

**FIRST EQUITY MODARABA
BALANCE SHEET
AS AT JUNE 30, 2011**

	Note	2011 Rupees	2010 Rupees
EQUITY AND LIABILITIES			
Authorized Certificate Capital			
60,000,000 (2010: 60,000,000) modaraba certificates of Rs. 10 each		600,000,000	600,000,000
Certificate holders' equity			
Certificate capital	6	524,400,000	524,400,000
Reserves	7	75,155,665	74,975,414
Unrealised loss on remeasurment of available-for-sale investments		(36,738,037)	(51,554,446)
Total certificate holders' equity		562,817,628	547,820,968
Non-current liabilities			
Deferred liabilities	8	1,607,811	1,397,333
Total non-current liabilities		1,607,811	1,397,333
Current liabilities			
Creditors, accrued and other liabilities	9	21,422,419	9,888,877
Provision for taxation		1,546,706	1,486,622
Unclaimed profit distribution		26,262,400	26,353,530
Total current liabilities		49,231,525	37,729,029
Total equity and liabilities		613,656,964	586,947,330
Contingencies and commitments	10		

**FIRST EQUITY MODARABA
BALANCE SHEET
AS AT JUNE 30, 2011**

	Note	2011 Rupees	2010 Rupees
ASSETS			
Non-current assets			
Fixed assets			
-tangible	11	18,580,172	19,051,099
-intangible	12	53,051,000	53,051,000
Long term investments	13	280,389,785	278,133,116
Advances-considered good		2,510,000	3,510,000
Deposits		1,350,000	1,400,000
Total non-current assets		355,880,957	355,145,215
Current Assets			
Morabaha/Musharaka receivables-secured	14	119,022,100	124,754,558
Short term investments	15	12,194,441	17,104,176
Advances	16	1,547,567	2,020,932
Trade deposits and prepayments	17	14,873,789	15,209,185
Other receivables	18	45,819,678	45,733,522
Tax refunds due from government		7,060,567	6,796,925
Bank balances	19	57,257,865	20,182,817
Total current assets		257,776,007	231,802,115
Total Assets		613,656,964	586,947,330

The annexed notes 1 to 34 form an integral part of these financial statements.

Adil A. Ghaffar
Chief Executive Officer
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited

**FIRST EQUITY MODARABA
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2011**

	Note	2011 Rupees	2010 Rupees
Income	20	17,888,385	25,877,250
Expenditures			
Operating expenses	21	(16,551,114)	(23,135,667)
Financial charges		(16,565)	(13,014)
		(16,567,679)	(23,148,681)
Operating profit		1,320,706	2,728,569
Deficit on revaluation of investment classified as financial assets at fair value through profit or loss		(1,615,199)	(6,699,100)
Other income	22	534,828	3,379,491
Profit/(Loss) before taxation		240,335	(591,040)
Taxation	23	(60,084)	(122,990)
Profit/(Loss) for the year		180,251	(714,030)
Earnings / (Loss) per certificate - basic and diluted	24	0.003	(0.014)

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FIRST EQUITY MODARABA
STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2011

	2011 Rupees	2010 Rupees
Profit/(loss) for the year	180,251	(714,030)
Other comprehensive income		
Unrealized gain on remeasurement of available for sale investments	22,594,961	3,973,246
(Loss) /Gain realised on disposal of investments	(7,778,552)	97,832
	14,816,409	4,071,078
Taxation relating to component of other comprehensive income	-	-
Other comprehensive income	14,816,409	4,071,078
Total comprehensive income for the year	14,996,660	3,357,048

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**FIRST EQUITY MODARABA
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011**

	Note	2011 Rupees	2010 Rupees
Cash flows from operating activities			
Profit/(loss) before taxation		240,335	(591,040)
Adjustments for:			
Depreciation	11	1,665,202	1,871,578
Amortization of deferred cost		-	429,465
Provision for gratuity	8	231,478	508,917
Povision for doubtful debts		-	7,000,000
Deficit on revaluation of investment classified as financial assets at fair value through profit or loss		1,615,199	6,699,100
Liabilites written back		-	(2,818,041)
Dividend income	20	(3,968,029)	(3,065,827)
		(456,150)	10,625,192
Cash (used in)/generated from operations before working capital changes		(215,815)	10,034,152
Working Capital changes			
Decrease / (increase) in operating assets			
Morabaha/Musharaka receivables-secured		5,732,458	(6,164,866)
Advances		473,365	132,978
Trade deposits and prepayments		385,396	45,649
Other receivables		(22,582)	14,373,389
Increase/(decrease) in operating liabilities			
Creditors, accrued and other liabilities		11,533,542	(4,479,909)
		18,102,179	3,907,241
Staff retirement benefit-gratuity paid		(21,000)	(117,000)
Dividend paid		(91,130)	(8,100)
Taxes paid		(263,642)	(209,146)
Net cash generated from operating activities		17,510,592	13,607,147
Cash flows from investing activities			
Investments		15,854,276	(7,060,159)
Dividend received		3,904,455	3,112,678
Purchase of tangible assets		(194,275)	(233,405)
Net cash generated/(used in) investing activities		19,564,456	(4,180,886)
Net increase in cash and cash equivalents		37,075,048	9,426,261
Cash and cash equivalents at beginning of the year		20,182,817	10,756,556
Cash and cash equivalents at the end of the year	19	57,257,865	20,182,817

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FIRST EQUITY MODARABA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2011

	Certificate Capital	Statutory reserve*	Certificate premium account	General reserve	Accumulated loss	Total reserves	Unrealised loss on remeasurment of available-for-sale investments	Total
----- Rupees -----								
Balance as at June 30, 2009	524,400,000	134,261,822	131,100,000	27,120,000	(216,792,378)	75,689,444	(55,625,524)	544,463,920
Total Comprehensive income for the year	-	-	-	-	(714,030)	(714,030)	4,071,078	3,357,048
Transfer to statutory reserve	-	-	-	-	-	-	-	-
Balance as at June 30, 2010	524,400,000	134,261,822	131,100,000	27,120,000	(217,506,408)	74,975,414	(51,554,446)	547,820,968
Total Comprehensive income for the year	-	-	-	-	180,251	180,251	14,816,409	14,996,660
Transfer to statutory reserve	-	90,125	-	-	(90,125)	-	-	-
Balance as at June 30, 2011	524,400,000	134,351,947	131,100,000	27,120,000	(217,416,282)	75,155,665	(36,738,037)	562,817,628

* In accordance with the Prudential Regulations for Modarabas, the Modaraba is required to transfer an amount not less than 20% and not more than 50% of its after tax profits to statutory reserve until the reserve funds equals the paid-up capital. Thereafter, a sum not less than 5% of the after tax profits is required to be transferred to the statutory reserve.

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**FIRST EQUITY MODARABA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1 Legal status and nature of business

First Equity Modaraba (the Modaraba) was formed in 1991 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed there under and is managed by Premier Financial Services (Private) Limited (the Modaraba Management Company), a company incorporated in Pakistan.

The Modaraba is a perpetual, multipurpose modaraba and is able to undertake a variety of fund and fee based activities. These include trading, manufacturing, equity investment and their financing and facilitation. The Modaraba is a member of the Karachi and Islamabad stock exchanges of Pakistan and is currently operating its brokerage activities in Karachi Stock Exchange.

The Modaraba is listed on Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the Modaraba is situated at B-1004, 10th floor, Lakson Square Building 3, Sarwar Shaheed Road, Karachi. The Modaraba is holding Equity Textiles Limited as a wholly owned subsidiary company.

2 Statement of compliance

2.1 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 The Securities and Exchange Commission of Pakistan (SECP) has issued directive (vide SRO 431 (I) / 2007) that Islamic Financial Accounting Standard 2 (IFAS-2) shall be followed in preparation of the financial statement by Companies and Modarabas while accounting for Ijarah (Lease) transactions as defined by said Standard. The Modaraba has adopted the above said Standard

2.3 The Securities and Exchange Commission of Pakistan (SECP) vide circular No. 10 of 2004 dated February 13, 2004 has deferred the application of IAS 17 "Leases" on modarabas till further orders.

2.4 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

The following amendments to standards are mandatory for the first time for the financial year beginning July 01, 2010 which affect these financial statements:

The Modaraba has adopted the amendments to the following standards which became effective during the year:

		Effective date (annual periods beginning on or after)
IAS 32	Financial instrument - Presentation	February 01, 2010
IFRS1	First time adoption of International Financial Reporting Standards	January/July 01, 2010

FIRST EQUITY MODARABA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

In April 2009 and May 2010, International Accounting Standards Board issued amendments to various accounting standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

Issued in April 2009

IAS1	Presentation of Financial Statements	January 01, 2010
IAS 7	Statement of Cash flows	January 01, 2010
IAS 17	Leases	January 01, 2010
IAS 36	Impairment of assets	January 01, 2010
IAS 39	Financial Instruments: Recognition and Measurement	January 01, 2010
IFRS 5	Non Current Assets Held for Sales and Discontinued	January 01, 2010
IFRS 8	Operating segments	January 01, 2010

Issued in May 2010

IAS 27	Consolidated and Separate Financial Statements	July 01, 2010
IFRS 3	Business Combinations	July 01, 2010

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

The following standards, amendments and interpretations of International Financial Reporting Standards will be effective for accounting periods beginning on or after the dates specified below:

IAS 1	Presentation of Financial Statements	July 01, 2012
IAS 12	Income Tax	January 01, 2012
IAS 19	Employee Benefits	January 01, 2013
IAS 24	Related Party Disclosures	January 01, 2011
IAS 27	Consolidated and Separate Financial Statements	January 01, 2013
IAS 28	Investment in Associates	January 01, 2013
IFRS 1	First time Adoption of International Financial Reporting Standards	July 01, 2011
IFRS 7	Financial Instruments Disclosures	July 01, 2011
IFRS 9	Financial Instruments	January 01, 2013
IFRIC 14	The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 01, 2011

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

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

3 Basis of measurement

- 3.1** These financial statements have been prepared under the historical cost convention except for certain financial assets which are stated at fair value.
- 3.2** These financial statements have been prepared under the accrual basis of accounting except for cash flow information.

FIRST EQUITY MODARABA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

4 Use of estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Modaraba's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under circumstances. However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial estimates are as follows:

	Note
a) Useful life of depreciable assets/amortizable assets	5.1 & 5.2
b) Impairment of assets	5.1.2 & 5.3.1
c) Classification of investments	5.3
d) Income tax	5.5
e) Provision for staff gratuity	5.7
f) Provision for non performing assets	5.1

5 Significant accounting policies

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

5.1 Fixed assets

5.1.1 Tangible

Fixed assets are stated at cost less accumulated depreciation and identified impairment loss, if any.

Depreciation is charged to income applying the straight line method whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation is charged at rates stated in note 11.

Depreciation on additions is charged from the month during which the asset is put to use. For disposals during the year, depreciation is charged up to the month preceding the month of disposal.

The assets' residual value and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. Expenditure incurred subsequent to the initial acquisition of assets are capitalised only when it meets the recognition criteria. The profit or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

The Modaraba assesses at each balance sheet date whether there is any indication that fixed assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amounts, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the assets' revised carrying amount over its estimated useful lives.

5.1.2 Intangible

Intangible assets are stated at cost less impairment, if any. The carrying amount is reviewed at each balance sheet date to assess whether it is in excess of its recoverable amount and where the carrying value exceeds estimated recoverable amount, it is written down to its estimated recoverable amount.

5.2 Deferred cost and amortization

The deferred cost is written off over a period not exceeding five years in accordance with the requirements of third schedule of Modaraba Companies and Modaraba Rules, 1981.

5.3 Financial instruments

Financial assets and financial liabilities are recognised when the Modaraba becomes a party to the contractual provisions of the financial instrument.

Initial recognition

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

All regular way of purchases and sale of financial instruments are recognized/derecognized on the trade date.

Subsequent measurement

Financial assets and financial liabilities are measured subsequently as described below.

5.3.1 Financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held to maturity (the Modaraba does not have any such investments).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Following financial assets fall into this category of financial instruments:

- Deposits
- Advances
- Other receivables
- Cash and cash equivalents

Financial assets at fair value through profit or loss

Investments which are acquired principally for the purposes of generating profit from short term fluctuation in price or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as 'financial assets at fair value through profit or loss'.

Financial assets in this category are measured at fair value with gains or losses recognised in profit and loss account. These investments are marked to market and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair value of these investments are taken to the profit and loss account for the year.

Available for sale financial assets

Investments intended to be held for 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 financial assets'. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale financial assets or are not classified as (a) loans and receivables (b) held to maturity investments (c) financial assets at fair value through profit or loss. Subsequent to initial recognition these investments are marked to market using the closing market rate and are carried on the balance sheet at fair value. Surplus/Deficit arising from re-measurement are taken to comprehensive income until the investments are sold/dispensed-off or until the investments are determined to be impaired, at which time, cumulative surplus or deficit previously reported in the comprehensive income is included in the current year's profit and loss account

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured are measured at cost.

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Musharika and Morabaha receivables considered doubtful are provided for in accordance with the requirements of the Prudential Regulations for Modarabas.

An impairment loss on available for sale financial asset -equity instruments is reversed only on the disposal of financial asset. Reversal of provision on musharika and morabaha receivables are reversed in accordance with Prudential Regulations for Modaraba.

Derecognition of financial assets

These are derecognised when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred.

5.3.2 Financial liabilities

The Modaraba's financial liabilities include unclaimed profit distribution, creditors accrued and other liabilities.

Derecognition of financial liabilities

These are derecognised when they are extinguished, discharged, cancelled or expired.

5.3.3 Investment in subsidiary

Investment in subsidiary is initially recognized at cost. At subsequent reporting dates, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly. Impairment losses are recognized as expense. Where impairment losses subsequently reverse, the carrying amounts of the investments are increased to the revised recoverable amounts but limited to the extent of initial cost of investments. A reversal of impairment loss is recognized in the profit and loss account.

5.4 Revenue recognition

- (a) Income from Morabaha/Musharaka transactions is recognized on the basis of pro-rata accrual of the estimated profit earned during the year.
- (b) Dividend income is recognized when the right to receive dividend is established.
- (c) Brokerage commission and fee income is recognized when accrued.
- (d) Profit on PLS deposits is recognized on an accrual basis.
- (e) Capital gains or losses arising on sale of investments are taken to income in the period in which they arise.

5.5 Taxation

Current

The charge for taxation is based on taxable income at current rates of taxation after taking into account tax credits and tax rebates available, if any or minimum tax under the provisions of the Income Tax Ordinance, 2001. For items covered under final tax regime, provision is made according to the final tax rate provided in the Income Tax Ordinance, 2001. The income of Modaraba other than trading income is exempt from tax under Clause 100 of Part I of the Second Schedule to the Income Tax Ordinance, 2001. Provided that not less than 90% of its total profits in the year as reduced by the amount transferred to a mandatory reserve, as required under the provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 or the rules made thereunder, as are distributed amongst the certificate holders.

Deferred

Deferred tax is recognized using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the tax base. This is recognized on the basis of expected manner of the realization and the settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised.

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

However, deferred tax is not accounted for as the management believes that the temporary differences will not reverse in the foreseeable future.

5.6 Foreign currency translation

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into Pak rupees at exchange rate prevailing at the date of transaction. All non-monetary items are translated into rupees at exchange rate prevailing on the date of transaction or on the date when fair values are determined. Exchange differences are included in income currently.

5.7 Retirement benefits

The Modaraba operates an Unfunded Gratuity for its permanent employees who complete the qualifying period of service. Provision has been made in accordance with actuarial recommendations using the Projected Unit Credit Method. The results of current valuation are summarized in Note 8 of this financial statement. Actuarial gains / losses are recognized over the average lives of the employees.

5.8 Offsetting of financial assets and financial liabilities

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

5.9 Provisions

Provisions are recognized in the balance sheet when the Modaraba has a legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation and reliable estimate can be made of the amount of the obligation.

5.10 Profit distribution to certificate holders

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

5.11 Impairment

The carrying amount of Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated and impaired losses are recognized in the profit and loss account.

5.12 Segment reporting

A segment is a distinguishable component of the Modaraba that is engaged in business activities from which the Modaraba earns revenues and incur expenses and its results are regularly reviewed by the Modaraba's Chief Operating Decision Maker to make decision about resources to be allocated to the segment and assess its performance. Further, discrete financial information is available for each segment.

Based on internal management reporting structure, services provided and products produced and sold, the Modaraba is organised into the following four operating segments:

- Musharaka facility
- Brokerage operation
- Capital market
- Others

Management monitors the operating results of above mentioned segments separately for the purpose of making decisions about resources to be allocated and of assessing performance.

**FIRST EQUITY MODARABA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

5.13 Related party transactions

All transactions with related party, if any, are recorded at an arm's length basis.

5.14 Cash and cash equivalents

For the purposes of cash flow statement, Cash and cash equivalents comprise cash in hand and cash with banks.

5.15 Functional and reporting currency

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

5.16 Capital Risk Management

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

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

**FIRST EQUITY MODARABA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

6 Certificate capital

2010 No. of Certificates	2011 No. of Certificates		2011 Rupees	2010 Rupees
46,220,000	46,220,000	Modaraba certificates of Rs. 10 each fully paid-up in cash	462,200,000	462,200,000
6,220,000	6,220,000	Modaraba certificates of Rs. 10 each issued as fully paid-up bonus certificates	62,200,000	62,200,000
52,440,000	52,440,000		524,400,000	524,400,000

6.1 Certificates held by associated companies and undertakings 203,912 (2010: 465,004).

7 Reserves

	-----Capital Reserves-----				-----Revenue Reserves-----			Total 2010
	Statutory* reserve	Certificate Premium Account	Total Reserve	Accumulated loss	General reserve	Total Reserve	Total 2011	
	Rupees							
Opening balance	134,261,822	131,100,000	265,361,822	(217,506,408)	27,120,000	(190,386,408)	74,975,414	75,689,444
Transfer from profit and loss account	-	-	-	180,251	-	180,251	180,251	(714,030)
Transfer to statutory reserve	90,125	-	90,125	(90,125)	-	(90,125)	-	-
Closing balance	134,351,947	131,100,000	265,451,947	(217,416,282)	27,120,000	(190,296,282)	75,155,665	74,975,414

* In accordance with the Prudential Regulations for Modarabas, the Modaraba is required to transfer an amount not less than 20% and not more than 50% of its after tax profits to statutory reserve until the reserve funds equals the certificate capital. Thereafter, a sum not less than 5% of the after tax profits is required to be transferred to the statutory reserve.

	Note	2011 Rupees	2010 Rupees
8 Deferred liabilities			
Staff gratuity		1,607,811	1,397,333

8.1 General description

The scheme provides for terminal/retirement benefits for all permanent employees who completed qualifying period of service with the Modaraba at last drawn salary.

Annual provision is based on actuarial valuation, which was carried out as at June 30, 2011 on September 26, 2011 using the Projected Unit Method.

8.2 Amount recognized in the balance sheet are as follow:

Present value of defined benefit obligation	1,607,811	-
Unrecognized actuarial losses	-	-
Total employee benefit obligation	1,607,811	-

8.3 Movement in net obligation

Opening balance as at July 01, 2010		1,397,333	-
Charge to profit and loss account	8.3.1	231,478	-
Benefits paid and adjustments		(21,000)	-
Closing balance		1,607,811	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

	Note	2011 Rupees	2010 Rupees
8.3.1 Gratuity expenses consist of:			
Current service cost		250,930	-
Interest cost		187,879	-
Actuarial (gains) recognized		(162,492)	-
Recognized transitional (assets)		(44,839)	-
Transitional liability		-	-
		<u>231,478</u>	<u>-</u>
8.4 Principal actuarial assumptions			
Following principal actuarial assumptions were used for the valuation.			
Salary increase rate		<u>12%</u>	<u>-</u>
Discount rate		<u>13%</u>	<u>-</u>
9 Creditors, accrued and other liabilities			
Payable to clients		18,022,053	5,994,012
Accrued expenses	9.1	3,202,440	3,336,371
Other liabilities	9.2	197,926	558,494
		<u>21,422,419</u>	<u>9,888,877</u>

9.1 This includes payable to Equity Textiles Limited amounting to Rs.240,000 (2010: Rs. 240,000).

9.2 This represents payable to Premier Financial Services (Private) Limited.

10 Contingencies and commitments

Modaraba has filed a suit against Samba Bank Ltd for the recovery of deposit amounting Rs 21 million alongwith mark up. The matter is pending before the Honourable High Court of Sindh. Management of the Modaraba and its legal advisor are of the opinion that Modaraba has reasonable chance and it appear unlikely that Modaraba may suffer any loss from the same

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11 Tangible

2011								
Particulars	Cost			Accumulated depreciation			Book value As at June 30, 2011	Rate %
	As at July 01, 2010	Addition / *Transfer	As at June 30, 2011	As at July 01, 2010	Charged during the year	As at June 30, 2011		
	Rupees			Rupees				
Office premises	20,470,000	1,000,000	21,470,000	2,163,220	1,070,655	3,233,875	18,236,125	5
Furniture & fixtures	196,509		196,509	196,500	-	196,500	9	20
Motor vehicles	4,507,333		4,507,333	4,049,578	457,749	4,507,327	6	20
Computers	959,461	87,000	1,046,461	751,995	98,813	850,808	195,653	33
Office equipments	923,180	107,275	1,030,455	844,091	37,985	882,076	148,379	20
2011	27,056,483	1,194,275	28,250,758	8,005,384	1,665,202	9,670,586	18,580,172	

2010								
Particulars	Cost			Accumulated depreciation			Book value As at June 30, 2010	Rate %
	As at July 01, 2009	Addition / *Transfer	As at June 30, 2010	As at July 01, 2009	Charged during the year	As at June 30, 2010		
	Rupees			Rupees				
Office premises	14,970,000	*5,500,000	20,470,000	1,277,220	886,000	2,163,220	18,306,780	5
Furniture & fixtures	196,509	-	196,509	196,500	-	196,500	9	20
Motor vehicles	4,507,333	-	4,507,333	3,151,527	898,051	4,049,578	457,755	20
Computers	767,081	192,380	959,461	690,031	61,964	751,995	207,466	33
Office equipments	882,155	41,025	923,180	818,528	25,563	844,091	79,089	20
2010	21,323,078	5,733,405	27,056,483	6,133,806	1,871,578	8,005,384	19,051,099	

	2011 Rupees	2010 Rupees
Cost	53,051,000	58,551,000
Transferred to tangible assets	-	(5,500,000)
	53,051,000	53,051,000

These represents membership cards of Karachi and Islamabad Stock Exchanges.

FIRST EQUITY MODARABA
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	Note	2011 Rupees	2010 Rupees
13 Long term investments			
Investment in subsidiary	13.1	250,000,000	250,000,000
		250,000,000	250,000,000
Investment classified as available-for-sale financial assets			
Listed securities	13.2.1	28,589,785	26,333,116
Unlisted securities	13.2.2	1,800,000	1,800,000
		30,389,785	28,133,116
		280,389,785	278,133,116

13.1 Investment in subsidiary

The holdings are in ordinary shares of Rs. 10 each.

2010 Number	2011 Number		Note	2011 Rupees	2010 Rupees
25,000,000	25,000,000	Equity Textiles Limited	13.1.1	250,000,000	250,000,000

13.1.1 Equity Textiles Limited is a wholly owned subsidiary of the Modaraba. Net assets value per share of Equity Textiles Limited is Rs. 6.03 (2010: Rs. 8.37) as per financial statements as at June 30, 2011 audited by BDO Ebrahim & Company, Chartered Accountants.

13.2 Investment classified as available-for-sale financial assets

13.2.1 Listed securities

The holding is in ordinary shares/units of Rs. 10 each of listed companies, unless otherwise stated:

2010 Number	2011 Number		2011 Rupees	2010 Rupees
		Open-end mutual funds		
7,994	11,197	Dawood Money Market Fund (Unit of Rs. 100 each)	910,741	598,511
		Oil and Gas		
3,009	3,610	Attock Petroleum Limited	1,351,115	871,858
27,000	17,000	Oil & Gas Development Company Limited	2,600,830	3,825,630
13,870	13,870	Pakistan Oilfields Limited	4,979,469	2,994,533
3,592	-	Pakistan State Oil Company Limited	-	934,638
		Chemicals		
31	-	Dawood Hercules Chemicals Limited	-	5,439
166,500	166,000	Fauji Fertilizer Bin Qasim Limited	6,996,900	4,335,660
4,300	4,375	Fauji Fertilizer Company Limited	657,781	443,201
10,000	10,000	ICI Pakistan Limited	1,518,500	1,185,600
50,000	-	Nimir Industrial Chemicals Limited	-	79,500
10,000	9,400	Sitara Peroxide Limited	157,450	88,800
		Construction and materials		
22,104	-	D.G. Khan Cement Factory Limited	-	522,096
150,000	94,535	Fauji Cement Company Limited	389,484	682,500
11,603	11,603	Lucky Cement Limited	821,956	721,010
26,250	7,000	Maple Leaf Cement Factory Limited	14,420	81,638
998	-	Pioneer Cement Limited	-	6,357

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2010 Number	2011 Number		2011 Rupees	2010 Rupees
37,500	37,500	Industrial metals and mining Siddiqsons Tin Plates Limited	336,375	378,750
10,000	10,000	Support services TRG Pakistan Limited	25,600	41,100
1,043	1,043	Automobile and parts Indus Motor Company Limited	229,460	273,662
2,873	-	Personal goods Azgard Nine Limited	-	32,063
50,000	50,000	Fixed line telecommunication Pakistan Telecommunication Company Limited	711,000	890,000
36,498	36,498	Gas water and multiutilities Sui Northern Gas Pipelines Limited	727,040	1,014,279
11,111	-	Banks Summit Bank Limited	-	39,888
8,511	9,362	Askari Bank Limited	101,859	129,537
10,099	-	Bank Alfalah Limited	-	95,537
22,500	22,500	The Bank of Punjab	131,400	226,800
7,260	7,986	Habib Bank Limited	926,855	706,035
12,992	-	National Bank of Pakistan	-	832,787
15,762	-	The Royal Bank of Scotland	-	205,536
4,188	4,188	Non life insurance Adamjee Insurance Company Limited	272,178	334,537
2,000	-	Real estate investment and services PACE (Pakistan) Limited	-	7,140
13,125	13,125	Financial services Arif Habib Securities Limited	345,188	435,881
1,339	-	Invest Capital Investment Bank Limited	-	-
22,000	22,000	Javed Omer Vohra & Company Limited	55,440	117,480
14,703	14,703	Jahangir Siddiqui & Company Limited	95,275	185,846
18,000	18,000	JS Investment Limited	91,800	134,280
5,875	5,875	Pervez Ahmed Securities Limited	8,460	14,394
760,000	760,000	Equity investment instruments First Dawood Mutual Fund	1,740,400	1,231,200
135,550	135,550	PICIC Growth Fund	1,813,659	1,255,193
99,000	99,000	PICIC Investment Fund	579,150	374,220
			28,589,785	26,333,116

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13.2.2 Unlisted securities

The holding is in ordinary shares of Rs. 10 each.

2010 Number	2011 Number		Note	2011 Rupees	2010 Rupees
50,000	50,000	Sapphire Power Generation Limited	13.2.2.1	1,800,000	1,800,000
78,150	78,150	Callmate Telips Telecom Limited	13.2.2.2	-	-
				1,800,000	1,800,000

13.2.2.1 Net assets value per share of Sapphire Power Generation Limited is Rs. 63.65 (2009: Rs.59.07) as per financial statements as at June 30, 2010 audited by Riaz Ahmad, Saqib, Gohar & Company, Chartered Accountants.

13.2.2.2 The company is in the process of winding up, hence Net assets value per share is not available.

	Note	2011 Rupees	2010 Rupees
14 Morabaha/Musharaka receivables-secured			
Musharaka - considered good	15.2	119,022,100	124,754,558
Morabaha - considered doubtful		17,380,055	17,380,055
		136,402,155	142,134,613
Provision for non performing assets		(17,380,055)	(17,380,055)
		119,022,100	124,754,558

14.1 The Modaraba has entered into Musharaka agreements under which the Modaraba has provided funds for working capital requirements on profit and loss sharing basis. These are secured against pledge, hypothecation of stock and receivables, demand promissory notes, personal guarantee of directors / proprietors and mortgage of property. Expected rate of profit on Musharaka transactions during the year range between 12% to 20 % (2010: 12 % to 20%).

14.2 All the amounts are short term. The carrying amount is considered a reasonable approximation of fair value.

	Note	2011 Rupees	2010 Rupees
15 Short term investments			
Investment classified as financial asset at fair value through profit or loss			
Listed securities	15.1	12,194,441	17,104,176

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15.1 Listed securities

The holding is in ordinary shares/units of Rs. 10 each of listed companies, unless otherwise stated:

2010 Number	2011 Number		2011 Rupees	2010 Rupees
		<i>Oil and Gas</i>		
75,400	-	Byco Petroleum Pakistan Limited	-	752,492
		<i>Chemicals</i>		
40,000	-	Descon Oxychen Limited	-	182,400
52,500	-	Fauji Fertilizer Bin Qasim Limited	-	1,367,100
8,020	-	Fauji Fertilizer Company Limited	-	826,621
54,000	-	Lotte Pakistan PTA Limited	-	435,240
200,000	-	Nimir Industrial Chemicals Limited	-	318,000
		<i>Construction and materials</i>		
15,000	10,000	Attock Cement Pakistan Limited	485,300	982,500
31,027	-	D.G. Khan Cement Company Limited	-	732,858
9,000	-	Fauji Cement Company Limited	-	40,950
20,600	2,830	Lucky Cement Limited	200,477	1,280,084
90,000	-	Maple Leaf Cement Factory Limited	-	279,900
2010 Number	2011 Number		2011 Rupees	2010 Rupees
		<i>Support services</i>		
305,000	40,000	TRG Pakistan Limited	102,400	1,253,550
		<i>Personal goods</i>		
89,600	-	Amtext Limited	-	1,033,984
44,127	-	Azgard Nine Limited	-	492,457
5,000	-	Nishat Mills Limited	-	215,600
-	1,450	Treet Corporation	75,429	-
		<i>Pharma and biotech</i>		
24,000	-	IBL Healthcare Limited	-	168,000
4,100	3,000	Searl Pakistan Limited	163,050	241,900
		<i>Fixed line telecommunication</i>		
25,000	-	Pakistan Telecommunication Company Limited	-	445,000
160,000	-	Worldcall Telecom Limited	-	465,600
		<i>Electricity</i>		
10,000	-	The Hub Power Company Limited	-	319,600
30,500	-	Japan Power Generation Limited	-	54,900
331,000	-	Karachi Electricity Supply Company Limited	-	738,130
-	25,000	Kot Addu Power Company Ltd	1,065,250	-
4,500	2,443	Kohinoor Energy Limited	40,310	119,205
-	100,000	Nishat Power Ltd	1,544,000	-
		<i>Gas water and multiutilities</i>		
47,500	25,324	Sui Northern Gas Pipelines Limited	504,454	1,320,025
		<i>Banks</i>		
141,089	-	Summit Bank Limited	-	506,510
25,000	-	Bank Alfalah Limited	-	236,500
6,000	-	Bank Al Habib Limited	-	189,000
24,500	-	Bank Islami Pakistan Limited	-	78,645
7,500	-	Faysal Bank Limited	-	106,950
115,900	-	NIB Bank Limited	-	346,541
-	95,000	United Bank Limited	5,881,450	-
		<i>Automobile and parts</i>		
-	1,789	Millat Tractors	1,076,459	-
		<i>Non life insurance</i>		
14,300	13,800	Adamjee Insurance Company Limited	896,862	1,142,284
20,000	10,000	Pakistan Reinsurance company Limited	159,000	342,400
		<i>Real estate investment and services</i>		
25,000	-	PACE (Pakistan) Limited	-	89,250
			12,194,441	17,104,176

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	Note	2011 Rupees	2010 Rupees	
16	Advances - considered good	16.1	1,547,567	2,020,932

16.1 These include advances to employees at June 30, 2011 amounting to Rs. 1,526,556 (2010: Rs. 1,891,921). The maximum aggregate amount due from employees at the end of any month during the year was Rs.1,891,418 (2010: Rs. 2,130,495). These are secured against the property documents retained by the Modaraba.

16.2 All the amounts are short term. The carrying amount is considered a reasonable approximation of fair value.

	Note	2011 Rupees	2010 Rupees
17	Trade deposits and prepayments		
	Deposits	14,724,648	15,174,648
	Prepayments	149,141	34,537
		14,873,789	15,209,185

17.1 All the amounts are short term. The carrying amount is considered a reasonable approximation of fair value.

	Note	2011 Rupees	2010 Rupees
18	Other receivables		
	Sale proceeds of investments	878,879	824,677
	Receivable from clients	30,689,155	27,157,459
	Dividend	113,000	49,426
	Profit on musharaka	13,519,954	17,118,615
	Others	618,690	583,345
		45,819,678	45,733,522

18.1 **Receivable from clients**

	Considered good	30,689,155	27,157,459
	Considered doubtful	12,500,000	12,500,000
		43,189,155	39,657,459
	Less: Provision for doubtful debts	(12,500,000)	(12,500,000)
		30,689,155	27,157,459

18.1.1 **Movement in provision for doubtful debts**

	Opening provision	12,500,000	5,500,000
	Charge for the year	-	7,000,000
		12,500,000	12,500,000

18.2 Receivable from clients and others include receivable from related parties amounting to Rs.63,099 (2010: Rs.74,670).

18.3 All the amounts are short term. The carrying amount is considered a reasonable approximation of fair value.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 Rupees	2010 Rupees
19 Bank balances			
-in current accounts		2,173,763	1,335,335
-in saving accounts	19.1	55,084,102	18,847,482
		57,257,865	20,182,817
19.1	Effective mark-up rate in respect of PLS accounts ranges from 5% to 7% (2010: 5% to 7%) per annum.		
19.2	All the amounts are short term. The carrying amount is considered a reasonable approximation of fair value.		
	Note	2011 Rupees	2010 Rupees
20 Income			
Profit on Musharaka		19,109,436	17,595,733
Brokerage commission		1,669,783	1,596,985
Capital (loss)/gain		(6,858,863)	3,608,705
Dividend		3,968,029	3,065,827
Commission and fees		-	10,000
		17,888,385	25,877,250
21 Operating expenses			
Salaries, allowances and benefits	21.1	4,486,254	4,757,165
Traveling, conveyance and entertainment		535,033	387,969
Telephone and postage		494,846	491,259
Electricity		543,643	395,947
Insurance		169,829	208,716
Printing, stationery and advertising		35,408	1,288,582
Fees and subscriptions		1,148,532	793,651
Vehicle running and maintenance		1,208,218	1,324,113
Depreciation	11	1,665,202	1,871,578
Amortization of deferred cost		-	429,465
Facilities and services		3,555,784	2,210,340
Repair and maintenance		948,283	684,751
Annual review meeting		34,410	50,000
Auditors' remuneration	21.3	271,448	214,672
Legal and professional		1,193,964	676,086
Provision for doubtful debts	18.1.1	-	7,000,000
Training and development		15,000	14,750
Zakat deducted at source		-	3,250
KSE & SECP Charges		163,132	242,296
Withholding & CVT tax		5,936	8,155
Others		76,192	82,922
		16,551,114	23,135,667

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21.1 Remuneration of officers and other employees

The aggregate amount charged in the financial statements for remuneration, including benefits to 11 (2010 : 11) employees of the modaraba is:

	2011		2010	
	Officers	Other employees	Officers	Other employees
	-----Rupees-----		-----Rupee-----	
Salaries and allowances	1,932,000	1,367,677	1,932,000	1,314,000
Gratuity and leave fare	331,488	182,335	428,131	210,233
Expenses reimbursed:				
- Medical	171,914	175,526	194,151	117,432
	2,435,402	1,725,538	2,554,282	1,641,665

21.2 Salaries, allowances and benefits include provision for gratuity of Rs. 231,478 (2010: Rs. 508,917). Officers are also provided with free use of the Modaraba maintained cars.

	2011 Rupees	2010 Rupees
21.3 Auditor's remuneration		
Audit fee	130,000	130,000
Half yearly review	25,000	25,000
Other fees	116,448	59,672
	271,448	214,672

22 Other income

Profit on PLS deposits	534,828	561,450
Liabilities written back	-	2,818,041
	534,828	3,379,491

23 Taxation

Current	60,084	122,990
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Assessment upto and including the tax year 2010 have been finalized under section 120 of the Income Tax Ordinance, 2001 (the Ordinance) which is subject to audit under section 170 of the Ordinance. Tax year 2005 and 2008 has been selected under section 177 of the Ordinance for total audit, but the audit proceedings has not yet been finalised.

	2011 Rupees	2010 Rupees
24 Earnings/(loss) per certificates - basic and diluted		
Profit / (loss) for the year	180,251	(714,030)
	Number	Number
Weighted average number of certificates outstanding during the year	52,440,000	52,440,000
	Rupees	Rupees
Earnings/(loss) per certificate - basic and diluted	0.003	(0.014)

24.1 There is no dilution effect on the basic earnings per share of the modaraba as the modaraba has no such commitments.

FIRST EQUITY MODARABA
NOTES TO THE FINANCIAL STATEMENTS
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25 Risk management policies and objectives

Financial risk management

The board of directors of the Modaraba Management Company has overall responsibility for the establishment and oversight of the Modaraba's risk management framework. The Modaraba has exposure to the following risks from its use

- Credit risk
- Liquidity risk
- Market risk

Credit and concentration risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises 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 the Modaraba's performance to developments affecting a particular industry.

Credit risk of the Modaraba arises principally from the investments, Musharaka/Morahaba receivables, advances, trade deposits and other receivables. The carrying amount of financial assets represents the maximum credit exposure. To reduce the exposure to credit risk, the Modaraba has developed a formal approval process whereby credit limits are applied to its customers. The management continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful for recovery.

Business	2011		2010	
	Rupees	%	Rupees	%
Open-end mutual funds	910,741	0.19	598,511	0.12
Oil and Gas	8,931,414	1.87	9,379,151	1.92
Chemicals	9,330,631	1.95	9,267,561	1.90
Industrial metals and mining	336,375	0.07	378,750	0.08
Construction and materials	1,911,637	0.40	5,329,893	1.09
Support services	128,000	0.03	1,294,650	0.27
Automobile and parts	1,305,919	0.27	273,662	0.06
Personal goods	250,075,429	52.35	251,774,104	51.61
Pharma and biotech	163,050	0.03	409,900	0.08
Fixed line telecommunication	711,000	0.15	1,800,600	0.37
Electricity	4,449,560	0.93	3,031,835	0.62
Gas water and multiutilities	1,231,494	0.26	2,334,304	0.48
Banks	7,041,564	1.47	3,700,266	0.76
Non life insurance	1,328,040	0.28	1,819,221	0.37
Real estate investment and services	-	-	96,390	0.02
Financial services	596,163	0.12	887,881	0.18
Equity investment instruments	4,133,209	0.87	2,860,613	0.59
Engineering	8,154,558	1.71	8,620,029	1.77
Others	176,968,576	37.05	184,008,168	37.72
	477,707,360	100	487,865,489	100

The Carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date is:

	2011 Rupees	2010 Rupees
Investment	292,584,226	295,237,292
Morabaha/Musharaka receivables-secured	119,022,100	124,754,558
Advances-considered good	4,057,567	5,530,932
Trade deposits and prepayments	16,223,789	16,609,185
Other receivables	45,819,678	45,733,522
	477,707,360	487,865,489

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Liquidity risk

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

	2011			
	Less than one year	Over one year but less than five years	Over five years	Total
-----Rupees-----				
Assets				
Long term investments	-	30,389,785	250,000,000	280,389,785
Morabaha & Musharaka receivables	119,022,100	-	-	119,022,100
Short term investments	12,194,441	-	-	12,194,441
Advances	1,547,567	2,510,000	-	4,057,567
Trade deposits	14,724,648	1,350,000	-	16,074,648
Other receivables	45,819,678	-	-	45,819,678
Tax refunds due from government	7,060,567	-	-	7,060,567
Bank balances	57,257,865	-	-	57,257,865
	257,626,866	34,249,785	250,000,000	541,876,651
Liabilities				
Deferred liabilities	-	1,607,811	-	1,607,811
Creditors, accrued and other liabilities	21,422,419	-	-	21,422,419
Provision for taxation	1,546,706	-	-	1,546,706
Unclaimed profit distribution	26,262,400	-	-	26,262,400
	49,231,525	1,607,811	-	50,839,336
Net balance	208,395,341	32,641,974	250,000,000	491,037,315

	2010			
	Less than one year	Over one year but less than five years	Over five years	Total
-----Rupees-----				
Assets				
Long term investments	-	28,133,116	250,000,000	278,133,116
Morabaha & Musharaka receivables	124,754,558	-	-	124,754,558
Short term investments	17,104,176	-	-	17,104,176
Advances	2,020,932	3,510,000	-	5,530,932
Trade deposits	15,374,648	1,200,000	-	16,574,648
Other receivables	45,733,522	-	-	45,733,522
Tax refunds due from government	6,796,925	-	-	6,796,925
Bank balances	20,182,817	-	-	20,182,817
	231,967,578	282,843,116	250,000,000	514,810,694
Liabilities				
Deferred liabilities	-	1,397,333	-	1,397,333
Creditors, accrued and other liabilities	9,888,877	-	-	9,888,877
Provision for taxation	1,486,622	-	-	1,486,622
Unclaimed profit distribution	26,353,530	-	-	26,353,530
	37,729,029	1,397,333	-	39,126,362
Net balance	194,238,549	281,445,783	250,000,000	475,684,332

FIRST EQUITY MODARABA
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Market risk

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

Operational Risk

Operational Risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Modaraba's operations either internally within the Modaraba or externally at the Modaraba's service providers, and from external; factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of the Modaraba's activities.

The Modaraba's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its objective of generating returns for certificate holders. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors of the Management Company. This responsibility encompasses the controls in the following areas:

- Requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Ethical and business standards;
- Risk mitigation, including insurance where this is effective.

26 Fair value of financial instruments

The Modaraba is of the view that the fair market value of most of the financial assets and financial liabilities are not significantly different from their carrying amounts.

26.1 Financial instruments by category

	2011 Rupees	2010 Rupees
Financial assets		
<i>loans and receivables</i>		
Morabaha/Musharaka receivables	119,022,100	124,754,558
Advances	4,057,567	5,530,932
Trade deposits	16,074,648	16,574,648
Other receivables	45,819,678	45,733,522
Bank balances	57,257,865	20,182,817
<i>Financial assets at fair value through profit or loss</i>		
Short term investments	12,194,441	17,104,176
<i>Available-for-sale financial assets</i>		
Long term investments	30,389,785	28,133,116
	284,816,084	258,013,769
Financial liabilities		
<i>Financial liabilities at amortised cost</i>		
Creditors, accrued and other liabilities	21,422,419	9,888,877
Unclaimed profit distribution	26,262,400	26,353,530
	47,684,819	36,242,407
On balance sheet gap	237,131,265	221,771,362

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NOTES TO THE FINANCIAL STATEMENTS
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27 Maturities of assets and liabilities

The above analysis is based on the contractual/expected maturities of assets and liabilities which may not necessarily correspond with actual maturities.

	2011				Total
	Upto one month	Over one month to one year	Over one year to five years	Over five years	
-----Rupees-----					
Assets					
Tangible assets	-	-	-	18,580,172	18,580,172
Intangible assets	-	-	-	53,051,000	53,051,000
Deferred cost	-	-	-	-	-
Long term investments	-	-	280,389,785	-	280,389,785
Morabaha & Musharaka receivables	30,754,558	88,267,542	-	-	119,022,100
Short term investments	-	12,194,441	-	-	12,194,441
Advances	47,334	1,500,233	2,510,000	-	4,057,567
Trade deposits and prepayments	108,092	14,765,697	1,350,000	-	16,223,789
Other receivables	11,280,528	34,539,150	-	-	45,819,678
Tax refunds due from government	-	7,060,567	-	-	7,060,567
Bank balances	57,257,865	-	-	-	57,257,865
	99,448,377	158,327,630	284,249,785	71,631,172	613,656,964
Liabilities					
Deferred liabilities	-	-	1,607,811	-	1,607,811
Creditors, accrued and other liabilities	1,527,853	19,894,566	-	-	21,422,419
Provision for taxation	-	1,546,706	-	-	1,546,706
Unclaimed profit distribution	-	26,262,400	-	-	26,262,400
	1,527,853	47,703,672	1,607,811	-	50,839,336
Net balance	97,920,524	110,623,958	282,641,974	71,631,172	562,817,628

	2010				Total
	Upto one month	Over one month to one year	Over one year to five years	Over five years	
-----Rupees-----					
Assets					
Tangible assets	-	-	5,861,819	13,189,280	19,051,099
Intangible assets	-	-	-	53,051,000	53,051,000
Deferred cost	-	-	-	-	-
Long term investments	-	-	278,133,116	-	278,133,116
Morabaha & Musharaka receivables	29,254,558	95,500,000	-	-	124,754,558
Short term investments	-	17,104,176	-	-	17,104,176
Advances	35,644	1,985,288	3,510,000	-	5,530,932
Trade deposits and prepayments	558,092	14,851,093	1,200,000	-	16,609,185
Other receivables	38,781,851	6,951,671	-	-	45,733,522
Tax refunds due from government	-	6,796,925	-	-	6,796,925
Bank balances	20,182,817	-	-	-	20,182,817
	88,812,962	143,189,153	288,704,935	66,240,280	586,947,330
Liabilities					
Deferred liabilities	-	-	1,397,333	-	1,397,333
Creditors, accrued and other liabilities	6,578,050	3,310,827	-	-	9,888,877
Provision for taxation	-	1,486,622	-	-	1,486,622
Unclaimed profit distribution	-	26,353,530	-	-	26,353,530
	6,578,050	31,150,979	1,397,333	-	39,126,362
Net balance	82,234,912	112,038,174	287,307,602	66,240,280	547,820,968

FIRST EQUITY MODARABA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

28 Yield/Profit rate risk exposure

Description	Effective yield / profit risk % age	2011						2011 Total
		Yield / profit bearing maturing			Non yield / profit bearing maturing			
		With one year	After one year	Sub-total	With one year	After one year	Sub-total	
-----Rupees-----								
Financial assets								
Long term investments		-	30,389,785	30,389,785	-	-	-	30,389,785
Morabaha/Musharika receivables	12% to 20%	119,022,100	-	119,022,100	-	-	-	119,022,100
Short term investments		12,194,441	-	12,194,441	-	-	-	-
Advances		-	-	-	1,547,567	2,510,000	4,057,567	4,057,567
Trade deposits		-	-	-	14,724,648	1,350,000	16,074,648	16,074,648
Other receivables		-	-	-	45,819,678	-	45,819,678	45,819,678
Bank balances	5% to 7%	55,084,102	-	55,084,102	2,173,763	-	2,173,763	57,257,865
		186,300,643	30,389,785	216,690,428	64,265,656	3,860,000	68,125,656	272,621,643
Financial Liabilities								
Creditors, accrued and other liabilities		-	-	-	21,422,419	-	21,422,419	21,422,419
Unclaimed profit distribution		-	-	-	26,262,400	-	26,262,400	26,262,400
		-	-	-	47,684,819	-	47,684,819	47,684,819
On balance sheet gap		186,300,643	30,389,785	216,690,428	16,580,837	3,860,000	20,440,837	224,936,824

- The above analysis is based on the contractual/expected maturities of assets and liabilities which may not necessarily correspond with actual maturities.
- Yield risk is the risk of decline in earning due to adverse movement of the yield curve.
- Profit rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market profit rates.

FIRST EQUITY MODARABA
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Description	Effective yield / profit risk % age	2010						2010 Total
		Yield / profit bearing maturing			Non yield / profit bearing maturing			
		With one year	After one year	Sub-total	With one year	After one year	Sub-total	
-----Rupees-----								
Financial assets								
Long term investments		-	28,133,116	28,133,116	-	-	-	28,133,116
Morabaha/Musharika receivables	12% to 20%	124,754,558	-	124,754,558	-	-	-	124,754,558
Short term investments		17,104,176	-	17,104,176	-	-	-	17,104,176
Advances		-	-	-	2,020,932	3,510,000	5,530,932	5,530,932
Trade deposits		-	-	-	15,374,648	1,200,000	16,574,648	16,574,648
Other receivables		-	-	-	45,733,522	-	45,733,522	45,733,522
Bank balances	5% to 7%	18,847,482	-	18,847,482	1,335,335	-	1,335,335	20,182,817
		160,706,216	28,133,116	188,839,332	64,464,437	4,710,000	69,174,437	258,013,769
Financial Liabilities								
Creditors, accrued and other liabilities		-	-	-	9,888,877	-	9,888,877	9,888,877
Unclaimed profit distribution		-	-	-	26,353,530	-	26,353,530	26,353,530
		-	-	-	36,242,407	-	36,242,407	36,242,407
On balance sheet gap		160,706,216	28,133,116	188,839,332	28,222,030	4,710,000	32,932,030	221,771,362

FIRST EQUITY MODARABA
NOTES TO THE FINANCIAL STATEMENTS
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29 Segment information

The Modaraba has three primary sources of revenue i.e. Musharaka facility, brokerage operations and capital market based on the nature of business and related risk associated with each type of business segment which are not deemed by the management to be sufficiently significant to disclose as separate items are reported under others.

Segment assets and liabilities included all assets and liabilities related to the segment relevant proportion of the assets and liabilities allocated to the segment on reasonable basis.

Segment revenue and expenses included all revenue and expenses related to the segment and relevant proportion of the revenue and expenses allocated to the segment on reasonable basis.

	2011				2010	
	Musharaka facility	Brokerage operation	Capital market	Others	TOTAL	TOTAL
	-----Rupees-----				-----Rupees-----	
Segment revenues	19,109,436	1,669,783	(2,890,834)	534,828	18,423,213	29,256,741
Segment result	19,109,436	(3,529,276)	(4,506,033)	534,828	11,608,955	16,628,227
Unallocated cost						
Operating expenses					(11,368,620)	(17,219,267)
Other charges					-	-
Profit/(loss) before taxation					240,335	(591,040)
Taxation					(60,084)	(122,990)
Profit/(loss) for the year					180,251	(714,030)
Other information						
Segment assets	132,542,054	84,009,157	293,576,105	-	510,127,316	537,585,995
Unallocated assets					103,529,648	49,361,335
Total assets					613,656,964	586,947,330
Segment liabilities	-	18,022,053	-	-	18,022,053	558,494
Unallocated liabilities					32,817,283	38,567,868
Total liabilities					50,839,336	39,126,362

FIRST EQUITY Modaraba
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

30 Transactions with related parties

The related parties of the Modaraba comprise the Modaraba Management Company, subsidiary company, staff retirement funds, directors of the Modaraba Management Company and key management personnel. Transactions with related parties are entered into at arm's length.

Transactions with related parties other than remuneration and benefits to officers and employees under the terms of their employment are as follows:

	2011	2010
	Rupees	Rupees
30.1 Balance outstanding at year end		
Modaraba Management Company		
- Current account payable	197,926	558,494
Subsidiary company		
- Investment in Equity Textiles Limited	250,000,000	250,000,000
- Payable to Equity Textiles Limited	240,000	240,000
Other related parties (including key management personnel)		
- Deferred liability staff gratuity	1,607,811	1,397,333
- Payable to Mohd Amin Mohd Bashir Ltd	10,666,600	3,638,654
30.2 Transactions during the year		
Modaraba Management Company		
- Reimbursement	3,555,784	2,210,340
Other related parties (including key management personnel)		
- Contribution to staff gratuity fund	231,478	508,917
	Relationship	
Dividend income	802	150
Services acquired	200,162	201,862
Brokerage commission earned	12,734	30,924

31 Number of employees

Total number of employees of the Modaraba as at June 30, 2011 are 11 (2010: 11).

FIRST EQUITY Modaraba
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

32 Corresponding Figures

32.1 Figures have been rounded off to the nearest rupee.

32.2 Prior year figures have been reclassified for the purpose of better presentation and comparison.

Reclassification from	Reclassified to	Amount
Current assets	Non current assets	
Trade deposits and prepayments	Deposits	200,000

33 Authorization for issue

These financial statements were authorized for issue in accordance with a resolution of the Board of Directors on September 29, 2011.

34 General

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

34.2 The corresponding figures, wherever necessary, have been re-arranged for purpose of comparison.

Adil A. Ghaffar
Chief Executive
Premier Financial
Services (Private) Limited

Zahid Bashir
Director
Premier Financial
Services (Private) Limited

Nadeem Maqbool
Director
Premier Financial
Services (Private) Limited

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **FIRST EQUITY MODARABA (the Modaraba)** as at June 30, 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) The Modaraba has not charged impairment loss of Rs.36.8 million and Rs.99.25 million in respect of investments classified as available for sale investments and investment in wholly owned subsidiary respectively.

Had the impairment loss been charged, the profit would have been reduced by Rs.136 million, investment in subsidiary company would have been lower by Rs.99.25 million (as per book value of Subsidiary) and unrealized loss on re measurement of available for sale investments would have been lower by Rs.36.8 million.

- (b) In our opinion, proper books of accounts have been kept by the Modaraba Company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;

- (c) In our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules 1981, and are in agreement with the books of accounts and are further in agreement with accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;

- (d) in our opinion, because of the effects of the matters discussed in paragraph 'a' above, the financial statements do not give a true and fair view of the financial position of the Company as of June 30, 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba

- e) In our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The financial statements of the First Equity Modaraba for the year ended June 30, 2010 were audited by another firm of Chartered Accountants who had expressed an adverse opinion in their report dated October 07, 2010 for not charging impairment losses in the financial statements.

Avais Hyder Liaquat Nauman
Chartered Accountants
Karachi.

Dated: September 29, 2011

Engagement Partner: Adnan Zaman

-REPORT OF THE DIRECTORS OF THE MODARABA COMPANY

The Directors of the Premier Financial Services (Private) Limited, the management company of the **FIRST EQUITY MODARABA**, are pleased to present their report and audited financial statements of the Modaraba together with the consolidated financial statements of the Modaraba and Equity Textiles Limited, a wholly owned subsidiary, for the year ended June 30, 2011.

Financial Results

The profit for the year amounted to Rs. 180,251 as compared to loss of Rs (714,030) for the last year. The earning per certificate as at June 30, 2011 was Rs. 0.003 as compared to loss per certificate Rs. (0.014) last year.

	Rupees
Income	17,888,385
Expenses	
Operating Expenses	<u>(16,551,114)</u>
Bank Charges	<u>(16,565)</u>
	<u>(16,567,679)</u>
Operating profit	1,320,706
Deficit on revaluation of investment	(1,615,199)
Other Income	<u>534,828</u>
Profit before Taxation	<u>240,335</u>
Taxation	<u>(60,084)</u>
Profit for the year	<u><u>180,251</u></u>
Profit per Certificate	0.003

Our Performance and Future Prospects

As envisaged in our last year's review, our objective of survival was achieved. The decision to curtail stock market operations turned out to be favorable due to the volatile movements in stock market. We reiterate our earlier submission, that unless new financing products are introduced or the government injects fresh liquidity, market trends will remain erratic.

Pakistan's economy has been affected on almost all fronts like socio, natural, economic and political. The aftermath of the last year's flood was not yet absorbed fully, the fresh heavy rain brought further calamity to the people of Pakistan. Rupee parity dropped drastically and upsurge in major currencies seriously affected country's financial position. We were yet to find space, but a fresh international recession further weakened country's financial position. Last but not least, current natural calamity will have a worst impact on country's resources. Though, presently, all socio-political-economic indicators are in red but based on our faith we hope the situation will improve.

The continuously increasing cost of living resulted in fewer opportunities and has severely affected the local small and medium financial intermediaries due to non-performing assets and its realization. Regulators have tightened risk management and non conducive regulatory environment has and will further gravely affect small capital base financial sector companies

The deteriorating socio-economic conditions, political turmoil and energy crisis new business decisions cannot be justified. On the contrary the business houses are curtailing their activities. Therefore, we preferred to be cautious in business development and expansion in the fund based activities and curtailed our operations. We foresee that the negative impact, of all the above factors, will be carry forward and hence we maintain our previous policy of breakeven and survival with slow and steady moves.

Audit and Inspection

The Modaraba's wholly owned subsidiary, Equity Textile Ltd (ETL), commenced the commercial production from April 01, 2007. Presently the price of similar plant and equipment has increased in international markets and with the current rupee parity the project of the same size would now cost almost twice ETL's book value. On this basis we have not provided for the loss in carrying amount of our investment. Net assets value per share of Equity Textiles Limited which was Rs 8.37 as at June 30, 2010 has fallen to Rs 6.03 at the reporting date. Major reason was the unprecedented upsurge in the cotton prices which went as high as Rs. 14,200/maund from around Rs. 3,800/maund. After touching its high the raw material and yarn prices had a free fall and at the reporting date cotton price was it around Rs. 6,000 per maund. We had no option but to carry our finished goods stocks and raw material at net realizable value resulting in an aggregate loss of Rs. 116 million.

We have not provided for the permanent impairment in the value of the investments in the wholly owned subsidiary as, we believe that it does not fulfill any of the requirements laid down in International Accounting Standard (IAS) 39, relating to investments available for sale. Resultantly, the external auditors have qualified their view based on non compliance of the International Accounting Standard which requires that permanent impairment in the value investments available for sale should be recorded at its fair value, rather than cost, and any profit / loss should be taken / charge to profit and loss account for the year. Firstly, for this strategic investment we do not foresee that such temporary impairment is of permanent nature. Secondly, determination of fair value is objective, which could have been mitigated if acquisition cost of plant and machinery is converted at the current foreign exchange rates. Our calculation supported our understanding and if we convert the acquisition cost of plant and machinery acquired at the current foreign exchange rates than the same would be around Rs. 1.2b instead of Rs. 540 M. Thirdly, keeping in view the peculiar nature of our industry, where profit for the year has to be distributed, providing for such impairment in the current year and its reversal in subsequent years' would tantamount to distrib

We have also not provided for the impairment in the value of the listed securities available for sale and the external auditors have qualified their view based on non compliance of the IAS which requires that permanent impairment in the value investments available for sale should be recorded at its fair value, rather than cost, and any profit / loss should be taken / charge to profit and loss account for the year. Firstly, we do not foresee that these impairments are of permanent nature. Unrealised Loss of Rs. 37 m has been shown under equity as against Rs. 52 m shown last year. . Secondly, keeping in view the peculiar nature of our industry, where profit for the year has to be distributed, providing for such impairment in the current year and then booking capital gains on disposal in the following years would tantamount to distribution of profits from capital.

As elaborated in the last years' annual reports, we do not concur with the basic concept of adjusting cost for fair values. Our Industry was established on the concept to distribute what it earns on yearly basis. Our regulators made it mandatory that to claim income tax exemption; Modarabas have to distribute 90% of profit for the year in the form of cash dividend to certificate holders. Therefore, adjusting cost to fair value would tantamount to distribution of either unrealized capital gains on recovery cost. We strongly believe that no accounting concept would dictate to distribute unearned profit from capital and hence we restricted ourselves to the category-investments available for sale. There are certain requirements of international accounting standards, which are drafted for corporate of high status and should not be made mandatory for a peculiar home grown industry.

Registrar Modaraba initiated an inquiry in December 2006 through their in house inspection team. Inspection report was provided on September 24, 2007 and a show cause notice was served in November 2007. Hearing of this show cause notice was held on February 21, 2008 but the final order is still awaited. Without issuing the final order, Registrar Modaraba again initiated an inquiry on May 11, 2009, which was challenged in the High Court of Sindh and stay was granted by the honorable Court on May 13, 2009. No further progress to this date.

Audit under section 177 of the Income Tax Ordinance 2001 for the tax years 2005 and 2008 are still in process.

Dividend Distribution

It would be uneconomical to distribute the profit for the year, therefore, the Board decided not to distribute profit for year ended June 30, 2011. However to meet the regulations date of book closure would be from October 14, 2011 to October 26, 2011 (other days inclusive)

Board of Directors

During the year under review, four board meeting were held and attend by the Directors as follows:-

	Name of Board Members		Meetings Attended
1	Mr. Zahid Bashir		4
2	Mr. Nadeem Maqbool		3
3	Mr. Adil A. Ghaffar		4

Code of Corporate Governance

As stated in previous years Report that the Board has decided to adopt voluntarily the code of corporate governance as issued by the Securities and Exchange Commission of Pakistan and made part of listing regulation.

As required by the Code of Corporate Governance, Directors are pleased to report that:

- a. The financial statements prepared by the management of the Modaraba present fairly its true state of affairs, the result of its operations, cash flows and changes in equity;

- b. Proper books of accounts of the Modaraba have been maintained;
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- d. The system of internal control is consistent and has been effectively implemented and monitored;
- e. **There is no doubt about the Modaraba's ability to continue as a going concern;**
- f. There has been no material departure from the best practice of corporate governance as detailed in the listing regulation of the Stock Exchange (s); and
- g. International Accounting Standards, as applicable in Pakistan have been followed in preparation of financial statements except as disclosed in the financial statements.

Auditors

The present auditors M/s Avais Hyder Liaquat Nauman, Chartered Accountants have given their consent for reappointment. The Board has recommended their name for the formal approval by the Registrar Modaraba.

Acknowledgement

We acknowledge hard work with full dedication of our employees and are thankful to our business associates, clients and financial institutions for their confidence and support. We also appreciate the guidance and cooperation received from our regulators. They have our full support and good wishes in their efforts at reforms.

Karachi:

Dated September 29, 2011

Adil A Ghaffar

Chief Executive Officer