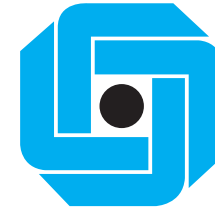


20TH ANNUAL REPORT  
JUNE 30, 2009



**First Prudential Modaraba**

*If undelivered please return to :*  
First Prudential Modaraba  
Mehersons Estate, First Floor  
Talpur Road, P.O Box No.621, Karachi.74000

Managed by :  
**Prudential Capital Management Ltd**



**CORPORATE INFORMATION**

**Board of Directors of Prudential Capital Management Ltd.**

Mr. Asad Iqbal Siddiqui (Chairman)  
Mr. Muhammad Asif  
Mr. Fazal M. Mughal  
Mr. Ataullah Khan  
Dr. Muhammad Hussain

**COMPANY SECRETARY**

Mr. Muhammad Musharraf Khan

**AUDIT COMMITTEE**

Mr. Muhammad Asif  
Chairman  
Mr. Ataullah Khan  
Member  
Mr. Fazal M. Mughal  
Member

**AUDITORS**

Riaz Ahmed & Co.  
Chartered Accountants

**LEGAL ADVISORS**

Mansoor Ahmed Khan  
Mati-ur-Rehman Siddiqui  
Mohammad Zubair Quraishy  
S. Tauqir Hassan & Co.  
Faqqoq Akhtar

**BANKERS**

RBS Bank  
Standard Chartered Bank  
Faysal Bank Ltd.  
Habib Bank Ltd.  
Muslim Commercial Bank Ltd.  
Saudi Pak Commercial Bank Ltd.  
Emirates Global Islamic Bank Ltd.  
Atlas Bank Ltd.

**MANAGEMENT COMPANY**

Prudential Capital Management Limited

**REGISTERED OFFICE**

Office No. 54, Ground Floor,  
Beverly Centre, 56-G, Blue Area,  
Islamabad.  
Tel: 2825343 Fax: 2814000  
E-mail: prudmod@cyber.net.pk

**STOCK EXCHANGE**

First Prudential Modaraba is managed by Prudential Capital Management Ltd. and is listed on Karachi, Lahore and Islamabad Stock Exchanges. Daily quotation of the company's stock can be obtained from leading newspapers, listed under modarabas.

**PUBLIC INFORMATION**

Financial analysts, Stock, broker, interested investors and financial media desiring information about First Prudential Modaraba should contact Mr. Khalid Akhter (Manager Finance) Meher Sons Estate, 1st Floor, Block No. 1, Talpur Road, P.O. Box 621, Karachi-74000  
Tel: PABX 32429632-4 Fax:32420015  
E-mail: prudmod@cyber.net.pk

**CERTIFICATE HOLDERS INFORMATION**

Enquiries concerning lost Modaraba certificates, dividend payment, change of address, verification of transfer deeds and certificate transfer should be directed to the Registrar of First Prudential Modaraba i.e. Shares & Corporate Services (Pvt) Ltd. Mehersons Estate, Block E, Talpur Road, Karachi-74000  
Tel: PABX 32429632-4 Fax: 32420015  
E-mail: prudmod@cyber.net.pk

**KARACHI OFFICE**

Meher Sons Estate, 1st Floor, Block No. 1, Talpur Road, P.O. Box 621, Karachi-74000  
Tel: PABX 32429632-4 Fax:32420015  
E-mail: firstprudentialmodaraba@gmail.com



**VISION STATEMENT**

To play a leading role in the Modaraba Sector by providing Sharia based Islamic modes of financing through quality service at competitive rates, meeting religious and social obligations and delivering higher returns to the certificates holders.

**MISSION STATEMENT**

Our mission is to create and maintain a progressive position in the modaraba sector in Pakistan and endeavour to promote interest-free economy in the country.

This will be achieved through quality services using innovative shariah compliant products, financial discipline and good corporate governance with high levels of professional and ethical standards being maintained at all times.

**CHAIRMAN'S REVIEW**

The Board of Directors of Prudential Capital Management Limited, Managers First Prudential Modaraba presents herewith the 20th Annual Report of First Prudential Modaraba together with Audited Accounts, Auditors and Directors Report thereon for the period ended 30th June 2009.

**KEY OPERATING / FINANCIAL HIGHLIGHTS:**

(Rs. In million)

	2009	2008
Total income from operations	166.989	148.548
Operating expenses	(70.422)	(811,669)
Profit /(loss) from operation	46.567	673,817
Unrealized gain/(loss) on re-measurement of investment	(85.110)	(38.626)
Net profit /(loss)	(103.259)	41.788
Earning Per Certificate	(1.19)	0.48

**REVIEW OF OPERATIONS:**

Despite, inconsistent economic policies, shortage of utilities (Electricity & Natural Gas) for the Industry, instability at the political front, which catalyst in portraying Pakistan as potentially high risk. The Foreign Investment vanished due to the deteriorated law & order. The security environment needed to build confidence amongst the Foreign Investors disappeared. As a result, the micro economic activity suffered a lot due to unofficial devaluation of the Pak Currency together with a chill in the Demand and Supply proportion in the Commodity Market, affecting the internal investors to invest their funds in tangible securities. This aspect can be visualized from the continuous bearish trend in the Capital Market. During the period under view to boost the confidence of the Investors, Karachi Stock Exchange set the floor on share price closing level of 9144 points on 27th August 2008, but the Karachi Stock Exchange (Guarantee) Limited (KSE) 100 indexes further declined to touch the lowest level of 5865 during the period under review.

During the Year ended on 30th June 2009, the Overall operating performance of the First Prudential Modaraba Operating Income dropped from Rs. 148.548 Million to Rs. 116.989 Million due to loss on sale of Investment as against profit in the corresponding period last year. Further, Modaraba has recorded unrealized loss on re-measurement of Investment of Rs. 85.110 Million as against a loss of Rs. 38.626 Million in 2008, due to decline in Karachi Stock Exchange (Guarantee) Limited 100 index from 12289 points as on 30th June 2008 to 7162 points as on 30th June 2009, like other Indexes in Stock Market (world wide) dropped sharply. The recession in the Capital Market has adversely affected our Profit, due to this reason our Investment Portfolio could not get momentum during the period under review, this phenomena travelled across the International Capital Market during the period under review.

**Observations of External Auditors:****Islamic Financial Accounting Standard (IFAS)-2 Ijrah:**

The set standard though have been followed in the Cases of Ijrah Finances, yet to distinguish the Ijrah Facility on account of different categories of securities by its type could not be done due to the reasons that we adopted a standardized format to process all cases under Ijrah Finances. However, we are devising and adopting separate format for accounting Ijrah by its type, as required.

**Key Management Personals:**

Since, the irregularities committed by the Ex-Chief Executive were not bearing any pecuniary loss to the Company, which warrant legal action against him, therefore, the punishment of termination of services was awarded to the then Chief Executive Officer, of the Modaraba, consequently, his case stand closed. The vacuum arising out of the resignation of Chief Financial Officer, Company Secretary and Head of Internal Audit were instantly filled in and all the three key management personals were functioning their respective duties at the time the Audit was carried by the External Auditors, however, the matter of appoint of Chief Executive Officer is concern, we appointed one Mr. Zaheed Mehmood by designating him as Chief Operating Officer for re-designating him as Chief Executive Officer on receiving approval from Securities and Exchange Commission of Pakistan, incidentally, due to his family problem he could not continue his assignment. We are looking for a suitable candidate for the appointment as Chief Executive Officer.

**CFS Murabahah:**

The amount receivable against Islamic CFS Murabaha Finance provided on Murabaha basis for buying of shares through Brokerage House in terms of Islamic CFS Murabaha model adopted in terms of Security and Exchange Commission of Pakistan Circular No: 6 of 2008. The Finance was disbursed on 18th July 2008. Contract Price was fixed at the aggregate of Cost Price plus Profit at 20% p.a.

The Board of Directors initially declined the approval of the Finance in consideration to the Capital Market conditions, but, the then Member Management Committee Lt: Col (R) Abdur Rauf in anticipation of post facto approval from the Board of Directors initiated the CFS Finance of Rs.65.022 million, because of his this unauthorized act Lt: Col (R) Abdur Rauf Sandhu was sacked from the Management Committee. There is an adjustment Rs.13.249 million against the facility. However, to stream line the record, this transaction was ratified by the Board.

Due to significant and prolonged decline in the Capital Market, the value of Securities held as collateral by the Modaraba become inadequate and short by 16.370 million, the provision of which has been made as requirement of Prudential Regulations. With the improvement in Capital Market, the shortfall in securities is now reducing regularly, a recovery of Rs. 13.249 million has already been made in the shortfall amount of collateral securities, and the remaining amount in shortfall is anticipated to be recovered shortly.

**Account Receivables:**

The receivable outstanding in the name of Prudential Securities Limited against the contracts could not be repaid and adjusted by the Company concern due to the fact that the trading in the Stock Market was having a long bearish trend during the period under review, resulting, the Brokerage Houses suffered heavy losses and liquidity problems in their routine course of business, the Prudential Securities Limited was also one of the victim of this bearish trend, subsequently their membership was suspended. We are now under the deal of purchase with the Brokerage Company to purchase their Lahore Stock Exchange Room and LSE Card to Set Off some of the outstanding liability. The No Objection of which have already been obtained from Securities and Exchange Commission of Pakistan and other concerned authorities. As soon as, the sales consideration is paid to Prudential Securities Limited, the outstanding in their name would stand adjusted. As far as, the unsettled accounts with other brokerage houses are concerned, these unsettled accounts are being reconciled and adjusted under normal course of business.

**Purchase of Motor Vehicle by the Ex-Managing Director:**

The unauthorized purchase of Motor Vehicle for the value of Rs.1.799 million was done by Lt Col @ Abdur Rauf Sandhu, the Ex-Managing Director, out of Modaraba Funds, with the willful intention to fraudulently keep the Motor Vehicle as his own property, with this mala fide intention, the vehicle was got registered in his personal name, under his own signature with the Excise and Taxation Department. A criminal case of cheating, defrauding and misappropriation is being filed against him in the Court of Law with the prayer for the recovery of the Motor Vehicle from the said culprit.

**Investment Portfolio:**

Due to overall deteriorating condition in the Capital Market, the shares prices consistently gone down, this prevented us to trade the shares holding in our Investment Portfolio, during the period under review. With the improvement in the Stock Market, the portfolio is showing improvement, we are confident that our Investment Portfolio will be with in the permissible limits in couple of months. The impairment now reduced substantially.



**Corporate Governance:**

The Board adopted Code of Corporate Governance for listed companies issued by the Securities and Exchange Commission of Pakistan and implemented in wherever applicable during the year.

**Statement on Corporate and Financial Reporting Framework:**

1. The Financial Statements prepared by the Management of the Modaraba, present fairly its state of affairs, the result of its operation, cash flow and change in equity.
2. Proper books of accounts of the Modaraba have been maintained.
3. Appropriate accounting policies have been consistently applied in preparations of Financial Statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan have been followed in preparation of Financial Statements and any departure there from has been adequately disclosed.
5. The system of Internal Control is sound in design and has been effectively implemented and monitored.
6. There have been no significant doubts upon the Modaraba's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. Key operating and financial data of last six years in a summarized form is annexed.
9. During the year 12 meetings of the Board of Directors were held. Attendance of each director was as follows:

Name of Director	Number of Meeting Attended.
Mr. Asad Iqbal Siddiqui	12
Mr. Muhammad Asif	12
Mr. Fazal M. Mughal	09
Mr. Attaullah Khan	11
Dr. Muhammad Hussain	01

10. The Statement of pattern of certificate holders of the Modaraba as at 30th June 2009 as per code of corporate governance is annexed.

**Future Outlook:**

To put a vision to the aggravated Economic condition in general and Capital Market in particular, during the period under review, the trade and business activities shrunk to a large extend, resulting, the Modaraba also one of the victim to book losses on account of Investment Portfolio.

The improved trend is now being witnessed in the Capital Market, which provides us the room to curtail our losses to the maximum extend, yet, the Management cautiously monitoring its Investment Portfolio to earn maximum gains by disinvesting the existing share holding and to avail the opportunity of better addition in our Investments.

The Board of Directors attaching their emphasis for the recovery of Overdue finances, to improve our funding portfolio for better utilization in different business and corporate sectors with higher profitability earnings, to reduce the losses of Modaraba and to turn it as Profit Earner. With the self sufficiency in funds and better liquidity, we are looking forward to explore more profitable avenues for employment of funds.

**Acknowledgement:**

The Board of Directors expresses its thanks for the continuous guidance and support extended by the Registrar Modaraba and other officials of Security and Exchange Commission of Pakistan. Directors are also thankful to the Certificate Holder for reposing their confidence in the Management of the Modaraba and also appreciate the hard work and dedication of the staff of the Modaraba.

For & on behalf of the Board of Directors of  
Prudential Capital Management Limited,  
Managers First Prudential Modaraba

Karachi.  
10h October 2009.

Chairman



**Summary of key operating and financial data of the**

**Modaraba of last six years.**

**Year ended June 30**

**.....Rupees.....**

Year	2009	2008	2007	2006	2005	2004
Paid up Capital	872.177	872.177	872.177	872.177	872.177	872.177
Reserves	-	-270.233	-286.834	-341.179	-360.015	-381.246
Certificate	87.217	87.217	87.217	87.217	87.217	87.217
Current Liabilities	80.296	90.196	49.750	35.963	50.059	20.992
Non-Current Assets	145.794	249.227	317.754	378.662	362.815	289.363
Current Assets	435.933	504.377	403.681	274.141	268.391	254.222
Profit (Loss) before taxation	(103.259)	41.788	55.519	21.259	43.197	53.975
Taxation	0.457	0.332	1.128	0.364	0.160	0.944
Earning per Certificate (Rs.)	(1.19)	0.48	0.62	0.24	0.49	0.61



**STATEMENT OF COMPLIANCE WITH  
THE CODE OF CORPORATE GOVERNANCE**

Name of Modaraba **FIRST PRUDENTIAL MODARABA**  
Year Ended 30th JUNE , 2009

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

The Prudential Capital Management limited (the Management Company), Management of First Prudential Modaraba, (the Modaraba) has applied the principles contained in the code in the following manner.

1. The Modaraba Company encourages representation of independent non – executive director and director representing minority interests on its Board of Directors. At present the Board includes 05 independent non – executive directors.
2. None of the Directors is serving as a director in more than ten listed companies, including this Management Company.
3. All the Director of the Management Company are registered as tax payer and none of them has default in the payment of any loan to a banking company, a DFI or an NBF1 and no one is a member of a stock exchange.
4. The Directorship of the company at the time of filing their return to act as such have given a declaration of their consent that they are aware of their duties and powers under the Modaraba Companies & Modaraba (Floatation & Control) Ordinance, 1980, Companies Ordinance 1984 and the listing regulation of the stock Exchange. The Board facilitated the participant in the orientation courses, seminars, and discussion etc of its Director during the year to apprise them of their duties and responsibilities.
5. The Management Company has prepared a "Statement of Ethics and Business Practice" for Modaraba which has been approved by the Board of Directors are signed by all the Directors of the company and employees of the Modaraba.
6. The Board has adopted a vision statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particular of significant policies along with the dates on which they were approved or amended has been maintained.
7. The meetings of the Board were presided over by the chairman elected by the Board of this purpose and the Board met at lease once in every quarter. Written notices of the Board Meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the Meeting were appropriately recorded and circulated.
8. A new appointment of Company Secretary / Chief Financial Officer and head of Internal Audit has been made during the year of ending 30-06-2009.
9. The directors' report of the Modaraba for this year has been prepared in compliance with the requirement of the Code and fully describes the Salient matters required to be disclosed.
10. The financial statements of the Modaraba were duly endorsed by Chairman and Chief Financial Officer before approval of the Board.
11. The Directors, Chief Financial Officer and Executives do not hold any interest in the certificates of the Modaraba other that disclosed in the pattern of certificate holdings.
12. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.



13. The Board has formed an Audit Committee it comprises of three members, of whom two are non-executive directors including the chairman of the committee.
14. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the Code. The terms of reference of the Committee have been formed and advised to the committee for compliance.
15. The Board has set-up an effective internal audit department. The head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Modaraba.
16. The statutory auditors of the Modaraba have confirmed that i) they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, ii) they or any of the partners of the firm, their spouses and minor children do not hold certificate of the Modaraba and iii) the firm and all its partners are in compliance with International Federation of Accountants ( IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
17. 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.
18. We confirm that all other material principles contained in the Code have been complied with.

Karachi  
Date: October 10, 2009

For and on behalf of the Board

**CHAIRMAN**

**DIRECTOR**



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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Prudential Capital Management Limited** ("the Modaraba Management Company") in respect of **FIRST PRUDENTIAL MODARABA** (the Modaraba) for the year ended 30 June 2009, to comply with the Listing Regulations of the respective Stock Exchanges, where the Modaraba is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Modaraba Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement of compliance reflects the status of the Modaraba's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Modaraba Management Company personnel and review of various documents prepared by the Modaraba 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Modaraba Management Company's corporate governance procedures and risks.

Further, Sub - Regulation (xii)a of Listing Regulations 35 (Previously Regulation No. 37) notified by The Karachi Stock Exchange ((Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Modaraba Management Company to place before the Board of Directors 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. We are only required to ensure 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. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

We report that:

1. As stated in auditors' report to the certificate-holders, the financial statements of the Modaraba do not give a true and fair view of state of the Modaraba's affairs as at 30 June 2009 and of the loss, its cash flows and changes in equity for the year ended due to the significance of matters stated in paragraphs (a), (b), (c),(d), (e), (f), (g), (h) and (i) of auditor's report to the certificate - holders. Therefore, the Modaraba has not complied the corporate and financial reporting requirements of the Code;
2. Since the minutes of the Audit Committee's meeting were not provided to us, we could not ensure compliance in respect of placement of related party transactions before the Audit Committee. Further, based upon our examination of approved or draft minutes of meetings of Board of Directors of the Modaraba Management Company, the related party transactions have not been approved by the Board of Directors;
3. We could not ensure that the internal audit reports were presented to Audit committee and have been discussed by the Board of Directors of the Modaraba Management Company;
4. We have not been shown the minutes of the Annual Review Meeting of Certificate -holders for the year ended 30 June 2008;
5. Interim financial information for the half year and quarter ended 31 December 2008 were issued and circulated after the expiry of stipulated time limit.
6. Casual vacancies occurred in the Board of Directors of the Modaraba Management Company have not so far been filled as required by Code of Corporate Governance. At present Board of Directors include five directors only;



7. Orientation courses have not been arranged for the members of Board of Directors of the Modaraba Management Company;

8. The Chief Financial Officer, Company Secretary and Head of Internal Audit resigned from their posts, due to which new appointments have recently been made. We could not substantiate the qualifications and appointments on such key posts in accordance with the requirement of Code of Corporate Governance;

9. Certain meetings of Board of Directors of the Modaraba Management Company have not been attended by the Chief Financial Officer, as required by the Code of Corporate Governance, due to his resignation;

Our review indicates that due to the significance of matters stated above from paragraph (1) to (9), the Statement of Compliance does not appropriately reflect the Modaraba's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended 30 June 2009.

**KARACHI:**

**Dated:**

**RIAZ AHMAD & COMPANY**  
**Chartered Accountants**



**AUDITORS' REPORT TO THE CERTIFICATE HOLDERS**

We have audited the annexed balance sheet of **FIRST PRUDENTIAL MODARABA** (the Modaraba) as at 30 June 2009 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) as stated in note 2.1 (b) to the financial statements, the Modaraba has not adopted Islamic Financial Accounting Standard (IFAS)-2 'Ijarah'. Therefore, it has not been followed in the preparation of these financial statements. The management has not assessed the similarities or differences of accounting treatment followed by the Modaraba for property, plant and equipment-leased out. Therefore, the financial impact of the departure from IFAS-2 remained unascertained. Moreover, the disclosures required by IFAS-2 have also not been given in these financial statements;
- (b) the ex-Chief Executive Officer of Modaraba has been terminated during this year thereby imposing certain charges of malpractice and negligence while performing his duties. As per record, an inquiry was conducted and it was resolved to take suitable legal action against him. However, we have not been informed the status or outcome of such legal proceedings, and the adjustments which may arise on finalization of this matter, if any, have not been ascertained and made in these financial statements. Moreover, the Modaraba has no Chief Executive Officer since 12 July 2008. Its affairs have been managed, during the year, by a Managing Director and an Acting Chief Executive Officer for which approval from the Securities and Exchange Commission of Pakistan (SECP) has not been shown to us. Moreover, the Chief Financial Officer, Company Secretary and Head of Internal Audit resigned from their posts, due to which, new appointments have recently been made. There are certain allegations of malpractice and negligence in performance of duties on some of these ex-key management personnel, the impact of which has remained unascertained. The adjustments, if any, which may arise on account of this matter, have not been determined and incorporated in these financial statements;
- (c) during the year, Islamic CFS Morabaha financing of Rupees 65.022 million was provided to Cordial Trading Corporation without the approval of the Board of Directors of the Modaraba Management Company. Subsequent to the disbursement, this matter was presented to the board of directors in their meeting dated 31 October 2008 who, as per minutes of the meeting, granted the ex-post facto approval. We have also not been shown the complete documentation regarding the aforesaid financing. Further, the disbursement of the said financing was made to Prudential Securities Limited (a related party) instead of Cordial Trading Corporation and the shares purchased were also held in the name of the Modaraba as collateral. Due to decline in the capital market, the value of such collateral became inadequate for which a provision of Rupees 16.370 million has been made in these financial statements. The Modaraba adjusted proceeds from the partial sale of collateral amounting to Rupees 13.249 million against the aforesaid financing. The balance of Rupees 51.773 million outstanding as at 30 June 2009 and the CFS Morabaha transaction remained unconfirmed from Cordial Trading Corporation.



Due to these reasons, we could not confirm the entire existence, accuracy, completeness and valuation of this transaction and balance;

- (d) the minutes of the meetings of Board of Directors of the Modaraba Management Company from 165th and onward meetings have not so far been approved. Moreover, we have also not been shown the approved minutes of the meetings of the audit committee. We are unable to comment on the impact of any adjustment that may arise on finalization of this matter;
- (e) advances, prepayments and other receivables include a long standing balance of Rupees 22.756 million receivable from Prudential Securities Limited (PSL), a related party. This balance has been outstanding on account of stock market transactions which should have been cleared on "T plus 2" terms as per normal practice. The Modaraba made efforts to obtain collateral from PSL against this balance which could not be materialized. Due to this, the aforementioned balance is doubtful of recovery for which no provision for impairment has been recognized in these financial statements. Further, a deposit of Rupees 3 million grouped in Long Term Deposits is also recoverable from PSL for which no provision for impairment has been recognized as at 30 June 2009. We have also not received the balance confirmation certificate from PSL. Moreover, the Modaraba sold and purchased marketable securities through different brokers which should have been adjusted on "T plus 2" terms. However, the books of account include certain debit balances amounting to Rupees 13.048 million and credit balances of Rupees 16.423 million as at 30 June 2009 which have not been reconciled and adjusted. This creates significant doubts over the existence and accuracy of such transactions and balances;
- (f) advances, prepayments and other receivables include an amount of Rupees 1.799 million paid for the purchase of a motor vehicle for the ex-managing director of the Modaraba which is not registered in the name of Modaraba. This is in contravention of the requirements of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. Moreover, there is no resolution of board of directors of the Modaraba Management Company authorizing such purchase;
- (g) during the year, the Modaraba's investments in listed securities exceeded the limits prescribed by regulation 7(1) and 7(8) of Part II of Prudential Regulations issued by SECP. No relaxation has been obtained from the Registrar of the Modaraba for this non-compliance;
- (h) Other income includes an amount of Rupees 2.543 million which remained unverified due to the absence of proper audit trail;
- (i) the provision in respect of non-performing balances included in 'Lease Rentals Receivable' incorporated in these financial statements remained unverified because we were not provided the supporting details and basis thereof. Moreover, during the year, deletion of certain items of 'Property, Plant and Equipment-Leased out' costing Rupees 113.584 million has been accounted for in these financial statements resulting a gain of Rupees 12.508 million, included in Other income. We have not been shown supporting documents confirming the validity of such adjustments;
- (j) in our opinion, except for the matters stated above in paragraphs (a), (c), (e), (g), (h) and (i), proper books of accounts have been kept by the Modaraba Company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- (k) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have, except for the matters stated above in paragraphs (a), (c), (e), (g), (h) and (i), been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in agreement with accounting policies consistently applied;



- (ii) except for the matter stated above in paragraph (f), the expenditure incurred during the year was for the purpose of the Modaraba's business; and
- (iii) except for the matters stated above in paragraph (b) and (f), the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- (l) in our opinion and to the best of our information and according to the explanations given to us, except for the matters stated in paragraphs (a), (c), (e) (g), (h) and (i), the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981 in the manner so required. Further, in our opinion, because of the significance of the matters stated in paragraphs (a), (b), (c), (d), (e), (f), (g), (h) and (i), the Modaraba's balance sheet, profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof do not give a true and fair view of state of the Modaraba's affairs as at 30 June 2009 and of the loss, its cash flows and changes in equity for the year then ended; and
- (m) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

We also draw attention to following matters:

1. we have not been provided the long term and short term business strategies of the Modaraba and business plan focusing the current financial crises and recession which has affected the business of the Modaraba. The fair values of investments held by the Modaraba have considerably declined which, coupled with other factors, has resulted net loss for the year amounting to Rupees 103.718 million. The accumulated loss of the Modaraba amounting to Rupees 513.702 million as at 30 June 2009 has eroded its equity considerably. This necessitates re-assessing the long term and short term business strategies and preparing a comprehensive business plan which may provide future vision and roadmap for the management to perform efficiently, producing best possible results, in the coming year. Due to high turnover rate of key management personnel this crucial exercise has not been undertaken by the management. Further, this also affects the accuracy and reliability of the financial reporting of the Modaraba.

2. note 1.2 to the financial statements states that subsequent to the balance sheet date, the Modaraba is exploring the possibilities of merger with and into Al-Zamin Leasing Modaraba. The outcome of this matter is dependent upon the required regulatory and statutory approvals. Further, as disclosed in Note 1.3 to the financial statements, management has obtained 'No Objection Certificate' dated 01 October 2009 from SECP in order to acquire membership card of Lahore Stock Exchange from PSL (related party) and is in the process of finalization of this matter.

3. note 1.4 to the financial statements states that, during the year, SECP has conducted the inspection into the records and affairs of the Modaraba and the report on the findings are awaited. As the matter has not so far been finalized, there remain the uncertainties as to the outcome of such inspection on the affairs and future of the Modaraba.

**RIAZ AHMAD & COMPANY**  
Chartered Accountants

Muhammad Kamran Nasir  
Date:  
KARACHI



**BALANCE SHEET**  
**AS AT 30 JUNE, 2009**

	Note	2009 Rupees	2008 Rupees
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and bank balances	3	187,666,800	161,757,893
Advances, prepayments and other receivables	4	46,307,629	165,371,555
Lease rentals receivables	5	41,105,036	23,755,823
Investments	6	98,265,160	116,533,709
Short term morabaha and musharika finances	7	38,484,832	5,908,278
Trade debtors	8	-	-
Current portion of long term musharika finance		3,477,646	5,652,020
Current portion of long term morabaha finance		18,091,324	11,686,280
Current portion of held to maturity Investments		-	176,800
Decretal amounts receivables against morabaha and musharika finance	9	2,534,802	13,534,802
<b>TOTAL CURRENT ASSETS</b>		<b>435,933,229</b>	<b>504,377,160</b>
<b>NON-CURRENT ASSETS</b>			
Long term musharika finance	10	-	-
Long term morabaha finance	11	8,837,362	35,644,840
Long term deposits		3,066,192	3,184,193
Long term investments	12	7,285,615	6,809,024
Investment property	13	8,400,000	7,350,000
Property and equipment - owned	14	1,076,247	1,877,106
Property, plant and equipment - leased out	15	117,128,823	194,362,121
		<b>145,794,239</b>	<b>249,227,284</b>
<b>TOTAL ASSETS</b>		<b>581,727,468</b>	<b>753,604,444</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Current portion of long term lease deposits		40,836,556	38,220,843
Accrued and other liabilities	16	39,001,181	50,768,149
Taxation		457,801	1,206,705
<b>TOTAL CURRENT LIABILITIES</b>		<b>80,295,538</b>	<b>90,195,697</b>
Long term lease deposits	17	29,371,090	61,465,010
<b>TOTAL LIABILITIES</b>		<b>109,666,628</b>	<b>151,660,707</b>
<b>NET ASSETS REPRESENTED BY</b>		<b>472,060,840</b>	<b>601,943,737</b>
Certificate capital	18	872,176,600	872,176,600
Reserves			
Capital			
Statutory reserves		113,586,162	113,586,162
Revenue			
Accumulated loss		(513,701,922)	(383,819,025)
		<b>472,060,840</b>	<b>601,943,737</b>
Contingencies and commitments	19		

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

**Statement under Rule 12(2) of the Modaraba Companies and Modaraba Rules, 1981:**

These financial statements have been signed by three directors including chairman, because the Chief Executive Officer has been terminated on 12 July 2008.

Chairman

Director

Director





**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30 JUNE, 2009**

	Note	2009 Rupees	2008 Rupees
<b>INCOME</b>			
Lease rentals		73,087,116	90,920,547
Profit on Morabaha finance		2,663,850	15,006,719
Profit on Musharika finance		10,705,375	2,646,245
(Loss) / gain on sale of listed securities		(9,093,050)	21,149,834
Profit on TFCs and bank accounts		16,575,407	13,175,627
Dividend income		4,738,022	2,960,760
Other income	20	18,312,921	2,688,948
		<u>116,989,641</u>	<u>148,548,680</u>
<b>REVERSALS / (PROVISIONS)</b>			
(Provision) / reversal of provision for			
doubtful recoveries - net	21	(64,041,687)	17,081,645
Loss on change in fair value of investments	22	(86,160,153)	(38,626,190)
Gain on the re-measurement of investment property		1,050,000	-
		<u>(149,151,840)</u>	<u>(21,544,545)</u>
		<u>(32,162,199)</u>	<u>127,004,135</u>
<b>EXPENDITURE</b>			
Administrative expenses	23	16,269,745	17,933,822
Depreciation on property, plant and equipment - leased out		54,037,905	63,136,826
Bank and other charges		114,917	96,312
		<u>(70,422,567)</u>	<u>(81,166,960)</u>
		<u>(102,584,766)</u>	<u>45,837,175</u>
Share of (loss) / profit from associates - net		(675,032)	573,863
Modaraba Company's management fee		-	(4,622,911)
(Loss) / profit before taxation		<u>(103,259,798)</u>	<u>41,788,127</u>
Provision for taxation	24	(457,801)	(332,976)
(Loss) / profit for the year		<u>(103,717,599)</u>	<u>41,455,151</u>
(Loss) / earnings per certificate-basic and diluted	25	<u>(1.19)</u>	<u>0.48</u>

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

**Statement under Rule 12(2) of the Modaraba Companies and Modaraba Rules, 1981:**

These financial statements have been signed by three directors including chairman, because the Chief Executive Officer has been terminated on 12 July 2008.

\_\_\_\_\_  
Chairman

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Director

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Director



**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE, 2009**

	2009 Rupees	2008 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss) / profit before taxation	(103,259,798)	41,788,127
Adjustments:		
Depreciation on property and equipment - owned	874,730	1,637,029
Depreciation on property, plant and equipment - leased out	54,037,905	63,136,826
Bank and other charges	114,917	96,312
Fair value gain on investment property	(1,050,000)	-
Loss / (gain) of share in associates	675,032	(573,863)
Provision / reversal for doubtful recoveries-net	64,041,687	(17,081,645)
Loss on revaluation of investment	86,160,153	38,626,190
Dividend income	-	(2,960,760)
Profit on held to maturity investments	-	(10,400)
(Loss) / gain on sale of listed securities	9,093,050	(21,149,834)
Gain on disposal of property and equipment - owned	(212,098)	(4,626)
Gain on disposal of property, plant and equipment - leased out	(12,295,602)	(925,836)
	<u>201,439,774</u>	<u>60,789,393</u>
	<u>98,179,976</u>	<u>102,577,520</u>
(Increase)/decrease in operating assets		
Decretal amount receivable against morabaha and musharika finances	11,000,000	(4,470,386)
Morabaha finance	(28,543,991)	35,438,425
Musharika finance	(1,470,909)	6,708,546
Lease rentals	(20,407,841)	-
Advances, prepayments and other receivables	78,404,979	(145,439,863)
	<u>38,982,238</u>	<u>(107,763,278)</u>
Increase/(decrease) in current liabilities		
Accrued and other liabilities	(13,544,218)	16,437,840
Cash generated from operations	123,617,996	11,252,082
Dividend paid	(24,388,048)	(24,766,654)
Income tax paid	(1,515,663)	(1,379,325)
Bank and other charges paid	(114,917)	(96,312)
Lease deposits	(29,629,980)	(2,345,550)
Net cash from / (used in) operating activities	<u>67,969,388</u>	<u>(17,335,759)</u>



	2009 Rupees	2008 Rupees
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Long term deposits	118,001	(4,193)
Investments made- net outflow / inflow	(78,136,277)	6,857,686
Realisaion of "Held to Maturity" investments	176,800	176,800
Capital expenditure:		
Own use	157,024	298,501
Leased out	(12,897,350)	(52,018,086)
Sale proceeds of property, plant and equipment- Leased out	48,231,321	28,809,411
Dividend income received	290,000	3,172,818
Net cash used in investing activities	<u>(42,060,481)</u>	<u>(12,707,063)</u>
Net increase / (decrease) in cash and cash equivalents	25,908,907	(30,042,822)
Cash and cash equivalents at the beginning of the year	161,757,893	191,800,715
Cash and cash equivalents at the end of the year ( Note 3)	<u>187,666,800</u>	<u>161,757,893</u>

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

**Statement under Rule 12(2) of the Modaraba Companies and Modaraba Rules, 1981:**

These financial statements have been signed by three directors including chairman, because the Chief Executive Officer has been terminated on 12 July 2008.

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Chairman

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Director

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Director



**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE, 2009**

	Certificate Capital	Statutory reserve	Surplus on revaluation of investments .....Rupees.....	Accumulated Loss	Total
<b>Balance as at 01 July 2007</b>	872,176,600	99,076,859	(1,310,898)	(384,599,575)	585,342,986
Loss on revaluation of 'available for sale' investments	-	-	(114,643)	-	(114,643)
Impairment loss transferred to profit and loss account	-	-	1,425,541	-	1,425,541
Profit for the year ended 30 June 2008	-	-	-	41,455,151	41,455,151
Distribution at the rate of 3% declared for the year ended 30 June 2007	-	-	-	(26,165,298)	(26,165,298)
Transferred to statutory reserve	-	14,509,303	-	(14,509,303)	-
<b>Balance as at 30 June 2008</b>	872,176,600	113,586,162	-	(383,819,025)	601,943,737
Profit for the year ended 30 June 2009	-	-	-	(103,717,599)	(103,717,599)
Distribution at the rate of 3% declared for the year ended 30 June 2009	-	-	-	(26,165,298)	(26,165,298)
Transferred to statutory reserve	-	-	-	-	-
<b>Balance as at 30 June 2009</b>	<u>872,176,600</u>	<u>113,586,162</u>	<u>-</u>	<u>(513,701,922)</u>	<u>472,060,840</u>

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

The annexed notes from 1 to 35 form an integral part of these financial statements.

**Statement under Rule 12(2) of the Modaraba Companies and Modaraba Rules, 1981:**

These financial statements have been signed by three directors including chairman, because the Chief Executive Officer has been terminated on 12 July 2008.

\_\_\_\_\_  
Chairman

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Director

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Director



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE, 2009**

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

- 1.1** First Prudential Modaraba is a multipurpose, perpetual Modaraba. The Modaraba is registered under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Modaraba Companies and Modaraba Rules, 1981 and is managed by Prudential Capital Management Limited, a Modaraba Management Company incorporated in Pakistan under the Companies Ordinance, 1984. The Modaraba is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The Modaraba is currently engaged in various modes of Islamic funding and businesses which include leasing of assets, deployment of funds in musharika, morabaha and investment in securities. Its registered office is situated at Office No. 54, Ground Floor, Beverly Centre, 56-G, Blue Area, Islamabad.
- 1.2** The Board of Directors of management company of the Modaraba passed a resolution in their meeting dated 04 August 2009 to explore the possibilities of proposed merger with and into Al-Zamin Leasing Modaraba. The formal process for the proposed merger has been initiated subsequent to the aforesaid board meeting. However, the outcome of this matter is dependent upon the required regulatory and statutory approvals.
- 1.3** Subsequent to the balance sheet date, the Modaraba has also obtained 'No Objection Certificate' dated 01 October 2009 from the Securities and Exchange Commission of Pakistan (SECP) in order to acquire membership card of Lahore Stock Exchange from Prudential Securities Limited (related party). The management is in the process of finalization of this matter by completing the required formalities.
- 1.4** During the year, SECP has conducted the inspection into the records and affairs of the Modaraba. However, the report on findings has not so far been received. The management strongly believes that the final outcome of the enquiry will not be adverse for the Modaraba.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated:

**2.1 Basis of Preparation**

**(a) Statement of Compliance**

These financial statements have been prepared in accordance with the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Modaraba Companies and Modaraba Rules, 1981 and directives issued by the Securities and Exchange Commission of Pakistan (SECP) [the Modaraba Regulations] together with the approved accounting standards as applicable to Modaraba in Pakistan. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984 and made applicable to Modaraba under the 'Modaraba Regulations'. In case, the requirements of the Modaraba Regulations differ from the requirement of these standards, the requirements of the 'Modaraba Regulations' shall prevail.

SECP vide their letter No SC/M/RS/IAS-17/2004 dated 13 February 2004 addressed to Modaraba Association of Pakistan deferred the application of IAS-17 to Modarabas till further order.

**(b)** SECP has issued directive vide SRO 431(I)/2007 dated 22 May 2007 that Islamic Financial Accounting Standard (IFAS) – 2 'IJARAH' issued by the Institute of Chartered Accountants of Pakistan shall be followed in preparation of the financial statements by companies and modarabas while accounting for Ijarah transactions, as defined by the said standard. The Modaraba has not yet adopted this accounting standard. The Modaraba Association of Pakistan has approached the SECP for deferment of this standard. However, subsequent to the balance sheet date, management has started evaluating the impact of adoption of this standard, and is hopeful that on adoption of IFAS-2, there will arise no significant adjustments to the reported balances of 'Property, Plant and Equipment-Leased Out' and profitability of the Modaraba. This is expected to result in increased disclosures in the financial statements.



**(c) Accounting Convention**

These financial statements have been prepared under the historical cost convention except that investment property is stated at revalued amount in accordance with the criteria laid down under International Accounting Standard (IAS) - 40 'Investment Property' and investments are stated at fair value in accordance with the criteria laid down in International Accounting Standard (IAS) - 39 'Financial Instruments: Recognition and Measurement'. These financial statements have been prepared on accrual basis of accounting except for cash flow information.

**(d) Critical Accounting Estimates and Judgments**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Modaraba's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas 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:

Classification of investments (Note 2.2)

Provision against doubtful balances (Note 2.8)

Provision for taxation (Note 24)

Property, plant and equipment, depreciation, residual values and useful lives (Note 2.6)

**(e) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Modaraba operates. These financial statements are presented in Pakistani Rupees, which is the Modaraba's functional and presentation currency.

**(f) Standard that is effective in current year**

'IFRS 7 'Financial Instruments: Disclosures'. The Securities and Exchange Commission of Pakistan (SECP) vide S.R.O 411(I) / 2008 dated 28 April 2008 notified the adoption of IFRS 7. IFRS 7 is mandatory for Modaraba's accounting period beginning on or after the date of notification i.e 28 April 2008. IFRS 7 has superseded IAS 30 and disclosure requirements of IAS 32. Adoption of IFRS 7 has only impacted the format and extent of disclosures presented in the financial statements.

**(f) Standards, interpretations and amendments to published approved accounting standards that are effective in current year but not relevant**

There are other new standards, interpretations and amendments to the published approved accounting standards that are mandatory for accounting periods beginning on or after 01 July 2008 but are considered not to be relevant or do not have any significant impact on the Modaraba's financial statements and are therefore not detailed in these financial statements.

**(g) Standards and amendments to published approved accounting standards that are not yet effective but relevant**

Following standards and amendments to existing standards have been published and are mandatory for the Modaraba's accounting periods beginning on or after 01 July 2009 or later periods:

IAS 1 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January 2009), issued in September 2007 revises the existing IAS 1 and requires apart from changing the names of certain financial statements, presentation of transactions with owners in statement of changes in equity and with non-owners in the Comprehensive Income Statement. Adoption of the aforesaid standard will only impact the presentation of the financial statements.



'IAS 23 (Amendment) 'Borrowing Costs' (effective for annual periods beginning on or after 01 January 2009). It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. On adoption the option of immediately expensing those borrowing costs will be withdrawn. This change will not effect the financial statements as the Modaraba already has the policy to capitalize its borrowing cost.

'IFRS 7 (Amendment) 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after 01 January 2009). This amendment has expanded the disclosures required in respect of fair value measurements recognized in the statement of financial position. Moreover, amendments have also been made to the liquidity risk disclosures. Such amendments are not expected to have any significant impact on the Modaraba's financial statements other than increase in disclosures.

There are other amendments resulting from May 2008 and April 2009 Annual Improvements to IFRSs, specifically in IFRS 8 'Operating Segments', IAS 1 'Presentation of Financial Statements', IAS 7 'Statement of Cash Flows', IAS 23 'Borrowing Costs', IAS 28 'Investments in Associates', IAS 36 'Impairment of Assets' and IAS 39 'Financial Instruments: Recognition and Measurement' that are considered relevant to the Modaraba's financial statements. These amendments are unlikely to have a significant impact on the Modaraba's financial statements and have therefore not been analyzed in detail.

**(h) Standards, interpretations and amendments to published approved accounting standards that are not effective in current year and not considered relevant**

There are other accounting standards, amendments to published approved accounting standards and new interpretations that are mandatory for accounting periods beginning on or after 01 July 2009 but are considered not to be relevant or do not have any significant impact on the Modaraba's financial statements and are therefore not detailed in these financial statements.

**2.2 Investments**

The investments of the Modaraba are classified under securities available for sale, at fair value through profit or loss and held to maturity.

**Regular way purchase**

Investments in securities are recognized on a trade-date basis and are initially measured at fair value.

**At fair value through profit or loss**

These investments are initially recognized at fair value and subsequently re-measured at fair value. The gain or loss on revaluation of investment held for trading is included in profit and loss account.

**Available for sale**

Investment securities held by the Modaraba which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available for sale. These investments are initially recognized at fair value plus transaction cost and subsequently re-measured at fair value. The investments for which quoted market price is not available, are measured at costs as it is not possible to apply any other valuation methodology. Gains and losses arising from re-measurement at fair value is recognized directly in the equity under fair value reserve until sold, collected, or otherwise disposed off. On disposal of assets the cumulative gain or loss previously recognized in equity is included in profit and loss account.

**Held to maturity**

These are investments with fixed or determinable payments and fixed maturity, and which, the Modaraba has positive intent and ability to hold till maturity. Held to maturity investments are initially recognized at fair value plus transaction cost and are subsequently measured at amortized cost using effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts.



**De-recognition**

All investments are de-recognized when the rights to receive cash flows from the investments have expired or have been transferred and the Modaraba has transferred substantially all risks and rewards of ownership.

**2.3 Investment properties**

Properties which are not occupied by the Modaraba for its operations are classified as investment property in accordance with the requirements of International Accounting Standard (IAS) - 40. These properties are carried at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The valuation of the properties is carried out annually. The investment property carried in the balance sheet represents the premises, held as mortgaged collateral, and purchased against non-performing Morabaha financing upon auction through Sindh High Court.

**2.4 Staff retirement benefits - Defined contribution plan**

The Modaraba operates recognized provident fund scheme for all eligible employees. Monthly contribution is made by the Modaraba and the employees @ 8.33% of the basic salary. The scheme is administered by trustees nominated under the trust deed.

**2.5 Taxation**

**Current**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit / loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Modaraba's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

**Deferred**

Deferred income tax is provided using the liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax asset is recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that taxable profits will be available against which such temporary differences and tax losses can be utilized.

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to equity in which case it is included in equity.

**2.6 Property, plant and equipment**

**Property and equipment in own use and depreciation thereon**

These are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged to income applying the straight line method whereby the cost of the asset is written-off over its estimated useful life. Depreciation is charged from the month of acquisition of the respective assets up to the month of disposal.

Maintenance and normal repairs are charged to income as and when incurred. Gains and losses on disposal of property and equipments are included in income currently.

Assets' residual values, if significant and their useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. However, the residual value of the own assets are estimated to be negligibly low.



**Property, plant and equipment leased out and amortization thereof**

Modaraba is required to enter into the lease contracts in accordance with the principles of Sharia'a and form approved by the Modaraba Religious Board. The principles of Sharia'a, prohibit the Modaraba from undertaking any interest based transactions. The Modaraba accounts for the property, plant and equipment leased out and acquired on leases as operating leases

Property, plant and equipment leased out are stated at cost less accumulated amortization and impairment loss (if any). Amortization is charged to income applying the straight-line method whereby the cost of an asset, less its residual value, is written off over its lease period. In respect of additions and disposals during the year, amortization is charged proportionately to the period of lease.

Gain or loss on disposal of leased assets is charged to profit and loss account currently.

**2.7 Lease rental receivables, morabaha and musharika finances**

Lease rental receivables, morabaha and musharika finances are recomputed at amortized cost and any provision for doubtful debts/recoveries are made quarterly after review of overdue lease rentals, Morabaha and Musharika finances on the basis of Prudential Regulations for Modaraba issued by SECP. Other doubtful debts are provided for on the basis of their possible realization.

**2.8 Provisions**

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

**2.9 Impairment**

The Modaraba assesses at each balance sheet date whether there is any indication that assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of initial cost of the asset. Reversal of impairment loss is recognized as income.

**2.10 Related party transactions**

All transactions with related parties are carried out at arms length prices determined in accordance with comparable uncontrolled price method.

**2.11 Borrowing costs**

Interest and other charges on long term loans are capitalized for the period up to the date of commissioning of the respective assets acquired out of the proceeds of such loans. All other interest and other charges are charged to income during the year.

**2.12 Foreign currencies**

All monetary assets and liabilities denominated in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date, while the transactions in foreign currency during the year are initially recorded in functional currency at the rates of exchange prevailing at the transaction date. All non monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined. The Modaraba charges all the exchange differences to profit and loss account.



**2.13 Financial Instruments**

Financial assets and liabilities are recognized when the Modaraba becomes a party to the contractual provisions of instrument. Initial recognition is made at fair value plus transaction costs directly attributable to acquisition, except for "financial instrument at fair value through profit or loss" which is measured initially at fair value. Financial assets are de-recognized when the Modaraba loses control of the contractual rights that comprise the financial asset. The Modaraba loses such control if it realizes the rights to benefits specified in contract, the rights expire or the Modaraba surrenders those rights. Financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on subsequent measurement and de-recognition is charged to the profit or loss currently. The particular measurement methods adopted are disclosed in the individual policy statements.

**2.14 Off setting of financial assets and financial liabilities**

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

**2.15 Revenue recognition**

Profit on Morabaha finance, Musharika finance and on portfolio management account are accounted for on accrual basis. However, un-realized income on Morabaha and Musharika finance on overdue amount is excluded from income in accordance with the requirements of Prudential Regulations for Modaraba issued by SECP.

Gain or loss on sale of investments is accounted for in the year in which it arises.

Dividend income is recognized when right to receive dividend is established.

Lease rental income is recognized on straight line basis when rentals become due on accrual basis.

Profit on PLS saving account is recognized on accrual basis.

**2.16 Operating leases**

Modaraba has a policy to credit the operating lease rentals to profit and loss account when the rentals become due.

**2.17 Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, with banks on current and deposit accounts.

**2.18 Dividend and other appropriations**

Dividend distribution to the certificate-holders is recognized as a liability in the Modaraba's financial statements in the period in which the dividends are approved and other appropriations are recognized in the period in which these are approved by the Board of Directors of the management company.



	2009 Rupees	2008 Rupees
<b>3. CASH AND BANK BALANCES</b>		
Cash in hand	9,572	10,798
Cash at banks		
Current account	2,231,956	436,469
Saving accounts	17,425,273	61,310,626
Term deposit receipts	167,999,999	100,000,000
	<u>187,657,228</u>	<u>161,747,095</u>
	<u>187,666,800</u>	<u>161,757,893</u>
<b>4. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES</b>		
Advances		
Income tax -net	3,205,196	2,896,238
Advance against supplies / services	369,057	291,557
Provision for doubtful recoveries	(281,557)	(281,557)
Net of provision	87,500	10,000
Advances to staff	1,878,913	5,743
	<u>5,171,609</u>	<u>2,911,981</u>
	<u>1,831,688</u>	<u>6,975,992</u>
<b>Prepayments</b>		
<b>Other receivables</b>		
Dividend receivable	-	162,523
Receivable against sale of shares	64,620,930	64,620,930
Provision for doubtful recovery	(64,620,930)	(23,653,025)
Net receivables	-	40,967,905
Related parties (Note 4.1)	23,040,907	70,492,222
Profit on bank deposits	1,807,259	358,808
Receivable from morabaha clients	125,762	125,762
Provision for doubtful recovery	(125,762)	(125,762)
Net receivables from morabaha clients	-	-
Receivable from bank (Note 4.2)	10,241,347	10,241,347
Provision for doubtful recovery	(10,241,347)	(10,241,347)
Net receivables from bank	-	-
Accrued profit (Note 4.3)	-	163,176
Other receivables	22,781,180	44,829,032
Provision for doubtful recovery	(8,325,014)	(1,490,084)
	<u>14,456,166</u>	<u>43,338,948</u>
	<u>46,307,629</u>	<u>165,371,555</u>
<b>4.1</b> This amount represents receivable against sale of shares. Maximum amount due from related parties at the end of any month during the year was Rs. 40,967,905 (2008- Rs.64,786,968).		
<b>4.2</b> This represents amount unauthorizedly debited to Modaraba's account by a scheduled commercial bank on behalf of party considered to be a group company. The Modaraba filed a suit for recovery under the Financial Institutions (Recovery of Finances) Ordinance, XLVI of 2001 which was decreed against the Modaraba only due to the reason that it was time-barred. Management filed an appeal in the Sindh High Court against the judgment of the Banking Court. The Sindh High Court has set aside the decree of the Banking Court with the directions that the Banking Court, in the first instance, shall decide the application for leave to defend moved by the Bank. The case is under process with the Banking Court.		
<b>4.3 Accrued profit</b>		
Morabaha	-	287,728
Musharika - secured	-	(124,552)
	<u>-</u>	<u>163,176</u>



	2009 Rupees	2008 Rupees		2009	2008
<b>5. LEASE RENTALS RECEIVABLES</b>					
Considered good - Secured	41,105,036	23,755,823			
Considered doubtful	16,403,858	13,345,230			
	<u>57,508,894</u>	<u>37,101,053</u>			
Provision for doubtful	(16,403,858)	(13,345,230)			
	<u>41,105,036</u>	<u>23,755,823</u>			
<b>6. INVESTMENTS - At fair value through profit or loss</b>					
In listed securities:					
Associated companies - related parties (Note 6.1)	-	3,341,440			
Listed companies - others (Note 6.2)	98,265,160	113,192,269			
	<u>98,265,160</u>	<u>116,533,709</u>			
<b>6.1 Investment in associated companies - related parties</b>					
<b>Number of Certificates / share</b>			<b>Name of investee</b>		
<b>Shares/ Units</b>					
	2009	2008	<b>CLOSED-END MUTUAL FUND</b>	2009	2008
	1,670,720	1,670,720	Prudential Stock Fund	-	3,341,440
<b>6.2 Listed companies - others</b>			<b>CLOSED-END MUTUAL FUND</b>		
	5,000	-	PICIC Engery Fund	22,500	-
	134,500	-	Pak Premier Fund	551,450	-
	2,500	-	Golden Arrow Selected Stock Funds	5,650	-
	1,000	-	JS Growth Fund	3,820	-
	56,500	-	F.Cap.Mutual Fund	134,470	-
			<b>OPEN-END MUTUAL FUNDS</b>		
	25,000	25,000	National Investment (Unit)Trust	671,250	1,308,750
	<u>362,555</u>	<u>318,131</u>	Unit Trust of Pakistan (Face value of certificate Rs.5000/- each)	<u>32,865,611</u>	<u>48,298,648</u>
			<b>LEASING COMPANIES</b>		
	434,208	434,208	Pakistan Industrial and Commercial Leasing Limited	65,510	638,286
			<b>INVESTMENT BANKS/ SECURITIES</b>		
	26,875	6,000	Arif Habib Securities Limited	1,340,015	968,880
	<u>322,000</u>	<u>322,000</u>	IGI Investment Bank Limited	<u>1,345,960</u>	<u>2,547,020</u>
	7,678	2,678	Invest Capital Investment Bank Limited	-	31,708
	68,200	30,000	Javed Omer Vohra & company Limited	918,654	1,601,400
	<u>130,500</u>	<u>130,500</u>	Prudential Investment Bank Limited	-	495,900
	12,282	-	Jahangir Siddiqui Co.Ltd.	284,820	-
	20,000	-	JS Investment Ltd.	338,800	-
	1,000	-	Pervez Ahmed Securities	5,290	-
	894,850	-	First Capital Securities	9,315,389	-
	<u>4,000</u>	<u>-</u>	JS Global Cap Ltd.	<u>274,040</u>	<u>-</u>



Number of Certificates / Shares/ Units		Name of investee	2009 Rupees	2008 Rupees
2009	2008			
<b>COMMERCIAL BANKS</b>				
112,222	101,000	Arif Habib Bank Limited	784,432	1,937,181
26,000	24,000	Atlas Bank Limited	88,140	251,520
16,875	15,000	Bank Al Falah Limited	178,031	615,900
70,625	15,000	Bank Islami Pakistan Limited	449,881	222,150
4,600	20,000	Faysal Bank Limited	44,528	700,800
22,500	10,000	JS Bank Limited	135,675	137,400
19,800	26,500	National Bank of Pakistan	1,327,194	3,908,751
85,000	241,800	NIB Bank Limited	403,750	2,749,267
50,264	40,000	Soneri Bank Limited	550,893	993,600
36,000	32,000	Standerd Chartered Bank Pakistan Limited	305,640	752,320
5,000	115,000	The Bank of Punjab	54,900	3,579,950
26,950	21,500	United Bank Limited	1,031,916	1,829,435
1,500	-	Askari Commercial Bank	22,920	-
239,400	-	Silk Bank (formarly Saudi Pak Commercial Bank Ltd)	1,295,154	-
<b>TEXTILE COMPOSITE</b>				
6,000	5,000	Azgard Nine Limited	132,840	307,750
103,782	103,282	Gul Ahmed Textile Mills Limited	4,030,893	4,131,280
27,500	27,500	Mubarak Textile Mills Limited	34,375	82,500
41,925	41,925	Hussain Industries Limited	398,288	553,410
7,500	7,500	Nishat Mills Limited	283,650	644,775
37,200	-	Sapphire Fibers Mills Limited	3,162,000	-
5,000	-	Kohinoor Textile Mills Limited	22,100	-
1,256	-	Reliance Cotton & Spinning Mills Limited	30,144	-
2,000	-	Dewan Salman Fiber	2,980	-
2,500	-	Samir Textile Ltd	14,175	-
<b>CEMENT</b>				
150,000	150,000	Al-Abbas Cement Limited	1,050,000	1,719,000
29,400	23,500	D.G. Khan Cement Company Limited	871,710	1,577,791
21,500	21,500	Dewan Cement Limited	59,125	263,590
121,500	121,500	Fauji Cement Company Limited	800,685	1,229,580
11,000	10,000	Lucky Cement Limited	643,830	979,171
30,000	30,000	Maple Leaf Cement Factory Limited	127,800	327,300
25,000	25,000	Pakistan Cement Company Limited	67,500	170,000
50,000	50,000	Pioneer Cement Limited	679,000	1,408,500
2,000	-	Dada Bhay Cement	4,240	-
5,000	-	Cherat Cement	67,650	-
1,000	-	Attock Cement	70,220	-
360,000	-	Zeal Pak Cement	112,800	-
5,000	-	Dandot Cement	41,500	-
11,000	-	Kohat Cement Company	80,080	-
<b>REFINERY</b>				
6,887	123	Attock Refinery Limited	1,250,703	30,735
5,020	4,020	National Refinery Limited	1,104,500	1,195,829
25,082	25,082	Pakistan Refinery Limited	2,252,364	3,796,913



Number of Certificates / Shares/ Units		Name of investee	2009 Rupees	2008 Rupees
2009	2008			
<b>POWER GENERATION &amp; DISTRIBUTION</b>				
32,500	15,000	The Hub Power Company Limited	880,425	429,000
53,500	13,500	Kot Addu Power Company Limited	2,260,910	634,500
300,000	-	Southern Electric Power Company Limited	963,000	-
10,000	-	Japan Power Generation Limited	18,000	-
2,000	-	Karachi Electric Supply Company Limited	5,300	-
<b>OIL &amp; GAS MARKETING COMPANIES</b>				
1,000	-	Pakistan State Oil Limited	213,650	-
4,000	4,000	Sui Northern Gas Pipelines Limited	127,800	174,280
<b>OIL &amp; GAS EXPLORATION COMPANIES</b>				
58,500	-	Oil and Gas Development company Limited	4,600,440	-
13,875	250	Pakistan Petroleum Limited	2,629,868	61,485
500	-	Pakistan Oil Fields Limited	72,950	-
<b>ENGINEERING</b>				
37,950	34,500	Crescent Steel & Allied Products Limited	681,962	2,129,686
107,000	105,000	Dost Steels Limited	571,380	2,293,200
19,280	-	International Industries Ltd	869,335	-
<b>AUTOMOBILES &amp; ASSEMBLERS</b>				
3,000	2,000	Al-Ghazi Tractors Limited (Face value of shares of Rs.5/- each)	486,000	544,700
8,250	6,600	Millat Tractors Limited	2,303,730	1,755,600
8,400	8,400	Gandhara Industries Limited	63,000	238,980
6,500	6,500	Honda Atlas Car (Pakistan) Limited	83,525	244,595
3,000	1,000	Pak Suzuki Motor Company Limited	203,700	119,790
1,500	1,500	Indus Motor Company Limited	161,580	300,075
<b>CABLE &amp; ELECTRICAL GOODS LIMITED</b>				
12,500	12,500	Johnson & Philips (Pakistan) Limited	218,750	693,625
<b>TECHNOLOGY &amp; COMMUNICATION</b>				
-	32,500	Netsol Technologies Limited	-	3,161,600
50,000	250,000	Tele Card Limited	86,500	1,590,000
100,000	85,000	TRG Pakistan Limited	135,000	531,250
100,000	100,000	World Call Telecom Limited	250,000	1,452,000
3,000	-	Pakistan Telecommunication Company Limited	51,720	-
<b>FERTILIZER</b>				
31,500	62,500	Fauji Fertilizer Bin Qasim Limited	557,235	2,248,126
3,875	3,100	Fauji Fertilizer Compay Limited	336,931	410,192
<b>PHARMACEUTICALS</b>				
7,560	2,560	Abbot Laboratories (Pakistan) Limited	606,312	454,144
15,210	4,010	Highnoon Laboratories Limited	463,753	226,324
1,000	-	Glaxo Smithkline Pakistan Limited	119,810	-



Number of Certificates / Shares/ Units		Name of investee	2009 Rupees	2008 Rupees
2009	2008			
<b>CHEMICALS</b>				
13,020	800	Engro Chemical Pakistan Limited	1,672,159	224,646
5,000	-	Sitara Peroxide	92,200	-
43,000	-	Engro Ploymers Chemicals	823,880	-
50,000	-	Nimir Resins Limited	154,500	-
26,500	-	Bawany Air Products	94,075	-
2,000	-	I.C.I. Pakistan Limited	280,500	-
<b>INSURANCE</b>				
15,400	-	Adamjee Insurance Company Limited	1,293,446	-
1,000	-	Pak Reinsurance Company Limited	35,030	-
<b>PAPER &amp; BOARD</b>				
75	75	Packages Limited	11,778	18,891
<b>FOODS &amp; PERSONEL CARE-PRODUCTS</b>				
51,000	51,000	Shakarganj Foods	-	728,790
<b>TRANSPORT</b>				
8,000	-	Pak.International Airlines	26,560	-
<b>MODARABA</b>				
104,500	-	First Habib Modaraba	602,965	-
5,000	-	First Equity Modaraba	4,950	-
165,000	-	Unity Modaraba	52,800	-
10,000	-	KASB Modaraba	31,000	-
<b>GLASS &amp; CERAMICS</b>				
45,200	-	Tariq Glass Industries	315,496	-
<b>MISCELLANEOUS</b>				
26,000	25,000	Eco Pak Limited	158,340	250,000
5,000	15,000	Siddique Sons Tin Plate Limited	42,550	289,800
9,000	-	Al-Khair Gadoon	43,190	-
53,000	-	Pace Pakistan	295,740	-
<b>SUSPENDED / DELISTED COMPANY</b>				
27,500	27,500	Pearl Fabrics Limited	-	-
88,500	88,500	Schon Textile Mills Limited (Note 6.2.1)	-	-
18,000	18,000	Zahoor Textile Mills Limited (Note 6.2.1)	-	-
			<b>98,265,160</b>	<b>113,192,269</b>

6.2.1 These shares are still in the name of Third Prudential Modaraba (since merged with the Modaraba) and are not yet transferred in the name of the Modaraba.

Unless stated otherwise, the holdings are in the fully paid ordinary shares/ certificates/ units of Rs 10/- each.



	2009 Rupees	2007 Rupees
<b>7. SHORT TERM MORABAHA AND MUSHARIKA FINANCES</b>		
Morabaha finances (Note 7.1)	38,484,832	5,899,999
Musharika finances (Note 7.2)	-	8,279
	<b>38,484,832</b>	<b>5,908,278</b>
<b>7.1 Short term morabaha finances</b>		
Considered good - Secured (Note 7.1.1)		
Opening balance	5,899,999	2,000,000
Disbursed during the year	66,853,407	5,000,000
	72,753,406	7,000,000
Received during the year	(17,898,703)	(1,100,001)
Transferred to considered doubtful	(16,369,871)	-
	38,484,832	5,899,999
Considered doubtful - Unsecured	16,739,871	370,000
	55,224,703	6,269,999
Provision for doubtful recovery	(16,739,871)	(370,000)
	<b>38,484,832</b>	<b>5,899,999</b>
<b>7.1.1</b> The above arrangements are secured by way of hypothecation of machinery and mortgage of immovable properties. Outstanding balance is receivable within the next year.		
<b>7.2 Short term musharika finances</b>		
Considered good - Secured (Note 7.2.1)		
Opening balance	8,279	3,204,702
Disbursed during the year	400,000	-
Received during the year	(408,279)	(3,196,423)
	-	8,279
Considered doubtful - Unsecured (Note 7.2.2)		
Opening balance	56,531,271	57,653,999
Received during the year	-	(1,122,728)
	56,531,271	56,531,271
	56,531,271	56,539,550
Provision for doubtful recoveries	(56,531,271)	(56,531,271)
	-	8,279
<b>7.2.1</b> The Musharika finance was receivable in lump sum on various dates up to January, 2007. These are secured by way of an equitable mortgage of properties and lien on stock.		
<b>7.2.2</b> This represents Musharika facilities which were originally extended in 1998 and 1999 against pledge of marketable securities and mortgage of the immovable properties. These securities were held with Modaraba's Share Registrar (related party) and were physically verified by the management as well as external auditors upto June 30, 2000. Subsequently, these securities were reportedly returned by the Modaraba's Share Registrar to the parties. The Modaraba filed suits against the defaulters which were decided ex-parte in favour of Modaraba. Since the securities were not available with the Share Registrar, the outstanding Musharika finances were fully provided in 2001. During the year, neither securities were recovered nor any further proceedings have taken place.		
<b>8. TRADE DEBTORS</b>		
Considered doubtful	7,912,843	7,912,843
Provision for doubtful debts	(7,912,843)	(7,912,843)
	-	-





9. DECRETAL AMOUNTS RECEIVABLE AGAINST MORABAHA AND MUSHARIKA FINANCE	2009 Rupees	2008 Rupees
Morabaha finance - Secured (Note 9.1) Provision for doubtful recovery	51,393,109 <u>(51,393,109)</u>	51,393,109 <u>(51,393,109)</u>
Morabaha finance - Unsecured (Note 9.2) Provision for doubtful recovery	46,968,709 <u>(46,968,709)</u>	46,968,709 <u>(46,968,709)</u>
Morabaha finance - Unsecured (Note 9.3) Provision for doubtful recovery	3,004,000 <u>(3,004,000)</u>	3,004,000 <u>(3,004,000)</u>
Morabaha finance - Unsecured (Note 9.4) Provision for doubtful recovery	1,708,973 <u>(1,708,973)</u>	1,708,973 <u>(1,708,973)</u>
Musharika finance - Unsecured (Note 9.5) Provision for doubtful recovery	2,250,000 <u>(2,250,000)</u>	2,250,000 <u>(2,250,000)</u>
Musharika finance - Unsecured (Note 9.6) Provision for doubtful recovery	7,800,000 <u>(7,800,000)</u>	7,800,000 <u>(7,800,000)</u>
Morabaha finances - Secured (Note 9.7) Provision for doubtful recovery Amount recovered during the year	23,541,802 <u>(10,007,000)</u> <u>(11,000,000)</u> 2,534,802	23,541,802 <u>(10,007,000)</u> -
Musharika finances - Unsecured (Note 9.8) Provision for doubtful recovery	41,023,157 <u>(41,023,157)</u>	41,023,157 <u>(41,023,157)</u>
	<u>2,534,802</u>	<u>13,534,802</u>

9.1 This represents the decretal amount in favour of Modaraba awarded by the Banking Court No.1 while disposing off Suit against judgment debtor. The decree further allowed future profit @ 18% per annum from the date of filing of the suit till the realization of entire decretal amount.

Two bungalows which were attached in favour of Modaraba were sold at Rs.21.2 million in 2002 and proceed was adjusted against the outstanding finance.

The Modaraba has also a charge by way of ownership of the machinery of the company which had been acquired by the company against the finance provided by the Modaraba under Morabaha arrangement. However, the land and building on which the machinery has been installed are mortgaged with a Schedule Commercial Bank against borrowing from them. The Judgment Debtor had agreed, subject to consent by the Bank, to create second charge in favour of Modaraba on the land and building which however did not materialised. The Modaraba has taken every possible step permissible in law for recovery of the decretal amount which depends upon residual proceeds, if any, left after appropriation of its outstanding dues by the Commercial Bank. Full provision of unrecoverable amount has been made in the financial statements.

9.2 This represents the residual decretal amount after recoveries from disposal of mortgaged properties and pledged stock of Eastend Tobacco. To cover the short fall in decretal amount the Modaraba requested the Hon'able Sindh High Court for attachment and sale of factory at Hattar and arrest and detention of Judgment Debtors. The said factory was ordered to be attached and for further execution the decree was transferred to Peshawar High Court. The value of factory land, building, machinery and plant, under charge of a commercial bank against their overdue liabilities was assessed at Rs. 70.40 million in 1996.



The Peshawar High Court after processing put the properties of Judgment Debtors to open auction on September 07, 2002 through an Advocate appointed as an auctioneer. The Court's appointed auctioneer reported that factory premises of the Judgment Debtors were found sealed on the directive of CIRC Bench of the Peshawar High Court in respect of execution proceedings initiated by Habib Bank Limited. The Modaraba also lodged its claim with CIRC for recovery and the matter is under process. The Modaraba is taking every possible step permissible in law for recovery of the decretal amount. However, the outstanding decretal amount of Rs.46.969 million has been fully provided.

9.3 This represents the residual decretal amount receivable from the Judgment Debtor after recovery of Rs.19.046 million out of agreed amount of Rs.22.5 million in compromise decree. An amount of Rs.3.641 million has further been received. The balance decretal amount of Rs 3.004 million has been fully provided.

9.4 This represents the residual decretal amount recoverable from Judgment Debtor. The Modaraba has received an amount of Rs.1.175 million during the year while an amount of Rs.0.65 million was recovered in previous year. However the residual decretal amount has been fully provided.

9.5 It represents the decretal amount allowed by the Court. The execution application to carry out the decree is under process with the Banking Court. The decretal amount has been fully provided.

9.6 This represents the decretal amount recoverable from Judgment Debtor. Inadvertently, the name of Mortgagor was not included in the Plaints and as such the decree was awarded against World Trade House. In a subsequent plaint filed by the Modaraba, the Banking court has allowed recovery of decretal amount by selling the mortgaged property. The mortgagor has filed an appeal in the Sindh High Court against the said decree which has been dismissed by the Sindh High Court and the judgment debtor has gone into appeal in Supreme Court. Although Modaraba expects to recover full decretal amount from sale of the mortgaged property, the decretal amount has been fully provided.

9.7 This represents the decretal amount awarded by the banking courts, in respect of four cases of Morabaha finances, in favour of Modaraba which are fully secured by the mortgaged properties. The Banking court has allowed recovery of decretal amount through sale of mortgage property/hypothecated goods and other assets of judgment debtors and by all other lawful means. In one case of the judgement debtor, during the last year, Modaraba has published a proclamation for sale of mortgaged property. Certain recoveries have been made during the year.

9.8 This represents residual decretal amount in favour of modaraba awarded by the banking court, in respect of three cases, against musharika facilities extended to judgment debtors. These facilities were secured against pledge of shares of listed companies which were placed with the Modaraba's Share Registrar. Subsequently, Modaraba's Share Registrar returned these shares to the Judgment Debtors. The entire decretal amount has been fully provided.

10. LONG TERM MUSHARIKA FINANCE	2009 Rupees	2008 Rupees
Considered good - secured	3,477,646	5,652,020
Long term musharika finance (Note 10.1)	<u>(3,477,646)</u>	<u>(5,652,020)</u>
Current portion	-	-
	<u>-</u>	<u>-</u>

10.1 Musharika finance to various parties are receivable on various dates within next year. These are secured by way of equitable mortgage of properties and lien on stock.



11. LONG TERM MORABAHA FINANCE	2009 Rupees	2008 Rupees
Considered good - secured (Note 11.1)		
Opening balance	47,331,120	86,669,544
Disbursed during the year	10,278,618	6,850,000
	<u>57,609,738</u>	<u>93,519,544</u>
Received during the year	(27,035,769)	(43,902,574)
Transferred to considered doubtful	(3,645,283)	(2,285,850)
	<u>26,928,686</u>	<u>47,331,120</u>
Considered doubtful - Secured	6,089,853	2,444,570
	<u>33,018,539</u>	<u>49,775,690</u>
Provision for doubtful recovery	(6,089,853)	(2,444,570)
	<u>26,928,686</u>	<u>47,331,120</u>
Current portion	(18,091,324)	(11,686,280)
	<u>8,837,362</u>	<u>35,644,840</u>

11.1 The Morabaha sale price is receivable in lump sum on various dates upto August 2010. The above finances are secured against equitable mortgage of immovable properties and charge of vehicles, machineries, other assets and personal guarantee of sponsor directors.

## 12. LONG TERM INVESTMENTS

Unless stated otherwise, the holdings are in the fully paid ordinary shares/ certificates/ units of Rs 10/- each.

Investment in associates - Under equity method (Note 12.1)	1,184,046	1,859,078
<b>Available for sale</b>		
Listed entities (Note 12.2)	2,722,939	267,500
Unlisted company (Note 12.2.1)	3,378,630	4,682,446
<b>Held to Maturity</b>		
Long term portion (Note 12.3)	6,101,569	4,949,946
	<u>7,285,615</u>	<u>6,809,024</u>

### 12.1 Investment in associates - Under equity method

#### Prudential Discount and Guarantee House Limited (PDGH) (Note 12.1.1) listed

Ownership %	1.92%	1.92%
Cost of investments	452,058	452,058
Post acquisition profits	829,338	1,504,370
Dividend received	(97,350)	(97,350)
	<u>1,184,046</u>	<u>1,859,078</u>
Number of shares held	<u>191,700</u>	<u>191,700</u>

12.1.1 The modarba has significant influence in Prudential Discount and Guarantee House Limited as three of the directors out of seven directors are the directors in the modarba. Due to common directorship and significant influence investments are reclassified as required by IAS-28.

12.1.2 The financial year of the investee company ends on June 30. However, due to non-availability of financial statements of PDGH for the year ended June 30, 2009 at the time of preparation of these accounts, financial results as of March, 31 2009 have been used for necessary adjustments in the financial statements.



	2009 Rupees	2008 Rupees
12.1.3 Fair value of investments in associated undertaking .		
Prudential Discount and Guarantee House Limited (PDGH)	126,522	853,065
<b>Summarized latest available financial information of associated undertakings are as follows:</b>		
Prudential Discount and Guarantee House Limited (PDGH).		
Total assets as at 31 March 2009	55,253,168	149,316,485
Total liabilities as at 31 March 2009	7,885,891	11,698,081
Total operating (Loss) / income	(89,901)	6,058,065
(Loss) / Profit for the year	<u>(5,723,422)</u>	<u>1,486,727</u>

### Available for sale

#### 12.2 Listed entities

181,973	181,973	Pakistan Industrial and Commercial Leasing Limited	-	267,500
101,413	-	National Investment (Unit) Trust	2,722,939	-

#### 12.2.1 Unlisted company

1,107,244	1,096,794	Prudential Securities Limited		
		Cost	4,173,707	4,682,446
		Less: Impairment	(795,077)	-
			<u>3,378,630</u>	<u>4,682,446</u>

#### 12.3 Investment in listed securities- Held to maturity

TERM FINANCE CERTIFICATES				
-	104	Al-Zamin Leasing Modaraba		
		Term finance certificates	-	176,800
		Current portion of Term finance certificates	-	(176,800)
		Long term portion of term finance certificates	-	-

## 13. INVESTMENT PROPERTY

Opening balance	7,350,000	7,350,000
Fair value adjustment as per IAS 40	1,050,000	-
Closing Balance	<u>8,400,000</u>	<u>7,350,000</u>

13.1 In pursuance of execution of the decree the office premises, mortgaged with the Modaraba as security against a morabaha facility, were auctioned by the Sindh High Court. The Modaraba purchased the said property in the auction. Property has been recognized as investment property under IAS-40 and stated at fair value



## 14 PROPERTY PLANT &amp; EQUIPMENT - OWNED

DESCRIPTION	BALANCE AS AT 01 JULY 2008		RECONCILIATION		BALANCE AS AT 30 JUNE 2009		DEP. RATE %		
	Cost	Accumulated Depreciation	Additions	Deletion cost/ (Accumulated Depreciation)	Cost	Accumulated Depreciation		Net Book Value	
Office Equipment	2,552,862	2,323,060	110,924	-	97,040	2,663,786	2,420,100	243,686	33
Furniture and Fixture	1,764,335	1,598,778	6,500	-	57,395	1,770,835	1,656,173	114,662	20
Computer	1,185,009	1,130,801	39,600	-	34,753	1,224,609	1,165,554	59,055	33
Motor vehicles	6,660,236	5,232,697	-	472,661 (389,508)	685,542	6,187,575	5,528,731	658,844	20
2009	12,162,442	10,285,336	157,024	472,661 (389,508)	874,730	11,846,805	10,770,558	1,076,247	
2008	12,013,941	8,748,932	298,501	150,000 (100,625)	1,637,029	12,162,442	10,285,336	1,877,106	

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14.1 Deletion during the year represents sale of vehicle ( Course AGB -397) to ABH, Karachi at Rupees 290,000.



## 15 PROPERTY, PLANT AND EQUIPMENT-LEASED OUT

DESCRIPTION	BALANCE AS AT 01 JULY 2007		RECONCILIATION		BALANCE AS AT 30 JUNE 2008		DEP. RATE %			
	Cost	Accumulated Depreciation	Additions	Deletion cost/ (Accumulated Depreciation)	Cost	Accumulated Depreciation		Net Book Value		
Plant and machinery	19,317,425	4,888,043	14,429,382	-	808,774 (400,000)	4,500,208	18,508,651	8,988,251	9,520,400	24 to 60 months
Office equipment	17,369,150	9,909,491	7,459,659	8,256,850	6,850,000 (5,184,077)	3,123,768	18,776,000	7,849,182	10,926,818	24 to 60 months
Computers	3,740,203	3,246,004	494,199	92,000	3,495,803 (3,074,924)	30,666	336,400	201,746	134,654	24 to 60 months
Vehicles	316,153,960	144,175,079	171,978,881	4,548,500	102,212,500 (68,499,692)	46,383,263	218,489,960	121,943,009	96,546,951	24 to 60 months
2009	356,580,738	162,218,617	194,362,121	12,897,350	113,367,077 (77,158,693)	54,037,905	256,111,011	138,982,188	117,128,823	
2008	365,718,912	132,408,477	233,310,435	52,018,086	61,156,260 (33,326,686)	63,136,826	356,580,738	162,218,617	194,362,121	

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15.1 Due to numerous disposals, the management is of the opinion that it is impractical to provide details of disposals as required by Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1960 and Modaraba Companies and Madaraba Rules 1981.



	2009 Rupees	2008 Rupees
<b>16. ACCRUED AND OTHER LIABILITIES</b>		
Accrued liabilities	-	6,408,223
Payable to related parties	-	5,131,390
Unearned income	674,290	674,290
Profit distributions payable	12,857,020	11,079,770
Others	25,469,871	27,474,476
	<u>39,001,181</u>	<u>50,768,149</u>

**17. LONG TERM LEASE DEPOSITS**

Lease deposits	70,207,646	99,685,853
Current portion	(40,836,556)	(38,220,843)
	<u>29,371,090</u>	<u>61,465,010</u>

**18. CERTIFICATE CAPITAL**

2009	2008		
No. of Certificates	Authorised		
<u>87,217,660</u>	87,217,660	Modaraba certificates of Rs.10/- each	<u>872,176,600</u>
		<b>Issued, subscribed and paid-up</b>	
<u>13,451,650</u>	13,451,650	Modaraba certificates of Rs.10/- each fully paid in cash	<u>134,516,500</u>
<u>8,864,716</u>	8,864,716	Modaraba certificates of Rs.10/- each fully paid bonus certificates	<u>88,647,160</u>
<u>64,901,294</u>	64,901,294	Modaraba certificates of Rs.10/- each scheme of arrangement for amalgamation with Second and Third Prudential Modaraba	<u>649,012,940</u>
			<u>872,176,600</u>
<u>87,217,660</u>	<u>87,217,660</u>		<u>872,176,600</u>

**19. CONTINGENCIES AND COMMITMENTS****Contingencies**

A Suit has been filed in Sindh High Court claiming holding of shares and control of Management of Companies of Prudential Group including the Modaraba. The plaintiff has prayed to enforce the alleged agreement executed between him and Ex-Chairman of Prudential Capital Management Company. The Modaraba is defending its position in the said case by strongly opposing the same. The said prayer is not likely to succeed as the allegation in question is not based on facts and even otherwise it is not legally binding on the Modaraba because the Modaraba was not party to the alleged agreement made between two individuals in their personal capacities. The case is pending in the Honorable High Court of Sindh. The Modaraba is confident that the ultimate outcome of the case would not effect the status and the position of the Modaraba.

Based upon its enquiry, SECP issued show cause notice No. SC/M/RW/FPM/2007-183 dated 02 May 2007 to the chief executive officer and directors of the Modaraba management company under section 19, 20, and 32 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 read with section 204 A, section 498 and section 503 (1) (c) of the Companies Ordinance, 1984. The chief executive officer and directors have submitted detailed reply through the legal counsel against which the decision is still pending. Based upon legal advisor's assessment, the management is of the view that the reply submitted rests on sound footings and no heavy penalty is likely to be imposed.

**Commitments**

Later than one year but not later than five years



	2009 Rupees	2008 Rupees
<b>20. OTHER INCOME</b>		
Front end fee	260,803	91,165
Documentation charges	25,945	108,000
Gain on disposal of property and equipment - owned	206,847	-
Gain on disposal of property, plant and equipment - leased out	12,507,700	930,462
Rental income from investment property	818,400	738,000
Others	4,493,226	821,321
	<u>18,312,921</u>	<u>2,688,948</u>

**21. (PROVISION) / REVERSAL OF PROVISION FOR DOUBTFUL RECOVERIES - NET**

Morabaha finances	(16,369,871)	(5,468,595)
Musharika finances - net	(3,645,283)	(903,191)
Lease finances	(3,058,628)	(8,984,456)
Decretal amount against morabaha and musharika finance - net	-	550,000
Others/Impairment of Unlisted securities	(40,967,905)	31,887,887
	<u>(64,041,687)</u>	<u>17,081,645</u>

**22. LOSS ON CHANGE IN FAIR VALUE OF INVESTMENTS**

Loss on investments at fair value through profit or loss	(84,640,382)	(38,626,190)
Impairment loss on available for sale investments	(1,519,771)	-
	<u>(86,160,153)</u>	<u>(38,626,190)</u>

**23. ADMINISTRATIVE EXPENSES**

Salaries, allowances and benefits (Note 23.1)	6,147,614	8,446,535
Fees and subscription	297,832	598,389
Legal and professional	398,463	491,196
Repair and maintenance	337,377	311,940
Rent, rates and taxes	752,298	642,968
Vehicles running and maintenance	229,428	210,849
Traveling and conveyance	224,905	241,259
Printing and stationery	400,083	488,628
Telephone and postage	1,037,655	1,006,093
Entertainment	193,989	216,122
Auditors' remuneration (Note 23.2)	391,000	360,000
Advertisement	519,963	83,431
Depreciation - owned assets	874,730	1,637,030
Registrar services	440,000	480,000
Electricity, water and gas	579,009	360,685
Amortization of prepayments	2,523,423	-
Insurance	61,162	2,151,089
Donation (Note 23.3)	-	-
Lease rental	53,120	53,120
Newspapers and periodicals	9,644	73,813
Miscellaneous	798,050	80,675
	<u>16,269,745</u>	<u>17,933,822</u>

**23.1 Remuneration of officers and other employees**

	2009		
	Officers	Other employees	Total
	.....Rupees.....		
Remuneration	1,139,189	4,208,517	5,347,706
Bonus / exgratia	-	-	-
Leave encashment	-	-	-
Provident fund	-	-	-
Medical expenses	-	176,832	176,832
Fuel	-	123,322	123,322
Others	-	499,754	499,754
	<u>1,139,189</u>	<u>5,008,425</u>	<u>6,147,614</u>

	2008		
Remuneration	1,832,076	4,097,954	5,930,030
Bonus / exgratia	87,096	284,847	371,943
Leave encashment	12,040	148,986	161,026
Provident fund	112,645	130,895	243,540
Medical expenses	400,042	480,373	880,415
Fuel	-	859,581	859,581
Others	-	-	-
	<u>2,443,899</u>	<u>6,002,636</u>	<u>8,446,535</u>

	2009 Rupees	2008 Rupees
Statutory audit fee	250,000	230,000
Half year review fee	50,000	50,000
Out of pocket expenses	91,000	80,000
	<u>391,000</u>	<u>360,000</u>

23.3 No director and his / her spouse had any interest in the donee's fund.

**24 PROVISION FOR TAXATION**

Current year	<u>(475,801)</u>	<u>(332,976)</u>
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24.1 The relationship between tax expense and accounting profit has not been presented in these financial statements, due to carry forward of tax losses. The remaining taxable income of the Modaraba falls under final tax regime and hence tax has been provided under section 169 of the Income Tax Ordinance, 2001.

24.2 Appeal has been filed by the Modaraba with Income Tax Appellate Tribunal relating to the assessments year 2002-2003. For the tax year 2003 the case has been selected for tax audit u/s 177 by the commissioner, based on parameters given by the FBR, which is challenged as illegal, and further proceedings are yet pending.

The Modaraba is confident that the decision in respect of the above will be in its favour and, hence provision for any shortfall that may result has not been made in these financial statements.

24.3 Deferred tax asset has not been recognized in these financial statements, due to uncertainties about taxable profits in foreseeable future.

	2009 Rupees	2008 Rupees
<b>25. (LOSS) / EARNINGS PER CERTIFICATE - BASIC AND DILUTED</b>		
Profit for the year (Rupees)	(103,717,599)	41,455,151
Weighted average number of ordinary certificates	87,217,660	87,217,660
Earnings per certificate (Rupees per certificate)	(1.19)	0.48

**26. TRANSACTIONS WITH RELATED PARTIES**

The related parties and associated undertakings of the Modaraba comprise associated companies, staff retirement fund, directors and key management personnel. Transactions with related parties and associated undertakings other than remuneration and benefit

Relationship with Modaraba Management Company	Nature of Transactions	2008 Rupees	2007 Rupees
<b>Prudential Capital Management Ltd.</b>			
	Balance outstanding as at year end	214,281	3,405,347
	Sale of shares	233,844	7,276,746
	Purchase of Fixed assets	-	1,005,000
	Management fee	-	4,622,911
	Paid Security deposit	-	104,000
	Closing balance	-	5,130,553
<b>Associated undertaking Prudential Securities Limited</b>			
	Opening Balance	70,129,314	5,149,241
	Purchase of investment	99,375,317	428,184,670
	Sale of investment	146,748,207	(443,457,579)
	Receivable on account of sale of shares	22,756,424	70,129,314
<b>Prudential Discount and Guarantee House Limited</b>			
	Opening Balance	68,643	36,554
	Closing Balance	77,643	68,643
<b>Payment to staff provident fund</b>		<b>364,220</b>	243,540

**27 FINANCIAL INSTRUMENTS**
**Financial risk management**

The Board of Directors of the management company has overall responsibility for the establishment and oversight of Modaraba's risk management framework. The Modaraba has exposure to the following risks from its use of financial instruments.

- Credit risk
- Liquidity risk
- Market risk

**27.1 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. The risk is generally limited to principal amounts and accrued profit thereon, if any. Concentration of credit risk arises when a number of counter parties 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. Concentration of credit risk indicates the relative sensitivity of the Modaraba's performance to developments affecting a particular industry.



Credit risk of the Modaraba arises principally from trade debts, property, plant and equipments leased out, morabaha finance, musharika finance, lease rentals receivables, bank balances, deposits and other receivables. The Modaraba's policy is to enter in to financial contracts in accordance with internal risk management policies, and requirements of the Prudential Regulations for Modaraba's issued by the SECP. The Modaraba seeks to manage its credit exposure through diversification of leasing, morabaha and musharika financing activities to avoid undue concentration of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate. Cash is held with reputable banks with high credit worthiness.

The maximum exposure to credit risk at the reporting date is as follows:

	Note	2009 Rupees	2008 Rupees
Property, plant and equipment - leased out - net	27.1.1	46,921,177	94,676,268
Morabaha financing		64,948,995	53,231,119
Musharika financing		3,942,169	5,660,299
Lease rentals receivables		41,105,036	23,755,823
Bank balances		187,648,367	161,747,095
Long term deposits		3,066,193	3,184,193
Other receivables		14,123,950	43,338,948
		<u>361,755,887</u>	<u>385,593,745</u>

#### 27.1.1 Property, plant and equipment - leased out - net

Property, plant and equipment - leased out	117,128,823	194,362,121
Security deposits held	<u>(70,207,646)</u>	<u>(99,685,853)</u>
	<u>46,921,177</u>	<u>94,676,268</u>

#### 27.1.2 Details of the industry sector analysis of the Modaraba's financial instruments exposed to credit risk is given below:

Sector	2009		2008	
	Rupees	%age	Rupees	%age
Insurance	-	0.00%	2,474,609	0.64%
Textile Weaving	15,920,399	4.40%	8,773,891	2.28%
Textile Composite	28,223,293	7.80%	2,630,974	0.68%
Tobacco	28,806,282	7.96%	15,877,861	4.12%
Fuel & Energy	764,709	0.21%	825,017	0.21%
Engineering	654,596	0.18%	2,419,201	0.63%
Auto & Allied Engg.	4,215,356	1.17%	2,137,373	0.55%
Cables & Electrical Goods	1,519,960	0.42%	5,210,995	1.35%
Transport & Communication	16,539,192	4.57%	34,411,279	8.92%
Chemical & Pharmaceutical	678,240	0.19%	1,012,437	0.26%
Vanaspati & Allied Industries	-	0.00%	146,868	0.04%
Construction	10,383,015	2.87%	11,367,001	2.95%
Leather & Tanneries	109,437	0.03%	7,577	0.00%
Food & Allied Ind.	72,866,883	20.14%	19,019,269	4.93%
Miscellaneous	181,074,525	50.05%	279,279,393	72.43%
	<u>361,755,887</u>	<u>100.00%</u>	<u>385,593,745</u>	<u>100.00%</u>



#### 27.1.3 Impairment losses and past due balances

The age analysis of lease rental receivable, morabaha and musharika financing was as follows

	2009		2008	
	Gross	Provision	Gross	Provision
Not past due	32,410,522	-	25,223,589	-
Past due 1-90 days	12,570,100	-	8,415,537	-
Past due more than 90 days	157,195,122	92,179,544	121,699,186	72,691,071
	<u>202,175,744</u>	<u>92,179,544</u>	<u>155,338,312</u>	<u>72,691,071</u>

Impairment is recognized by the Modaraba on the basis of provision requirements of Prudential regulations for Modaraba's issued by the SECP and subjective evaluation of investment portfolio carried by the Modaraba on an ongoing basis, and consideration of forced sales value of properties, wherever considered necessary, in accordance with the prudential regulations. Based on the past experience, consideration of financial position, past track record and recoveries, the Modaraba believes that the provision against past due balances is sufficient.

#### 27.2 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 could be required to pay its liabilities earlier than expected. 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 stressed conditions, without incurring unacceptable losses or risking damage to the Modaraba's reputation.

The following are the contractual maturities of financial liabilities, including interest payments:

	Carrying Amount	Contractual Cash Flows	2009		
			Six months or less	Six to Twelve Months	One to Five Years
Non-derivative financial liabilities	70,207,646	70,207,646	24,915,294	15,921,262	29,371,090
Security deposits from lessees	<u>39,001,181</u>	<u>39,001,181</u>	<u>39,001,181</u>	-	-
Accrued and other liabilities	109,208,827	109,208,827	63,916,475	15,921,262	29,371,090
	Carrying Amount	Contractual Cash Flows	2008		
			Six months or less	Six to Twelve Months	One to Five Years
Non-derivative financial liabilities	99,685,853	99,685,853	29,905,756	8,315,087	61,465,010
Security deposits from lessees	<u>50,768,149</u>	<u>50,768,149</u>	<u>50,768,149</u>	-	-
Accrued and other liabilities	150,454,002	150,454,002	80,673,905	8,315,087	61,465,010

The above financial liabilities are non-interest bearing.

#### 27.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a 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. The Modaraba's exposed to interest rate and other price risk only.



**27.3.1 Interest rate risk**  
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At the reporting date, interest rate profile of the Modaraba's interest bearing financial instruments and the periods in which these will mature are as follows:

2009

	Mark-up / Profit Bearing		Non mark-up / Profit Bearing		Total
	Mark-up / Profit Rate %	Maturity up to one year	Maturity up to one year	Maturity over one year	
<b>FINANCIAL ASSETS</b>					
On balance sheet					
Long term deposits	-	-	-	3,066,192	3,066,192
Long term investment	-	-	-	6,101,569	6,101,569
Investments	-	-	98,265,160	-	98,265,160
Morabaha finance	15 to 22	56,576,156	65,413,518	-	65,413,518
Musharika finance	10 to 23.83	3,477,646	3,477,646	-	3,477,646
Lease rental receivable	-	-	23,840,921	17,264,115	41,105,036
Decretal amounts receivables against morabaha and musharika finance	-	-	2,534,802	-	2,534,802
Advance and other receivables	-	46,307,629	46,307,629	-	46,307,629
Cash and bank balances	4.5 to 10	187,657,228	187,657,228	9,572	187,666,800
<b>Off balance sheet</b>		8,837,362	302,856,021	26,431,876	151,082,331
		294,018,659	302,856,021	26,431,876	453,938,352
<b>FINANCIAL LIABILITIES</b>					
<b>On balance sheet</b>					
Lease deposits	-	-	-	40,836,556	40,836,556
Accrued and other liabilities	-	-	-	39,001,181	39,001,181
<b>Off balance sheet</b>					
		-	-	79,837,737	79,837,737
		-	-	29,371,090	29,371,090
		-	-	70,207,646	70,207,646
		-	-	39,001,181	39,001,181
		-	-	109,208,827	109,208,827
		-	-	-	-
		-	-	-	-
On balance sheet gap		294,018,659	302,856,021	79,837,737	109,208,827
Off balance sheet gap		8,837,362	302,856,021	44,812,718	2,939,214
		294,018,659	302,856,021	44,812,718	41,873,504
		-	-	-	344,729,525

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	Mark-up / Profit Bearing		Non mark-up / Profit Bearing		Total
	Mark-up / Profit Rate %	Maturity up to one year	Maturity up to one year	Maturity over one year	
<b>FINANCIAL ASSETS</b>					
On balance sheet					
Long term deposits	-	-	-	3,184,193	3,184,193
Long term investment	-	-	-	4,949,946	4,949,946
Investments	-	-	116,533,709	-	116,533,709
Morabaha finance	15 to 22	17,594,558	53,239,398	-	53,239,398
Musharika finance	10 to 23.83	5,652,020	5,652,020	-	5,652,020
Lease rental receivable	-	-	-	9,977,446	9,977,446
Decretal amounts receivables against morabaha and musharika finance	-	-	13,778,377	-	13,778,377
Advance and other receivables	-	165,371,555	165,371,555	-	165,371,555
Cash and bank balances	4.5 to 10	161,747,095	161,747,095	10,798	10,798
		350,365,228	386,010,068	143,857,686	181,111,585
<b>Off balance sheet</b>					
		350,365,228	386,010,068	143,857,686	161,969,271
		-	-	18,111,585	161,969,271
		-	-	547,979,339	547,979,339
<b>FINANCIAL LIABILITIES</b>					
<b>On balance sheet</b>					
Lease deposits	-	-	-	38,220,843	38,220,843
Accrued and other liabilities	-	-	-	50,768,149	50,768,149
<b>Off balance sheet</b>					
		-	-	88,988,992	88,988,992
		-	-	-	-
		-	-	-	-
On balance sheet gap		350,365,228	386,010,068	88,988,992	150,454,002
Off balance sheet gap		-	-	54,868,694	11,515,269
		350,365,228	386,010,068	54,868,694	397,525,337

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Modaraba's interest rate exposure arises on deposits with banks, assets under operating lease. At the balance sheet date the interest rate profile of the Modaraba's interest-bearing financial instrument was as follows:

	2009	2008
	Rupees	Rupees
<b>Fixed rate instruments</b>		
Financial assets	186,019,987	253,253,539

**27.3.2 Other price risk**

Other price risk represents 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 rate 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 instrument traded in the market. The Modaraba is not exposed to commodity price risk.

**Sensitivity analysis**

The table below summarises the impact of increase / decrease in the Karachi Stock Exchange (KSE) Index on the Company's profit after taxation for the year and on equity (fair value reserve). The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Modaraba's equity instruments moved according to the historical correlation with the index:

Index	Impact on profit after taxation		Impact on other components of equity (fair value reserve)	
	2009	2008	2009	2008
	-----Rupees-----			
KSE 100 (5% increase)	5,049,405	5,672,988	-	-
KSE 100 (5% decrease)	(5,049,405)	(5,672,988)	-	-

**27.4 Fair value sensitivity analysis for fixed interest rate instruments**

The Modaraba does not account for any fixed rate financial assets at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect profit and loss account and the equity of the Modaraba.

**27.4 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.

The carrying amounts of all financial assets and liabilities reflected in the financial statements are expected to approximate their fair values.

**27.5 Capital risk management**

The Modaraba's objective when managing capital is to safeguard the Modaraba's ability to continue as a going concern so that it can continue to provide optimum returns to its certificate holders' and benefits of other stake holders and to maintain a strong capital based to support the sustained development of its businesses.

The Modaraba manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Modaraba may adjust the amount of profit paid to certificate holders or issue new certificates.

**28. NON ADJUSTING EVENTS AFTER BALANCE SHEET DATE AND DATE OF AUTHORIZATION FOR ISSUE**

The Board of Directors of the management company in their meeting held on 10 October 2009 approved profit distribution for the year ended 30 June 2009 at the rate of zero per certificate (2008: 3 percent Rs.0.3 per certificate). The financial statements for the year ended 30 June 2009 do not include the effect of this appropriation, being a non-adjusting event as per IAS-10 (Events after the balance sheet date), which will be accounted for in the financial statements for the year ending 30 June 2009.

**29. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were approved and authorized for issue on \_\_\_\_\_ by the Board of Directors of the Management Company.

**30. GENERAL**

30.1 Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. However, no significant re-arrangements have been made. However, in certain notes figures have been stated in million of rupees.

30.2 Figures have been rounded off to the nearest rupee.

**Statement under Rule 12(2) of the Modaraba Companies and Modaraba Rules, 1981:**

These financial statements have been signed by three directors including chairman, because the Chief Executive Officer has been terminated on 12 July 2008.

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**Chairman**


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**Director**


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**Director**





## CATEGORIES OF CERTIFICATES HOLDING AS ON 30-06-2009

	NO OF CERTIFICATE HOLDER	NO OF CERTIFICATES	PERCENTAGE
<b>ASSOCIATED COMPANIES UNDERTAKING AND RELATED PARTIES</b>	2	10,530,205	12.07
PRUDENTIAL CAPITAL MANAGEMENT LTD.		9,000	
<b>NIT AND ICP</b>	2	741,736	0.85
NATIONAL BANK OF PAKISTAN TRUSTEE WING		698,833	
INVESTMENT CORPORATION OF PAKISTAN		42,903	
<b>DIRECTORS, C.E.O THEIR SPOUSE AND MINOR CHILDREN</b>	5	12,698,597	14.56
MR. ASAD IQBAL SIDDIQUI		4,101,000	
MR.FAZAL M.MUGHAL		155,412	
DR.MOHAMMAD HUSSAIN		6,381,779	
MR. ATAULLAH KHAN		15,139	
<b>CHIEF EXECUTIVE OFFICER</b>			
<b>SPOUSE</b>			
MRS. WASIA HUSSAIN W/O DR. M. HUSSAIN		2,045,267	
<b>EXECUTIVES.</b>		-----	-----
<b>PUBLIC SECTOR COMPANIES AND CORPORATIONS.</b>	1	1,929,159	2.21
STATE LIFE INSURANCE CORPORATION OF PAKISTAN LTD.		1,929,159	
<b>BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS</b>	23	2,351,127	2.70
THE BANK OF PUNJAB		2974	
FAISAL BANK LTD.		101	
HABIB BANK LTD. LSE BRANCH		848	
HABIB BANK LTD. AG ZURICH		396	
CITY BANK LTD.		2635	
BANKERS EQUITY LTD.		600	
NATIONAL DEVELOPMENT FINANCE CORPORATION		10625	
CRESCENT INVESTMENT BANK LTD.		100	
FIDELITY INVESTMENT BANK LTD.		9,428	
PARAMOUNT INVESTMENT BANK LTD.		1,638	
GULF INSURANCE COMPANY LTD.		13653	
DELTA INSURANCE COMPANY LTD.		164	
CRESCENT STAR INSURANCE COMPANY LTD.		154	
NATIONAL INSURANCE COMPANY LTD.		2275232	
FIRST INTER FUND MODARABA		1122	



## CATEGORIES OF CERTIFICATES HOLDING AS ON 30-06-2009

	NO OF CERTIFICATE HOLDER	NO OF CERTIFICATES	PERCENTAGE	
UNI CAP MODARABA		136		
INDUSTRIAL CAPITAL MODARABA		100		
FIRST MEHRAN MODARABA		7935		
GENERAL MODARABA		3306		
MODARABA AL MALI		47		
FIRST PROVIDENCEMODARABA		449		
FIRST HAJVERI MODARABA		3000		
FIRST EQUITY MODARABA		16484		
<b>SHAREHOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE LISTED COMPANIES.</b>		-----		
<b>INDIVIDUAL</b>	11230	97165.09	52,051,340	59.65
OTHER CORPORATE SHAREHOLDERS	87		15,360,465	7.96
	<u>11350</u>		<u>87,217,660</u>	<u>100.00</u>



**PATTERN OF SHARE HOLDING AS AT 30 - 06 - 2009**

<u>NUMBER OF SHARE HOLDERS</u>	<u>SHARE HOLDINGS</u>		<u>TOTAL SHARES HELD</u>
3,470	1	100	176,366
2,828	101	500	683,005
2,244	501	1000	1,828,578
2,064	1001	5000	4,555,241
346	5001	10000	2,415,185
115	10001	15000	1,608,167
64	15001	20000	1,109,290
37	20001	25000	832,704
12	25001	30000	325,981
16	30001	35000	517,004
17	35001	40000	633,464
13	40001	45000	554,847
17	45001	50000	827,152
11	50001	55000	577,760
5	55001	60000	289,853
4	60001	65000	250,166
4	65001	70000	269,003
3	70001	75000	222,444
4	75001	80000	310,789
4	85001	90000	352,224
5	90001	95000	467,047
2	95001	100000	195,500
1	100001	105000	104,000
1	105001	110000	107,500
1	110001	115000	112,000
3	115001	120000	358,498
2	120001	125000	243,964
1	125001	130000	126,000
2	130001	135000	267,150
1	135001	140000	140,000
2	145001	150000	300,000
1	150001	155000	150,624
2	155001	160000	317,500
1	160001	165000	164,000
1	165001	170000	170,000
4	175001	180000	703,091
1	180001	185000	180,200
2	195001	200000	400,000
1	200001	205000	205,000
2	210001	215000	426,168
1	215001	220000	216,000
1	220001	225000	223,073
1	225001	230000	227,523
1	235001	240000	236,000
1	255001	260000	257,279
1	300001	305000	303,461
1	305001	310000	310,000



**PATTERN OF SHARE HOLDING AS AT 30 - 06 - 2009**

<u>NUMBER OF SHARE HOLDERS</u>	<u>SHARE HOLDINGS</u>		<u>TOTAL SHARES HELD</u>
1	315001	320000	317,290
1	320001	325000	325,000
1	340001	345000	341,251
2	350001	355000	705,039
1	395001	400000	400,000
1	475001	480000	477,932
1	495001	500000	500,000
1	540001	545000	544,000
1	595001	600000	600,000
1	605001	610000	610,000
1	610001	615000	612,786
1	635001	640000	637,000
1	650001	655000	651,000
2	695001	700000	1,400,000
1	1565001	157000	1,567,740
1	1925001	1930000	1,929,159
2	1995001	2000000	4,000,000
1	2275001	2280000	2,275,232
1	2490001	2495000	2,490,374
1	3310001	3315000	3,313,843
1	4100001	4105000	4,101,000
1	4245001	4250000	4,250,000
1	6215001	6220000	6,216,508
1	6330001	6335000	6,331,500
1	7495001	7500000	7,500,000
1	9870001	9875000	9,870,205
			<u>11,350</u>
			<u>87,217,660</u>