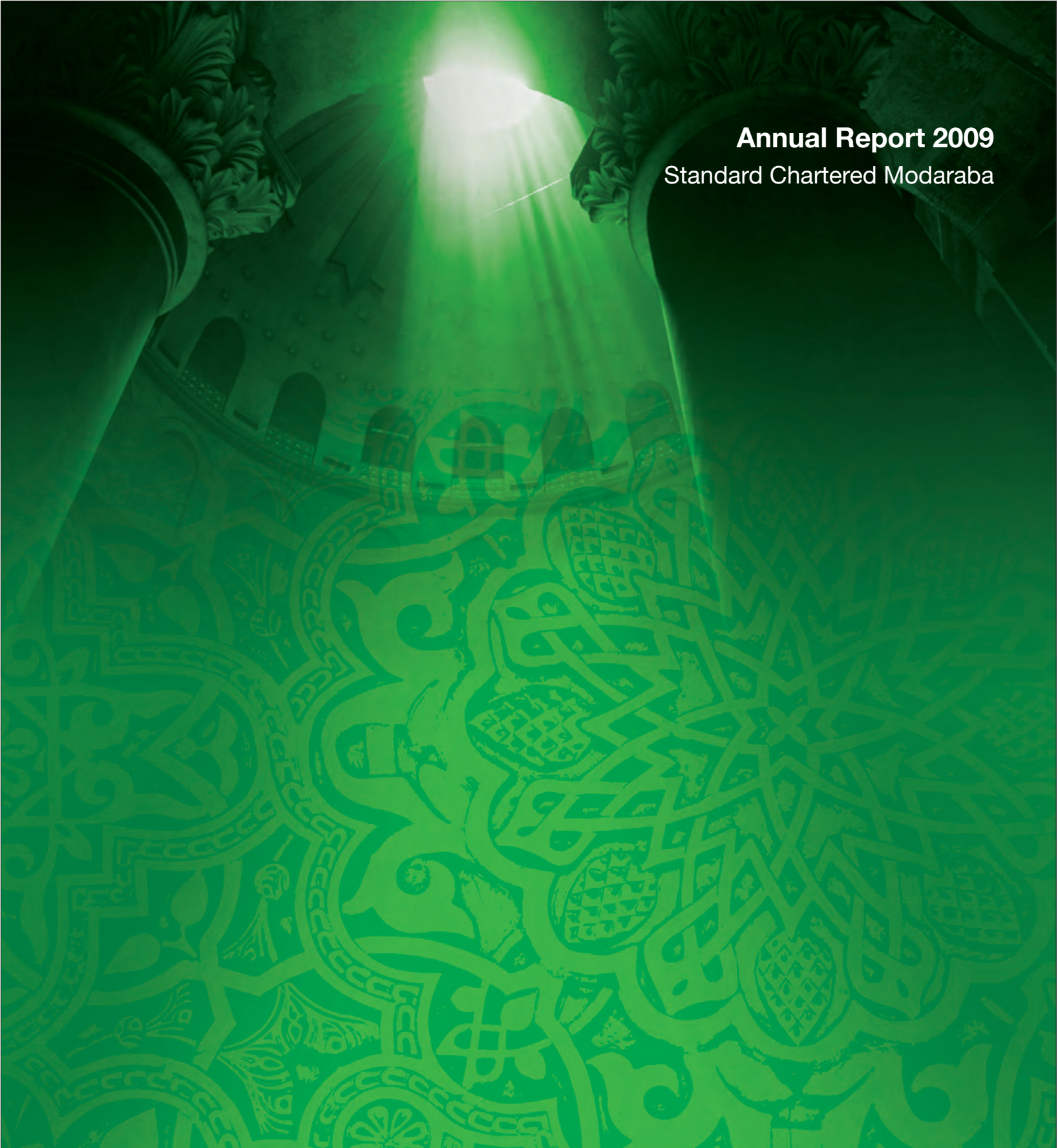
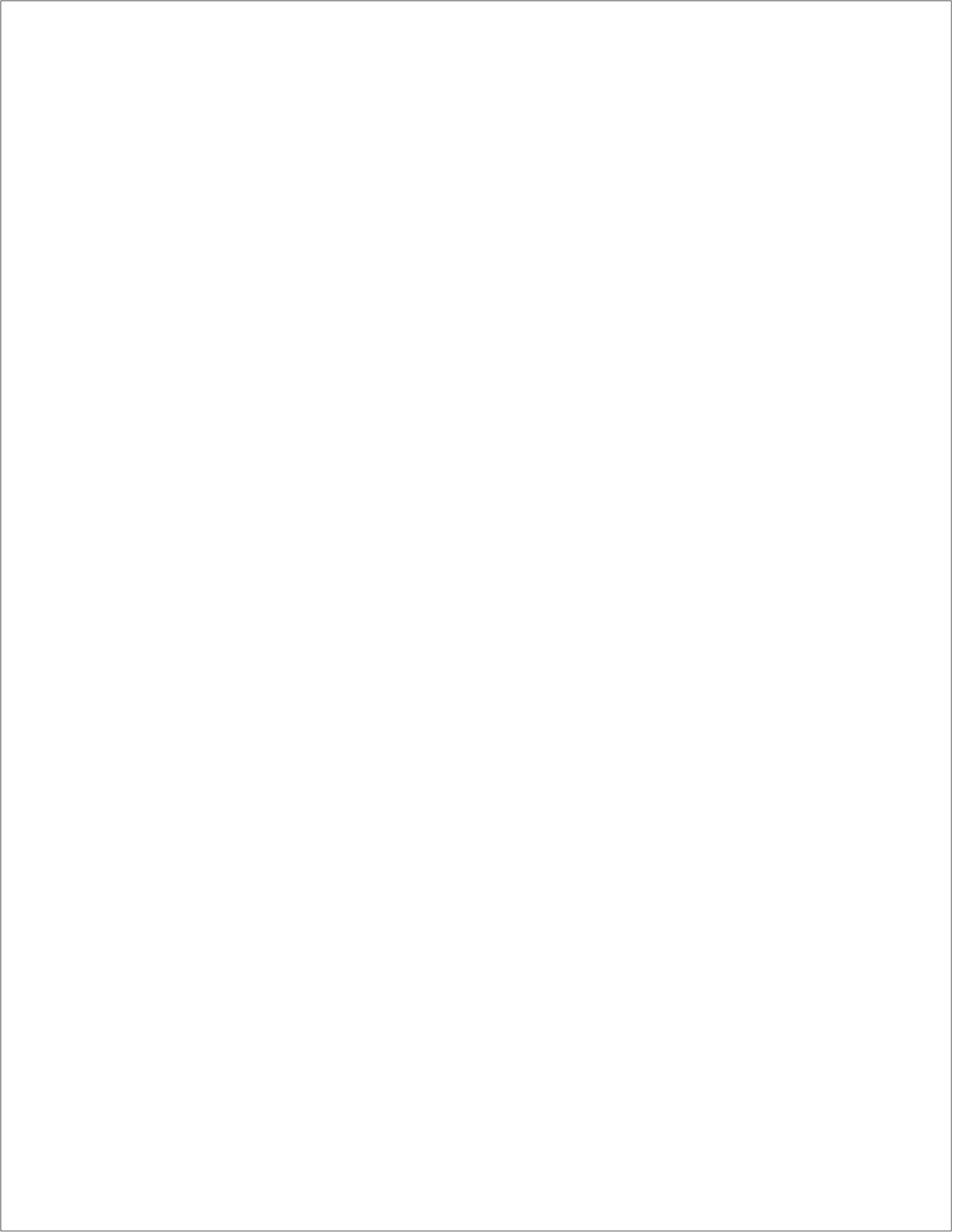


**Annual Report 2009**  
Standard Chartered Modaraba





Rating by: PACRA

Highest rating  
in the entire Modaraba  
and Leasing sectors.

LONG-TERM



SHORT-TERM



These indicate low expectation of credit risk and a very strong capacity for timely payment of financial commitments.

# | Vision |

To be the preferred provider of Islamic financial products in the market.

# | Mission |

To create exceptional value for our clients, investors and staff; through market leadership in providing innovative Shariah compliant products and solutions, and by adopting and living our core values.

We believe in our values

# | Value |

- Courageous with you we can overcome obstacles.
- Responsive with you we will triumph in partnership.
- International with you there are no borders.
- Creative with you there are ways to add values.
- Trustworthy with you we will reach new heights.



# | Our Team |



## Modaraba Information

### Directors of Modaraba Company

Mr. Badar Kazmi  
Chairman

Syed Zaheer Mehdi  
Managing Director/Chief Executive

Mr. Cyrus J. Masani  
Director

Mr. Shariq Saleem  
Director

Mr. Imran Ahad  
Director

Mr. Tufail J. Ahmad  
Director

### Company Secretary

Mr. Muhammad Siddique

### Audit Committee

Mr. Cyrus J. Masani  
Chairman

Mr. Imran Ahad  
Member

Mr. Tufail J. Ahmad  
Member

### Auditors

AF Ferguson & Co.  
Chartered Accountants

### Bankers/ Lending Institutions

Standard Chartered Bank (Pakistan) Limited  
Bank Islami Pakistan Limited  
Meezan Bank Limited

### Legal Advisors

Fazle Ghani Khan & Co.  
Mohsin Tayabali & Co.  
Orr Dignam & Co.  
Sirajul Haque & Co.

### Registered and Head Office

Standard Chartered Bank  
Main Building  
P. O. Box 5556, I. I. Chundrigar Road  
Karachi-74000  
Phone: 32450000

### Branch Offices

Standard Chartered Bank Building  
P. O. Box 6131, Tufail Road  
Lahore Cantt.  
Phone: (042) 6066277-80

Standard Chartered Bank Building  
P. O. Box 1004  
No. 1 Diplomatic Enclave  
Islamabad  
Phone: (051) 32088209

### Registrars & Share Registration Office

Famco Associates (Private) Limited.  
State Life Building No. 1A, 1st Floor  
I. I. Chundrigar Road, Karachi  
Phone: (021) 32426597, 32427012

### Web Address

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

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## Board of Directors



**Badar Kazmi**  
Chairman

Appointed as Director and Chairman of the Board on July 17, 2003. Also holds the positions of Chief Executive of Standard Chartered Bank (Pakistan) Limited, Chairman of Standard Chartered Leasing Limited and Chairman of Price Solution Pakistan (Private) Limited. He has an extensive and diversified banking experience of 29 years, holding key positions both locally and internationally including that of being the Regional Head of Global Markets, Middle East & South Asia as well as Africa.



**Syed Zaheer Mehdi**  
Managing Director/Chief Executive

Appointed to the Board on May 2, 2008 as Managing Director/ Chief Executive. Prior to his appointment, he was Head of Credit and Marketing of Standard Chartered Modaraba. He is a business graduate from USA having an extensive experience of over 21 years in corporate banking both locally and internationally. Prior to joining the Standard Chartered Group, he has held senior positions with Union Bank Limited, Faysal Bank Limited, National Bank of Oman and Mashreq Bank, Nairobi.



**Cyrus J. Masani**  
Director

Appointed to the Board on May 09, 2005. He is also a director of Standard Chartered Leasing Limited and Price Solution Pakistan (Private) Limited. He holds the position of Chief Financial Officer, Standard Chartered Bank (Pakistan) Limited [SCBPL]. He has over 21 years of post qualification experience and has also held senior positions in a leading audit firm and a multinational company. Prior to joining SCBPL, he was the Chief Financial Officer of Standard Chartered Modaraba and Company Secretary of Standard Chartered Services of Pakistan (Private) Limited.



**Shariq Saleem**  
Director

Appointed to the board on August 21, 2009 as Director. He also holds the position of Chief Information Officer in Standard Chartered Bank (Pakistan) Limited. He joined banking profession in 1983 and has an overall working experience of over 30 years. He has held senior positions in consumer, operations, project and general management in banking sector besides having been Managing Director of Standard Chartered Modaraba. Also has spent seven years in senior positions within Ministry of Industries, Government of Pakistan.



**Imran Ahad**  
Director

Appointed to the Board on April 19, 2006. He is also a director of Standard Chartered Leasing Limited and holds the position of Head of Client Relationships in Standard Chartered Bank (Pakistan) Limited [SCBPL]. He joined banking profession in 1985 and has an extensive experience of 24 years, holding key positions both locally and internationally. Prior to joining SCBPL, he had spent two years in BCCI, Pakistan and six years in Union National Bank, Abu Dhabi, UAE.



**Tufail Jawed Ahmad**  
Director

Appointed to the Board on March 12, 2007. He is also a director of Standard Chartered Leasing Limited and holds the position of Chief Risk Officer in Standard Chartered Bank (Pakistan) Limited. He joined banking profession in 1980, and has an extensive and diversified banking experience of 29 years, holding key positions both locally and internationally. Prior to joining the bank, he had spent two years in National Bank of Fujairah in Dubai, five years with Standard Chartered Bank in Dubai and twenty years with ANZ Group in Pakistan, UK and Bahrain.



## Notice of Annual Review Meeting

Notice is hereby given that the Tenth Annual Review Meeting of certificate-holders of Standard Chartered Modaraba (SCM) will be held on Friday, October 30, 2009 at 03:00 p.m. at the Institute of Bankers, Moulvi Tamizuddin Khan Road, Karachi to review the performance of the Modaraba for the year ended June 30, 2009.

The certificate-holders whose names appear on the Register of certificate-holders of SCM as on October 21, 2009 will be eligible to attend the Annual Review Meeting.

On behalf of the Board



Muhammad Siddique  
Company Secretary

Standard Chartered Services of Pakistan (Pvt.) Ltd.  
Managers of Standard Chartered Modaraba  
Karachi:  
September 25, 2009

Note: CDC account holders will have to follow the undermentioned guidelines as laid down in Circular-1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan:

- In case of individuals the account holder and/or person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate their identity by showing original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting, (CDC account holders are also requested to bring their participant ID no. and account no in CDS).
- In case of corporate entity the board of directors' resolution/ power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

### REQUEST TO CERTIFICATE HOLDERS

Please note that all companies are required to annually submit to Securities & Exchange Commission of Pakistan, Form 'A' and Annual Statement of Collection / Deduction of Withholding Tax from dividend payments under section 150 of Income Tax Ordinance, 2001 to Income Tax Authorities. Above statutory returns now require Computerized NIC and NTN numbers of all the certificate-holders.

We, therefore, request all the certificate-holders to submit their CNIC and NTN numbers through a duly signed letter by the respective certificate-holder.

## Twenty Third Report of the Directors of Modaraba Company

The Board of Directors of Standard Chartered Services of Pakistan (Private) Limited, the Management Company of Standard Chartered Modaraba (SCM), are pleased to present the twenty third Directors' report of SCM, together with audited accounts for the year ended June 30, 2009.

### 1. Financial Results

Financial results are summarized as under:

	Year Ended 30.06.2009	Year Ended 30.06.2008
	(Rupees in thousands)	
Net profit for the year	103,899	97,299
Add: Unappropriated profit brought forward	14,349	9,124
Profit available for appropriation	118,248	106,423
Appropriations :		
Profit distribution @ 16.5% (2008 @16%)	74,883	72,614
Statutory reserve	20,780	19,460
	95,663	92,074
Unappropriated profit carried forward	22,585	14,349
Earnings per certificate	2.29	2.14

### 2. Profit Distribution

The Board in its meeting held on September 25, 2009 has approved the distribution of profit of Rs. 1.65 (16.5%) per certificate of Rs. 10 each, subject to deduction of zakat and tax at source where applicable, for the year ended June 30, 2009.

An amount of Rs.20.78 million has been transferred to statutory reserve in compliance with the Prudential Regulations for Modarabas which require that not less than 20% and not more than 50 % of the Modaraba's after tax profit be transferred to such reserve till such time as the reserve equals 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred.

### 3. Entity Ratings

Your Modaraba continues to maintain entity ratings of AA+ (Double A plus) and A1+ (Single A one plus) for long-term and short-term respectively. These ratings are the highest in the entire modaraba and leasing sectors and have been assigned by Pakistan Credit Rating Agency (Private) Limited. They indicate low expectation of credit risk and very strong capacity for timely payment of financial commitments.

#### 4. Review of Operations

By the Grace of Allah, despite difficult economic situation your Modaraba exhibited strong performance in 2009. During the year, Modaraba has adopted Islamic Financial Accounting Standard-2 (IFAS-2) 'Ijarah' notified by the Securities and Exchange Commission of Pakistan (SECP) vide S.R.O. 431(I)/2007 dated May 5, 2007 to all Ijarah contracts entered on or after 1 July 2008 as advised by SECP vide Letter No. SC/MR/RW/SCM/2009 dated 9 March 2009. Adoption of IFAS-2, has resulted in timing difference of revenue recognition, consequently Modaraba's current year income has reduced by Rs. 23.79 Million as stated in note 2.5 of the financial statement. Despite this adverse impact on revenue recognition your Modaraba's gross income (net of Depreciation in case of Ijarah assets) has increased by 40.18% to Rs. 383 million as against Rs. 273 million last year. Despite high inflation level in the country, operating expenses have reduced by 3.54% to Rs. 41.35 million. Net profit for the year ended June 30, 2009 has increased by 6.18% to Rs. 103.9 million as compared to Rs. 97.3 million in last year. This was mainly due to acquiring of new Ijarah business, efficient financial management, effective cost control and optimum utilization of resources.

Without compromising credit quality, Modaraba's assets have increased by 12% to Rs. 3,437 million as against Rs. 3,076 million last year. Total disbursement has increased to 4.34% to Rs. 1,852 million as compared to Rs. 1,775 million last year.

To manage financial cost efficiently and effectively, Modaraba focused on raisings funds from general public through Certificates of Musharika (CoMs). Thus the balance of CoMs has been increased by more than 3 times to Rs. 811 million as at June 30, 2009 as compared to Rs. 269 million as at close of last year.

#### 5. Economic Outlook & Future Prospects

The fiscal year FY09 (July 2008 to June 2009) ended with the economy showing signs of stability. Pakistan suffered a massive 10.2% terms-of-trade loss (the difference between export prices and import prices) in 2008 on account of the sharp increase in international commodity prices, in particular oil prices. This led to a rapid deterioration in the country's external position, causing 28% depreciation in the Pakistan Rupee (PKR), and fuelled double digit inflation. Real GDP growth slowed sharply to 2% y/y in FY09 from 4.1% in FY08 and 7% in FY07, despite a rebound in agriculture output. The slowdown was led by a sharp dip in manufacturing, with the large-scale manufacturing (LSM) sector contracting by 8.2% y/y (compared to average growth of 7% since FY06). The deterioration in the macroeconomic fundamentals has impacted the financial industry adversely, through rising non performing loan (NPLs) portfolio and tighter liquidity conditions.

The government was forced to seek financial assistance from the IMF, a USD 7.6 billion emergency loan in November 2008, to stabilise the economy. Since then all major economic indicators are pointing towards greater stability ahead. FX reserves have strengthened to USD 14.4 billion (4.5 months of import cover) from USD 6.5 billion in October 2008. Headline inflation in August 2009 printed 10.7% y/y, the lowest level in 18 months. Significant tangible gains have also been made in improving the security environment. These developments have restored confidence in the economy, leading S&P to upgrade Pakistan's sovereign rating. The credit default swap on the 5Y sovereign bond has declined to 650bps by September 2009 compared to 5000bps in October 2008, reflecting greater confidence in the economy. Similarly, foreign investment into the equity market has returned, reversing 18 months of capital flight.

The challenge before the policy makers is to use this greater stability to move the economy to a higher growth trajectory. The growth outlook remains weak, private credit has contracted by -2% during Q3-2009, while government stimulus spending is constrained by declining tax revenues and higher debt servicing costs. Inflation remains persistently high and has accelerated in the past month due to rising food and oil prices. The growth

outlook is closely linked to the series of fiscal reforms agreed under the IMF program, including the removal of subsidies and new tax measures. Successful implementation of these reforms will provide the fiscal space needed by the government to scale up its investment spending, which in turn will support the economy to move to a higher growth trajectory.

In the last few years Islamic Financial Industry has seen significant growth in the local as well as international markets. Consequent to this, new Islamic products have been introduced to fulfill the customers' needs. Your Modaraba is also focusing on introducing new innovative products to meet these growing customers need.

Our emphasis continues to be on further improving service quality standards with focus on achieving improvement in customer experience. Under a difficult economic environment, we continue to explore good business opportunities in order to maximize certificate holders' interest.

## 6. Corporate and Financial Reporting Framework

- 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.
- Accounting policies have been consistently applied in preparation of financial statements Accounting estimates used are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.
- The system of internal control, which is in place, is being continuously reviewed by internal audit and other such procedures. The process of review will continue and any weakness in controls will be removed.
- Board is satisfied with 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.
- 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 which are outstanding as on June 30, 2009 except for those disclosed in the financial statements.
- The value of investments made by staff retirement benefit funds based on their respective accounts as at June 30, 2008 is as follows:

Provident Fund	Rs. 9.3 million
Gratuity Fund	Rs. 4.0 million

- During the year, six (06) meetings of the Board of Directors were held. Attendance by each director is as follows:

Name of Director	No. of Meetings Attended
Badar Kazmi	03
Syed Zaheer Mehdi	06
Arjumand A. Minai (resigned subsequent to year close)	04
Cyrus J. Masani	06
Imran Ahad	01
Tufail J. Ahmad	03
Shariq Saleem (appointed subsequent to year close)	-

Leave of absence was granted to directors who could not attend some of the board meetings.

- The pattern of holding of certificates by the certificate-holders is included in this annual report.

#### 7. The Board of Directors and Audit Committee

The following changes have taken place in board of directors since the Directors' report for the year ended June 30, 2008:

- Mr. Arjumand Ahmed Minai resigned from the office of director and Mr. Shariq Saleem, Chief Operating Officer of Standard Chartered Bank (Pakistan) Limited was appointed in his place.

The Board wishes to place on record its appreciation and gratitude to the outgoing director for the valuable services rendered by him.

#### 8. Our People

The Board places on record its appreciation of the services rendered by the staff members responsible for SCM affairs. Modaraba's record of achievements would not have been possible without the efforts of every employee.

#### 9. Auditors

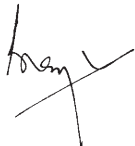
The present auditors, Messrs KPMG Taseer Hadi & Co., Chartered Accountants, retired. As per requirement of clause xli of Code of Corporate Governance, Modarabas have to change their external auditors every five year. As Messrs KPMG Taseer Hadi & Co., Chartered Accountants has been appointed as auditors of the Modaraba since last five years, consequently on the recommendation of Audit Committee, the Board has approved the appointment of the Messrs. A. F. Ferguson & Co., Chartered Accountants, as auditors for the year ending June 30, 2010, subject to approval by the Registrar of Modaraba Companies and Modarabas.

#### 10. Acknowledgment

The Board would like to thank the SECP for its continued guidance and support.

The Board would also like to thank its valued customers and investors for their continued trust and support.

On behalf of the Board



Badar Kazmi, Chairman  
September 25, 2009

## Pattern of holding of certificates by the certificate-holders

as at June 30, 2009

Number of Certificate-holders	Certificate holding		Total Certificates held
	From	To	
1,407	1	50	27,891
660	51	100	47,617
4,020	101	500	1,213,114
1,253	501	1000	952,893
1,575	1001	5000	3,485,500
262	5001	10000	1,884,513
352	10001	above	37,772,002
9,529			45,383,530

Categories of Certificate - holders	Number	Certificates held	%
Individuals	9,390	19,441,742	42.84
Financial Institutions *	13	11,119,488	24.50
Investment Companies	6	500,526	1.10
Insurance Companies	13	5,810,769	12.80
Modarabas/Modaraba Companies **	10	4,683,755	10.32
Joint Stock Companies	64	1,378,530	3.04
Others			
- N. B. P. Trustee - NI(U)T(LOC) Fund	1	1,298,975	2.86
- Trustees of New Jubilee Insurance Company Ltd. Staff Provident Fund	1	212,231	0.47
- Trustees Al-Bader Welfare Trust	1	209,031	0.46
- Trustees of Haji Muhammad Welfare Trust	1	129,150	0.28
- Trustees Thal Jute Mills Ltd. Employees Provident Fund	1	121,880	0.27
- Trustees of Sana Industries Limited Employees Gratuity Fund	1	105,798	0.23
- Habib Bank AG Zurich, London	1	105,420	0.23
- Trustees Mrs. K H Dinshaw & Mr. Hoshang Dinshaw	1	68,072	0.15
- Trustees Aloo & Minocher Dinshaw Charitable Trust	1	36,382	0.08
- Eddie Company (Private) Limited	1	30,439	0.07
- Trustees D.N.E. Dinshaw Charity Trust	1	23,843	0.05
- Managing Comm. of Bismillah Taqee Foundation	1	21,829	0.05
- Zoroastrian Co-operative, Housing Society Limited	1	18,191	0.04
- The Al- Malik Charitable Trust	1	17,395	0.04
- Trustees Mama School Employees Gratuity Fund	1	12,127	0.03
- Managing Com. Karachi Zarhosti Banu Mandal	1	9,702	0.02
- Trustees of Faroukh & Roshein Karani Trust	1	6,063	0.01
- Trustees Adamjee Enterprises Staff Providend Fund	1	5,000	0.01
- Trustees Thal Jute Mills Ltd. Employees Retired Benefit Fund	1	4,851	0.01
- The Al- Malik Charitable Trust	1	4,158	0.01
- Millwala Sons (Private) Limited	1	2,000	0.00
- Trustees Hafiz Foundation	1	1,212	0.00
- Trustees Gul Ahmed Textile Mills Limited Employees Provident Fund	1	1,183	0.00
- Islamic Investment Company of TheGulf (Bahrain)	1	872	0.00
- Habib Bank AG Zurich, Deira Dubai	1	870	0.00
- Managing Committee Ghazali Education Trust	1	577	0.00
- Trustees Pak Services Limited Employees Provident Fund	1	467	0.00
- The Nazir	1	430	0.00
- United Excecutors & Trustees Co.	1	210	0.00
- Punjab Co-op Board for Liquidation	1	171	0.00
- Trustees Crescent Leasing Corp. Limited Employees Provident Fund	1	143	0.00
- Islamabad Stock Exchange (Guarantee) Limited	1	47	0.00
- Valika Properties (Private) Limited	1	1	0.00
	9,529	45,383,530	100.00

\*Includes Standard Chartered Bank (Pakistan) Limited (4,538,353 certificates)

\*\* Includes Standard Chartered Services of Pakistan (Private) Limited ( 4,538,353 certificates)

## Pattern of holding of certificates by the certificate-holders

as at June 30, 2009

### Additional Information

Categories of Certificate-holders	Number	Certificates held	%
<b>Associated Companies</b>			
Standard Chartered Bank (Pakistan) Limited		4,538,353	10.00
Standard Chartered Services of Pakistan (Pvt) Limited		4,538,353	10.00
	2	9,076,706	20.00
<b>NIT</b>			
National Bank of Pakistan, Trustee deptt.	1	5,101,100	11.24
<b>Directors, CEO &amp; their Spouse and Minor Children</b>			
	-	-	-
<b>Executives</b>			
	-	-	-
<b>Public Sector Companies and Corporations</b>			
	3	4,114,665	9.07
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds</b>			
	34	3,771,150	8.31
<b>Certificate-holders holding ten percent or more certificates in the Modaraba (other than those reported above)</b>			
	-	-	-

## Statement of Value Added

	2009		2008	
	Rupees	%	Rupees	%
Revenue from operations (net of depreciation of Ijarah assets)	382,716,285		273,008,486	
(Other charges) /income including impairment loss no longer required written back	11,302,499		7,415,159	
	394,018,784		280,423,645	
Financial and bank charges	117,035,402		19,894,476	
Operating expenses	8,703,981		9,371,662	
	125,739,383		29,266,138	
<b>Value Added</b>	<b>268,279,401</b>	<b>100</b>	<b>251,157,507</b>	<b>100</b>
Distributed as follows:				
<b>To Employees</b>				
As remuneration	31,354,430	12	32,207,589	13
<b>To Investors</b>				
As profit on redeemable capital	120,185,763	45	109,546,333	43
<b>To Modarib</b>				
As management fee	11,544,339	4	10,810,992	4
<b>To Certificate-holders</b>				
As profit on certificates	74,882,825	28	72,613,648	29
<b>Retained in Business</b>				
As depreciation	1,295,816	0	1,293,661	1
As capital reserves and retained earning	29,016,228	11	24,685,284	10
	268,279,401	100	251,157,507	100



## Statement of Compliance With the Code of Corporate Governance


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

Standard Chartered Modaraba (the Modaraba) has applied the principles contained in the Code in the following manner:

1. The Board presently comprises six directors including five non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than 10 companies, including the Modaraba.
3. All the resident 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred during the year in the Board were filled within 30 days thereof.
5. The Modaraba has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the Modaraba.
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 along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. The terms of appointment and remuneration package of the directors other than CEO are not approved by the board as they are nominees of Standard Chartered Bank (Pakistan) Limited.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Directors are conversant with their duties and responsibilities under the relevant laws applicable to the Modaraba, Prospectus and provisions of the Code of Corporate Governance etc.
10. The Board has approved the appointments of Chief Financial Officer and Company Secretary. Future appointment, if any, on these positions including remuneration, terms and conditions, as determined by the CEO, will be referred to the Board for approval.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Modaraba other than that disclosed in the pattern of holding of certificates.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the code.
15. The Board has formed an audit committee. It presently comprises three members who are non-executive directors, including chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function which has been outsourced to a firm of chartered accountants who are involved in the internal audit function.
18. 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 shares of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the person associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. All material information, as described in clause (xxiii) of the Code is disseminated to the stock exchange and Securities and Exchange Commission of Pakistan in a timely fashion.
21. The Modaraba has complied with requirements as stipulated in the newly inserted clause (xiii) (a) relating to related party transactions.
22. We confirm that all other material principles contained in the code have been complied with.

On behalf of the Board



Badar Kazmi  
Chairman  
September 25, 2009

## Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance


We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Standard Chartered Services of Pakistan (Private) Limited in respect of Standard Chartered Modaraba to comply with 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 Modaraba Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Modaraba's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Modaraba Management Company personnel and review of various documents prepared by the Modaraba Management Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We 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 Regulations No. 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vice circular KSE/N-269 dated 19 January 2009 requires the Modaraba to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement 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.

  
KPMG Taseer Hadi & Co.  
Chartered Accountants  
Karachi

September 25, 2009

## Auditors' Report to the Certificate Holders

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

These financial statements are the Modaraba Company's [Standard Chartered Services of Pakistan (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) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of Standard Chartered 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 accounts and are further in accordance with the accounting policies consistently applied except for the change as described in note 3.1 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980),

and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2009 and of the profit, its cash flows and changes in equity for the year then ended; and

- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

*KPMG Taseer Hadi & Co.*

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Syed Iftikhar Anjum

Karachi  
September 25, 2009

# Balance Sheet

as at June 30, 2009

	Note	2009 Rupees	2008 Rupees
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	4	42,741,602	16,420,291
Ijarah rentals receivable	5	18,870,752	-
Advances, deposits, prepayments and other receivables	6	39,881,274	90,817,335
Short-term Murabaha receivable	7	136,053,809	103,792,329
Current portion of diminishing Musharika		544,204	3,481,137
Current portion of investment in Sukuk Certificates	8	13,392,858	3,125,000
Current portion of net investment in Ijarah finance	9	762,896,707	1,027,624,216
Taxation recoverable		8,354,708	8,195,027
<b>Total current assets</b>		<b>1,022,735,914</b>	<b>1,253,455,335</b>
<b>Non Current assets</b>			
Loans and advances to executives		274,419	196,239
Long-term portion of diminishing Musharika		18,574,983	6,566,687
Long-term portion of investment in Sukuk Certificates	8	58,482,142	71,875,000
Long-term portion of net investment in Ijarah finance/ assets under Ijarah arrangements	9	2,333,465,938	1,739,870,608
Fixed assets in own use	10	3,649,699	4,036,330
<b>Total non-current assets</b>		<b>2,414,447,181</b>	<b>1,822,544,864</b>
<b>Total Assets</b>		<b>3,437,183,095</b>	<b>3,076,000,199</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Musharika finance	11	232,514,635	989,441,571
Murabaha finance	12	130,000,000	-
Current maturity of security deposits	13	69,754,049	61,037,694
Creditors, accrued and other liabilities	14	127,235,236	84,294,522
Advance Ijarah rentals received		57,219,026	-
Current portion of redeemable capital	15	1,411,261,852	625,423,587
Deferred Murabaha income		4,840,932	3,751,699
Unclaimed profit distribution		19,970,920	18,678,913
<b>Total current liabilities</b>		<b>2,052,796,650</b>	<b>1,782,627,986</b>
<b>Non Current liabilities</b>			
Long-term portion of security deposits	13	296,348,546	258,789,720
Long-term portion of redeemable capital	15	164,420,000	142,250,000
<b>Total non-current liabilities</b>		<b>460,768,546</b>	<b>401,039,720</b>
<b>Total Liabilities</b>		<b>2,513,565,196</b>	<b>2,183,667,706</b>
<b>Certificate holders' equity</b>			
Certificate capital	16	453,835,300	453,835,300
Reserves	17	372,313,424	351,533,613
Unappropriated profit		97,469,175	86,963,580
<b>Total Equity</b>		<b>923,617,899</b>	<b>892,332,493</b>
<b>Total Liabilities and Equity</b>		<b>3,437,183,095</b>	<b>3,076,000,199</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	18		

The annexed notes 1 to 28 form an integral part of these financial statements.



Chairman  
Standard Chartered Services  
of Pakistan (Private) Limited



Chief Executive  
Standard Chartered Services  
of Pakistan (Private) Limited



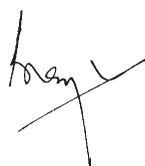
Director  
Standard Chartered Services  
of Pakistan (Private) Limited

## Profit and Loss Account

for the year ended June 30, 2009

	Note	2009 Rupees	2008 Rupees
Ijarah finance income		304,564,027	269,094,305
Ijarah rentals earned		180,865,168	-
Profit on Sukuk Certificates		3,465,015	2,447,946
Income on Murabaha transactions		22,938,464	40,630
Income on deposits with bank		1,491,825	1,425,605
		<u>513,324,499</u>	<u>273,008,486</u>
Financial charges	19	(237,221,165)	(129,440,809)
Depreciation on assets under Ijarah arrangements	9.2	(130,608,214)	-
		<u>145,495,120</u>	<u>143,567,677</u>
Provision for doubtful debts	9.5	(2,571,488)	(957,182)
		<u>142,923,632</u>	<u>142,610,495</u>
Other income	20	13,873,987	8,372,341
Operating expenses	21	(41,354,227)	(42,872,912)
		<u>115,443,392</u>	<u>108,109,924</u>
Modaraba company's management fee	22	(11,544,339)	(10,810,992)
Profit for the year		<u>103,899,053</u>	<u>97,298,932</u>
Earnings per certificate	23	<u>2.29</u>	<u>2.14</u>

The annexed notes 1 to 28 form an integral part of these financial statements.



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of Pakistan (Private) Limited



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Director  
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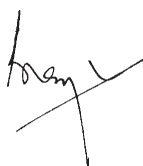
# Cash Flow Statement

for the year ended June 30, 2009

	Note	2009 Rupees	2008 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit for the year		103,899,053	97,298,932
<b>Adjustment for:</b>			
Depreciation on fixed assets in own use		1,295,816	1,293,661
Depreciation on fixed assets under Ijarah arrangements		130,608,214	-
Loss on disposal of fixed assets in own use		-	96,262
Profit on disposal of assets under Ijarah arrangements		(345,394)	-
Impairment loss recognized		2,571,488	957,182
Profit on Sukuk certificates		(3,465,015)	(2,447,946)
Income on deposits with bank		(1,491,825)	(1,425,605)
Profit on			
- Redeemable capital		120,185,763	109,546,333
- Murabaha finance		48,153	2,148,274
- Musharika finances		114,070,356	17,679,299
		<u>363,477,556</u>	<u>127,847,460</u>
		467,376,609	225,146,392
(Increase) / decrease in operating assets			
Advances, deposits, prepayments and other receivables (excluding profit receivable on Sukuk certificates)		50,876,555	(89,016,847)
Ijarah rentals receivable		(18,870,752)	-
Murabaha finance		(32,261,480)	(103,773,184)
Diminishing musharika		(9,071,363)	3,204,511
Investment in Sukuk certificates		3,125,000	(75,000,000)
Investment in Ijarah finance -net		1,035,427,592	(249,096,752)
Purchase of assets under Ijarah arrangements		(1,506,396,674)	-
Proceeds from disposal of assets under Ijarah arrangements		9,266,953	-
Loans and advances to executives		(78,180)	(116,721)
		<u>(467,982,349)</u>	<u>(513,798,993)</u>
Increase / (decrease) in operating liabilities			
Creditors, accrued and other liabilities (excluding profit payable on redeemable capital, Murabaha finance and Musharika finances)		23,398,491	(6,784,112)
Advance Ijarah rentals received		57,219,026	-
Deferred Murabaha income		1,089,233	3,751,699
Security deposits		46,275,181	95,095,355
		<u>127,981,931</u>	<u>92,062,942</u>
		127,376,191	(196,589,659)
Profit received / (paid) on			
- Sukuk certificates		3,524,521	1,489,658
- Redeemable capital		(104,475,990)	(84,558,837)
- Murabaha finances		-	(5,464,548)
- Musharika finances		(110,286,059)	(11,090,343)
Tax paid		(159,681)	(68,954)
		<u>(211,397,209)</u>	<u>(99,693,024)</u>
Net cash flows from operating activities		(84,021,018)	(296,282,683)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(909,185)	(1,285,280)
Proceeds from disposal of fixed assets		-	200,000
Income on deposits with bank		1,491,825	1,425,605
Net cash flows from investing activities		582,640	340,325
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Redeemable capital less repayments		808,008,265	(310,204,370)
Murabaha finances less repayments		130,000,000	(100,000,000)
Profit paid to certificate holders		(71,321,640)	(63,586,715)
Net cash flows from financing activities		<u>866,686,625</u>	<u>(473,791,085)</u>
Increase in cash and cash equivalents		783,248,247	(769,733,443)
Cash and cash equivalents at beginning of the year		<u>(973,021,280)</u>	<u>(203,287,837)</u>
Cash and cash equivalents at end of the year		<u>(189,773,033)</u>	<u>(973,021,280)</u>

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The annexed notes 1 to 28 form an integral part of these financial statements.



Chairman  
Standard Chartered Services  
of Pakistan (Private) Limited



Chief Executive  
Standard Chartered Services  
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Director  
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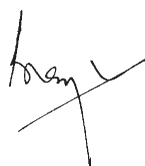


## Statement of Changes in Equity

for the year ended June 30, 2009

	Certificate capital	Premium on modaraba certificates	Statutory reserve	Unappropriated profit	Total
	Rupees				
Balance as at 30 June 2007	432,224,100	76,995,900	276,689,127	73,958,049	859,867,176
Issue of bonus certificates @ 10%	21,611,200	(21,611,200)	-	-	-
Profit distribution for 2007 @ Rs. 1.5 per certificate	-	-	-	(64,833,615)	(64,833,615)
Profit for the year ended 30 June 2008	-	-	-	97,298,932	97,298,932
Transfer to statutory reserve	-	-	19,459,786	(19,459,786)	-
Balance as at 30 June 2008	453,835,300	55,384,700	296,148,913	86,963,580	892,332,493
Profit distribution for 2008 @ Rs. 1.6 per certificate	-	-	-	(72,613,647)	(72,613,647)
Profit for the year ended 30 June 2009	-	-	-	103,899,053	103,899,053
Transfer to statutory reserve	-	-	20,779,811	(20,779,811)	-
Balance as at 30 June 2009	<u>453,835,300</u>	<u>55,384,700</u>	<u>316,928,724</u>	<u>97,469,175</u>	<u>923,617,899</u>

The annexed notes 1 to 28 form an integral part of these financial statements.



Chairman  
Standard Chartered Services  
of Pakistan (Private) Limited



Chief Executive  
Standard Chartered Services  
of Pakistan (Private) Limited



Director  
Standard Chartered Services  
of Pakistan (Private) Limited

# Notes to the Accounts

for the year ended June 30, 2009

## 1. STATUS AND NATURE OF BUSINESS

Standard Chartered Modaraba (the Modaraba) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed there under and is managed by Standard Chartered Services of Pakistan (Private) Limited. The Management Company is a wholly owned subsidiary of Standard Chartered Bank (Pakistan) Limited. The address of its registered office is Standard Chartered Bank Building, I.I. Chundrigar Road, Karachi, Pakistan.

The Modaraba is a perpetual modaraba and is primarily engaged in leasing of plant, machinery, motor vehicles (both commercial and private), computer equipment etc. The Modaraba may also invest in commercial and industrial ventures suitable for the Modaraba. 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 and Islamic Financial Accounting Standards issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Ordinance, 1984, provisions of and directives issued under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Modaraba Companies and Modaraba Rules, 1981 and Companies Ordinance, 1984. In case requirements differ, the provisions of or directives issued under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Companies Ordinance, 1984 shall prevail.

The Securities and Exchange Commission of Pakistan notified the Islamic Financial Accounting Standard No. 1 Murabaha issued by the Institute of Chartered Accountants of Pakistan, effective for financial periods beginning on or after 1 January 2006. This standard has not been adopted by the Modaraba pending resolution of certain issues, e.g., invoicing of goods, recording of inventories etc. During the year following the change in Shariah guidelines for Murabaha transactions by State Bank of Pakistan, the Modaraba obtained certain clarifications from Shariah Advisor of Modaraba Association of Pakistan. Having received the necessary clarifications the Modaraba plans to adopt the standard from 1 July 2009.

### 2.2 Basis of Measurement

These financial statements have been prepared under the historical cost convention.

### 2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the functional and presentation currency of the Modaraba and rounded off to the nearest rupee.

### 2.4 Use of estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses.

# Notes to the Accounts

for the year ended June 30, 2009

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying 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 the revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgments were made by the management in the application of accounting policies are discussed in the following notes:

- i) Provision for potential doubtful debts (note 9.5 )
- ii) Estimation of useful lives and residual values of fixed assets (note 9.2 & 10 )
- iii) Workers' Welfare Fund (note 18.2)

## 2.5 Initial application of a standard or an interpretation

The following standards/interpretations became applicable for the first time during the year:

- Islamic Financial Accounting Standard-2 'Ijarah'- The modaraba applied this standard to all Ijarah contracts entered on or after 1 July 2008 as allowed by Securities and Exchange Commission of Pakistan vide Letter No. SC/MR/RW/SCM/2009 dated 9 March 2009. The standard requires all Ijarah rentals to be recognised in income on accrual basis as and when the rentals become due and assets under Ijarah arrangements to be depreciated over the period of the lease in accordance with IAS 16 'Property, Plant and Equipment'. If the Modaraba had continued to account for Ijarah contracts commencing on or after 1 July 2008 as finance leases, the effect on the financial statements would have been as follows:

	Rupees
Increase in profit for the year	23,790,456
Increase in Investment in Ijarah Finance	23,790,456

- IFRS 7 – Financial Instruments: Disclosures (effective for annual periods beginning on or after 28 April 2008) supersedes IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements of IAS 32 – Financial Instruments: Disclosure and Presentation. The application of the standard did not have significant impact on the Modaraba's financial statements other than increase in disclosures.
- The other Standard/Interpretations that became effective during the period but did not affect the Modaraba's financial statements are as follows:
  - IAS 29 – Financial Reporting in Hyperinflationary Economies.
  - IFRIC 13 – Customer Loyalty Programmes.
  - IFRIC 14 – IAS 19- The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction.

# Notes to the Accounts

for the year ended June 30, 2009

## 2.6 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after 1 July 2009:

- Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.
- Revised IAS 23 - Borrowing costs (effective for annual periods beginning on or after 1 January 2009) removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on the Modaraba's financial statements.
- Amendments to IAS 32 - Financial instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and 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, to be classified as equity if certain conditions are met. The amendments, which require retrospective application, are not expected to have any impact on the Modaraba's financial statements.
- Amendment to IFRS 2 - Share-based Payment – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard is not likely to have any effect on the Modaraba's financial statements.
- Revised IFRS 3 - Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognized in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. The application of this standard will not effect the Modaraba's financial statements.
- Amended IAS 27 - Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of this standard is not likely to have an effect on the Modaraba's financial statements.

## Notes to the Accounts

for the year ended June 30, 2009

- IFRS 8 - Operating Segments (effective for annual periods beginning on or after 1 January 2009) introduces the “management approach” to segment reporting. IFRS 8 will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Modaraba’s “chief operating decision maker” in order to assess each segment’s performance and to allocate resources to them. Since the Modaraba’s operations are limited to one segment only, the application of this standard will not have any effect on the Modaraba’s financial statements.
- IFRIC 15- Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, ‘off-plan’, that is, before construction is complete. The IFRIC is not relevant to the Modaraba’s operations.
- IFRIC 16 - Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity’s functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss. The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. The amendment is not relevant to the Modaraba’s operations.
- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Modaraba’s 2010 financial statements. These amendments are unlikely to have an impact on the Modaraba’s financial statements.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged Items (effective for annual periods beginning on or after 1 July 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment is not likely to have an effect on the Modaraba’s financial statements.
- IAS 27 ‘Consolidated and separate financial statements’ (effective for annual periods beginning on or after 1 January 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not likely to have an effect on Modaraba’s financial statements.
- IFRIC – 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when a Modaraba distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement. As the Modaraba does not distribute non-cash assets to its certificate holders, this interpretation has no impact on the Modaraba’s financial statements.

## Notes to the Accounts

for the year ended June 30, 2009

- IFRIC 18 Transfers of Assets from Customers (to be applied prospectively to transfers of assets from customers received on or after 1 July 2009). This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). The interpretation is not relevant to the Modaraba's operations.
- IFRS 4 - Insurance Contracts (effective for annual periods beginning on or after 1 January 2009). The IFRS makes limited improvements to accounting for insurance contracts until the Board completes the second phase of its project on insurance contracts. The standard also requires that an entity issuing insurance contracts (an insurer) to disclose information about those contracts. The standard is not applicable to the Modaraba's operations.
- Amendment to IFRS 7 - Improving disclosures about Financial Instruments (effective for annual periods beginning on or after 1 January 2009). These amendments have been made to bring the disclosure requirements of IFRS 7 more closely in line with US standards. The amendments introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. The amendment is not likely to have an effect on Modaraba's financial statements.
- Amendments to IAS 39 and IFRIC 9 - Embedded derivatives (effective for annual periods beginning on or after 1 January 2009). Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value. The amendments are not likely to have an effect on Modaraba's financial statements.
- The International Accounting Standards Board made certain amendments to existing standards as part of its Second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Modaraba's 2011 financial statements. These amendments are unlikely to have an impact on the Modaraba's financial statements.
- Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). Currently effective IFRSs requires attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Net Investment in Ijarah Finance/ Assets under Ijarah arrangements

Ijarah agreements commencing upto 30 June 2008 are accounted for as finance lease and are included in the financial statements as "Net investment in Ijarah finance" at an amount equal to the present value of the lease payments, including estimated residual value.

## Notes to the Accounts

for the year ended June 30, 2009

During the year the Modaraba adopted Islamic Financial Accounting Standard 2-'Ijarah' for all Ijarah commencing on or after 1 July 2008. The assets subject to Ijarah commencing on or after 1 July 2008 are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged on these assets using straight line method over the period of the lease. Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the corresponding assets.

Allowance for non-performing leases is made in accordance with Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan (SECP) and is charged to the profit and loss account currently.

### 3.2 Receivable from terminated / matured contracts

These are stated net of impairment loss. Impairment loss is recognised for doubtful receivables on the basis of Prudential Regulations for Modarabas issued by the SECP or based on the judgement of management, whichever is higher. Bad debts are written off when the chances of recovery are remote.

### 3.3 Assets in own use

#### *Tangible*

Operating assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. Maintenance and repairs are charged to profit and loss account during the financial period, in which they are incurred. Renewals and improvements are capitalized and asset so replaced, if any, are retired.

Depreciation is charged to profit and loss account applying the straight-line method using the rates mentioned in note 12, over the estimated useful lives of the assets. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on all fixed assets is charged from the month in which the asset is put to use till the month of its disposal.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the relevant assets. These are included in the profit and loss account.

#### *Intangible assets - computer software*

Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. The cost is amortised over their estimated useful lives.

### 3.4 Investments

Securities with fixed or determinable payments and fixed maturity are classified as held to maturity when Modaraba has the positive intention and ability to hold them to maturity. These are initially recognized at cost and subsequently are carried at amortized cost less impairment in value, if any.

# Notes to the Accounts

for the year ended June 30, 2009

## 3.5 Murabaha transaction

Murabaha transactions are reflected as receivable. Actual sale and purchase are not reflected as the goods are purchased by the customer as agent of the Modaraba and all documents relating to purchase are in customer name as agent of the Modaraba. Recognition of profit on that portion of the sales revenue not due for payment is deferred by recording a debit to "Unearned Murabaha Income" account and a corresponding credit to "Deferred Murabaha Income" account.

## 3.6 Taxation

### *Current*

Provision for current taxation is made on taxable income at the prevailing rates of tax after taking into account tax credits available, if any. The income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate-holders. The Modaraba has decided to continue availing the tax exemption and hence no provision has been made in these financial statements for tax liability for the current year.

### *Deferred*

The Modaraba accounts for deferred taxation on all material temporary differences using the liability method. However, deferred tax liability as at 30 June 2009 amounting to Rs. 86.1 million (2008: deferred tax assets of Rs. 32.59 million) has not been recognised in these financial statements as the management believes that the temporary differences will not reverse in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption.

## 3.7 Provisions

Provisions are recognised when the Modaraba has a 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 are adjusted to reflect the current best estimate.

## 3.8 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 and cheques in hand and balances with banks on current and deposit accounts and financing under Musharika arrangement payable on demand.

## 3.9 Revenue recognition

### *Ijarah income*

The Modaraba follows the finance method for recognising income on Ijarah contracts commencing prior to 30 June 2008 and accounted for as finance leases. Under this method the unearned income i.e the excess of aggregate Ijarah rentals (including residual value) over the cost of the asset under Ijarah facility is deferred and then amortised over the term of the Ijarah, so as to produce a constant rate of return on net investment in the Ijarah.



## Notes to the Accounts

for the year ended June 30, 2009

For Ijarah arrangements commencing on or after 1 July 2008, Ijarah rentals are recognized as income on accrual basis, as and when rentals become due. In case of Ijarah arrangements with staggered rentals, the income is recognised on a straight line basis over the Ijarah term.

Documentation charges, front-end fee and other Ijarah income are recognised as income on receipt basis. Unrealized lease income pertaining to non-performing leases is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations.

### *Musharika finance*

Profit on Musharika arrangements is recognised under the effective mark-up rate method based on the amount outstanding.

### *Murabaha transactions*

The profit on Murabaha transactions is recognised over the period the payments become due. The unearned portion is reflected as 'Deferred Murabaha Income'.

### *Interest on deposits / investments*

Mark-up / return on deposits / investments is recognised on an accrual basis using the effective interest rate method.

## 3.10 Retirement benefits

The Modaraba operates:

- i) a recognised provident fund for all eligible employees; and
- ii) an approved funded defined contribution gratuity scheme for all permanent employees. Gratuity is payable to employees on completion of the prescribed qualifying period of service under the scheme.

Contributions to the provident fund and gratuity fund are made at the rate of 10% and 8.33% respectively, of the basic salary of employees.

Obligation for contribution to defined contribution plans are recognized as an employee benefit expense in profit and loss account when they are due.

## 3.11 Profit distribution to certificate holders

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

## 3.12 Off setting financial instruments

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

## Notes to the Accounts

for the year ended June 30, 2009

4. CASH AND BANK BALANCES	Note	2009 Rupees	2008 Rupees
With banks in current accounts		7,755	1,155
With bank in deposit account	4.1	42,718,151	16,404,007
Cash in hand		15,696	15,129
		<u>42,741,602</u>	<u>16,420,291</u>
<p>4.1 This balance has been kept to comply with the requirement of maintaining the prescribed liquidity against the Certificates of Musharika issued by the Modaraba in line with the provisions of the scheme.</p>			
5. IJARAH RENTALS RECEIVABLE			
Ijarah rentals receivable - considered good		<u>18,870,752</u>	<u>-</u>
6. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Loan and advances to executives		287,785	182,014
Advances to suppliers and others		51,000	108,000
Deposits		51,800	51,800
Prepayments		334,232	487,490
Accrued profit on Sukuk certificates	6.1	898,782	958,288
Advance against Ijarah finance		-	88,240,380
Advance against assets under Ijarah arrangements		38,128,300	-
Accrued profit on advance against Ijarah finance		-	709,835
Receivable from staff retirement benefit fund		-	72,974
Others		129,375	6,554
		<u>39,881,274</u>	<u>90,817,335</u>
6.1 Accrued profit on Sukuk certificates		9,348,167	958,288
Less: Profit held in suspense		8,449,385	-
		<u>898,782</u>	<u>958,288</u>
7. SHORT-TERM MURABAHA RECEIVABLE			
Murabaha receivable - gross		<u>136,053,809</u>	<u>103,792,329</u>
<p>This represents receivable under Murabaha arrangement on deferred payment basis at specified profit margin of 15.98% (2008: 15.38%) per annum. This is secured against charge over current assets, personal guarantees and demand promissory notes.</p>			
8. INVESTMENT IN SUKUK CERTIFICATES - Held to maturity			
Investment in Sukuk Certificates		71,875,000	75,000,000
Less : Current portion of investment in Sukuk Certificates		13,392,858	3,125,000
		<u>58,482,142</u>	<u>71,875,000</u>

# Notes to the Accounts

for the year ended June 30, 2009

Name of Company	Rating	Rate	Term	Repayment pattern	Amount Rupees
Security Leasing Corporation Limited 5,000 certificates of Rs 5,000 each (2008: 5,000)	A-	14.42%	5 years	8 equal semi-annual installments commencing from the 18th month from the date of disbursement	21,875,000

Security: First charge over specific leased assets and associated lease receivables with 25% security margin.

Name of Company	Rating	Rate	Term	Repayment pattern	Amount Rupees
Shahraj Fabrics (Private) Limited 10,000 certificates of Rs 5,000 each (2008: 10,000)	Not Rated	15.68%	5 years	14 Equal quarterly installment beginning from 21st month from the date of disbursement	50,000,000

Security: First pari passu charge over all present and future plant and machinery of the Company, equivalent to the Facility amount with a 25% margin.

## 9. IJARAH FINANCE

	Note	2009 Rupees	2008 Rupees
Ijarah contracts commencing upto 30 June 2008- accounted for as finance leases	9.1	1,729,495,744	2,767,494,824
Ijarah contracts commencing 1 July 2008- accounted for under IFAS 2	9.2	1,366,866,901	-
		<u>3,096,362,645</u>	<u>2,767,494,824</u>
Less: Current portion of net investmeni in Ijarah finance	9.1	762,896,707	1,027,624,216
		<u>2,333,465,938</u>	<u>1,739,870,608</u>

### 9.1 Net Investment in Ijarah Finance

	2009			2008		
	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
Instalment contract receivables	864,727,156	828,599,478	1,693,326,634	1,163,608,788	1,705,408,039	2,869,016,827
Add: Residual value	102,020,961	258,594,952	360,615,913	94,545,288	354,812,728	449,358,016
	<u>966,748,117</u>	<u>1,087,194,430</u>	<u>2,053,942,547</u>	<u>1,258,154,076</u>	<u>2,060,220,767</u>	<u>3,318,374,843</u>
Less: Unearned finance income	196,117,285	120,595,393	316,712,678	228,403,733	320,350,159	548,753,892
Allowance for potential Ijarah losses 9.5	4,694,039	-	4,694,039	2,122,551	-	2,122,551
Mark-up held in Suspense 9.6	3,040,086	-	3,040,086	3,576	-	3,576
	<u>762,896,707</u>	<u>966,599,037</u>	<u>1,729,495,744</u>	<u>1,027,624,216</u>	<u>1,739,870,608</u>	<u>2,767,494,824</u>



# Notes to the Accounts

for the year ended June 30, 2009

## 9.7 Contractual rentals receivable- Ijarah contracts commencing 1 July 2008:

	2009				2008			
	Not later than one year	Later than one and less than five years	Later than five years	Total	Not later than one year	Later than one and less than five years	Later than five years	Total
	Rupees							
Rentals receivable	453,600,176	1,280,727,944	62,904	1,734,391,024	-	-	-	-
Residual value	-	147,837,492	-	147,837,492	-	-	-	-
Total future Ijarah payments receivable	453,600,176	1,428,565,436	62,904	1,882,228,516	-	-	-	-

## 10. FIXED ASSETS IN OWN USE

The following is a statement of assets in own use:

	2009							
	COST			ACCUMULATED DEPRECIATION				
	As at 1 July 2008	Additions/ (deletions)	As at 30 June 2009	As at 1 July 2008	Charge for the year/ (accumulated depreciation on deletions)	As at 30 June 2009	Net book value as at 30 June 2009	Depreciation rate % per annum
	Rupees							
<b>Tangible</b>								
Furniture and fittings	1,702,524	-	1,702,524	622,795	170,256	793,051	909,473	10
Office equipment, appliances and computer systems	9,974,344	909,185	10,883,529	7,794,190	1,002,500	8,796,690	2,086,839	10 and 33.33
Motor vehicles	879,000	-	879,000	102,553	123,060	225,613	653,387	20
	12,555,868	909,185	13,465,053	8,519,538	1,295,816	9,815,354	3,649,699	
<b>Intangible</b>								
Computer software	2,257,697	-	2,257,697	2,257,697	-	2,257,697	-	33.33
	14,813,565	909,185	15,722,750	10,777,235	1,295,816	12,073,051	3,649,699	

# Notes to the Accounts

for the year ended June 30, 2009

	2008							
	COST			ACCUMULATED DEPRECIATION			Net book value as at 30 June 2008	Depreciation rate % per annum
	As at 1 July 2007	Additions/ (deletions)	As at 30 June 2008	As at 1 July 2007	Charge for the year/ (accumulated depreciation on deletions)	As at 30 June 2008		
	Rupees							
<b>Tangible</b>								
Furniture and fittings	1,702,524	-	1,702,524	452,539	170,256	622,795	1,079,729	10
Office equipment, appliances and computer systems	9,568,064	406,280	9,974,344	6,803,611	990,579	7,794,190	2,180,154	10 and 33.33
Motor vehicles	432,500	879,000	879,000	105,965	132,826	102,553	776,447	20
		(432,500)			(136,238)			
	11,703,088	1,285,280	12,555,868	7,362,115	1,293,661	8,519,538	4,036,330	
		(432,500)			(136,238)			
<b>Intangible</b>								
Computer software	2,257,697	-	2,257,697	2,257,697	-	2,257,697	-	33.33
	13,960,785	1,285,280	14,813,565	9,619,812	1,293,661	10,777,235	4,036,330	
		(432,500)			(136,238)			

## 11. MUSHARIKA FINANCE

Musharika with :

- an associated undertaking - secured

2009  
Rupees

2008  
Rupees

232,514,635

989,441,571

The total facility for musharika finance available from Standard Chartered Bank (Pakistan) Limited amounts to Rs. 1,200 million (2008: Rs. 1,200 million). The estimated share of profit payable on this facility ranges from Rs. 0.3918 to Rs. 0.4849 (2008: Rs.0.2885 to Rs. 0.3803) per rupee one thousand per day. The facility is secured against hypothecation over the moveable leased out assets of the Modaraba.

## 12. MURABAHA FINANCE

Murabaha with other bank - secured

Murabaha payable - gross

Less: Deferred murabaha expense

Murabaha profit payable shown in other liabilities

138,667,616

(8,619,463)

(48,153)

130,000,000

-

-

-

-

The total facility for murabaha finance available from Bank Islami Limited amounts to Rs. 500 million (2008: nil). The rate of profit margin on this facility is Rs. 0.3704 per rupee one thousand per day. The facility is secured against hypothecation over the moveable leased out assets of the Modaraba.

## Notes to the Accounts

for the year ended June 30, 2009

### 13. SECURITY DEPOSITS

	Note	2009 Rupees	2008 Rupees
Security deposits on Ijarah finance/ assets under Ijarah arrangements		366,102,595	319,827,414
Less: Repayable / adjustable within one year		<u>69,754,049</u>	<u>61,037,694</u>
		<u>296,348,546</u>	<u>258,789,720</u>

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

### 14. CREDITORS, ACCRUED AND OTHER LIABILITIES

Management fee		11,544,339	10,810,992
Profit payable on:			
- Redeemable capital		61,382,735	45,672,962
- Musharika finances		11,484,576	7,700,279
- Murabaha finances		48,153	-
Accrued expenses		13,265,956	11,655,221
Amounts refundable to lessees	14.2	29,111,390	8,339,309
Others		<u>398,087</u>	<u>115,759</u>
		<u>127,235,236</u>	<u>84,294,522</u>

14.1 Amounts due to associated undertakings at 30 June 2009 aggregated Rs. 23,951,654 (2008: Rs. 18,511,271).

14.2 This includes Rs. 13,336,125 on account of termination charges received from musta'jir (lessees) and the termination process was completed subsequent to the balance sheet date.

### 15. REDEEMABLE CAPITAL - PARTICIPATORY AND UNSECURED

	Note	Repayable by	2009	2008
Musharika deposits	15.1	June 2010	764,521,852	498,483,587
Certificates of Musharika	15.2	June 2014	<u>811,160,000</u>	<u>269,190,000</u>
			<u>1,575,681,852</u>	<u>767,673,587</u>
Less: Current portion of redeemable capital			<u>1,411,261,852</u>	<u>625,423,587</u>
			<u>164,420,000</u>	<u>142,250,000</u>

15.1 The estimated share of profit payable on Musharika facilities ranges from Rs. 0.2945 to Rs. 0.4305 (2008: Rs. 0.1644 to Rs. 0.3288) per thousand per day.

15.2 The estimated share of profit payable on Certificates of Musharika ranges from Rs. 0.2795 to Rs. 0.4247 (2008: Rs. 0.1507 to Rs. 0.3014) per thousand per day.

# Notes to the Accounts

for the year ended June 30, 2009

## 16. CERTIFICATE CAPITAL

### Authorised certificate capital

2009	2008		2009 Rupees	2008 Rupees
Number of certificates				
<u>50,000,000</u>	<u>50,000,000</u>	Modaraba Certificates of Rs. 10 each	<u>500,000,000</u>	<u>500,000,000</u>
Issued, subscribed and paid-up capital				
28,500,000	28,500,000	Modaraba Certificates of Rs. 10 each fully paid in cash	285,000,000	285,000,000
16,883,530	16,883,530	Modaraba Certificates of Rs. 10 each issued as fully paid bonus certificates	<u>168,835,300</u>	<u>168,835,300</u>
<u>45,383,530</u>	<u>45,383,530</u>		<u>453,835,300</u>	<u>453,835,300</u>

As at 30 June 2009, the Standard Chartered Services of Pakistan (Private) Limited (the Management Company) and Standard Chartered Bank (Pakistan) Limited held 4,538,353 (2008: 4,538,353) and 4,538,353 (2008: 4,538,353) certificates of Rs. 10 each respectively.

## 17. RESERVES

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

After the balance sheet date the following dividends were approved by the directors of the management company. The dividends have not been provided for:

Cash dividend @ Rs. 1.65 per certificate (2008: @ Rs. 1.6 per certificate)	<u>74,882,825</u>	<u>72,613,648</u>
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## 18. CONTINGENCIES AND COMMITMENTS

18.1 During the year 2000-2001, the Sales Tax Department had issued a show cause notice to the Modaraba in which it was alleged that during July 1997 to June 2000, the Modaraba had received a total amount of Rs. 364,882,919 on which sales tax was due. However, no specific amount in respect of the alleged sales tax liability was mentioned in the show cause notice. By an order dated 29 January 2002, the Collector, Collectorate of Customs, Sales Tax and Central Excise decided the case against the Modaraba to the extent that the liabilities towards sales tax should be determined on the basis of amount received after 16 June 1998. The department has not determined the liability under this order and no demand notice has been issued so far. An appeal against this order was filed before the Appellate Tribunal (AT) and after hearing the case AT was pleased to allow the appeal and set aside the order passed against the Modaraba. In view of the decision of the Tribunal in favor of the Modaraba, no provision has, therefore, been made in these financial statements.



## Notes to the Accounts

for the year ended June 30, 2009

18.2 The Finance Act 2008 made certain changes to Workers' Welfare Fund Ordinance, 1971. Through these amendments Workers' Welfare Fund (WWF) is payable @ 2% on the higher of the profit before taxation as per the financial statements or return of income. The management considers that since its income is exempt from tax as explained in note 3.6, it is not liable to pay WWF. Accordingly no provision has been made in these financial statements for WWF amounting to Rs. 2.08 million.

	Note	2009 Rupees	2008 Rupees
<b>19. FINANCIAL CHARGES</b>			
Profit on redeemable capital		120,185,763	109,546,333
Profit on Musharika finance		114,070,356	17,679,299
Profit on Murabaha finances		48,153	2,148,274
Bank charges		2,916,893	66,903
		<u>237,221,165</u>	<u>129,440,809</u>
<b>20. OTHER INCOME</b>			
Profit on disposal of Ijarah assets		345,394	-
Gain on early termination of Ijarah		5,642,872	4,890,445
Income on advance against Ijarah finance		-	709,835
Reversal of excess provision booked in prior years		1,380,888	-
Others		6,504,833	2,772,061
		<u>13,873,987</u>	<u>8,372,341</u>
<b>21. OPERATING EXPENSES</b>			
Salaries and other staff benefits	21.2	25,568,751	22,413,241
Depreciation	10	1,295,816	1,293,661
Advertising, traveling and entertainment		792,968	1,227,984
Postage		677,317	847,130
Telecommunication		613,556	397,219
Printing and stationery		1,566,657	1,722,736
Legal and professional		1,982,995	1,936,384
Repairs and maintenance		1,044,459	697,571
Charges by associated undertakings	21.3	5,785,679	9,794,348
Subscriptions		472,225	499,428
Auditors' remuneration	21.4	530,000	486,000
Loss on disposal of assets in own use		-	96,262
COM trustee fee		125,413	75,732
Insurance - own assets		49,714	71,825
Sundries		848,677	1,313,391
		<u>41,354,227</u>	<u>42,872,912</u>

## Notes to the Accounts

for the year ended June 30, 2009

21.1 Office space, utilities and related expenditure are borne by Standard Chartered Services of Pakistan (Private) Limited.

21.2 Salaries and other benefits include Rs. 1,144,991 and Rs. 569,754 (2008: Rs. 943,500 and Rs. 773,167) on account of Modaraba's contribution to the staff provident fund and gratuity fund respectively.

21.3 Charges by associated undertaking represent reimbursement of actual salary cost and benefits of staff deployed on Modaraba affairs.

### 21.4 Auditors' remuneration

	2009 Rupees	2008 Rupees
Audit fee	360,000	330,000
Review of six months period financial statements	72,000	66,000
Review reports on statement of compliance with code of corporate governance	49,000	45,000
Certification of remittance of profit to non-resident certificate holders	27,000	25,000
Out of pocket expenses	22,000	20,000
	<u>530,000</u>	<u>486,000</u>

## 22. MODARABA COMPANY'S MANAGEMENT FEE

In accordance with Modaraba Companies and Modaraba Rules, 1981 management fee @ 10% of annual profits is payable to management company.

## 23. EARNINGS PER CERTIFICATE

Profit for the year		<u>103,899,053</u>	<u>97,298,932</u>
Average number of certificates	(Number)	<u>45,383,530</u>	<u>45,383,530</u>
Earnings per certificate	(Rupees)	<u>2.29</u>	<u>2.14</u>

## 24. REMUNERATION OF OFFICERS

Remuneration and staff retirement benefits		24,947,443	21,842,269
Medical expenses reimbursed		196,709	210,381
Other benefits		424,599	360,591
		<u>25,568,751</u>	<u>22,413,241</u>
Number of persons at end of the year	(Number)	<u>22</u>	<u>22</u>

# Notes to the Accounts

for the year ended June 30, 2009

## 25. FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

### 25.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Modaraba by failing to discharge an obligation. The risk is generally limited to principal amounts and accrued profit thereon, if any. The Modaraba's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the Prudential Regulations. The carrying amount of the following financial assets represents the maximum credit exposure at the reporting date:

	Note	30 June 2009 Rupees	30 June 2008 Rupees
Bank balances		42,725,906	16,405,162
Investment in Sukuk Certificates		71,875,000	75,000,000
Accrued mark-up / return		898,782	1,668,123
Other receivable		38,179,300	89,131,189
Loans and advances to Executives		562,204	378,253
Diminshing Musharika		19,119,187	10,047,824
Short term Murabaha receivable		131,212,877	100,040,630
Net investment in Ijarah finance/ assets under Ijarah arrangements	25.1.1	2,730,260,050	2,447,667,410
Taxation recoverable		8,354,708	8,195,027
		<u>3,043,188,014</u>	<u>2,748,533,618</u>
25.1.1 Investment in Ijarah Finance/ assets under Ijarah arrangements	9	3,096,362,645	2,767,494,824
Less: Security deposits held	13	366,102,595	319,827,414
		<u>2,730,260,050</u>	<u>2,447,667,410</u>
25.1.2 Description of Collateral held			

The Modaraba's Ijarah leases are secured against assets leased out. In a few leases additional collateral is also obtained in the form of mortgaged property.

## Notes to the Accounts

for the year ended June 30, 2009

### 25.1.3 Aging Analysis of Ijarah Finance/ Murabaha receivable/ Investment in Sukuk:

Past due	2009			
	Carrying Amount	Amount on which no impairment recognised	Amount on which impairment recognised	Impairment recognised
0 days	2,602,918,487	2,602,918,487	-	-
1-90 days	253,323,477	253,323,477	-	-
91 days-1 year	84,643,643	84,496,673	146,970	146,970
1 year- 2 years	130,540	-	130,540	130,540
2 years- 3 years	65,905	-	65,905	65,905
More than 3 years	-	-	-	-
Total	<u>2,941,082,052</u>	<u>2,940,783,637</u>	<u>343,415</u>	<u>343,415</u>

Past due	2008			
	Carrying Amount	Amount on which no impairment recognised	Amount on which impairment recognised	Impairment recognised
0 days	2,120,572,290	2,120,572,290	-	-
1-90 days	503,743,842	503,743,842	-	-
91 days-1 year	452,130	-	452,130	371,716
1 year- 2 years	65,905	-	65,905	65,905
2 years- 3 years	-	-	-	-
More than 3 years	-	-	-	-
Total	<u>2,624,834,167</u>	<u>2,624,316,132</u>	<u>518,035</u>	<u>437,621</u>

Impairment is recognised by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modaraba and subjective evaluation carried out on an ongoing basis.

25.1.4 The Modaraba manages credit risk and its concentration through diversification of activities to avoid undue concentration of risks with individuals, groups or specific industry segments. For this purpose, the Modaraba has established exposure limits for individuals and industrial sectors.

## Notes to the Accounts

for the year ended June 30, 2009

Details of the industrial sector analysis of Ijarah portfolio, murabaha and investment in Sukuk certificate:

Sectors	2009		2008	
	Rupees	%	Rupees	%
Fuel & energy	540,447,481	18.38%	409,095,445	15.59%
Power generation & distribution	219,583,387	7.47%	-	0.00%
Pharmaceutical & chemicals	359,578,959	12.23%	310,290,457	11.82%
Food & beverage	442,944,733	15.06%	296,468,064	11.30%
Sugar	114,364,865	3.89%	128,000,954	4.88%
Financial institutions	103,585,833	3.52%	171,969,622	6.55%
Travel & transport	164,762,937	5.60%	224,742,057	8.56%
Services	182,161,118	6.19%	263,835,378	10.05%
Textile	245,928,152	8.36%	305,947,280	11.66%
Electrical & engineering	60,750,938	2.07%	104,520,310	3.98%
Communication	124,039,808	4.22%	61,528,278	2.34%
Leather	-	0.00%	316,395	0.01%
Distribution	5,823,999	0.20%	13,135,987	0.50%
Cement	81,493,698	2.77%	143,848,200	5.48%
Construction	45,675,860	1.55%	36,463,889	1.39%
Others	249,940,283	8.50%	154,671,851	5.89%
	<u>2,941,082,052</u>	<u>100%</u>	<u>2,624,834,167</u>	<u>100%</u>

	2009 Rupees	2008 Rupees
Investment in Ijarah finance/ assets under Ijarah arrangements (note 25.1.1)	2,730,260,050	2,447,667,410
Add: Allowance for potential Ijarah losses	4,694,039	2,122,551
Add: Mark-up held in suspense	3,040,086	3,576
	<u>2,737,994,175</u>	<u>2,449,793,537</u>
Short-term Murabaha receivable	131,212,877	100,040,630
Investment in Sukuk certificates	71,875,000	75,000,000
	<u>2,941,082,052</u>	<u>2,624,834,167</u>

### 25.2 Liquidity risk

Liquidity risk is the risk that the Modaraba will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Modaraba could be required to pay its liabilities earlier than expected 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. The following are the contractual maturities of financial liabilities, including interest payments:

# Notes to the Accounts

for the year ended June 30, 2009

	2009						
	Carrying Amount	Contractual cash flows	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years
	Rupees in '000'						
<b>Financial liabilities</b>							
Murabaha Finance and mark up payable thereon	130,048,153	(138,667,616)	-	-	(138,667,616)	-	-
Musharika Finance and mark up payable thereon	243,999,211	(243,999,211)	(243,999,211)	-	-	-	-
Redeemable capital and mark up payable thereon	1,637,064,587	(1,736,269,162)	(265,967,929)	(995,779,386)	(242,678,286)	(231,843,561)	-
Accrued and other liabilities	53,921,685	(53,921,685)	(53,921,685)	-	-	-	-
Unclaimed profit distribution	19,970,921	(19,970,921)	(19,970,921)	-	-	-	-
	<u>2,085,004,557</u>	<u>(2,192,828,595)</u>	<u>(583,859,746)</u>	<u>(995,779,386)</u>	<u>(381,345,902)</u>	<u>(231,843,561)</u>	<u>-</u>
<b>2008</b>							
	Carrying Amount	Contractual cash flows	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years
	Rupees in '000'						
<b>Financial liabilities</b>							
Murabaha Finance and mark up payable thereon	-	-	-	-	-	-	-
Musharika Finance and mark up payable thereon	997,141,850	(997,141,850)	(997,141,850)	-	-	-	-
Redeemable capital and mark up payable thereon	813,346,549	(871,782,222)	(35,462,852)	(238,004,633)	(408,708,260)	(189,606,477)	-
Accrued and other liabilities	84,294,522	(84,294,522)	(84,294,522)	-	-	-	-
Unclaimed profit distribution	18,678,913	(18,678,913)	(18,678,913)	-	-	-	-
	<u>1,913,461,834</u>	<u>(1,971,897,507)</u>	<u>(1,135,578,137)</u>	<u>(238,004,633)</u>	<u>(408,708,260)</u>	<u>(189,606,477)</u>	<u>-</u>

25.2.1 The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rates effective as at year end (and includes both principal and profit payable thereon). The rates of mark-up have been disclosed in notes 11, 12 and 15 to these financial statements.

## 25.3 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will effect the Modaraba's income or the value of its holdings of financial instruments.

### 25.3.1 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market yield. The Modaraba has adopted appropriate policies to minimise its exposure to this risk. At the reporting date the interest rate profile of the Modaraba's significant interest bearing financial instruments and the periods in which the mature is as follows:

# Notes to the Accounts

for the year ended June 30, 2009

	Effective yield / profit rate	2009								
		Carrying amount	Upto one month	Upto one month to three months	Over three months to six months	Over six months to one year	Over one year to three years	Over three years to five years	Over five years	Not exposed to yield / profit risk
Rupees										
<b>Assets</b>										
Cash and bank balances	5% - 7.02%	42,741,602	42,718,151	-	-	-	-	-	-	23,451
Ijarah rentals receivable	-	18,870,752	-	-	-	-	-	-	-	18,870,752
Advances, deposits and other receivables	2%	39,881,274	29,705,685	54,525	75,923	130,566	-	-	-	9,914,575
Loans to executive	2%	274,419	-	-	-	-	274,419	-	-	-
Morabaha finance	15.98%	136,053,809	-	136,053,809	-	-	-	-	-	-
Diminishing Musharika	2%	19,119,187	52,017	104,034	136,051	252,102	1,071,977	1,283,044	16,219,962	-
Investment in Sukuk Certificates	14.42% - 15.68%	71,875,000	-	21,875,000	50,000,000	-	-	-	-	-
Net Investment in Ijara finance/ assets under Ijarah arrangements	6.4% - 20.65%	3,096,362,645	622,657,481	989,571,658	991,230,629	265,178,808	190,689,650	36,411,214	623,205	-
Taxation recoverable	-	8,354,708	-	-	-	-	-	-	-	8,354,708
		3,433,533,396	695,133,334	1,147,659,026	1,041,442,603	265,561,476	192,036,046	37,694,258	16,843,167	37,163,486
<b>Liabilities</b>										
Musharika Finance	14.30% - 17.70%	232,514,635	232,514,635	-	-	-	-	-	-	-
Morabaha Finance	13.52%	130,000,000	-	-	130,000,000	-	-	-	-	-
Security deposits	-	366,102,595	27,129,825	3,610,474	5,927,768	33,085,982	211,056,677	85,291,869	-	-
Creditors, accrued and other liabilities	-	127,235,236	-	-	-	-	-	-	-	127,235,236
Advance Ijara rentals received	-	57,219,026	-	-	-	-	-	-	-	57,219,026
Redeemable capital	10.20% - 15.71%	1,575,681,852	255,735,054	519,319,204	497,797,594	138,410,000	135,890,000	28,530,000	-	-
Unclaimed profit distribution	-	19,970,920	-	-	-	-	-	-	-	19,970,920
		2,508,724,264	515,379,514	522,929,678	633,725,362	171,495,982	346,946,677	113,821,869	-	204,425,182
On balance sheet gap - 2009		924,809,132	179,753,820	624,729,348	407,717,241	94,085,494	(154,910,631)	(76,127,611)	16,843,167	(167,261,696)

	Effective yield / profit rate	2008								
		Carrying amount	Upto one month	Upto one month to three months	Over three months to six months	Over six months to one year	Over one year to three years	Over three years to five years	Over five years	Not exposed to yield / profit risk
Rupees										
<b>Assets</b>										
Cash and bank balances	2% - 5.5%	16,420,291	16,404,007	-	-	-	-	-	-	16,284
Advances, deposits and other receivables	2% - 13.53%	86,578,145	85,173,971	32,252	54,944	78,731	-	-	-	1,238,247
Loans to executive	2%	196,239	-	-	-	-	196,239	-	-	-
Morabaha finance	14.83%	103,792,329	-	103,792,329	-	-	-	-	-	-
Diminishing Musharika	2%	10,047,824	3,306,128	30,856	48,051	96,102	399,709	446,544	5,720,434	-
Investment in Sukuk Certificates	11.95% - 13.53%	75,000,000	-	25,000,000	50,000,000	-	-	-	-	-
Net investment in Ijara finance	5.84% - 19.50%	2,767,494,824	645,312,540	782,319,304	751,965,197	191,496,080	350,185,609	41,390,439	4,825,655	-
Taxation recoverable	-	8,195,027	-	-	-	-	-	-	-	8,195,027
		3,067,724,679	750,196,646	911,174,741	802,068,192	191,670,913	350,781,557	41,836,983	10,546,089	9,449,558
<b>Liabilities</b>										
Musharika Finance	10.53% - 13.88%	989,441,571	-	989,441,571	-	-	-	-	-	-
Security deposits	-	319,827,414	932,800	7,152,489	10,699,557	42,252,848	157,418,241	101,371,479	-	-
Creditors, accrued and other liabilities	-	84,294,522	-	-	-	-	-	-	-	84,294,522
Redeemable capital	5.50% - 12.00%	767,673,587	34,448,309	220,871,296	198,102,120	172,001,862	73,480,000	68,770,000	-	-
Unclaimed profit distribution	-	18,678,913	-	-	-	-	-	-	-	18,678,913
		2,179,916,007	35,381,109	1,217,465,356	208,801,677	214,254,710	230,898,241	170,141,479	-	102,973,435
On balance sheet gap - 2009		887,808,672	714,815,537	(306,290,615)	593,266,515	(22,583,797)	119,883,316	(128,304,496)	10,546,089	(93,523,877)

## Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

## Notes to the Accounts

for the year ended June 30, 2009

	Profit and loss 100 bp	
	Increase	Decrease
<b>As at 30 June 2009</b>		
Cash flow sensitivity-Variable rate financial assets	26,291,601	(26,291,601)
Cash flow sensitivity-Variable rate financial liabilities	(17,285,882)	17,285,882
Net effect	<u>9,005,719</u>	<u>(9,005,719)</u>
<b>As at 30 June 2008</b>		
Cash flow sensitivity-Variable rate financial assets	21,091,456	(21,091,456)
Cash flow sensitivity-Variable rate financial liabilities	(13,061,745)	13,061,745
Net effect	<u>8,029,711</u>	<u>(8,029,711)</u>

The sensitivity analysis prepared is not necessarily indicative of the effects on loss for the year and assets / liabilities of the Modaraba.

### 25.4 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying values of the financial assets and financial liabilities approximate their fair values except for loans and advances to executives, diminishing musharika, short-term murabaha receivable, murabaha finance and ijarahs at fixed rate of return. The fair values these financial assets/liability cannot be reasonably estimated due to absence of market for such assets/liability.

## 26. RELATED PARTIES TRANSACTIONS

The related parties of the Modaraba comprise of holding company, management company, fellow subsidiary, staff retirement funds, directors 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:

	2009 Rupees	2008 Rupees
<b>Holding company</b>		
Lease rentals received	8,853,899	18,673,649
Profit on Musharika finance	114,070,356	17,679,299
Profit on deposit account	1,491,825	1,425,604
Bank charges and commission	2,916,893	66,903
Charge for reimbursement of salaries and benefits	5,785,679	9,794,348
<b>Staff retirement benefits funds</b>		
Contribution to the Staff Provident Fund	1,144,991	943,500
Contribution to the Staff Gratuity Fund	569,754	773,167
<b>Management company</b>		
Management fee	11,544,339	10,810,992
<b>Other related party</b>		
Profit on Musharika finance	-	5,293,795
Reimbursement of portion salaries and benefits	1,303,721	-



# Notes to the Accounts

for the year ended June 30, 2009

The Modaraba enters into transactions with related parties for lease of assets, borrowings under Musharika finances and other general banking services. These transactions are based on a transfer pricing policy under which all transactions are carried out on an arm's length basis. The balances with related parties have been disclosed in the respective note.

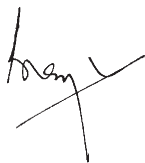
## 27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise of the following balance sheet amounts:

	2009 Rupees	2008 Rupees
Cash and bank balances	42,741,602	16,420,291
Musharika Finance	<u>(232,514,635)</u>	<u>(989,441,571)</u>
	<u>(189,773,033)</u>	<u>(973,021,280)</u>

## 28. DATE OF AUTHORISATION

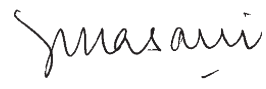
These financial statements were authorised for issue by the Board of Directors of the Management Company in their meeting held on 25 September 2009.



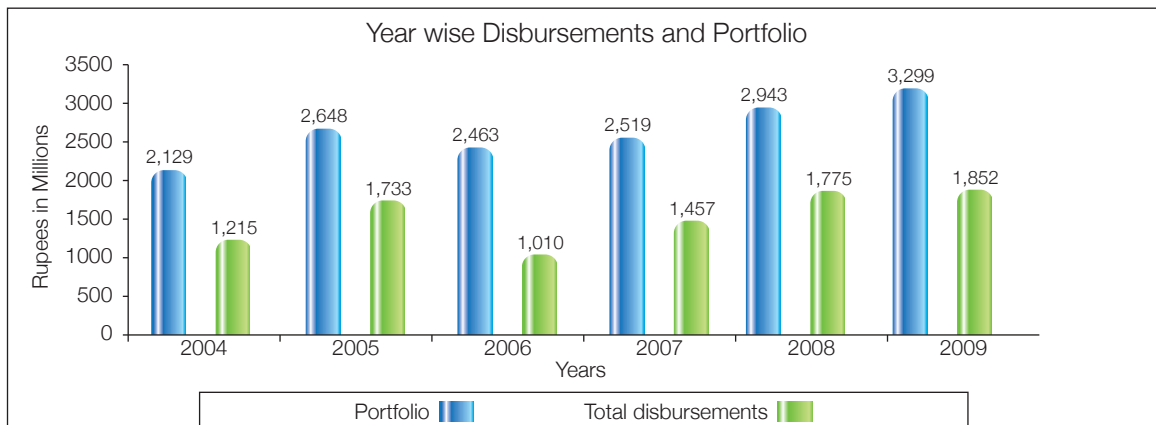
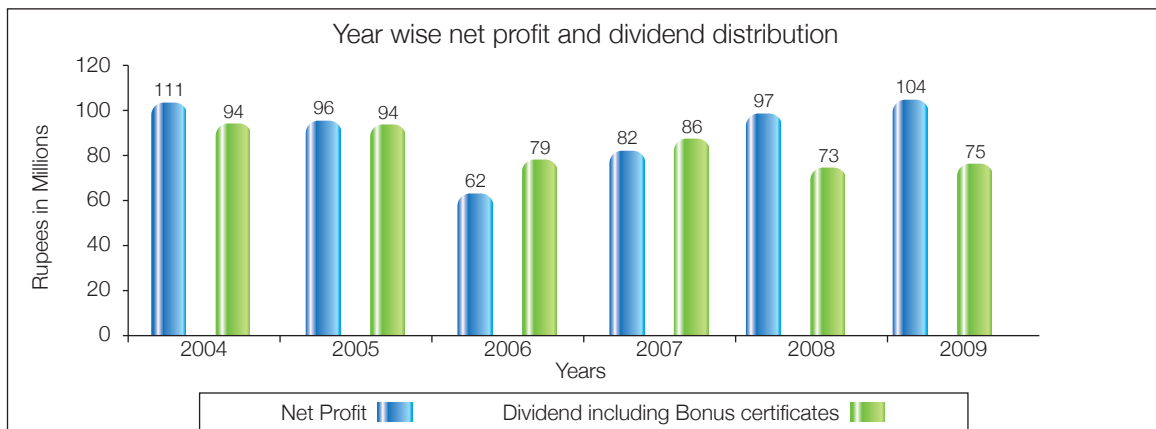
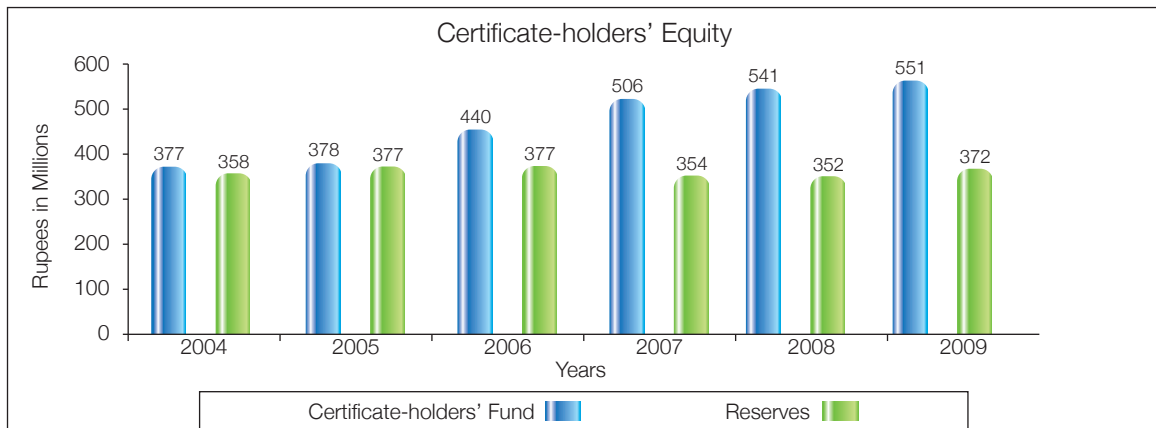
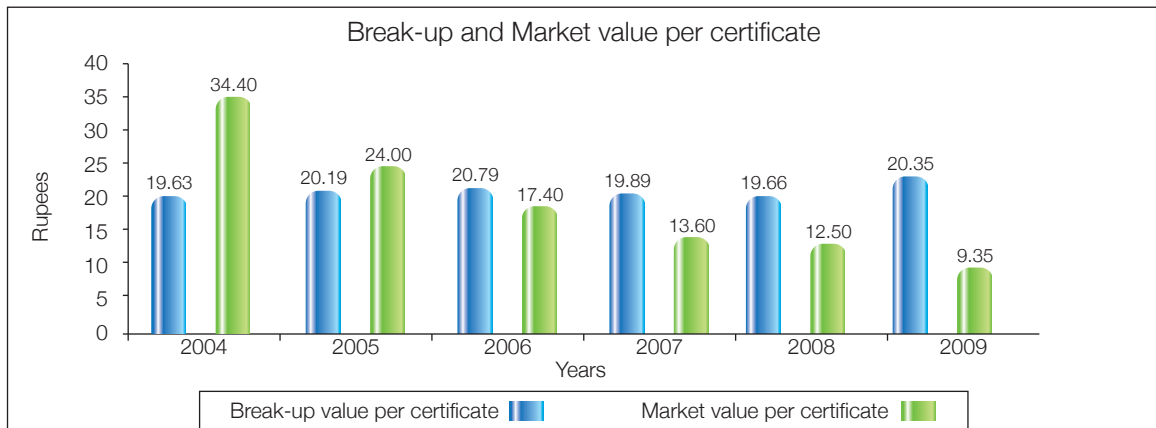
Chairman  
Standard Chartered Services  
of Pakistan (Private) Limited



Chief Executive  
Standard Chartered Services  
of Pakistan (Private) Limited



Director  
Standard Chartered Services  
of Pakistan (Private) Limited



# Standard Chartered Modaraba

## Six Years' Financial Summary

Key Financial Figures (Rs. In millions)	June-04	June-05	June-06	June-07	June-08	June-09
<b>Profit &amp; Loss Account</b>						
Revenues from operations	240	222	244	253	273	383
Financial charges	81	102	149	133	129	237
Impairment loss against doubtful debts	4	-	-	-	1	3
Net Profit	111	96	62	82	97	104
Dividend including Bonus certificates	94	94	79	86	73	75
<b>Balance Sheet</b>						
Certificate-holders' fund	377	378	440	506	541	551
Reserves	358	377	377	354	352	372
Borrowings from financial institutions	556	994	677	461	989	363
Redeemable capital and deposits	761	839	998	1,303	1,088	1,942
Portfolio	2,129	2,648	2,463	2,519	2,943	3,299
Total disbursements	1,215	1,733	1,010	1,457	1,775	1,852
<b>Key Financial Ratios</b>						
Return on equity (%)	15.10	12.72	7.53	9.56	10.90	11.25
Financial charges cover ratio	2.37	1.94	1.41	1.62	1.33	2.28
Profit before tax ratio (%)	46.25	43.24	25.22	32.52	35.64	20.24
Income / Expense ratio	1.85	1.64	1.32	1.45	1.53	2.51
Debt / Equity ratio	1.98	2.28	2.13	1.98	1.97	2.10
<b>Shares and Earnings</b>						
Break-up value per certificate	19.63	20.19	20.79	19.89	19.66	20.35
Market value per certificate	34.40	24.00	17.40	13.60	12.50	9.35
Earning per certificate	2.97	2.56	1.42	1.90	2.14	2.29
Cash dividend per certificate	2.50	2.00	1.00	1.50	1.60	1.65
Bonus certificate (%)	-	5.00	10.00	5.00	-	-
Price earning ratio	11.58	9.38	12.25	7.16	5.83	4.08

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