly different from book values as the items are either short - term in nature or periodically repriced.

**37. CAPITAL RISK MANAGEMENT**

The Modaraba's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for certificate-holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Modaraba monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total Certificate of Musharaka and borrowings less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

	2011	2010
	(Rupees)	
Total borrowings	717,874,581	620,925,196
Less: cash and bank balances	(109,828,648)	(59,225,467)
Net debt	608,045,933	561,699,729
Total equity	307,639,655	274,752,640
Total capital	915,685,588	836,452,369
<b>Gearing ratio</b>	<b>66.4%</b>	<b>67.2%</b>

**38. RELATED PARTIES TRANSACTIONS**

The related parties of the Modaraba comprise of its Management Company, associated companies, directors of the Management Company and key management personnel. Transactions with related parties other than remuneration and benefits to key management personnel (which are employed by the Management Company) under the terms of their employment are as follows:

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Rupees)	
<b>38.1 Transactions during the year</b>		
<b>Management company</b>		
Modaraba management fee	4,459,839	1,899,521
<b>Associated companies</b>		
Income on bank deposits	4,647,027	6,030,680
Financial charges	17,137,821	13,744,624
Rent expense	425,950	396,000
Brokerage expense	-	6,060
Custodian charges	6,092	6,782
<b>Other related parties</b>		
Finance lease rentals	2,105,052	2,105,220
Ijarah rentals	200,964	200,016
Investments in unlisted shares	13,000,000	-
<b>38.2 Transaction outstanding at the year end</b>		
<b>Management company</b>		
Modaraba management fee payable	4,459,839	1,899,521
<b>Associated companies</b>		
Cash and bank balances	17,704,578	33,970,924
Certificate of Musharaka	17,300,000	-
Accrued profit on deposits	9,171	15,088
Short-term musharaka finance	61,854,581	158,935,196
Underwriting commission payable	-	-
Accrued mark-up payable	3,903,444	7,973,270
Custodian charges payable	4,060	3,030
Rent payable	-	198,000
<b>Other related parties</b>		
Finance lease rentals	972,010	3,077,062
Ijarah rentals	235,704	433,368

The Modaraba enters into transactions with related parties for lease of assets, borrowings under musharaka finances and other general banking services.

**38.3** The terms and conditions of the transactions are stated in the respective notes.

### **39. CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified, whenever necessary, for the purposes of appropriate presentation. There have been no significant reclassifications in these financial statements.

### **40. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Management Company in their meeting held on August 29, 2011 have approved distribution at the rate of 6.40 percent (2010: 2.80%).

### **41. DATE OF AUTHORISATION**

These financial statements were authorised for issue by the Board of Directors of the Management Company in their meeting held on August 29, 2011.

### **42. GENERAL**

Figures in these financial statements have been rounded off to the nearest Rupee.

For KASB Invest (Private) Limited  
[Formerly KASB Modaraba Management (Private) Limited]  
(Management Company)

Chief Executive

Director

Director





**PATTERN OF CERTIFICATE HOLDING FORM "34"**  
**SHAREHOLDERS STATISTICS AS AT JUNE 30, 2011**



NO. OF CERTIFICATE HOLDERS	CERTIFICATE HOLDING		TOTAL CERTIFICATE HOLDERS
	FROM	TO	
418	1	100	18,497
296	101	500	76,501
165	501	1000	136,164
185	1001	5000	406,121
43	5001	10000	327,873
13	10001	15000	159,135
11	15001	20000	184,462
9	20001	25000	205,532
1	25001	30000	28,274
3	30001	35000	97,113
7	35001	40000	256,300
3	40001	45000	123,870
2	45001	60000	112,004
1	60001	70000	65,469
1	70001	80000	79,500
1	80001	95000	90,500
2	95001	105000	205,500
1	105001	110000	109,000
1	110001	115000	113,100
1	115001	125000	124,878
1	125001	155000	154,485
1	155001	170000	166,320
1	170001	175000	172,120
1	175001	180000	177,200
1	180001	470000	468,202
1	470001	505000	505,000
1	505001	690000	687,745
1	690001	800000	795,980
1	800001	810000	809,255
1	810001	2500000	2,500,000
1	2500001	2830000	2,827,440
1	2830001	5645000	5,644,093
1	5645001	10450000	10,446,767
<b>1,177</b>		<b>Total</b>	<b>28,274,400</b>



**PATTERN OF CERTIFICATE HOLDING FORM "34"**  
**SHAREHOLDERS STATISTICS AS AT JUNE 30, 2011**



CATAGORIES OF CERTIFICATE HOLDERS	NUMBER	CERTIFICATE HELD	PERCENTAGE
INDIVIDUALS	1123	8,776,352	31.04%
FINANCIAL INSTITUTIONS*	14	10,710,863	37.88%
INVESTMENT COMPANIES	2	1,200	0.00%
INSURANCE COMPANIES	3	796,380	2.82%
MODARABA COMPANIES	3	36	0.00%
MODARABA MANAGEMENT COMPANIES**	3	4,141,695	14.65%
LEASING COMPANIES	1	1,246	0.00%
CHARITABLE TRUSTS	1	33,000	0.12%
JOINT STOCK COMPANIES***	22	3,024,347	10.70%
MUTUAL FUND	1	687,745	
OTHERS			
- M/S SHAIKHANI ENTERPRISES	1	101,000	0.36%
- TECHNOLOGY LINKS (PVT) LTD.	1	300	0.00%
- SARFRAZ MAHMOOD (PVT) LIMITED	1	37	0.00%
- THE KARACHI STOCK EXCHANGE	1	199	0.00%
<b>TOTAL</b>	<b>1,177</b>	<b>28,274,400</b>	<b>100.00%</b>

\* Includes KASB Bank Limited (10,446,767 certificates)

\*\* Includes KASB Invest (Private) Limited formerly KASB Modaraba Management (Private) Limited (4,141,695 certificates)

\*\*\* Includes KASB Finance (Private) Limited (42,072 certificates)

**ADDITIONAL INFORMATION**

CATAGORIES OF CERTIFICATE HOLDERS	NUMBER	CERTIFICATE HELD	PERCENTAGE
<b>Associated Companies</b>			
KASB Bank Limited		10,446,767	36.95
KASB Finance (Private) Limited		42,072	0.15
KASB Invest (Private) Limited		4,141,695	14.65
	<b>3</b>	<b>14,630,534</b>	<b>51.75</b>
<b>NIT and CIP</b>			
National Bank of Pakistan, Trustee Deptt.		687,745	2.43
Managind Committee Crescent Foundation		33,000	0.12
Investment Corporation of Pakistan		8,002	0.03
	<b>3</b>	<b>728,747</b>	<b>2.58</b>
<b>Directors, CEO &amp; their Spouse and Minor Children</b>	<b>1</b>	<b>90,500</b>	<b>0.32%</b>
<b>Executives</b>	-	-	-
<b>Public Sector Companies and Corporations</b>	-	-	-
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds</b>	<b>20</b>	<b>1,061,758</b>	<b>3.76</b>
<b>Certificate-holders holding ten percent or more certificates in the Modaraba (other than those reported above)</b>	<b>1</b>	<b>5,644,093</b>	<b>19.96</b>





## NOTICE OF ANNUAL REVIEW MEETING



Notice is hereby given that the 20th Annual Review Meeting of the Modaraba's Certificate Holders of KASB Modaraba will be held on Monday, October 17, 2011 at 03.30 p.m. at Haji Abdullah Haroon Muslim Gymkhana, Auditorium Awan-e-Saddar Road, Karachi to review the performance of Modaraba for the year ended June 30, 2011 in terms of Clause 20 of the Prudential Regulations for Modaraba issued vide Circular No 5/2000 by Registrar Modaraba.

By Order of the Board

Karachi  
August 29, 2011

Faiqa Naz  
Company Secretary

### Notes

1. The Modaraba Certificates transfer book shall remain closed from **October 11, 2011 to October 17, 2011** (both days inclusive) to determine the names of Certificate Holders eligible to attend the Annual Review Meeting. Transfer received in order at the Registrar Office of the Modaraba (whose address in given below) up to the close of business hours on October 10, 2011 will be treated in time.
2. The Certificate Holders are advised to notify to the Registrar of KASB Modaraba of any change in their addresses to ensure prompt delivery of mails. Further, any Certificates for transfer etc. should be lodged with the Registrar, C & K Management Associates (Private) Limited, 404, Trade Tower, Abdullah Haroon Road, Near Metropol Hotel, Karachi. ( Phone: 35687839-35685930)
3. Account holders holding book entry securities of the Modaraba in Central Depository Company of Pakistan Limited, who wish to attend the Annual Review Meeting, are requested to bring original Computerized National Identity Card for identification purpose and will in addition, have to follow the guidelines as laid down in Circular No.1 of 2000 dated January 26, 2000 of the Securities and Exchange Commission of Pakistan (SECP) for attending the meeting.

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