



KASB Modaraba

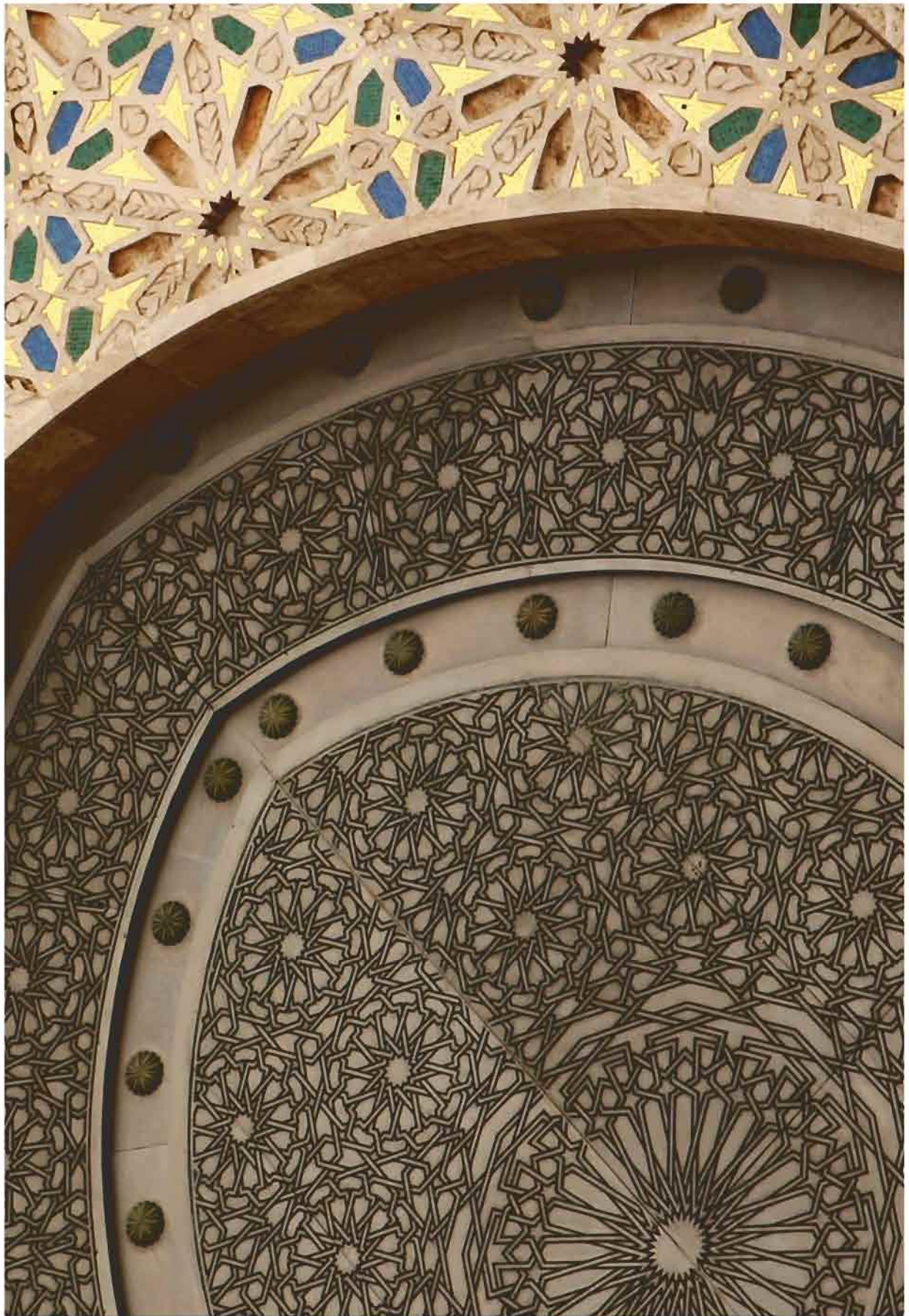
An Islamic Financial Institution

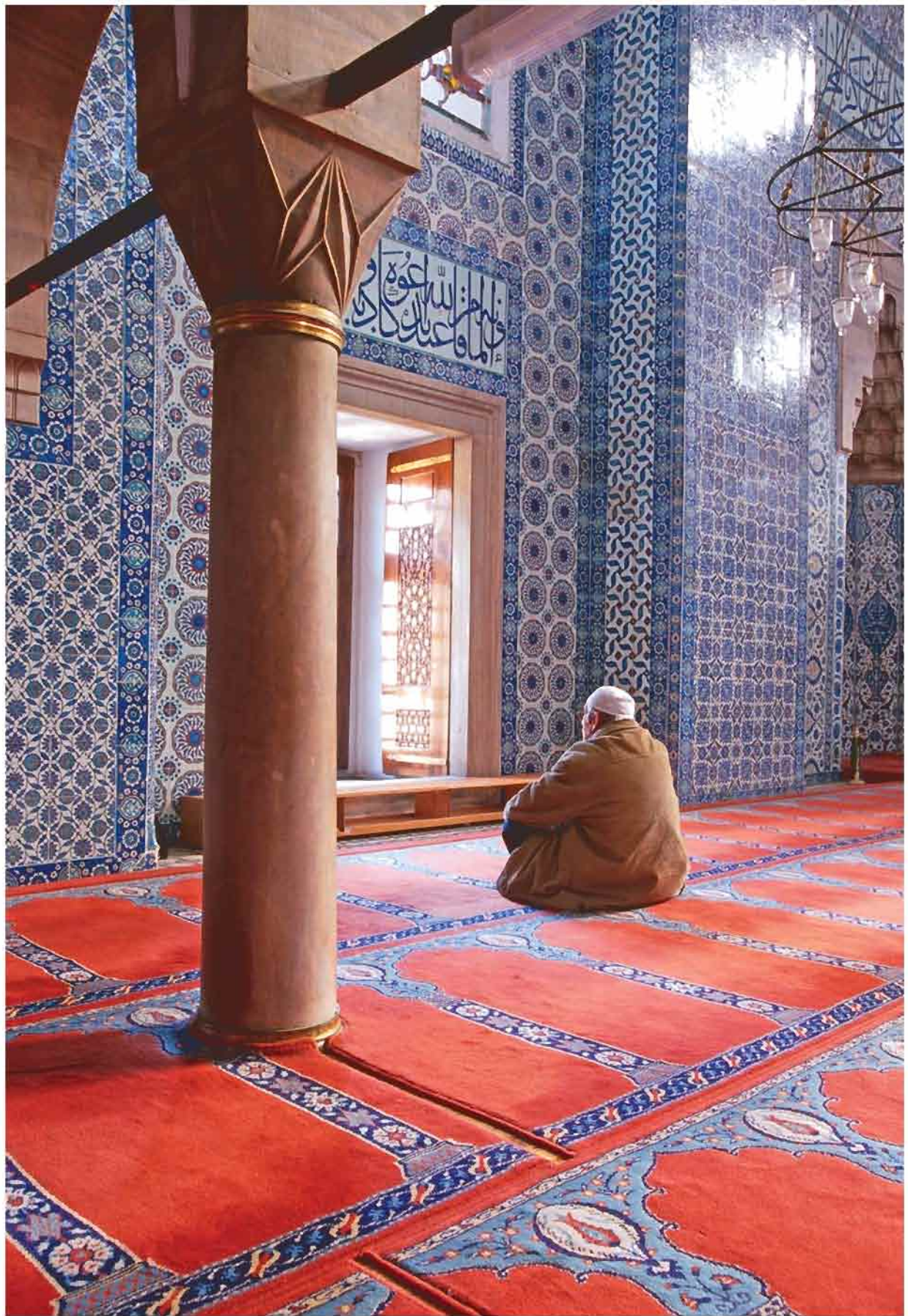


ANNUAL REPORT 2010

صاف اور شفاف آمدنی،
سچا سکون ہے...

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

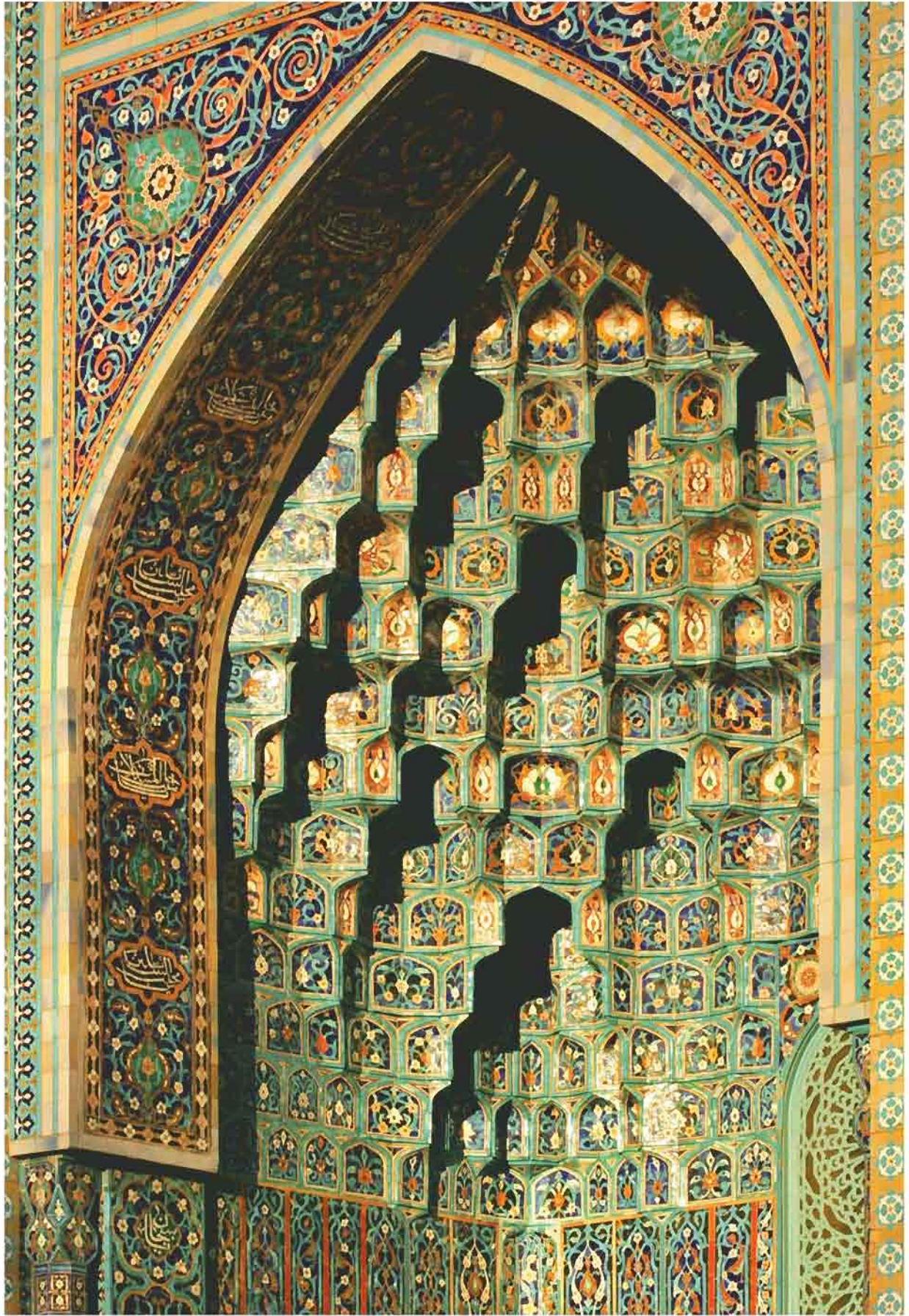




Social values of Islam provide the faithful with a large measure of spiritual peace and serenity, and this contentment can be reaped while pursuing business aspirations within the confines of Islamic law. We visualize creating an institution where society can seek a just and fair advantage from the richness of Islamic system of trade finance.

CONTENTS

◆ CORPORATE INFORMATION	08
◆ DIRECTORS' REPORT	09
◆ KEY FINANCIAL AND OPERATIONAL DATA	14
◆ STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE	17
◆ AUDITORS' REVIEW REPORT ON COMPLIANCE OF CORPORATE GOVERNANCE	19
◆ AUDITORS' REPORT TO THE CERTIFICATE HOLDERS	20
◆ BALANCE SHEET	21
◆ PROFIT AND LOSS ACCOUNT	22
◆ STATEMENT OF COMPREHENSIVE INCOME	23
◆ CASH FLOW STATEMENT	24
◆ STATEMENT OF CHANGES IN EQUITY	25
◆ NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS	26
◆ PATTERN OF CERTIFICATE HOLDING	56
◆ NOTICE OF ANNUAL REVIEW MEETING	58





CORPORATE INFORMATION

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

Chairman
Chief Executive Officer
Director
Director

Company Secretary & Chief Financial Officer
Ms. Faiqa Naz

Management Company
KASB Modaraba Management (Private) Limited

Auditors
A.F. Ferguson & Co.
Chartered Accountants
Member PriceWaterHouseCoopers

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

Chairman
Member
Member

Bankers
KASB Bank Limited
Al-Baraka Islamic Bank
Dawood Islamic Bank
Meezan Bank
MyBank Limited
Bank Al-Falah Limited
Silk Bank Limited

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

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

Legal Advisor
Ghulam Ali & Co.
Ahmed & Qazi

Branch Offices
Gulshan-e-Iqbal Branch
Mezzanine Floor,
Friends Paradise, SB-36,
Block No. 13-B,
University Road,
Karachi.
Telephone: 34822814-18

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

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info.modaraba@kasb.com



DIRECTORS' REPORT



The Board of Directors of KASB Modaraba Management (Private) Ltd, the Management Company of KASB Modaraba (the Modaraba) is pleased to present the nineteenth annual report together with the audited financial statements of Modaraba for the year ended June 30, 2010 to the Certificate Holders.

FINANCIAL HIGHLIGHTS

The operating results are summarized as under:

<i>Description</i>	<i>June 2010 Rupees</i>	<i>June 2009 Rupees</i>
Income from Leasing / Ijarah Operations	20,869,614	20,514,852
Profit on Musharaka Finance	11,142,665	4,549,474
Profit on Murabaha Finance	32,231,553	4,580,067
Profit on Modaraba Finance	1,908,404	-
Profit on Diminishing Musharaka Finance	10,175,831	-
Profit on Bank Deposit	8,765,437	10,700,559
Profit on Investments	2,628,790	2,465,075
Other Income	2,008,090	138,214
Total Income	89,730,384	42,948,241
Total Expenses	(70,735,173)	(25,145,060)
Modaraba Company Management Fee	(1,899,521)	(1,780,318)
Net Profit	17,095,690	16,022,863
Earning per Certificate	0.60	0.65
Total Assets	953,667,713	450,397,941
Total Liabilities	678,915,073	192,075,696
Net Equity	274,752,640	258,322,245



OPERATIONS & PERFORMANCE

Profitability:

During the year ended June 30, 2010; KASB Modaraba continued to adopt a steady approach towards business, focusing on qualitative growth and institutional strength. The Modaraba recorded a profit of Rs. 17,095,690 with an Earning per Certificate of Rs. 0.60 and return on equity of 6.41%. Keeping market conditions in perspective, and the short time the Modaraba has operated; the results are very good and indicate a strong base for future growth.

The total income of the Modaraba increased from Rs. 43 million in 2009 to approx. Rs. 90 million in the year ended June 2010; showing an increase of approximately 1.09 times. This remarkable growth in total income reflects the capacity of the Modaraba to acquire business and create a dependable revenue stream.

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

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

Total expenditure increased from Rs.25 million in 2009 to Rs.71 million in the year ended June 2010. The increase was mainly on account of the following:

- Financial charges incurred on retail deposits mobilized in the form of Certificate of Musharaka amounted to Rs. 32.501 million.
- Financial charges incurred for availing Musharaka based credit line from financial institution amounted to Rs. 13.281 million.

Administrative expenses increased by Rs 7 million in current year (2009: Rs 18 million; 2010: Rs 25 million). The rise in administrative expenses is mainly because of following reasons:

- To ensure effective management of our expanding business operations, KASB Modaraba's staff strength was increased from 27 to 43 employees including a qualified chartered accountant, a trade finance specialist, ICMA qualified accountants, MBAs, etc. Resultantly, salary expense rose from Rs. 9.083 million in FY 2009 to Rs. 12.174 million in FY 2010.
- On the acquisition of a new IT software and certain fixed assets; depreciation and amortization expense increased by Rs 1.2 million.
- Rise in other expenses like utilities, stationery, fees etc was also growth oriented, and we hope that economies of scale will further improve our profitability and returns as we gradually expand business.

Balance sheet growth:

Diversification is over hallmark!

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

In our efforts to provide our customers a variety of products that best suit their business needs, we have introduced a new product namely "Diminishing Musharaka".



DIRECTORS' REPORT



The balance sheet standing of the Modaraba in terms of total assets has improved substantially, i.e. 1.12 times, from Rs. 450,398 million in 2009 to Rs. 953,668 million in 2010.

The major increase was in Murabaha Finance from Rs. 70,777 million in 2009 to Rs. 362,561 million in 2010, Musharaka Finance from Rs. 39,594 million in 2009 to Rs. 83,634 million in 2010, Modaraba Finance from Rs. 20,774 million in 2009 to Rs. 154,440 million in 2010, Investments from Rs. 21,276 million in 2009 to 29,148 million in 2010 and increase in fixed assets from Rs. 7,643 million in 2009 to Rs. 8,089 million in 2010. It clearly shows that the increase in the balance sheet footing was largely on account of growth in business indices.

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

Type of Financing	2010	2009
	Rs	Rs
Murabaha Finance	362,561,002	70,777,104
Modaraba Finance	154,440,342	20,774,248
Musharaka Finance	83,633,662	39,594,329
Diminishing Musharaka Finance	131,599,686	-
Finance Lease	45,001,505	97,717,530
Ijarah Assets	65,996,757	55,336,939

YEAR AT A GALANCE

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

FUTURE PROSPECTS

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

SIGNIFICANT EVENTS

One important feature added to this year's balance sheet is the introduction of Diminishing Musharaka- an asset product. Total finance provided under this new product amounts to Rs. 131.600 million and has generated profit of Rs. 10.176 million during the year ended June 30, 2010.

In order to increase the sources of funding, your Modaraba has obtained a credit line of Rs 300 million from KASB Bank. This will help us increase our asset size and will enable us to penetrate the market of Islamic Finance.

The portfolio of Certificate of Musharaka, a liability scheme floated last year, has shown tremendous growth and generated funds to the tune of Rs. 311 million during the year ended June 30, 2010. The Modaraba intends to keep this funding mode largely retail and individual based.

DIRECTORS' REPORT



CREDIT RATING

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

During the year ended June 30, 2009, Registrar Modaraba (Specialized Companies Division) imposed a fine of Rs. 55,000/- each on the directors of Modaraba Management Company for non compliance of IAS-19 and violation of Regulation "7(3)" of the Prudential Regulation of Modaraba. After filing an appeal against the said order, SECP waived the fine of Rs 5,000, however, penalty amounting to Rs 50,000 remained intact. Further to the order, an application has been made to SECP requesting permission to lodge an appeal before appellate bench of the Commission under section 33 of the SECP Act 1997. Decision of the said application is still awaited.

CORPORATE AND FINANCIAL REPORTING

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

- The financial statements prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Modaraba have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards (IASs) as applicable in Pakistan have been followed in preparation of Financial Statements and any departure there from has been adequately disclosed.
- The system of internal controls is sound in design and has been effectively implemented and monitored.
- The Modaraba is financially sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The Modaraba operates an unapproved unfunded gratuity scheme for its permanent employees, value of which is Rs.360,719 as at June 30, 2010.
- Key operating and financial data for the last six years in summarized form is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges outstanding as on June 30, 2010 except as disclosed in the financial statements.
- None of the directors of Modaraba, CEO, CFO, Company Secretary and their spouses and minor children has carried out trading of certificates of the Modaraba.
- During the year, four meetings of the Board of Directors were held. Attendance by each director is as follows:

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

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



DIRECTORS' REPORT



COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The requirements of the Code of Corporate Governance set out by the Karachi Stock Exchange in its listing regulations relevant for the year ended June 30, 2010 have been adopted by the Modaraba and have been duly complied with. A statement to this effect is annexed with the report.

THE BOARD OF DIRECTORS AND AUDIT COMMITTEE

During the year ended June 30, 2010, the Board of Directors has appointed Syed Waseem Haqqie as Chairman of the Board in place of Syed Muhammad Rehmanullah.

HUMAN RESOURCES

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

STATUTORY RESERVES

The Board has transferred 50% of net profit after tax amounting Rs. 8,547,845 to its statutory reserve as per the requirement of Rule 2 of Part III of Prudential Regulation for Modarabas as issued by Securities and Exchange Commission of Pakistan through Circular No. 4 of 2004 dated January 28, 2004.

DIVIDEND

The Board is pleased to announce a cash dividend of 2.8% i.e. Rs. 0.28 per certificate.

AUDITORS

KASB Bank, the holding company of KASB Modaraba, has changed its auditors on completion of five years engagement period. As per the notification dated February 25, 2004 jointly issued by SBP and SECP, all inter-related companies / institutions, engaged in the business of providing financial services, are directed to appoint the same firm of auditors to conduct audit of their accounts.

Therefore, on the recommendation of the Audit Committee, the Board has approved the appointment of the new auditors Ernst and Young Ford Rhodes Sidat Hyder & Co., as auditors for the year ending June 30, 2011, subject to approval by the Registrar of Modaraba Companies and Modaraba.

ACKNOWLEDGEMENT

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

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

For and behalf of

Board of Directors

Syed M. Husaini
CEO

Dated: September 27, 2010
Karachi

KEY FINANCIAL AND OPERATIONAL DATA AT A GLANCE



	2010	2009	2008	2007	2006	2005
	————— Rupees in Thousand —————					
Total Assets	953,667	450,397	233,723	54,764	52,360	77,714
Musharaka Finance	83,634	39,594	24,968	640	6,367	2,410
Murabaha Finance	362,561	70,777	20,231	-	-	-
Modaraba Finance	154,440	20,774	-	-	-	-
Diminishing Musharaka Finance	131,600					
Ijarah Assets	65,997	55,337	-	-	-	-
Investment in Lease	45,002	97,718	146,916	1,776	5,884	2,999
Equity	274,753	258,322	62,674	52,873	50,684	51,435
Current Assets	762,536	309,109	126,254	53,111	48,050	72,963
Current Liabilities	665,903	166,594	81,526	1,398	1,010	24,912
Total Income	89,730	42,948	11,688	5,329	2,328	7,809
Taxation	-	-	(650)	(180)	44	58
Profit/(Loss) after tax and management fee	17,096	16,023	(8,078)	2,227	(814)	4,916
Dividend (Rs)	0.28	-	-	0.25	-	-
EPS (Rs)	0.60	0.65	(1.10)	0.30	(0.11)	0.67



KEY FINANCIAL AND OPERATIONAL DATA AT A GLANCE

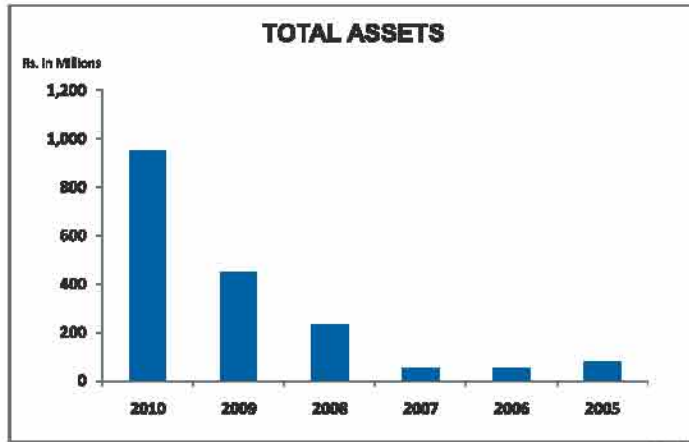


Table showing comparison of total assets for last six years

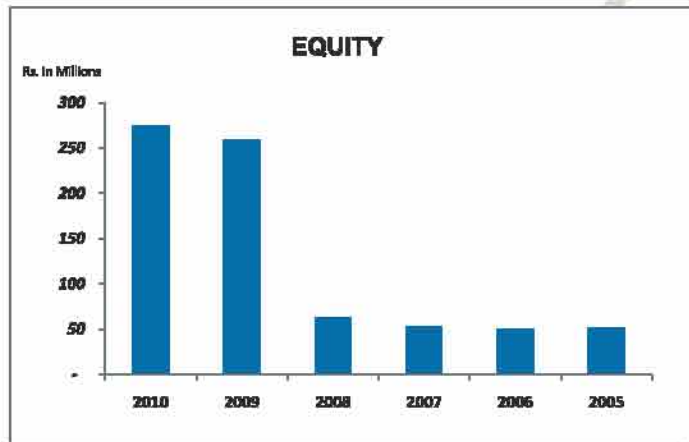


Table showing movement in equity for last six years

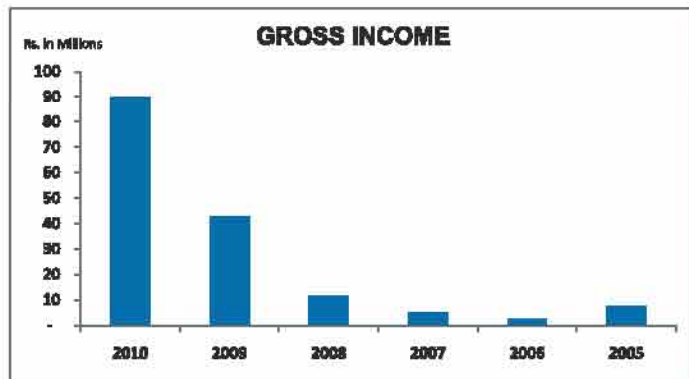


Table showing movement in total income for last six years

KEY FINANCIAL AND OPERATIONAL DATA AT A GLANCE

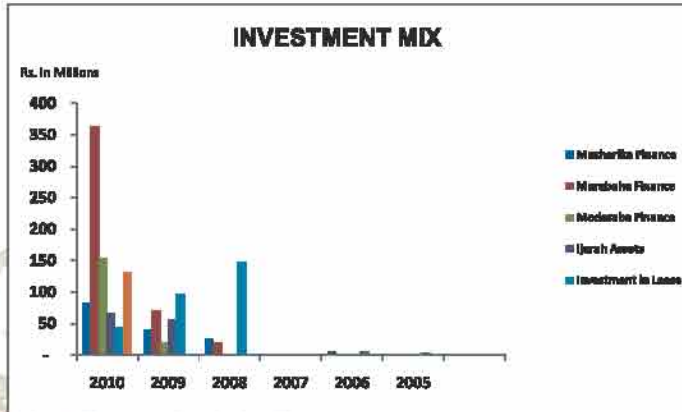


Table showing change in Investment mix for last six years

* The apparent fall in Investment in Lease is due to the adoption of Islamic Financial Accounting Standard - 2 for treatment of transaction executed on or after July 01, 2008 as operating lease.

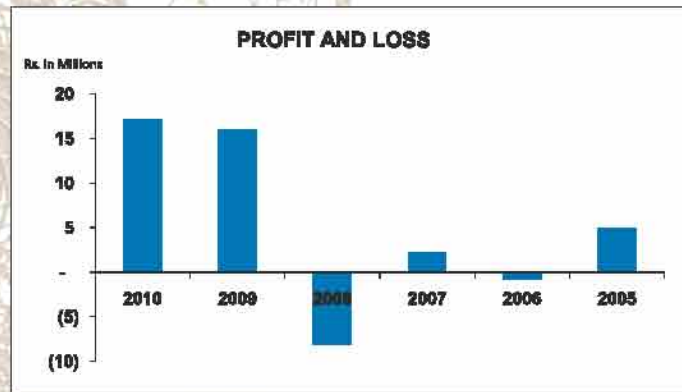


Table showing movement in profit / (loss) for last six years



STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

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

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

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

1. The Board comprises of four directors including three non-executive directors.
2. The directors have confirmed that none of them is serving as director in more than ten listed companies, including this company.
3. All the directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year no casual vacancy occurred on the board.
5. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Modaraba at the time of their appointment. In addition list for annual approval of directors and employee has been prepared and circulated.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies is maintained with relevant department of the Modaraba.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors have been taken by the Board.
8. The meeting of the Board were presided over by the Chairman of the Board. The Board of Directors have met four times in the year and notices of meetings, along with agenda and related papers are always endeavored to be circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors are aware of their fiduciary responsibilities and most of them have attended orientation courses. Further the directors have been provided with the copies of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, Listing Regulation, Code of Corporate Governance, Companies Ordinance 1984, Prudential Regulation, Modaraba's Prospectus and all other relevant rules and regulations and the directors are conversant with relevant laws applicable to the Modaraba, its policies and procedures and provision of the prospectus and are aware of their duties and responsibilities.
10. The Board has approved appointment of CFO and Company Secretary including remuneration and terms and conditions of employment as determined by CEO.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE



12. CEO and CFO have duly endorsed the financial statements of the Modaraba before approval of the Board.
13. The Directors, CEO and Executives do not hold any interest in the Certificates of Modaraba.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee that also ensures the independence of the internal audit function and the independence and objectivity of the external auditors.
16. The Audit Committee of the Board comprises of three members who are non-executives directors, including chairman of the committee.
17. The meetings of the audit committee were held at least once in every quarter prior to approval of interim and final results of the Modaraba as required by the Code. The term of reference of the committee have been formed, approved by the Board and advised to the committee for compliance.
18. The related party transactions have been placed before the audit committee and approved by the board of directors with justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in arm's length transactions only if such terms can be substantiated.
19. The Board has outsourced the internal audit functions to firm of chartered accountants.
20. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold Certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guideline on the code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
21. The Statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regards.
22. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Karachi
September 27, 2010

Syed M. Husami
CEO



AUDITORS' REVIEW REPORT ON COMPLIANCE OF CORPORATE GOVERNANCE



A.F.FERGUSON & CO.

A member firm of



A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

REVIEW REPORT ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE 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 KASB Modaraba Management Company (Private) Limited, the Management Company of KASB Modaraba, to comply with the requirements of Chapter XI of the Listing Regulations of the Karachi and Lahore 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 Management Company of the Modaraba. 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 Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

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

Further, Sub-Regulation (xiii a) of Listing Regulation 35 of the Karachi and Lahore Stock Exchanges requires the Modaraba 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. All such transactions are also required to be separately placed before the Audit Committee of the Management Company. We are only required and have ensured compliance of the requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee of the Management Company. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended June 30, 2010.

A.F. Ferguson & Co
Chartered Accountants
Dated: September 27, 2010
Karachi

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Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Iqbal ul Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office: House No. 1916, Street No. 1, Behind Cinema Ringot, Kabal-e-Darzan, Karte-4, Kabul, Afghanistan. Tel: +91-799-315320, +91-799-315320

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS



A.F. FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS

A.F. Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I. Chundrigar Road, P.O. Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711
Facsimile: (021) 32415007 / 32427938

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **KASB Modaraba** as at June 30, 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (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 management company's responsibility (KASB Modaraba Management (Private) Limited) 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 management company in respect of KASB Modaraba, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion proper books of accounts have been kept by the management company in respect of KASB Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon, have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of account and are further in agreement with accounting policies consistently applied, except for the changes stated in note 2.2 to the financial statements, with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of state of the Modaraba's affairs as at June 30, 2010 and of the profit, its comprehensive income, cash flows and changes in equity for the year then ended; and
- d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Chartered Accountants

Engagement Partner: **Rashid A. Jafer**

Karachi

Dated: September 27, 2010

Lahore Office: 23-C Aziz Avenue, Canal Bank, Gulberg V, P. O. Box 39, Lahore, Pakistan Tel: (92-42) 35715864-71 Fax: (92-42) 35715872
Islamabad Office: PIA Building, 3rd Floor, #9 Blue Area, Fazi-oli-1st Road, P.O. Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office: House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel: (93-799) 315320-203424

BALANCE SHEET

AS AT JUNE 30, 2010



Note	June 30, 2010	June 30, 2009 (Restated)	June 30, 2008 (Restated)
(Rupees)			
ASSETS			
Current assets			
4	59,225,467	128,714,414	33,845,102
	Cash and bank balances		
5.1	8,805,840	4,256,334	3,850,888
	Short-term investments		
6	368,603,935	82,580,731	20,231,001
	Current portion of murabaha finance - gross		
7	154,440,342	20,774,249	-
	Mudaraba finance		
8	63,633,662	38,594,328	24,868,800
	Musharaka finance		
9	46,012,173	-	-
	Current portion of diminishing musharaka finance		
10	37,971,580	44,753,495	41,275,094
	Current portion of net investment in finance leases		
11	1,863,147	810,667	-
	Jarah rentals receivable		
12	6,708,248	5,844,678	1,048,800
	Advances, deposits, prepayments and other receivables		
13	5,367,988	1,240,907	295,312
	Accrued profit		
	Stores	-	-
14	889,702	738,582	671,171
	Taxation recoverable		
	Total current assets	308,108,386	126,254,189
Non-current assets			
	28,000	128,000	25,000
	Long-term deposits		
5.2	19,342,250	17,020,000	-
	Long-term investments		
8	4,067,087	8,198,373	-
	Long-term portion of murabaha finance - gross		
9	86,587,513	-	-
	Long-term portion of diminishing musharaka finance		
10	7,028,825	52,964,055	105,641,031
	Long-term portion of net investment in finance leases		
15	85,868,767	85,338,838	-
	Jarah assets		
16	8,069,749	7,643,188	1,803,427
	Fixed assets in own use		
	Total non-current assets	141,288,555	107,468,458
	Total Assets	450,397,941	233,723,627
LIABILITIES			
Current liabilities			
17	481,880,000	160,826,000	-
	Deposits		
18	158,935,188	-	75,000,000
	Short-term murabaha finance		
19	10,341,667	674,750	60,000
	Current maturity of security deposits		
20	23,008,812	7,829,692	4,781,888
	Creditors, accrued and other liabilities		
6	11,153,821	6,687,765	1,218,626
	Current portion of deferred murabaha income		
	Unclaimed profit distribution	478,790	477,068
	Total current liabilities	166,893,897	81,625,683
Non-current liabilities			
	-	-	70,000,000
	Long-term finance		
19	12,583,311	25,083,968	19,310,282
	Security deposits		
6	67,067	186,373	-
	Long-term portion of deferred murabaha income		
21.4	380,719	201,766	214,000
	Deferred liabilities - staff gratuity		
	Total non-current liabilities	25,481,799	86,524,282
	Total Liabilities	192,076,898	171,049,845
	NET ASSETS	258,322,245	62,673,782
REPRESENTED BY			
CAPITAL AND RESERVES			
Certificate capital			
Authorized:			
	50,000,000 (June 30, 2008: 50,000,000) certificates of Rs 10/- each	500,000,000	500,000,000
	issued, subscribed and paid-up capital	282,744,000	83,160,000
22	282,744,000	282,744,000	83,160,000
	Statutory reserve	11,888,132	9,733,668
23	20,485,977	11,888,132	9,733,668
	Accumulated loss	(36,358,867)	(49,178,177)
	Right certificate subscription money	-	18,868,400
	Unrealised diminution on remeasurement of investment classified as 'available for sale' - net	(885,285)	-
	CONTINGENCIES AND COMMITMENTS	274,752,840	82,673,782
24	274,752,840	288,322,246	82,673,782

The annexed notes 1 to 44 form an integral part of these financial statements.

For KASB Modaraba Management Company (Private) Limited
(Management Company)

Chief Executive

Director

Director

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2010



	Note	For the year ended June 30, 2010	For the year ended June 30, 2009
(Rupees)			
Income from leasing operations	25	15,869,814	20,514,852
Income from Service (Jarrah)		5,000,000	-
Profit on Musharaka finance		11,142,865	4,549,474
Profit on Murabaha finance		32,231,553	4,580,067
Profit on Mudaraba finance		1,908,404	-
Profit on Diminishing Musharaka finance		10,176,831	-
Profit on Term Finance Certificates		-	16,861
Profit on Sukuk bonds - Held for trading		-	294,445
- Held to maturity		2,828,780	2,153,769
Profit on bank deposits		8,765,437	10,700,569
Gain / (loss) on sale of marketable securities - net	26	796,228	(750,855)
Loss on dairy farming business activities including fair value adjustment	27	(138,913)	-
Loss on sale of biological assets		(794,500)	-
Unrealised diminution on remeasurement of investments classified as 'financial assets at fair value through profit or loss'	5.1.1	-	(69,309)
Financial charges	28	87,585,109	41,989,893
		(45,839,712)	(7,026,981)
Allowance for potential Musharaka & Jarrah losses	10.3	41,745,397	34,962,882
		-	-
Other income	29	2,145,275	958,378
Administrative and operating expenses	30	(24,895,461)	(18,118,079)
Mudaraba Management Company fee	31	18,995,211	17,803,181
		(1,899,521)	(1,780,318)
Profit before taxation		17,095,890	16,022,883
Taxation			
- current		-	-
- deferred		-	-
Profit after taxation		17,095,890	16,022,883
Earnings per certificate	32	0.60	0.85

The annexed notes 1 to 44 form an integral part of these financial statements.

For KASB Mudaraba Management Company (Private) Limited
(Management Company)

Chief Executive

Director

Director



STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2010



	June 30, 2010	June 30, 2009
	<u>(Rupees)</u>	
Profit after taxation	17,095,890	16,022,863
Other comprehensive Income / (loss)		
Unrealised diminution on remeasurement of Investments classified as 'available for sale'	(665,295)	-
Total comprehensive Income for the period	<u>16,430,395</u>	<u>16,022,863</u>

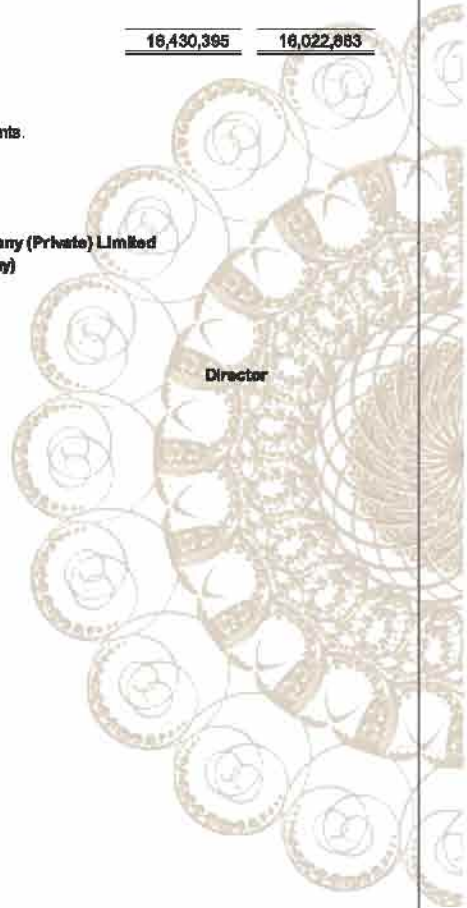
The annexed notes 1 to 44 form an integral part of these financial statements.

For KASB Modaraba Management Company (Private) Limited
(Management Company)

Chief Executive

Director

Director



CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2010



	June 30, 2010	June 30, 2009
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	17,085,680	18,022,863
Adjustments for non-cash charges and other items:		
Dividend income	(28,804)	(84,000)
Loss / (gain) on sale of marketable securities - net	(798,228)	780,886
Unrealised diminution on remeasurement of investments classified as financial assets at fair value through profit or loss	-	68,308
Gain on disposal of fixed assets	(800,438)	(278,286)
Loss on disposal ofjarah assets	-	86,887
Loss on sale of biological assets	784,500	-
Fair value adjustment on biological asset	186,000	-
Depreciation	24,077,662	8,344,287
Amortisation	305,813	68,082
Workers' Welfare Fund	662,371	-
Gratuity expense	158,981	(12,242)
Financial charges	45,838,712	7,026,881
Investment written-off	30,331	-
	87,874,469	29,885,748
(Increase) / decrease in assets		
Net investment in finance lease	52,716,046	48,188,575
Musharaka finance	(44,039,333)	(14,826,629)
Mudaraba finance	(291,783,898)	(44,878,591)
Modaraba finance	(133,666,084)	(20,774,248)
Diminishing Musharaka finance	(131,899,888)	-
Jarah rentals receivable	(1,152,480)	(810,687)
Advances, deposits, prepayments and other receivables	(63,687)	(4,587,778)
Accrued profit	(4,127,081)	(878,886)
Stores	(14,570)	-
Long-term deposits	100,000	(103,000)
	(668,830,784)	(37,886,834)
Increase / (decrease) in liabilities		
Security deposits on lease contracts	(3,023,550)	8,588,156
Deferred mudaraba income	4,228,780	-
Creditors, stored and other liabilities	2,814,087	2,360,467
	4,117,287	8,856,613
Purchases ofjarah assets		
Sales proceeds from disposal ofjarah assets	(33,186,810)	(82,316,311)
Taxes paid	2,800	-
Financial charges paid	(180,020)	(68,511)
Workers' Welfare Fund paid	(33,918,893)	(8,239,736)
	(320,457)	-
	(67,682,180)	(88,824,157)
Net cash utilised in operating activities		
	(629,121,198)	(87,248,832)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(14,345,095)	(8,801,295)
Sales proceeds from disposal of fixed assets	12,348,000	1,887,808
Purchase of biological assets	(3,474,000)	-
Sales proceeds from disposal of biological assets	2,843,800	-
Dividends received	28,804	84,000
Purchase of investments - net	(7,770,864)	(18,214,881)
Net cash used in investing activities	(10,887,945)	(23,134,378)
CASH FLOW FROM FINANCING ACTIVITIES		
Short-term Musharaka finance	188,936,198	(75,000,000)
Right certificates subscription money received	-	179,825,800
Long-term finance	-	(70,000,000)
Deposits	311,385,000	180,825,000
Dividend paid	-	(278)
Net cash generated from financing activities	470,300,198	185,250,322
Net (decrease) / Increase in cash and cash equivalents	(89,486,947)	94,869,312
Cash and cash equivalents at the beginning of the year	128,714,414	33,845,102
Cash and cash equivalents at the end of the year	58,225,467	128,714,414

The annexed notes 1 to 44 form an integral part of these financial statements.

For KASB Mudaraba Management Company (Private) Limited
(Management Company)

Chief Executive

Director

Director

ANNUAL REPORT 2010

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2010



	Certificate capital	Statutory reserve	Right certificates subscription money	Unrealised appreciation / (diminution) on remeasurement of investments classified as available-for-sale	Accumulated loss	Total
	(Rupees)					
Balance as at June 30, 2008	83,160,000	9,733,559	19,958,400	-	(49,178,177)	62,673,782
Right share subscription money	-	-	179,825,800	-	-	179,825,800
Issue of right shares	199,584,000	-	(199,584,000)	-	-	-
Total comprehensive income for the year ended June 30, 2008	-	-	-	-	16,022,883	16,022,883
Transfer to statutory reserve	-	3,204,573	-	-	(3,204,573)	-
Balance as at June 30, 2009	282,744,000	11,938,132	-	-	(86,359,887)	258,322,245
Total comprehensive income for the year ended June 30, 2010	-	-	-	(666,296)	17,096,890	16,430,594
Transfer to statutory reserve	-	8,547,845	-	-	(8,547,845)	-
Balance as at June 30, 2010	282,744,000	20,486,977	-	(666,296)	(27,812,042)	274,762,640

The annexed notes 1 to 44 form an integral part of these financial statements.

For KASB Modaraba Management Company (Private) Limited
(Management Company)

Chief Executive

Director

Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010



1 LEGAL STATUS AND NATURE OF BUSINESS

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

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

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Changes in accounting policies and disclosures arising from standards, interpretations and amendments to published accounting standards that are effective in the current year:

a) IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning of the comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and the comparative period.

The Modaraba has applied IAS 1 (revised) from July 1, 2009 and has chosen to present all non-owner changes in equity in a separate statement of comprehensive income along with the income statement (referred to as profit and loss account in these financial statements). As a result the non-owner changes in equity which were previously required to be credited directly in the statement of changes in equity are now shown as other comprehensive income in the performance statement (referred to as the statement of comprehensive income in these financial statements). Comparative information has been re-presented so that it is also in conformity with the revised standard. As the change in accounting policy only impacts presentation aspect, there is no impact on earnings per certificate.

b) IFRS 8, 'Operating segments' became effective for annual periods beginning on or after January 1, 2009. IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segment information is, therefore, reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

The adoption of the above standard does not have any significant effect on the Modaraba's financial statements other than certain increased disclosures. Furthermore, the adoption of this standard has neither any impact on earnings per certificate nor does it require the restatement or reclassification of comparative information.

c) IFRS 7 (amendment) 'Financial Instruments: Disclosures'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures as given in note 34.4 to these financial statements, but does not have an impact on the Modaraba's financial position or performance.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010



2.3 Other standards, Interpretations and amendments to published approved accounting standards that are effective in the current year

The following new standards and amendments to existing standards have been published and are mandatory for the first time for the financial year beginning July 1, 2009 :

- a) IAS 39 (Amendment), 'Financial Instruments: Recognition and measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of the amendment did not have any impact on the Modaraba's financial statements.
- b) IAS 32 (Amendment), 'Financial Instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation'. The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. One of the particular features is that apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity. The adoption of the amendment did not have any impact on the Modaraba's financial statements.
- c) IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009).
 - The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
 - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
 - The distinction between short term and long term employee benefit will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
 - IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, not recognized. IAS 19 has been amended to be consistent. Previously IAS 19 required an entity to recognise certain contingent liabilities in respect of multi-employer plan. Now an entity is required only to disclose information about some contingent liabilities.

This amendment does not have any significant impact on the Modaraba's financial statements.
- d) IAS 36 (Amendment), 'Impairment of Assets' (effective from January 1, 2009). As per the new requirements, where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. Adoption of the amendment did not have any effect on the Modaraba's financial statements.
- e) IAS 36 (Amendment), 'Intangible Assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. Adoption of the amendment did not have any effect on the Modaraba's financial statements.
- f) IAS 23 (Amendment), 'Borrowing Costs' (effective from January 1, 2009). This standard requires an entity to capitalise 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. The option of immediately expensing those borrowing costs has been removed. Further, the definition of borrowing cost has been amended so that interest expense is calculated using the effective interest method defined in IAS 39, 'Financial Instruments: Recognition and Measurement'. Adoption of this amendment did not have any effect on the Modaraba's financial statements.

There are other interpretations that were mandatory for the Modaraba's accounting periods beginning on or after July 1, 2009 but were considered not to be relevant or did not have any significant effect on the Modaraba's operations and are therefore not disclosed in these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010



2.4 Standards, Interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Modaraba's accounting period beginning on or after July 1, 2010:

- IFRS 8 (Amendment), 'Operating segments' (effective from January 1, 2010). There is a minor amendment to the standard to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision maker. The amendment is not expected to have any impact on the Modaraba's financial statements.
- IAS 1 (Amendment), 'Presentation of financial statements' (effective January 1, 2010). The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. It is not expected to have a material impact on the Company's financial statements.
- IAS 7 (Amendment), 'Statement of Cash Flows' (effective from January 1, 2010). The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Modaraba's financial statements.
- IAS 17 (Amendment), 'Leases' (effective from January 1, 2010). The amendment has deleted the specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating using the general principles of IAS 17. The amendment is not expected to have any impact on the Modaraba's financial statements.
- IAS 18 (Amendment), 'Revenue' (effective from January 1, 2010). The amendment provides additional guidance regarding the determination as to whether an entity is acting as a principal or an agent. The amendment is not expected to have any impact on the Modaraba's financial statements.
- IAS 24 'Related Party Disclosures' (Revised) (effective from January 1, 2011). The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.
- IAS 36 (Amendment), 'Impairment of Assets' (effective from January 1, 2010). The amendment clarifies that the largest cash generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment. The amendment is not expected to have any impact on the Modaraba's financial statements.
- IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2010). The amendment clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active market. The amendment is not expected to have any impact on the Modaraba's financial statements.

There are certain other new standards, amendments and interpretations that are mandatory for the Modaraba's accounting periods beginning on or after July 1, 2010 but are considered not to be relevant or to have any significant effect on the Modaraba's operations and are therefore not detailed in these financial statements.

2.5 Applicability of International Accounting Standard 17 'Leases'

SECP vide its circular No. 10 of 2004 dated February 13, 2004 has deferred, till further orders, the applicability of International Accounting Standard (IAS) 17 "Leases" on Modarabas with effect from July 1, 2003 and advised the management companies of Modarabas that they may continue to prepare the financial statements of the Modarabas without applying the requirements of the said IAS to the Modarabas. However, the requirements of the above IAS were considered for the purpose of preparation of these financial statements upto June 30, 2008. From July 1, 2008 all new leases are being accounted for in accordance with the requirements of IAS 17 as explained in note 2.7. As allowed by the SECP, leases which were accounted for as finance lease in accordance with IAS 17 till June 30, 2008 continue to be accounted for as finance leases.

2.6 Islamic Financial Accounting Standard - 1

During the year ended June 30, 2005, the Securities and Exchange Commission of Pakistan notified the Islamic Financial Accounting Standard 1 issued by the Institute of Chartered Accountants of Pakistan relating to accounting for Murabaha transaction undertaken by a bank / financial institution, effective for financial periods beginning on or after January 1, 2006. The Modaraba adopted this standard effective from July 1, 2006.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010



2.7 Islamic Financial Accounting Standard - 2

During the year ended June 30, 2008, Islamic Financial Accounting Standard 2 'Ijarah' was issued by the Institute of Chartered Accountants of Pakistan which was notified by the Securities and Exchange Commission of Pakistan vide SRO 431(1)/2007. Under the above IAS 2, the 'Ijarah' transactions are accounted for in the following manner:

- Muj'ir (lessors) shall present the assets subject to Ijarah in their balance sheet according to the nature of the asset, distinguished from the assets in own use.
- Costs, including depreciation on the assets given on Ijarah, incurred in earning the Ijarah income shall be recognized as an expense.
- Ijarah Income shall be recognized in Income on an accrual basis as and when the rental becomes due, unless another systematic basis is more representative of the time pattern in which the benefit of the use derived from the leased asset is diminished.
- SECP, vide its letter No. SC/ M/ RW/ SCM/2009 dated March 9, 2009, allowed that in case of Madarabas, IAS-2 shall be applied for Ijarah transactions executed on or after July 1, 2008.

Consequently, in preparation of these financial statements the Madaraba has accounted for leasing transactions executed before July 1, 2008 as finance leases consistent with prior years and has treated the leasing transactions executed on or after July 1, 2008 in accordance with the requirements of IAS 2.

2.8 Accounting convention

These financial statements have been prepared under the historical cost convention except that investments classified as financial assets 'at fair value through profit or loss' or 'available for sale' have been marked to market and certain staff retirement benefits are carried at present value of defined benefit obligation.

2.9 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the Madaraba's functional currency.

2.10 Critical accounting estimates and judgments

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

Significant accounting estimates and areas where judgments were made by management in the application of accounting policies are disclosed in note 40 to these financial statements.

3 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 the years presented except as explained in note 2.2 to these financial statements.

3.1 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and balances with banks on current and deposit accounts.

3.2 Financial assets

3.2.1 Classification

The Madaraba classifies its financial assets in accordance with the requirements of International Accounting Standard 39 (IAS 39) Financial Instruments: Recognition and Measurement in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



a) At fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as 'financial assets at fair value through profit or loss' category. The financial assets classified as at fair value through profit or loss included investments in listed equity securities which were disposed off during the year.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The financial assets included in loans and receivables classification are cash and bank balances, Murabaha finance, Musharaka finance, Mudaraba finance, Diminishing Musharaka finance, net investment in finance leases and advances, deposits, prepayments and other receivables.

c) Held to maturity

These are investments with fixed or determinable payments and fixed maturity with the Mudaraba having positive intent and ability to hold to maturity. Investments in sukuk certificates have been classified as held to maturity.

d) Available for sale financial assets

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'available for sale'. Available for sale financial instruments are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables (b) held to maturity (c) financial assets at fair value through profit or loss. The financial assets classified as 'available for sale' include investments in listed equity securities.

3.2.2 Initial recognition and measurement

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

3.2.3 Subsequent measurement

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

a) 'Financial asset at fair value through profit or loss' & 'available for sale'

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

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

Net gains and losses arising from the excess of value determined in accordance with the above mentioned criteria over the carrying amount in respect of 'available for sale' financial assets are recognised in other comprehensive income until the 'available for sale' investment is derecognised. At this time, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the profit and loss account. Previously, net gains and losses arising on changes in fair value of 'available for sale' financial assets were taken directly to the statement of changes in equity until the 'available for sale' financial assets were derecognised or impaired at which time the cumulative gain or loss recognised in the statement of changes in equity was transferred to the profit and loss account.

b) 'Loans and receivables' & 'held to maturity'

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

3.2.4 Regular way contracts

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Mudaraba commits to purchase or sell the assets.

3.2.5 Impairment

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



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010



D) Financial assets carried at amortised cost

For loans and receivables, a provision for impairment is established when there is objective evidence that the Mudaraba will not be able to collect all amounts due according to the original terms.

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in the profit and loss account.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit and loss account.

E) Financial assets classified as 'available for sale'

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

3.2.6 Derecognition

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

3.2.7 Offsetting of financial assets and liabilities

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

3.2.8 Financial liabilities

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

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

3.2.9 Net investment in finance lease

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

3.2.10 Receivable from terminated / matured contracts

These are stated net of impairment loss. Impairment loss is recognised for doubtful receivables on the basis of Prudential Regulations for Mudarabas issued by the SECP. Bad debts are written off when identified.

3.2.11 Lease rentals, murabaha finance, musharaka finance, diminishing musharaka finance and modaraba finance

Lease rentals, murabaha finance, musharaka finance, diminishing musharaka finance and modaraba finance receivables are stated net of provisions and suspense income. Provision is recognised for lease rentals receivables, in accordance with Prudential Regulations for Mudaraba. Bad debts are written off as and when identified.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



3.3 Fixed assets - Tangible

3.3.1 Owned assets

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

Depreciation is charged to income applying the straight-line method in accordance with the rates specified in note 18 to these financial statements, whereby the cost of an asset is written-off over its estimated useful life after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, as appropriate, at each balance sheet date. Depreciation is charged on additions from the month the asset is available for use and on disposals up to the month preceding the month of disposal.

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

3.3.2 Ijarah assets

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

3.3.3 Gain or loss on disposal

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

3.3.4 Impairment

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

3.3.5 Intangible assets

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

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

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

3.4 Loans, advances and other receivables

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

3.5 Taxation

3.5.1 Current

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010



The Income of non-trading *modarabas* is exempt from tax subject to the condition that not less than ninety per cent of its total profits in the year as reduced by the amount transferred to a mandatory reserve, required under the provisions of the *Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980)* are distributed amongst the shareholders. The *Modaraba* has decided to continue availing the tax exemption and hence no provision has been made in these financial statements for tax liability in the current year.

3.5.2 Deferred

Deferred tax is recognised using the balance sheet liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts appearing in the financial statements. Deferred tax liability is recognised for all taxable temporary differences. Deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax asset and liability is measured at the tax rate that is 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 substantially enacted by the balance sheet date. However, the *Modaraba* has not recognized any amount in respect of deferred tax in these financial statements as the *Modaraba* intends to continue availing the tax exemption in future years by distributing at least 90% of its profits as reduced by transfer to mandatory reserve, to its certificate holders every year.

3.6 Creditors, accrued and other liabilities

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

3.6.1 Provisions

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

3.6.2 Staff retirement benefits

Unfunded gratuity scheme

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

3.7 Revenue recognition

3.7.1 Finance Lease

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

3.7.2 Ijarah

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

3.7.3 Non-performing Ijarah / finance lease

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



3.7.4 Musharaka Finance

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

3.7.5 Murabaha Finance

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

3.7.6 Mudaraba Finance

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

3.7.7 Dividend Income

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

3.7.8 Proposed profit distribution to certificate holder

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

4. CASH AND BANK BALANCES	Note	2010	2009
		(Rupees)	
With banks in current accounts	4.2	466,812	465,233
With banks in deposit account	4.1 & 4.2	17,585,875	99,119,848
With State Bank of Pakistan		15,258	12,012
Cash in hand		12,702	2,425
Redemption fund for Certificate of Musharaka		16,182,870	14,113,798
Term deposits receipts	4.3	25,000,000	15,000,000
Stamp Papers		1,850	1,100
		<u>59,225,487</u>	<u>128,714,414</u>

4.1 These deposits accounts carry profit at rates ranging from 6% to 12.3% (2009: 6.15% to 16.5%).

4.2 Balances with banks include an amount of Rs 33,870,823 (2009: Rs 39,593,140) held with KASB Bank Limited which is a related party. The deposit accounts with related party carry profit at a rate of 5% to 12% (2009: 12% to 14%).

4.3 Term Deposit receipts include an amount of Rs Nil (2009: Rs 10,000,000) held with KASB Bank Limited which is a related party. The deposit receipts with related party carry profit at a rate of Nil (2009: 16% to 18%). Other deposit receipts carry profit at rates 12.30% (2009: 14.5% to 18%).

5. INVESTMENTS	Note	2010	2009
		(Rupees)	
5.1 Short-term investments			
Financial assets 'at fair value through profit and loss' - held for trading			
- Equity securities - listed	5.1.1	-	2,298,334
Available for sale			
- Equity securities - listed	5.1.2	9,797,140	-
Held to maturity			
Current portion of Sukuk Bonds - unlisted	5.2	8,500	1,960,000
		<u>9,805,640</u>	<u>4,258,334</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010



5.1.1 Financial assets 'at fair value through profit and loss' - held for trading

Equity securities - listed

Name of investee company	Number of shares				Balance as at June 30, 2010			
	As at July 1, 2008	Purchases during the year	Bonus / right issues	Sales / write-offs during the year	As at June 30, 2010	Carrying cost	Market value	Appreciation/ (depreciation)
Fully paid ordinary shares of Rs 10 each unless stated otherwise								
Greent Jute Products Limited	1,021	-	-	1,021	-	-	-	-
Engro Corporation Limited	18,400	88,888	-	79,082	-	-	-	-
Lotte Pakistan PTA Limited	-	70,000	-	70,000	-	-	-	-
Pakistan Oilfields Limited	-	6,000	-	6,000	-	-	-	-
Pakistan Petroleum Limited	-	33,000	-	33,000	-	-	-	-
Sajana Dairies Industries Limited	18,800	-	-	18,800	-	-	-	-
Sul Northern Gas Pipeline Limited	6,000	-	-	6,000	-	-	-	-
Total listed equity securities								

5.1.2 Available for sale

Equity securities - listed

Name of investee company	Number of shares				Balance as at June 30, 2010			
	As at July 1, 2008	Purchases during the year	Bonus / right issues	Sales / write-offs during the year	As at June 30, 2010	Carrying cost	Market value	Appreciation/ (depreciation)
Fully paid ordinary shares of Rs 10 each unless stated otherwise								
Engro Corporation Limited	-	33,000	-	-	33,000	4,374,735	3,992,340	382,395
Fauji Fertilizer Company Limited	-	8,000	-	-	8,000	358,000	428,140	140
Lotte Pakistan PTA Limited	-	58,000	-	-	58,000	581,185	448,300	(132,885)
Pakistan Petroleum Limited	-	28,000	-	-	28,000	5,273,517	5,193,380	80,137
Total listed equity securities						10,487,437	9,762,160	625,637

5.2 Long-term investment

Held to maturity

Sukuk bonds - unlisted

Name of investee company	Number of certificates				Profit / mark-up rate	Carrying amount	
	As at July 1, 2008	Purchases during the year	Sales during the year	As at June 30, 2010		Balance as at June 30, 2010	Balance as at June 30, 2008
Sukuk bonds of Rs 5,000 each unless stated otherwise							
Kohat Cement Company Limited (note 5.2.1)	2,000	-	-	2,000	14.12% (3M KIBOR + 1.80%)	6,980,000	6,800,000
Maple Leaf Cement Factory Limited (note 5.2.2)	2,000	-	-	2,000	13.87% (3M KIBOR + 1.00%)	9,983,750	10,000,000
Maple Leaf Cement Factory Limited	-	78	-	78	13.22% (3M KIBOR + 1.00%)	378,000	-
Total Sukuk Bonds						18,341,750	16,800,000
Less Current portion of sukuk bonds						(6,500)	(1,000,000)
						18,335,250	17,800,000

5.2.1 Terms of restructuring

Kohat Cement Company Limited (KCCL) delayed the mark up payment due on December 20, 2008 by approximately 2 months and also defaulted in the payment of principal due on December 20, 2008. The principal due as per original terms was paid in March 2009. The terms of repayment were restructured / renegotiated in April, 2009. As per restructured terms the next maturity of Rs. 680,000 (Rs. 340 per certificate) was due on December 20, 2009 but it had already been paid to the Modaraba in March, 2009. The terms of repayment were further renegotiated on December 30, 2009 whereby the next redemption date has been delayed till September, 2012. Accordingly, Rs.1,980,000 has been transferred from current maturity to long-term maturity. The mark-up rate has been changed from 6 months KIBOR + 1.8% to 3 months KIBOR + 1.8%.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



5.2.2 During the current period Maple Leaf Cement Factory Limited has defaulted in the payment of mark-up due on December 3, 2009. The terms of repayment were restructured / renegotiated on March 30, 2010. As part of restructuring arrangement, the profit redemption of Rs 744,542 due on December 3, 2009 was paid to Modaraba on April 2, 2010 after deduction of certain expenses. Further as agreed by certificate holders to ease the liquidity problem faced by MLCFL, Sukuk II was issued by MLCFL. The Modaraba's share in the above issue amounts to Rs 375,000. The markup rate has been changed from 6 months KIBOR + 1.7% to 3 months KIBOR + 1%. As a matter of prudence no mark-up has been accrued on the original sukuk.

6	MURABAHA FINANCE	Note	2010	2009		2008
				(Rupees)		
				Restated	Restated	
	Murabaha finance - gross	8.1	382,581,002	70,777,104		20,231,001
	Less: provision for non-performing assets		-	-		-
			382,581,002	70,777,104		20,231,001
	Murabaha finance - due after one year		4,057,067	8,198,373		-
	Current portion of Murabaha finance - gross		358,503,935	82,580,731		20,231,001
	Less:					
	Unearned finance income		11,210,888	6,884,138		1,216,826
	Due after one year		57,087	188,373		-
	Current portion of unearned finance income		11,153,821	6,687,765		1,216,826
	Current portion of Murabaha finance - net		347,350,114	55,892,966		19,014,375

8.1 The profit rates on these murabaha arrangements range from 14.5% to 20% (2009: 14.5% to 19%). The financing is secured by way of post dated cheques amounting to Rs 185,687,770. Murabaha arrangements are secured against hypothecation of assets, personal guarantees and promissory notes.

7	MODARABA FINANCE		2010	2009
			(Rupees)	
	Modaraba finance		154,440,342	20,774,248

The Modaraba has provided funds under modaraba arrangements on profit and loss sharing basis to various entities. The profit / loss is to be shared in pre-agreed ratios. On termination date, the accounts of the modaraba shall be drawn up in accordance with the accepted accounting principles and the profit / loss if any shall be worked out and paid in proportion specified. Modaraba arrangements are secured against hypothecation of assets, personal guarantees and promissory notes.

8	MUSHARAKA FINANCE		2010	2009
			(Rupees)	
	Musharaka receivables		84,273,662	40,234,329
	Provision for non-performing assets		(640,000)	(640,000)
			83,633,662	39,594,329
	Musharaka finance - due after one year		-	-
	Current portion of Musharaka Finance		83,633,662	39,594,329

8.1 The Modaraba has provided funds under Musharaka arrangements for working capital requirements on profit and loss sharing basis. Expected rate of profit ranges from 16.76% to 18.00% (2009: 18.28% to 18.3%) per annum. All musharaka arrangements are secured against hypothecation of assets, personal guarantees and promissory notes. The financing is also secured by way of payorders and post dated cheques amounting to Rs 57,568,039.

9	DIMINISHING MUSHARAKA FINANCE		2010	2009
			(Rupees)	
	Diminishing Musharaka receivables		188,706,721	-
	Less: Unearned income		37,107,035	-
			131,599,686	-
	Musharaka finance - due after one year		88,587,613	-
	Current portion of Musharaka Finance		45,012,173	-

The Modaraba's implicit rate of return on diminishing Musharaka finance ranges from 15% to 20% per annum. (2009: Nil). Diminishing musharaka arrangements are secured against hypothecation of assets, personal guarantees and promissory notes. The financing is also secured by way of post dated cheques amounting to Rs. 138,028,417.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010



10 NET INVESTMENT IN FINANCE LEASE

Note	2010			2009		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	(Rupees)					
Minimum lease payments receivable	90,035,148	4,068,472	94,091,620	55,182,562	40,267,940	95,670,511
Add: Residual value	10,941,657	3,214,060	13,655,617	374,780	16,243,467	17,118,217
	40,876,706	7,270,532	47,647,237	66,067,342	68,681,418	112,888,768
Less: Unearned finance income	(2,068,073)	(240,607)	(2,308,680)	(10,887,095)	(3,667,361)	(14,234,456)
Suspended income	10.4	(92,514)	-	(432,214)	-	(432,214)
Allowance for potential lease losses	10.3	(244,538)	-	(304,538)	-	(304,538)
	10.1	87,971,680	7,029,925	44,769,496	62,964,055	97,717,650

	2010	2009
	(Rupees)	
10.1 Total receivable	45,001,605	97,717,650
Later than one year	7,029,925	62,964,055
Less than one year	37,971,580	44,753,495

10.2 There are no lease contracts receivable over five years. The Modaraba's implicit rate of return on lease finance ranges from 8.89% to 28.02% per annum (2009: 12.75% to 28.02%). The financing is secured by way of post dated cheques amounting to Rs 20,867,260. Finance lease arrangements are secured against hypothecation of assets, personal guarantees and promissory notes.

10.3 Allowance for potential lease losses

	2010			2009		
	Specific	General	Total	Specific	General	Total
	(Rupees)					
Opening Balance	304,538	-	304,538	304,538	-	304,538
Charge for the year	-	-	-	-	-	-
Reversal during the year	(60,000)	-	(60,000)	-	-	-
Amount written off during the year	-	-	-	-	-	-
Closing Balance	244,538	-	244,538	304,538	-	304,538

10.3.1 As at June 30, 2010, leases with outstanding principal of Rs. 0.245 million (2009: 0.305 million) have been classified as non-performing as per the requirements of Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan.

	2010	2009
	(Rupees)	
10.4 Suspended income		
Balance at beginning of the year	432,214	43,903
Income suspended during the year	27,625	368,311
Reversals during the year	(387,325)	-
	92,514	432,214

11 IJARAH RENTAL RECEIVABLES

Ijarah rentals receivable - considered good	1,963,147	810,667
Suspended lease rentals	-	-
	1,963,147	810,667

11.1 The financing is secured by way of post dated cheques amounting to Rs 34,082,598.

12 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Loan and advances to:		
- Executives	405,607	173,609
- Employees	1,008,574	336,418
Advances to suppliers and others	750,700	620,000
Advances against ijarah assets	-	1,809,000
Prepayments	2,022,473	1,070,083
Others	1,519,892	1,735,489
Overdue rentals	11,076	11,076
	5,719,322	5,655,655
Less: provision in respect of overdue rental	(11,076)	(11,076)
	5,708,246	5,644,579

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



	Note	2010	2009
		(Rupees)	
13 ACCRUED PROFIT			
Accrued profit on modaraba		182,155	-
Accrued profit on Sukuk Certificates		1,820,013	154,635
Accrued profit on bank accounts	13.1	377,375	501,213
Accrued profit on musharaka arrangements		3,253,733	792,040
Less: provision in respect of accrued profit on musharaka arrangements		(265,288)	(206,981)
		2,988,445	585,059
		<u>5,367,988</u>	<u>1,240,907</u>

13.1 Accrued profit on bank accounts Include an amount of Rs 15,068 (2009: Rs 352,119) receivable from KASB Bank Limited.

14 TAXATION

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

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

14.2 As at June 30, 2010 the Modaraba has net deferred tax liability amounting to Rs 4,434,649 (2009: 5,317,385) which has not been recognized in these financial statements as the Modaraba intends to avail the tax exemption available to all non-trading modarabas by distributing at least 90% of its income as reduced by transfer to mandatory reserve, every year in future.

	Note	2010	2009
		(Rupees)	
15 IJARAH ASSETS			
Equipment	15.1	575,026	-
Plant & machinery	15.1	33,415,822	28,572,809
Motor vehicles	15.1	32,005,909	26,751,530
Computers	15.1	-	12,800
		<u>65,996,757</u>	<u>65,338,939</u>

15.1 The following is a statement of Ijarah assets:

	Year ended June 30, 2010				
	Ijarah Assets				Total
Equipment	Plant & machinery	Motor vehicles	Computers and accessories	(Rupees)	
As July 01, 2009					
Cost	-	30,867,719	28,711,182	28,000	60,806,911
Accumulated depreciation / amortisation	-	(2,294,910)	(2,969,862)	(16,400)	(5,289,972)
Net book value	-	28,572,809	26,751,530	12,800	55,338,939
Additions	710,000	18,000,000	16,485,810	-	33,195,810
Transfer from Ijarah to tangible fixed assets					
Cost	-	-	(42,810)	-	(42,810)
Depreciation	-	-	8,344	-	8,344
	-	-	(34,666)	-	(34,666)
Disposals					
Cost	-	-	-	(28,000)	(28,000)
Depreciation	-	-	-	25,200	25,200
	-	-	-	(2,800)	(2,800)
Depreciation / amortisation charge for the year	(134,974)	(11,166,987)	(11,196,865)	(9,800)	(22,498,826)
Closing net book value	<u>575,026</u>	<u>33,415,822</u>	<u>32,005,909</u>	<u>-</u>	<u>65,996,757</u>
As June 30, 2010					
Cost	710,000	48,867,719	48,154,082	-	93,731,811
Accumulated depreciation / amortisation	(134,974)	(13,451,897)	(14,148,183)	-	(27,735,054)
Net book value	<u>575,026</u>	<u>33,415,822</u>	<u>32,005,909</u>	<u>-</u>	<u>65,996,757</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



	Year ended June 30, 2009				Total
	Ijarah Assets				
	Equipment	Plant & machinery	Motor vehicles	Computers and accessories	
	(Rupees)				
At July 01, 2008					
Cost	-	-	-	-	-
Accumulated depreciation / amortisation	-	-	-	-	-
Net book value	-	-	-	-	-
Additions	-	30,867,719	31,420,192	28,000	62,315,911
Transfer from Ijarah to tangible fixed assets					
Cost	-	-	-	-	-
Depreciation	-	-	-	-	-
Disposals					
Cost	-	-	(1,709,000)	-	(1,709,000)
Depreciation	-	-	384,525	-	384,525
	-	-	(1,324,475)	-	(1,324,475)
Depreciation / amortisation charge for the year	-	(2,294,910)	(3,344,187)	(15,400)	(5,654,497)
Closing net book value	-	28,572,809	26,751,530	12,600	55,336,939
At June 30, 2009					
Cost	-	30,867,719	28,711,182	28,000	60,806,911
Accumulated depreciation / amortisation	-	(2,294,910)	(2,969,652)	(15,400)	(5,269,972)
Net book value	-	28,572,809	26,751,530	12,600	55,336,939

15.2 Disposal of Ijarah Assets

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

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of buyer
	(Rupees)					
2010	Rupees	-	-	-		
Motor vehicle	1,709,000	384,525	1,324,475	1,237,608	Negotiation	Sigma Leasing Corporation
2009	Rupees	1,709,000	384,525	1,324,475	1,237,608	

	Notes	2010	2009
		(Rupees)	
16 FIXED ASSETS			
Tangible assets	16.1	7,395,362	7,643,188
Intangible assets	16.1	694,387	-
		<u>8,089,749</u>	<u>7,643,188</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



15.1 The following is a statement of fixed assets:

	Year ended June 30, 2010						Total	Intangible assets Computer software
	Furniture, fixtures and equipment	Office equipment	Electrical equipment	Motor vehicles	Computers and accessories	Plant & machinery		
At July 01, 2009								
Cost	3,849,109	34,300	1,716,844	3,149,340	1,040,793	-	3,679,346	146,000
Accumulated depreciation / amortisation	(185,737)	(18,254)	(85,025)	(251,528)	(404,892)	-	(846,427)	(146,000)
Net book value	3,663,372	16,046	1,631,819	1,897,812	635,901	-	2,832,919	-
Additions	16,500	-	161,213	1,808,880	281,700	11,000,000	13,845,000	1,000,000
Transfer from (to) to tangible fixed assets								
Cost	-	-	-	(42,810)	-	-	(42,810)	-
Depreciation	-	-	-	(3,344)	-	-	(3,344)	-
Disposals								
Cost	-	-	-	(1,492,890)	(5,882)	(11,000,000)	(12,492,772)	146,000
Depreciation	-	-	-	118,889	2,199	374,889	397,177	(146,000)
Depreciation / amortisation charge for the year	(958,839)	(1,228)	(263,373)	(299,282)	(302,597)	(374,599)	(1,277,528)	(263,613)
Closing net book value	3,151,533	4,718	1,428,446	2,238,739	37,104	-	2,268,382	664,387
At June 30, 2010								
Cost	3,873,608	34,300	1,877,459	3,089,040	1,378,643	-	9,252,650	1,200,000
Accumulated depreciation / amortisation	(222,370)	(18,482)	(149,013)	(430,304)	(702,039)	-	(2,128,528)	(235,613)
Net book value	3,151,238	4,718	1,428,446	2,238,739	676,604	-	7,124,122	964,387
Depreciation rate % per annum	10	10	20	20	30	10		20

	Year ended June 30, 2009						Total	Intangible assets Computer software
	Furniture, fixtures and equipment	Office equipment	Electrical equipment	Motor vehicles	Computers and accessories	Plant & machinery		
At July 01, 2008								
Cost	113,380	18,060	62,867	1,234,430	307,643	-	2,126,380	145,000
Accumulated depreciation / amortisation	(105,849)	(18,048)	(2,806)	(42,850)	(125,286)	-	(322,839)	(145,000)
Net book value	11,531	1	60,061	1,291,580	182,357	-	1,803,541	-
Additions	3,842,095	5,190	1,682,847	1,473,090	213,293	-	6,816,515	-
Transfer from (to) to tangible fixed assets								
Cost	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-
Disposals								
Cost	-	-	-	(448,503)	-	-	(448,503)	-
Depreciation	-	-	-	78,758	-	-	78,758	-
Depreciation / amortisation charge for the year	(82,268)	(202)	(98,419)	(883,739)	(349,264)	-	(1,614,092)	-
Closing net book value	3,462,971	3,948	1,881,219	1,807,484	413,184	-	7,844,186	-
At June 30, 2009								
Cost	3,859,108	34,300	1,716,844	3,159,340	1,040,793	-	8,770,385	145,000
Accumulated depreciation / amortisation	(185,737)	(18,254)	(85,025)	(251,528)	(404,892)	-	(846,427)	(145,000)
Net book value	3,673,371	16,046	1,631,819	1,907,812	635,901	-	7,923,958	-
Depreciation rate % per annum	10	10	20	20	30	10		20

15.2 During the current year, the Modaraba has changed the rate of amortisation of Intangible assets from 30% to 33%. Had the change in rate not been made the amortisation for the year would have been lower by Rs 30,617.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010



16.3 Disposal of fixed assets

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

	Cost	Accumulated depreciation (Rupees)	Net book value	Sale proceeds	Mode of disposal	Particulars of buyer
Plant & Machinery	11,000,000	274,998	10,725,002	11,000,000	Negotiation	Monotte CNG Int'l. (Pvt) Ltd.
Motor Vehicle	1,439,890	119,988	1,319,902	1,346,000	Negotiation	Al Fateh Motors
2010	Rupees	12,439,890	394,986	12,044,904		
2009	Rupees	448,500	76,756	371,744	Negotiation	Al Fateh Motors

17 DEPOSITS

	Note	2010 (Rupees)	2009
Certificates of Musharaka (COMs)	17.1 & 17.2	444,390,000	160,625,000
Others		17,600,000	-
		461,990,000	160,625,000

17.1 The estimated share of profit payable on COMs ranges from 9.65% to 14.5% (2009: 13.00% to 16.00%) per annum.

17.2 Certificates of Musharaka includes an amount of Nil (2009: 3,500,000) due to KASB Technologies which is a related party. The certificate with related party carried profit at a rate of 14% (2009: 14%).

18 SHORT-TERM MUSHARAKA FINANCE

	2010 (Rupees)	2009
Short-term Musharaka with:		
- an associated undertaking - secured	18.1 159,935,186	-

18.1 The total facility for musharaka finance available from KASB Bank Limited amounts to Rs 300 million (2009: Nil). The estimated share of profit payable on this facility ranges from 14.91% to 15.32% (2009: Nil). The facility is secured by way of supplemental letter of hypothecation over the present and future current assets of the Moderaba amounting to Rs 430 million.

18.2 The Moderaba has also availed a facility from KASB Bank Limited in respect of Letter of Credit (Sight / usance) and letter of guarantees amounting to Rs 350 million (2009: Nil) whereby the moderaba provides guarantees to KASB Bank Limited on behalf of customers for opening letters of credit and provision of letter of guarantees. The facility is secured by way of Supplemental letter of hypothecation over the present and future current and non current assets of the Moderaba amounting to Rs 430 million.

18.3 At June 30, 2010, the Moderaba has unutilised short-term musharaka finance facilities under mark-up arrangements aggregating to Rs 22.5 million (2009: Nil) available from a commercial bank carrying mark-up at the rate of 14.3% (2009: Nil). The facility is secured against lien over TDR placed with the bank amounting to Rs 25 million.

19 SECURITY DEPOSITS

	2010			2009		
	Finance lease	Ijarah	Total	Finance lease	Ijarah	Total
Security deposits	13,555,617	9,379,251	22,934,868	17,118,217	8,940,201	26,058,418
Lease Repayable / adjustable adjustable after one year	3,214,060	9,379,251	12,593,311	16,243,467	8,940,201	25,083,668
Current portion	<u>10,341,557</u>	-	<u>10,341,557</u>	<u>874,750</u>	-	<u>874,750</u>

19.1 Represents sums received under Ijarah / finance lease repayable / adjustable at the expiry of the lease period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



20	2010	2009
CREDITORS, ACCRUED AND OTHER LIABILITIES	(Rupees)	
Management fee payable	1,889,521	1,780,318
Sundry creditors	2,997,710	1,503,074
Accrued expenses	1,322,290	1,616,517
Advance received against Certificates of Musharaka	2,125,000	1,025,000
Advance (Jarah) rentals	186,884	87,482
Accrued Financial Charges	13,756,886	1,834,846
Other liabilities	709,342	72,345
	<u>23,006,612</u>	<u>7,929,592</u>

20.1 Amounts due to associated undertakings as at June 30, 2010 aggregated Rs 10,063,783 (2009: Rs 1,860,879).

21 STAFF RETIREMENT BENEFIT SCHEME

21.1 Staff Gratuity Scheme

As disclosed in note 3.6.2, the Modaraba operates an unapproved, unfunded gratuity scheme for its permanent employees. The latest actuarial valuation was carried out by actuaries at June 30, 2010, using the Projected Unit Credit Method.

21.2 Principal actuarial assumptions used:

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

	2010	2009
- Valuation discount rate	14%	14%
- Expected rate of increase in salaries	13%	14%

21.3 Amount recognised in the profit and loss account:

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

	Note	2010	2009
		(Rupees)	
Current service cost		121,337	84,925
Interest cost		37,624	14,861
Transitional (asset) / liability recognised		-	(81,828)
		<u>158,961</u>	<u>(12,242)</u>

21.4 Liability recognised in the balance sheet:

Present value of obligation	21.6	295,818	186,968
Unrecognised actuarial gains / (losses)		65,101	5,790
		<u>360,719</u>	<u>201,758</u>

21.5 Movement in liability:

Opening liability		201,758	214,000
Expense	21.3	158,961	(12,242)
Benefits paid		-	-
Liability to be recognised in the balance sheet		<u>360,719</u>	<u>201,758</u>

21.6 Reconciliation of present value of defined benefit obligation

Present value of defined benefit obligation as at July 1, 2009		195,968	122,172
Current service cost		121,337	84,925
Interest cost		37,624	14,861
Actuarial gain		(59,311)	(5,790)
Present value of defined benefit obligation as at June 30, 2010		<u>295,618</u>	<u>195,968</u>

21.7 Actuarial (gain) / loss in obligation

Experience adjustments		65,101	5,790
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21.8 Based on actuarial advice, the Modaraba estimates a gratuity expense of In Rs 166,635 in 2011.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



22 CERTIFICATE CAPITAL

Authorised certificate capital

2010		2009	
Number of certificates		(Rupees)	
50,000,000	50,000,000	Modaraba Certificates of Rs 10 each	500,000,000
Issued, subscribed and paid-up capital			
24,968,400	24,968,400	Modaraba Certificates of Rs 10 each fully paid in cash	249,584,000
3,316,000	3,316,000	Modaraba Certificates of Rs 10 each issued as fully paid bonus certificates	33,160,000
<u>28,274,400</u>	<u>28,274,400</u>		<u>282,744,000</u>

22.1 As at June 30, 2010, KASB Modaraba Management Company (Private) Limited (the Management Company) held 4,031,581 certificates (2009: 3,913,940 certificates).

23 STATUTORY RESERVE

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

During the current year the Modaraba has transferred an amount of Rs 8,547,846 (2009: Rs 3,204,573) which represents 50% (2009: 20%) of the profit after tax.

24 CONTINGENCIES AND COMMITMENTS

24.1 Commitments amounting to Nil (June 30, 2009: Rs 5,989,100) in respect of Diminishing Musharaka facility have been entered into by the Modaraba.

The Modaraba has provided guarantees amounting to Rs 80,133,960 (June 30, 2009: Nil) on behalf of customers to various banks.

24.2 There were no contingencies as at June 30, 2010.

25 INCOME FROM LEASING OPERATIONS

Finance lease

Mark-up earned

Plant & machinery

Motor vehicles

Other

Gain on termination

Lease:

Direct cost associated with finance lease

Suspended income

Ijarah

Rentals

Plant & machinery

Motor vehicle

Other

Gain / (loss) on disposal of ijarah assets

Lease:

Direct cost associated with ijarah assets

Depreciation on ijarah assets

	2010	2009
	(Rupees)	
Plant & machinery	4,436,489	9,811,280
Motor vehicles	2,541,018	5,412,886
Other	1,848,082	5,164,147
Gain on termination	318,294	247,969
	<u>9,143,883</u>	<u>20,436,262</u>
Direct cost associated with finance lease	-	43,410
Suspended income	27,825	366,311
	<u>(27,825)</u>	<u>(431,721)</u>
	<u>9,116,268</u>	<u>20,004,561</u>
Plant & machinery	14,749,742	2,303,788
Motor vehicle	14,339,581	3,930,087
Other	186,299	17,780
Gain / (loss) on disposal of ijarah assets	-	(66,967)
	<u>29,275,622</u>	<u>8,184,788</u>
Direct cost associated with ijarah assets	23,850	-
Depreciation on ijarah assets	22,498,828	5,854,487
	<u>(22,522,278)</u>	<u>(5,854,487)</u>
	<u>6,753,346</u>	<u>510,291</u>
	<u>15,869,614</u>	<u>20,514,852</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



	2010	2009
	(Rupees)	
26 (LOSS) / GAIN ON SALE OF MARKETABLE SECURITIES - NET		
Securities classified as financial assets 'at fair value through profit or loss' - net	786,226	(750,855)
	<u>786,226</u>	<u>(750,855)</u>

27 (LOSS) / GAIN ON DAIRY FARMING BUSINESS ACTIVITY

During the current year the Modaraba engaged in activity of milk production for supply to various customers. For this purpose the Modaraba purchased 50 buffaloes on November 8, 2009 at a cost of Rs 3,474,000. The buffaloes were disposed of for an aggregate consideration of Rs 2,543,500. At the time of disposal buffaloes had a carrying value of Rs 3,338,000 due to fair value adjustment of Rs 136,000.

	2010	2009
	(Rupees)	
28 FINANCIAL CHARGES		
Profit on short-term musharaka finance	13,281,444	1,453,427
Profit on long-term musharaka finance	-	1,328,177
Profit on Certificates of musharaka	32,500,888	4,221,733
Bank charges	67,402	22,644
	<u>45,839,712</u>	<u>7,026,981</u>

29 OTHER INCOME

Profit / (loss) on disposal of fixed assets in own use	300,439	278,256
Dividend income (net of zakat)	29,604	94,000
Miscellaneous income	408,281	12,149
Documentation charges	696,819	326,300
Front end fee	260,000	59,350
TT Gold	121,510	-
Commission on bank guarantee	15,482	4,000
Insurance income (leased out)	314,140	186,323
	<u>2,145,275</u>	<u>958,378</u>

30 ADMINISTRATIVE AND OPERATING EXPENSES

Salaries and benefits	33	12,173,627	9,082,837
Utilities		1,611,888	821,052
Insurance		1,041,485	124,189
Vehicle running and maintenance		784,097	482,595
Postage		110,296	56,983
Repairs and maintenance		66,736	209,947
Entertainment		353,289	78,034
Printing and stationery		936,513	1,069,929
Travelling & conveyance		363,862	204,402
Fee and subscriptions		888,042	1,484,498
Auditors' remuneration	30.1	449,811	311,818
Legal and professional charges		987,016	1,416,609
Depreciation		1,578,926	689,790
Premium amortization		-	69,082
Amortization		306,813	-
Advertisements		272,811	844,942
Rent, rate & taxes		1,282,316	366,393
Generator expenses		345,859	177,037
Newspapers and periodicals		47,991	10,073
ClB charges		22,813	16,071
Donations		12,000	12,000
Investment write-off		30,331	-
Vehicle charges		27,820	-
Workers' Welfare Fund - current year		341,914	-
- prior year		320,457	-
Others		540,877	610,988
		<u>24,895,481</u>	<u>18,116,079</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



	2010	2009
	(Rupees)	
30.1 Auditors' Remuneration		
Annual audit fee	255,000	212,500
Review of interim financial statements	50,000	50,000
Tax services	-	-
Out of pocket expenses	144,911	49,118
	<u>449,911</u>	<u>311,618</u>

31 MODARABA MANAGEMENT COMPANY FEE

In accordance with the Modaraba Companies and Modaraba Rules, 1981 management fee at the rate of 10% of annual profits is payable to the Management Company amounting to Rs 1,899,521 (2009: 1,780,318).

	2010	2009
	(Rupees)	
32 EARNINGS PER CERTIFICATE		
Profit for the year	17,095,690	18,022,963
	Number	Number
Average number of certificates	<u>28,274,400</u>	<u>24,783,068</u>
	(Rupees)	
Earnings per certificate	<u>0.60</u>	<u>0.65</u>

33 REMUNERATION OF OFFICERS

	2010	2009
	(Rupees)	
Basic salary	7,740,023	5,841,076
Medical allowance	774,050	533,521
House rent allowance	2,322,004	1,600,631
Utility allowance	773,959	533,526
Employee benefits	188,021	264,823
EOBI Contribution	126,900	65,100
Bonus	248,570	224,260
	<u>12,173,627</u>	<u>9,062,837</u>
	Number	
Total Number of persons at end of the year	<u>43</u>	<u>27</u>

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

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

On September 18, 2009, SECP through its order no. SC/MKASB/2009/385 waived the fine amounting to Rs 5,000 but Rs 50,000 remained intact. Further to the order, an application has been made to the SECP for filing of the appeal before appellate bench of the Commission under section 33 of the SECP Act 1987. Decision of the said application is still awaited.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



34 FINANCIAL INSTRUMENTS BY CATEGORY

	As at June 30, 2010				Total
	Loans and receivables	Assets at fair value through profit & loss	Available for sale	Held to maturity	
ASSETS					
Cash and bank balances	69,226,467	-	-	-	69,226,467
Investments	-	-	9,797,140	19,350,750	29,147,890
Murabaha finance	382,661,002	-	-	-	382,661,002
Moderaba finance	154,440,342	-	-	-	154,440,342
Musharaka finance	83,633,662	-	-	-	83,633,662
Diminishing musharaka finance	131,699,686	-	-	-	131,699,686
Net investment in finance lease	45,001,505	-	-	-	45,001,505
Ijarah rental receivable	1,963,147	-	-	-	1,963,147
Advances, deposits, and other receivables	3,685,773	-	-	-	3,685,773
Accrued profit	5,367,988	-	-	-	5,367,988
Long-term deposits	28,000	-	-	-	28,000
	847,606,672	-	9,797,140	19,350,750	876,654,482
LIABILITIES					
Short-term musharaka finance	-	158,935,188	-	-	158,935,188
Deposits	-	461,980,000	-	-	461,980,000
Security deposits	-	-	22,934,888	-	22,934,888
Creditors, accrued and other liabilities	-	23,006,612	-	-	23,006,612
Unclaimed profit distribution	-	476,790	-	-	476,790
Deferred liabilities - staff gratuity	-	360,719	-	-	360,719
	-	644,769,317	22,934,888	-	667,704,185
As at June 30, 2009					
	Revised				Total
	Loans and receivables	Assets at fair value through profit & loss	Available for sale	Held to maturity	
ASSETS					
Cash and bank balances	128,714,414	-	-	-	128,714,414
Investments	-	2,296,334	-	18,980,000	21,278,334
Murabaha finance	70,777,104	-	-	-	70,777,104
Moderaba finance	20,774,248	-	-	-	20,774,248
Musharaka finance	39,594,329	-	-	-	39,594,329
Net investment in lease finance	97,717,550	-	-	-	97,717,550
Ijarah rental receivable	810,867	-	-	-	810,867
Advances, deposits and other receivables	4,574,518	-	-	-	4,574,518
Accrued profit	1,240,907	-	-	-	1,240,907
Long-term deposits	128,000	-	-	-	128,000
	384,331,735	2,296,334	-	18,980,000	385,608,069
LIABILITIES					
Short-term musharaka finance	-	-	-	-	-
Long-term finance	-	-	-	-	-
Certificates of musharaka	-	160,625,000	-	-	160,625,000
Security deposits	-	-	25,958,418	-	25,958,418
Creditors, accrued and other liabilities	-	7,929,582	-	-	7,929,582
Unclaimed profit distribution	-	476,790	-	-	476,790
Deferred liabilities - staff gratuity	-	201,758	-	-	201,758
Total non-current liabilities	-	169,233,140	25,958,418	-	195,191,558

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010



35 FINANCIAL RISK MANAGEMENT

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

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

35.1 Market Risk

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

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

35.1.1 Currency risk

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

35.1.2 Interest rate risk

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

a) Sensitivity analysis for variable rate instruments

The Modaraba has invested funds in various financing arrangements which are KIBOR based exposing the Modaraba to cash flow interest rate risk. Further, the Modaraba has availed short-term Musharaka finance which is KIBOR based. In case of 100 basis points increase / decrease in KIBOR on June 30, 2010, with all other variables held constant, the net assets of the Modaraba and net income for the year would have been higher / lower by as follows:-

5.No. Financial Arrangement

	Impact on profit or loss	
	2010	2009
	(Rupees)	
1 Net Investment in finance lease	10,947	30,057
2 Ijarah	19,880	10,694
3 Diminishing musharaka	47,882	-
4 Sukuk bonds	10,419	10,131
5 Short-term musharaka finance	(534,226)	-

The sensitivity analysis has been performed from the last repricing date.

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2010, the Modaraba holds Term Deposit Receipts which are classified as loans and receivables. Further, there are some fixed rate net investment in finance lease, Ijarah and Musharaka. Financial liabilities comprising of Certificates of Musharaka exist which carry fixed rate. These financial assets are not exposed to interest rate risk.

The composition of the Modaraba's investment / financing portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the impact on the Modaraba's assets / liabilities of future movements in interest rates.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



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

Effective yield / profit rate %	2010						
	Total	Up to one month	Up to one month to 3 months	Over three months to one year	Over one year to five years	Not exposed to yield / profit risk	
Assets							
Cash and bank balances	5.00% - 12.00%	69,885,467	23,788,746	25,000,000	-	-	486,732
Investments	13.22% - 14.12%	20,147,800	-	-	8,000	19,244,258	8,707,148
Mutual fund	14.80% - 20.00%	282,281,302	87,284,288	168,298,260	138,028,128	4,000,000	21,702,288
Mutual fund - Shariah	-	19,414,342	-	-	184,300,000	-	240,942
Mutual fund - Sukuk	18.87% - 18.00%	63,823,882	20,477,840	18,707,688	25,445,887	-	5,000,000
Diminishing musharaka business	18.00% - 20.00%	13,126,280	3,428,028	8,822,278	22,270,280	66,818,818	1,028,280
Not Investment in (Arabic Business)	8.88% - 28.00%	48,001,208	4,784,881	5,478,111	14,781,701	2,888,278	14,128,280
Arabic mutaba receivable	8.00% - 21.00%	1,888,147	-	-	-	-	1,888,147
Advances, deposits and other receivables	10.00%	8,888,778	-	-	-	14,181,181	8,878,288
Accrued profit	-	8,887,288	-	-	-	-	8,887,288
Long-term Deposits	-	28,000	-	-	-	-	28,000
Total Financial Assets as at June 30, 2010		474,884,482	171,881,228	181,881,112	388,285,418	14,888,823	63,148,270
Liabilities							
Deposits	8.88% - 14.80%	41,888,000	88,000,000	128,880,000	248,418,008	-	17,880,000
Short-term finance	14.81%	188,288,128	288,288,128	-	-	-	-
Security deposits	-	28,288,288	-	-	-	-	28,288,288
Over time, accrued and other liability	-	28,008,618	-	-	-	-	28,008,618
Unrealized profit distribution	-	478,730	-	-	-	-	478,730
Deferred Liabilities - asset liability	-	282,718	-	-	-	-	282,718
Total Financial Liabilities as at June 30, 2010		677,84,188	217,885,228	128,880,000	248,418,008	-	48,770,288
Total yield / profit risk sensitivity gap		(46,288,287)	21,881,118	28,888,418	14,888,288		
Cumulative yield / profit risk sensitivity gap		(46,288,287)	(24,407,169)	(8,518,751)	21,128,287		

Effective yield / profit rate %	2009						
	Total	Up to one month	Up to one month to 3 months	Over three months to one year	Over one year to five years	Not exposed to yield / profit risk	
Assets							
Cash and bank balances	5.88% - 14.00%	188,714,414	288,228,244	-	-	-	480,770
Investments	14.71% - 15.41%	21,278,224	-	-	1,888,000	17,028,008	2,288,224
Mutual fund	14.80% - 18.00%	78,777,104	8,008,000	10,000,000	87,280,000	6,000,000	7,877,104
Mutual fund - Shariah	-	20,774,248	8,888,000	18,774,448	-	-	-
Mutual fund - Sukuk	18.88% - 18.50%	28,884,288	3,300,000	28,888,888	8,707,748	-	-
Not Investment in (Arabic Business)	12.70% - 28.00%	87,777,280	878,110	84,780	1,028,248	98,887,548	-
Arabic mutaba receivable	8.00% - 21.00%	81,887	-	-	-	-	-
Advances, deposits and other receivables	10.00%	4,574,618	1,208,888	-	-	618,027	8,288,181
Accrued profit	-	1,887,287	-	-	-	-	1,887,287
Long-term Deposits	-	128,000	-	-	-	-	128,000
Total Financial Assets as at June 30, 2009		388,884,288	148,221,228	82,887,287	48,881,028	121,887,178	18,288,288
Liabilities							
Deposits of mutaba	12.80% - 18.00%	188,228,000	18,880,000	41,118,000	88,888,000	-	-
Short-term finance	-	-	-	-	-	-	-
Long-term finance	-	-	-	-	-	-	-
Security deposits	-	28,288,418	-	-	-	-	28,288,418
Over time, accrued and other liability	-	7,888,288	-	-	-	-	7,888,288
Unrealized profit distribution	-	478,730	-	-	-	-	478,730
Deferred Liabilities	-	201,228	-	-	-	-	201,228
Total Financial Liabilities as at June 30, 2009		188,181,288	18,880,000	41,118,000	88,888,000	-	34,288,288
Total yield / profit risk sensitivity gap		187,171,228	129,341,228	41,769,287	(40,006,972)	181,887,178	
Cumulative yield / profit risk sensitivity gap		187,171,228	146,447,288	88,588,288	281,888,288		



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010



35.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Modaraba is exposed to equity securities price risk because of investments held by the Modaraba and classified as 'available for sale'. To manage its price risk arising from investments in equity securities, the Modaraba diversifies its portfolio.

In case of 5% increase / decrease in KSE 100 Index on June 30, 2010, other comprehensive income for the year would be affected by Rs 510,556 (2009: Nil) as a result of gains / losses on equity securities classified as 'available for sale'.

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. This represents management's best estimate of a reasonable possible shift in the KSE 100 index, having regard to the historical volatility of the index. The composition of the Modaraba's investment portfolio and the correlation thereof to the KSE 100 Index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the effect on the Modaraba's net assets of future movements in the level of the KSE 100 Index.

35.2 Credit risk

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

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

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

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

Out of the total financial assets of Rs 876,654 million (2009: Rs 385,608 million) the financial assets which are subject to credit risk amounted to Rs 876,640 million (2009: Rs 385,605 million). The management believes that the Modaraba is not exposed to major concentration of credit risk.

A reconciliation of the provision made during the year in respect of financial assets is given in note 10.3 to these financial statements.

Details of the sector wise composition of the net investment in finance lease, musharaka, murabaha and modaraba are disclosed in notes 38.1 to 38.3.

The maximum exposure to credit risk, by class of financial instruments at the end of the reporting period without taking into account any collateral held or other credit enhancement is given in note 34 to these financial

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

	June 30, 2010	June 30, 2009
	Rupees	
Bank balances		
A2	34,112,691	57,337
Others	82,866	119,841,539
Sukuk certificates ratings		
BBB+	-	10,000,000
Un-rated	19,350,750	8,980,000

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



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

	June 30, 2010		June 30, 2009	
	Total outstanding amount	Payment overdue (in days)	Total outstanding amount	Payment overdue (in days)
Net investment in finance lease	464,462	1 - 73 Days	553,518	1 - 62 Days
Jarah rentals receivable	101,846	1 - 68 Days	-	-
Murabaha Finance	2,676,062	1 - 19 Days	-	-
Mudaraba Finance	340,432	1-55 Days	-	-
Musharaka Finance	6,120,706	1 - 53 Days	-	-
Diminishing Musharaka Finance	73,478	1 - 2 Days	-	-

35.2.4 An analysis of the financial assets that are individually impaired as per the requirements of the Prudential Regulations for Mudarabas are as under:

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

	As at June 30, 2009				
	QAEM	Substandard	Doubtful	Loss	Total
Net investment in finance lease	-	-	-	304,538	304,538
Musharaka Finance	-	-	-	640,000	640,000

35.3 Liquidity Risk

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

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

	As at June 30, 2010			
	Total	Upto three months	More than three months and upto one year	More than one year
Rupees				
Current liabilities				
Deposits	461,680,000	186,980,000	283,010,000	-
Short-term finance	168,835,196	168,835,196	-	-
Current maturity of security deposits	10,341,567	116,000	10,226,567	-
Creditors, accrued and other liabilities	23,006,612	23,006,612	-	-
Unclaimed profit distribution	476,790	-	-	476,790
Total current liabilities	854,750,165	381,037,806	273,235,557	476,790
Non-current liabilities				
Long-term finance	-	-	-	-
Security deposits	12,593,311	-	-	12,593,311
Deferred liabilities - staff gratuity	380,719	-	-	380,719
Total non-current liabilities	12,974,030	-	-	12,974,030
	867,704,185	381,037,806	273,235,557	13,430,820



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010



	As at June 30, 2010			
	Total	Upto three months	More than three months and upto one year	More than one year
Rupees				
Current liabilities				
Deposits	150,625,000	53,790,000	98,865,000	-
Short-term finance	-	-	-	-
Current maturity of security deposits	874,760	24,760	860,000	-
Creditors, accrued and other liabilities	7,829,582	7,829,582	-	-
Unclaimed profit distribution	476,790	-	-	476,790
Total current liabilities	169,906,132	61,714,342	97,716,000	476,790
Non-current liabilities				
Long-term finance	-	-	-	-
Security deposits	25,083,668	-	-	25,083,668
Deferred liabilities - staff gratuity	201,768	-	-	201,768
Total non-current liabilities	25,285,428	-	-	25,285,428
	186,191,568	61,714,342	97,716,000	26,762,216

36.4 Fair value of financial assets and liabilities

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

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

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book values as the items are either short-term in nature or periodically repriced.

According to Amendments to International Financial Reporting Standard 7, Financial Instruments : Disclosure - Improving disclosures about financial instruments, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Investment in equity securities carried at fair value as disclosed in 5.1.2 are categorised in the level 1 category.

36 CAPITAL RISK MANAGEMENT

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

In order to maintain or adjust the capital structure, the Modaraba may adjust the amount of dividends paid to certificate-holders, issue new certificates or sell assets to reduce debt.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



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

	2010	2009
	(Rupees)	
Total borrowings	820,925,196	150,825,000
Less: cash and bank balances	59,225,467	128,714,414
Net debt	561,699,729	21,910,586
Total equity	274,752,640	258,322,245
Total capital	836,452,369	280,232,831
Gearing ratio	67.2%	7.8%

37 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Chief Executive Officer of the Management Company has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

The Modaraba has determined the operating segments based on the reports reviewed by the Chief Executive Officer, which are used to make strategic decisions.

The Chief Executive Officer is responsible for the Modaraba's entire product portfolio and considers the business to have a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on an overall basis.

The internal reporting provided to the Chief Executive Officer for the Modaraba's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of approved accounting standards as applicable in Pakistan.

There were no changes in the reportable segments during the period.

The Modaraba is domiciled in Pakistan. All of the Modaraba's income is from financing investments in entities incorporated in Pakistan.

The Modaraba has a diversified product portfolio whereby resources have been allocated.

The Modaraba also has a diversified certificate holder population. As at June 30, 2010, there were only three (2009: three) certificate holders who each held more than 10% of the Modaraba's certificate capital. Their holdings were 36.95%, 23.73% and 14.26% (2009: 36.95%, 23.73% and 13.84%) respectively.

38 SEGMENT BY CLASS OF BUSINESS

38.1 Net Investment in Finance Lease	2010		2009	
	(Rupees)	%age	(Rupees)	%age
Fuel & energy	16,903,149	37.56	30,747,080	31.47
Pharmaceutical & chemicals	1,935,092	4.30	3,047,784	3.12
Food & beverage	6,853,288	15.23	19,054,989	19.50
Dairy & poultry	551,828	1.23	1,075,426	1.10
Financial institutions	-	-	-	-
Travel & transport	-	-	8,617,580	8.82
Health and care	74,927	0.17	140,318	0.14
Textile	776,406	1.72	1,384,064	1.42
Electrical & engineering	1,407,501	3.13	1,557,939	1.59
Paper and board	2,281,119	5.07	4,029,718	4.12
Leather	-	-	-	-
Distribution	-	-	-	-
Cement	-	-	-	-
Construction	5,023,753	11.16	8,848,879	9.06
Others	9,194,662	20.43	19,214,393	19.66
	45,001,505	100.00	97,717,550	100.00

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



	2010		2009	
	(Rupees)	%age	(Rupees)	%age
38.2 Ijarah Assets				
Fuel & energy	34,048,819	51.59	29,381,858	53.10
Pharmaceutical & chemicals	-	-	-	-
Food & beverage	666,700	1.01	870,100	1.57
Dairy & poultry	509,776	0.77	-	-
Financial institutions	2,680,147	4.06	1,519,825	2.75
Travel & transport	10,011,000	15.17	-	-
Health and care	-	-	-	-
Textile	393,042	0.60	598,110	1.08
Electrical & engineering	1,894,447	2.87	750,000	1.35
Paper and board	4,875,000	7.39	7,215,000	13.04
Leather	-	-	-	-
Distribution	3,416,665	5.18	5,083,333	9.19
Cement	-	-	-	-
Construction	-	-	-	-
Others	7,500,361	11.36	9,918,813	17.92
	<u>65,996,757</u>	<u>100.00</u>	<u>55,336,939</u>	<u>100.00</u>

	Note	2010	2009
		(Rupees)	
38.3 For Musharaka, Murabaha, Modaraba and Diminishing Musharaka Finance			
Textile and allied		43,820,814	26,656,037
Trading		239,720,812	58,800,314
Leather		97,615,715	5,000,000
Pharmaceutical & chemicals		-	3,154,334
Food & beverage		59,836,758	25,292,014
Construction		35,977,342	-
Fuel & energy		20,845,051	-
Financial institutions		3,965,977	-
Paper and board		330,338	-
Sugar & allied		46,716,026	-
Travel & transport		30,849,911	-
Dairy & poultry		43,840,342	-
Technology & telecommunication		15,768,043	-
Electrical & engineering		20,348,915	3,260,706
Others		70,596,548	2,098,139
	38.4	<u>732,234,692</u>	<u>124,281,543</u>
38.4 Murabaha finance		362,561,002	63,892,966
Musharaka finance		83,633,662	39,694,329
Diminishing Musharaka finance		131,599,686	-
Modaraba finance		154,440,342	20,774,248
		<u>732,234,692</u>	<u>124,281,543</u>

39 RELATED PARTIES TRANSACTIONS

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



	2010	2009
	(Rupees)	
39.1 Transactions during the year		
Management Company		
Modaraba management fee	1,899,521	1,780,318
Associated companies		
Income on bank deposits	6,030,680	8,497,323
Financial charges	13,744,624	2,795,487
Lease rentals received	-	4,808,348
Rent expense	396,000	198,000
Short-term Musharaka	-	75,000,000
Long-term Musharaka	-	70,000,000
Brokerage expense	6,080	-
Custodian charges	6,782	-
Other Related Parties		
Finance lease rentals	2,105,220	2,482,763
Ijarah rentals	200,016	172,682
39.2 Transaction outstanding at the year end		
Management Company		
Modaraba management fee payable	1,899,521	1,780,318
Associated companies		
Cash and bank balances	33,970,924	49,593,140
Certificate of Musharaka	-	3,500,000
Accrued profit on deposits	15,088	352,119
Short-term musharaka finance	158,935,196	-
Underwriting commission payable	-	-
Accrued mark-up payable	7,973,270	1,381
Custodian charges payable	3,030	-
Rent payable	198,000	99,000
Other Related Parties		
Finance lease rentals	3,077,082	5,182,114
Ijarah rentals	433,388	664,240

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

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

40 ACCOUNTING ESTIMATES AND JUDGMENTS

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

- i) Net investment in finance lease (notes 3.2.9 and 10)
- ii) Musharaka finance (notes 3.7.4 and 8)
- iii) Murabaha finance (notes 3.7.5 and 6)
- iv) Determination and measurement of useful life and residual value of fixed assets and Ijarah assets (notes 3.3, 15 and 16)
- v) Provision for potential lease losses (notes 3.2.11 and 10.3)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010



41 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, whenever necessary, for the purposes of appropriate presentation. No significant rearrangements or reclassifications were made in these financial statements except as required because of the changes in accounting policies as more fully explained in note 2.2 and because of the following:

Long-term and short-term portion of Deferred Murabaha income amounting to Rs 196,373 (2008: Nil) and Rs 8,867,765 (2008: Rs 1,218,826) respectively have been reclassified from Murabaha finance-net and have been presented separately on the balance sheet alongwith long-term and short-term portion of Murabaha finance gross amounting to Rs 8,196,373 (2008: Nil) and Rs 62,580,731 (2008: Rs 20,231,001) respectively.

As a result of the aforementioned reclassification, balance sheet as at the beginning of the earliest comparative period i.e. June 30, 2008 has also been presented.

42 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on Sep 27, 2010 have approved distribution at the rate of 2.8 percent (2009: Nil). The financial statements of the Modaraba for the year ended June 30, 2010 do not include the effect of the final distribution which will be accounted for in the financial statements of the Modaraba for the year ending June 30, 2011.

43 DATE OF AUTHORISATION

These financial statements were authorised for issue by the Board of Directors of the Management Company in their meeting held on Sep 27, 2010.

44 GENERAL

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

For KASB Modaraba Management Company (Private) Limited
 (Management Company)

Chief Executive

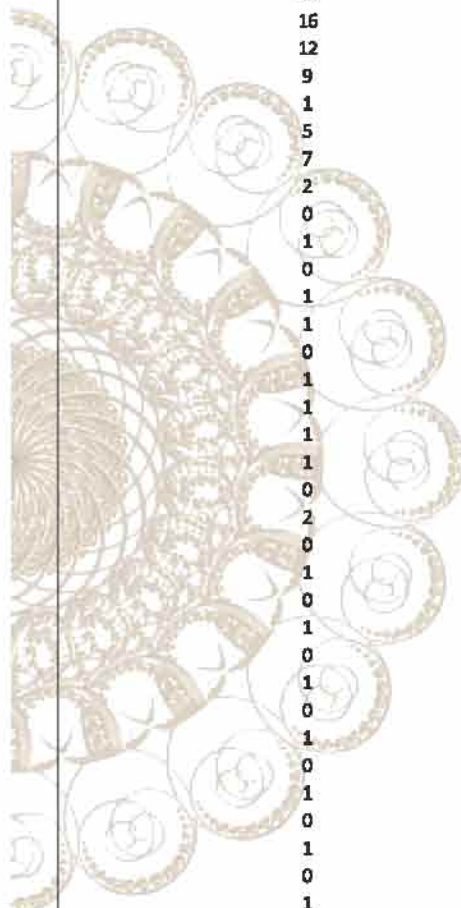
Director

Director

PATTERN OF CERTIFICATE HOLDING (FORM "34")
CERTIFICATE HOLDERS STATISTICS AS AT JUNE 30, 2010



NO. OF CERTIFICATE HOLDERS	CERTIFICATE HOLDING		TOTAL CERTIFICATE HOLDERS
	FROM	TO	
322	1	100	17,570
298	101	500	76,439
172	501	1,000	141,478
201	1,001	5,000	451,037
45	5,001	10,000	343,150
16	10,001	15,000	191,102
12	15,001	20,000	204,615
9	20,001	25,000	205,532
1	25,001	30,000	28,274
5	30,001	35,000	167,100
7	35,001	40,000	256,300
2	40,001	45,000	81,798
0	45,001	55,000	-
1	55,001	60,000	55,500
0	60,001	70,000	-
1	70,001	75,000	71,540
1	75,001	80,000	79,500
0	80,001	95,000	-
1	95,001	100,000	99,999
1	100,001	105,000	101,000
1	105,001	110,000	109,000
1	110,001	115,000	113,100
0	115,001	120,000	-
2	120,001	125,000	249,674
0	125,001	145,000	-
1	145,001	150,000	147,163
0	150,001	165,000	-
1	165,001	170,000	166,320
0	170,001	175,000	-
1	175,001	180,000	177,200
0	180,001	215,000	-
1	215,001	220,000	217,901
0	220,001	415,000	-
1	415,001	420,000	415,942
0	420,001	500,000	-
1	500,001	505,000	505,000
0	505,001	685,000	-
1	685,001	690,000	687,745
0	690,001	695,000	-
1	695,001	700,000	699,141
0	700,001	795,000	-
1	795,001	800,000	795,980
0	800,001	1,430,000	-
1	1,430,001	1,435,000	1,433,493
0	1,435,001	2,825,000	-
1	2,825,001	2,830,000	2,827,440
0	2,830,001	6,710,000	-
1	6,710,001	6,715,000	6,710,600
0	6,715,001	10,445,000	-
1	10,445,001	10,450,000	10,446,767
1112		Total	28,274,400



PATTERN OF CERTIFICATE HOLDING (FORM "34")

CERTIFICATE HOLDERS STATISTICS AS AT JUNE 30, 2010



CATAGORIES OF CERTIFICATE HOLDERS	NUMBER	CERTIFICATE HELD	PERCENTAGE
INDIVIDUALS	1057	4,419,993	15.64
FINANCIAL INSTITUTIONS*	17	11,867,555	41.97
INVESTMENT COMPANIES	2	1,200	0.00
INSURANCE COMPANIES	3	796,380	2.82
MODARABA COMPANIES	3	36	0.00
MODARABA MANAGEMENT COMPANIES**	3	4,031,581	14.26
LEASING COMPANIES	1	1,246	0.00
CHARITABLE TRUSTS	1	33,000	0.12
JOINT STOCK COMPANIES	21	7,021,873	24.83
OTHERS			
- M/S SHAIKHANI ENTERPRISES	1	101,000	0.36
- TECHNOLOGY LINKS (PVT) LTD.	1	300	0.00
- SARFRAZ MAHMOOD (PVT) LIMITED	1	37	0.00
- THE KARACHI STOCK EXCHANGE	1	199	0.00
TOTAL	1,112	28,274,400	100.00

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

** Includes KASB Modaraba Management (Private) Limited (4,031,581 certificates)

ADDITIONAL INFORMATION

CATAGORIES OF CERTIFICATE HOLDERS	NUMBER	CERTIFICATE HELD	PERCENTAGE
Associated Companies			
KASB Bank Limited		10,446,767	36.95
KASB Modaraba Management (Private) Limited		4,031,581	14.26
	2	14,478,348	51.21
NIT and CIP			
National Bank of Pakistan, Trustee Deptt.		687,745	2.43
Managind Committee Crescent Foundation		33,000	0.12
Investment Corporation of Pakistan		8,002	0.03
	3	728,747	2.58
Directors, CEO & their Spouse and Minor Children	-	-	-
Executives	-	-	-
Public Sector Companies and Corporations	-	-	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds	23	1,530,705	5.41
Certificate-holders holding ten percent or more certificates in the Modaraba (other than those reported above)	1	6,710,600	23.73

NOTICE OF ANNUAL REVIEW MEETING



Notice is hereby give that the 19th Annual Review Meeting of the Modaraba's Certificate Holders of KASB Modaraba will be held on Wednesday, October 27, 2010 at 7:30 p.m at Hajj Abdullah Haroon Muslim Gymkhana, Auditorium Awan-e-Saddar Road, Karachi to review the performance of Modaraba for the year ended June 30, 2010 In terms of Clause 20 of the Prudential Regulations for Modaraba issued vide Circular No 5/2000 by Registrar Modaraba.

By Order of the Board

Karachi
September 27, 2010

Faiqa Naz
Company Secretary

Notes

1. The Modaraba Certificates transfer book shall remain closed from October 21, 2010 to October 27, 2010 (both days inclusive) to determine the names of Certificate Holders eligible to attend the Annual Review Meeting. Transfer received in order at the Registrar Office of the Modaraba (whose address is given below) up to the close of business hours on October 20, 2010 will be treated in time.
2. The Certificate Holders are advised to notify to the Registrar of KASB Modaraba of any change in their addresses to ensure prompt delivery of mails. Further, any Certificates for transfer etc. should be lodged with the Registrar, C & K Management Associates (Private) Limited, 404, Trade Tower, Abdullah Haroon Road, Near Metropal Hotel, Karachi. (Phone:35687835-35685930)
3. Account holders holding book entry securities of the Modaraba in Central Depository Company of Pakistan Limited, who wish to attend the Annual Review Meeting, are requested to bring original Computerized National Identity Card for identification purpose and will in addition, have to follow the guidelines as laid down in Circular No.1 of 2000 dated January 26, 2000 of the Securities and Exchange Commission of Pakistan (SECP) for attending the meeting.



ANNUAL REPORT 2010

