

Annual Report 2011

Standard Chartered Modaraba



Standard Chartered Modaraba

Annual Report 2011

Rating by: PACRA

AA+ Long-Term

A1+ Short-Term



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.

Value

We believe in our values:

- **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 will always be a way to add value.
- **Trustworthy**
with you we will always be there.



Chairman and Chief Executive Officer

Standard Chartered Services of Pakistan (Private) Limited
(Management Company)



Mr. Mohsin A. Nathani, Chairman inaugurating the renovated Karachi office in the presence of
Mr. Raheel Qamar Ahmad (CEO / MD) and Syed Zaheer Mehdi (Ex-CEO).

Our Team



Modaraba Information

Directors of Modaraba Company

Mr. Mohsin Ali Nathani
Chairman

Mr. Raheel Qamar Ahmad
Managing Director/Chief Executive

Mr. Najam Siddiqi
Director

Mr. Shariq Saleem
Director

Mr. Imran Sarwar
Director

Mr. Khurram S. Khan
Director

Company Secretary

Mr. Muhammad Siddique

Audit Committee

Mr. Najam Siddiqi
Chairman

Mr. Imran Sarwar
Member

Mr. Khurram S. Khan
Member

Auditors

A.F. 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) 36066277-80

Standard Chartered Bank Building
6-A, 2nd Floor,
Union Arcade, F-7 Markaz
Islamabad
Phone: (051) 8432329-30

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

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Board of Directors



Mohsin Ali Nathani

Chairman/Director

Appointed to the board on September 27, 2010 as Chairman and Director. Also holds the positions of Chief Executive of Standard Chartered Bank (Pakistan) Limited, Chairman of Standard Chartered Leasing Limited and Director of Price Solution Pakistan (Private) Limited.

He has extensive and diversified banking experience of over 20 years, holding key positions both locally and internationally with Barclays Bank, Citigroup and ABN Amro Bank. Prior to joining the bank, he was Country Head & Managing Director, Barclays Bank plc's Pakistan operations.



Raheel Qamar Ahmad

Managing Director/Chief Executive

Appointed to the Board with effect from June 01, 2011 as Managing Director/ Chief Executive. Prior to this assignment, he was heading the Local Corporates segment in wholesale banking, Standard Chartered Bank (Pakistan) Limited since January 2009. He holds a BS Engineering degree from UET Lahore and an MBA from IIT, Chicago. Raheel has 20 years of diversified corporate and investment banking experience with both international organisations such as Mashreq Bank and local institutions such as United Bank Limited and Allied Bank 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.



Najam Siddiqi

Director

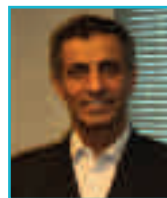
Appointed to the Board on April 26, 2011, he is also a director of Standard Chartered Leasing Limited and Price Solution Pakistan (Private) Limited. He has over 13 years of prolific experience at senior level in finance and risk management positions in various banks and leading audit firm. Currently he is holding the position of Chief Financial Officer in Standard Chartered Bank (Pakistan) Limited.



Imran Sarwar

Director

Appointed to the Board on February 22, 2011. He also holds the position of Head of Origination and Client Coverage at Standard Chartered Bank (Pakistan) Limited (SCBPL). He holds a business degree from USA. He has over 20 years of experience in the banking sector both locally and internationally. Prior to joining SCBPL, he was the Head of Global Corporates at Standard Chartered Bank, UAE.



Khurram S. Khan

Director

Appointed to the Board on June 30, 2011, he is also a director of Standard Chartered Leasing Limited and holds the position of Country Chief Risk Officer (CCRO) at Standard Chartered Bank (Pakistan) Limited (SCBPL). He holds an MBA degree from University of Rochester, USA. He has an overall experience of over 25 years and has been associated with SCBPL since 1996. Prior to his appointment as CCRO at SCBPL, he was the country head GSAM, SCBPL.



Notice of Annual Review Meeting

Notice is hereby given that the Twelfth Annual Review Meeting of certificate-holders of Standard Chartered Modaraba (SCM) will be held on Saturday, October 29, 2011 at 5:00 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, 2011.

The certificate-holders whose names appear on the Register of certificate-holders of SCM as on October 20, 2011 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.
September 28, 2011

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 Fifth Report of the Directors of Modaraba Company

For the year ended June 30, 2011

The Board of Directors of Standard Chartered Services of Pakistan (Private) Limited, the Management Company of Standard Chartered Modaraba (SCM), is pleased to present the twenty fifth Directors' report of SCM, together with audited financial statements and auditors' report thereon for the year ended June 30, 2011.

1. Economy

According to preliminary government estimates, real GDP growth of the country has slowed to 2.4% in FY11 (ends 30 June 2011) from 4.1% in FY10. This has been caused by the cost of the August 2010 floods, estimated at USD 9.8bn (5% of GDP), with heavy damage to cash crops and infrastructure. Industrial output likely declined 0.1%, and private investment spending fell 3.1%, declining for the third straight year. Private consumption spending (7%) and government spending (7.5%) were the key drivers of growth. Real per-capita GDP has increased 0.8% to USD 1,200 in FY11.

The current account posted a surplus of USD 542mn (0.3% of GDP) in FY11, versus a deficit of USD 3.9bn (2.2% of GDP) in FY10, led by record exports and remittances. Exports posted impressive growth of 29.4% in FY11, rising to USD 25.5bn, from USD 19.6bn in FY10. Higher cotton prices, higher wheat exports and reconstruction activity in Afghanistan all contributed to strong export growth. Remittances surged to a record USD 11.2bn (5.3% of GDP) in FY11, up 26% from USD 8.9bn (5% of GDP) in FY10. The strong growth in remittances has helped strengthen the FX reserve position.

Headline inflation remains the biggest headache for policy makers, with CPI inflation averaging 14.1% in FY11, up from 11.7% in FY10. The key inflation driver has been money printing by the government to finance its large deficits. In the first 10 months of FY11, the government printed PKR 213bn (1.2% of GDP), fuelling inflation. Rising food and energy prices have also pushed up inflation. According to government estimates, headline inflation is likely to remain high, at 12%, in FY12, owing to cuts in power subsidies and new tax measures in the FY12 budget.

2. Operating Results and Business Overview

| | June 30, 2011 (PKR '000') | June 30, 2010 (PKR '000') |
|---|---------------------------------|---------------------------------|
| Balance Sheet | | |
| Certificate capital | 453,835 | 453,835 |
| Total equity | 938,070 | 928,615 |
| Investment in Ijarah finance and Ijarah Assets | 3,327,627 | 2,905,770 |
| Investments in Murabaha finance, Diminishing Musharika and Sukuks | 438,212 | 244,720 |
| Redeemable capital | 2,025,639 | 2,068,892 |
| Profit and Loss | | |
| Revenue (net of Ijarah assets depreciation) | 403,905 | 407,692 |
| Financial charges | 224,186 | 243,953 |
| Provisions/Impairments (net of reversals/recoveries) | 28,211 | 24,073 |
| Operating expenses | 53,315 | 46,744 |
| Profit before management fee | 98,194 | 92,922 |
| Net profit | 86,607 | 79,880 |

Appropriations

| | | |
|---|---------------|---------------|
| Net profit for the year | 86,607 | 79,880 |
| Add: Un appropriated profit brought forward | <u>9,338</u> | <u>22,586</u> |
| Profit available for appropriation | 95,945 | 102,466 |
| Profit distribution @ 17.25% (2010 @17%) | <u>78,287</u> | <u>77,152</u> |
| Statutory reserve | <u>17,321</u> | <u>15,976</u> |
| | <u>95,608</u> | <u>93,128</u> |
| Unappropriated profit carried forward | <u>337</u> | <u>9,338</u> |
| Earnings per certificate | <u>1.91</u> | <u>1.76</u> |

By the Grace of Allah, considering the challenging business environment, uncertain political and security situation and the increase in financial stress caused by the last year's floods, your Modaraba's performance during the year has been very good. During the year under review, Modaraba's net profit increased by 8% to Rs. 86.61 million as compared to Rs. 79.88 million during corresponding period of last year.

Your Modaraba continued focusing on raisings funds from general public through Certificates of Musharika (CoMs). Thus the balance of CoMs has been increased by 18% to Rs. 1,747 million as at June 30, 2011 (the highest ever) as compared to Rs. 1,482 million as at close of last year.

Without compromising credit quality, Modaraba's investment in Ijarah finance, Ijarah assets, Murabaha finance, Diminishing Musharika, Term Deposits and Sukuks have increased by 11.17% to Rs. 3,836 million as against Rs. 3,450 million last year. Total assets have increased by 15.42% to Rs. 4,161 million as against Rs. 3,605 million last year. SCM is amongst the very few Modarabas whose asset base has exceeded Rs. 4 billion as at June 30, 2011.

The growth in the business is driven mainly by effective marketing approach with selective clientele operating in stable industrial segments leading to better returns. The asset portfolio has a good mix of multi-nationals, large and medium sized local corporate and selective SME relationships.

Standard Chartered Modaraba manages credit risk exposure through diversification of activities and has a well diversified asset portfolio comprising of plant & machinery, motor vehicles and equipments to avoid concentration of risk. Accordingly, SCM's sector wise exposure is closely monitored and exposure is kept below industry caps and not beyond 25% in any industrial segment. Moreover, to reduce the possibility of NPLs, SCM has got a mechanism for credit granting and post disbursement monitoring of rentals.

Your Modaraba, while remaining cautious and prudent during the prevailing economic slowdown, is focused to take benefit of good opportunities that add value of all stake holders. Our prudent and proactive risk management approach has always helped us to maintain a leading position in the Modaraba sector. We will continue to place emphasis on customer service with focus on quality clients. Under a difficult economic environment, we continue to explore good business opportunities in order to maximize certificate holders' interest.

3. Profit Distribution

The Board in its meeting held on September 28, 2011 has approved the distribution of profit of Rs. 1.725 (17.25%) per certificate of Rs. 10 each, subject to deduction of zakat and tax at source where applicable, for the year ended June 30, 2011.

An amount of Rs. 17.32 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.

4. External Annual Audit

The financial statements of SCM have been audited without any qualification by the auditors namely M/s A.F. Ferguson & Co., Chartered Accountants.

5. 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. These ratings indicate low expectation of credit risk and exceptionally strong capacity for timely payment of financial commitments.

6. Social Responsibility

Through our social responsibility activities, we seek to strengthen relationships between our business, community, government and customers. SCM intends to further this position to be a force for good in the communities where we conduct our business. SCM is committed to deliver on our group's brand promise, Here for good, by making a meaningful difference in the community.

In line with the "here for good" slogan as part of the Group's program "Seeing is believing" which aims to help eradicate preventable blindness, SCM has commenced volunteering activities. In this respect, SCM volunteers visited Layton Rahmatulla Benevolent Trust Hospital (LRBT) in Karachi. The purpose was to increase general awareness about preventable blindness among the patients and assist the LRBT staff in their daily activities with respect to registration of patients, initial screening, generation of various MISs and keeping records of the patient. SCM will continue to participate in these activities to make a meaningful contribution to the cause.

7. 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.
- Appropriate accounting policies have been consistently applied in preparation of financial statements, Accounting estimates used are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements and any departures there from have been adequately disclosed.
- The system of internal control, which is in place is sound in design and has been effectively implemented. It 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, 2011 except for those disclosed in the financial statements.
- The value of investments made by staff retirement benefit funds based on their respective un-audited accounts as at June 30, 2011 is as follows:

| | |
|----------------|--------------------|
| Provident Fund | Rs. 12.595 million |
| Gratuity Fund | Rs. 5.372 million |

During the year, seven (07) meetings of the Board of Directors were held. Attendance by each director was as follows:

| Name of Director | No. of Meetings Attended |
|---|--------------------------|
| Badar Kazmi (resigned in September 2010) | 02 |
| Mohsin A. Nathani (appointed in September 2010) | 05 |
| Syed Zaheer Mehdi (resigned in May 2011) | 05 |
| Raheel Q. Ahmad (appointed in May 2011) | 02 |
| Cyrus J. Masani (resigned in April 2011) | 04 |
| Najam Siddiqi (appointed in April 2011) | 03 |
| Imran Ahad (resigned in February 2011) | 03 |
| Imran Sarwar (appointed in February 2011) | 03 |
| Tufail J. Ahmad (resigned in June 2011) | 06 |
| Khurram S. Khan (appointed in June 2011) | 00 |
| Shariq Saleem | 07 |

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.
- The Directors, CEO, CFO/ Company Secretary and their spouses and minor children did not carry out any transaction in the certificates of Modaraba during the year.

8. The Board of Directors and Audit Committee

The following changes have taken place in board of directors of the Standard Chartered Services of Pakistan (Private) Limited (the Company), the management company of Standard Chartered Modaraba since the Directors' report for the year ended June 30, 2010:

- Mr. Badar Kazmi resigned from the office of Chairman of the Company and Mr. Mohsin A. Nathani was appointed in his place, on September 27, 2010.

- Mr. Imran Ahad resigned from the office of director and member of the Audit Committee of the Company and Mr. Imran Sarwar was appointed in his place, on February 22, 2011.
- Mr. Cyrus J. Masani resigned from the office of director and Chairman of the Audit Committee of the Company and Mr. Najam Siddiqi was appointed in his place, on April 26, 2011.
- Consequent upon the expiry of the term of directors of the Company, fresh elections were held on May 09, 2011. Accordingly, Six persons have been duly elected / re-elected as the directors whose consent were received by the Company namely Messrs. Mohsin A. Nathani, Raheel Q. Ahmad, Najam Siddiqi, Tufail J. Ahmad, Imran Sarwar and Shariq Saleem. Mr. Mohsin A. Nathani has been subsequently appointed as the Chairman of the Company for a period of three years in the meeting of Board of Directors held on May 12, 2011. Further, Mr. Raheel Q. Ahmad was appointed as the Chief Executive Officer / Managing Director for a period of three years in the same Board meeting.
- Mr. Tufail J. Ahmed resigned from the office of director and member of the Audit Committee of the Company and Mr. Khurram S. Khan was appointed in his place, on June 30, 2011.

The Board wishes to place on record its appreciation and gratitude for the valuable contributions made to the outgoing directors and extends a warm welcome and cooperation to the newly appointed directors in performing their fiduciary responsibility.

9. 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. It is indeed the dedication and hard work of each one of them that has brought SCM to where it stands now. We will continue to invest in our Human Resources.

10. Auditors

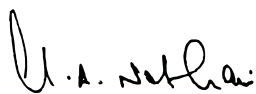
On the recommendation of Audit Committee, the Board has approved the appointment of the Messrs. A. F. Ferguson & Co., Chartered Accountants, as auditors for the year ending June 30, 2012, subject to approval by the Registrar of Modaraba Companies and Modarabas.

11. 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



Mohsin A. Nathani, Chairman
September 28, 2011

Pattern of holding of certificates by the Certificate-holders as at June 30, 2011

| Number of Certificate holders | Certificate holding | | Total Certificates held |
|-------------------------------|---------------------|----------|-------------------------|
| | From | To | |
| 1,381 | 1 | 50 | 26,954 |
| 614 | 51 | 100 | 44,538 |
| 3,867 | 101 | 500 | 1,166,761 |
| 1,183 | 501 | 1000 | 900,646 |
| 1,454 | 1001 | 5000 | 3,220,422 |
| 241 | 5001 | 10000 | 1,772,630 |
| 327 | 10001 | 37500000 | 38,251,579 |
| 9,067 | | | 45,383,530 |

| Certificate-holders Category | Number of Certificate-holders | Number of Certificate Held | Percentage % |
|--|-------------------------------|----------------------------|--------------|
| Individual | 8,956 | 20,026,739 | 44.13 |
| Financial Institutions * | 11 | 11,735,098 | 25.86 |
| Investment Companies | 6 | 50,861 | 0.11 |
| Insurance Companies | 12 | 5,724,433 | 12.61 |
| Modarabas / Modaraba Management Companies** | 8 | 4,671,251 | 10.29 |
| Joint Stock Companies | 45 | 1,924,519 | 4.24 |
| Others | | | |
| - The Al-malik Charitable Trust | 1 | 17,395 | 0.04 |
| - The Al-malik Chari Table Trust | 1 | 4,158 | 0.01 |
| - Punjab Coop Board For Liquidation | 1 | 171 | 0.00 |
| - United Excecutors & Trustees Co. | 1 | 210 | 0.00 |
| - Islamic Inv.co.of The Gulf (bahrain) | 1 | 872 | 0.00 |
| - The Nazir | 1 | 430 | 0.00 |
| - Eddie Company (pvt) Ltd. | 1 | 30,439 | 0.07 |
| - Trustees, Mama School Emp.gratuity Fund. | 1 | 12,127 | 0.03 |
| - Zoroastrian Co-op. Housing Society Ltd. | 1 | 18,191 | 0.04 |
| - Trustees Of New Jubilee Ins Co.ltd S.p.f | 1 | 212,231 | 0.47 |
| - Trustees Aloo&minocher Dinshaw Chr.trust | 1 | 123,610 | 0.27 |
| - Trustees Of Faroukh&roshen Karani Trust | 1 | 6,063 | 0.01 |
| - Mang.com.karachi Zarhosti Banu Mandal | 1 | 9,702 | 0.02 |
| - Trustees Adamjee Enterprises Staff P.f | 1 | 5,000 | 0.01 |
| - Managing Comm.of Bismillah Taquee Found | 1 | 21,829 | 0.05 |
| - Trustees Of Sana Ind Ltd.emp Grat Fund | 1 | 105,798 | 0.23 |
| - Trustees Of Haji Mohammed Welfare Trust | 1 | 129,150 | 0.28 |
| - Trustees Thal Ltd Emp.ret.benefit Fund | 1 | 4,851 | 0.01 |
| - Trustees Al-bader Welfare Trust | 1 | 209,031 | 0.46 |
| - Trustees-thal Ltd Emp Provident Fund | 1 | 121,880 | 0.27 |
| - Trustee Gul Ahmed Textile Mills Ltd Emp P.f | 1 | 1,183 | 0.00 |
| - Trustees Mrs.khorshed H.dinshaw &mr.hoshang N.e.dinshaw C.tr | 1 | 68,072 | 0.15 |
| - Trustees D.n.e. Dinshaw Charity Trust | 1 | 23,843 | 0.05 |
| - Trustee Of Habib Modaraba Management Ltd. Employees | 1 | 16,880 | 0.04 |
| - Managing Committee Ghazali Education Trust | 1 | 577 | 0.00 |
| - Habib Bank Ag Zurich, London | 1 | 105,420 | 0.23 |
| - Trustee- Hafiz Foundation | 1 | 1,212 | 0.00 |
| - Trustee Crescent Leasing Corp. Ltd. P.f | 1 | 143 | 0.00 |
| - Trustee - Aloo & Minocher Dinshaw Charitable Trust | 1 | 161 | 0.00 |
| | 9,067 | 45,383,530 | 100.00 |

* Includes Standard Chartered Bank, Pakistan Branch (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, 2011

Additional Information

| Categories of Certificate-holders | Number | Certificates held | Percentage |
|--|--------|-------------------|------------|
| Associated Companies | | | |
| Standard Chartered Services of Pakistan (Pvt.) Limited | | 4,538,353 | 10.00 |
| Standard Chartered Bank (Pakistan) Limited | | 4,538,353 | 10.00 |
| | 2 | 9,076,706 | 20.00 |
| NIT & ICP | | | |
| Investment Corporation of Pakistan | 1 | 2,555 | 0.01 |
| National Bank of Pakistan, Trustee Department | 2 | 5,101,100 | 11.24 |
| | 3 | 5,103,655 | 11.25 |
| Directors, CEO & their Spouse and Minor Children | - | - | - |
| Executives | - | - | - |
| Public Sector Companies and Corporations | 3 | 4,114,665 | 9.06 |
| Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds | 27 | 3,885,061 | 8.56 |
| Certificate-holders holding ten percent or more certificates in the Modaraba (other than those reported above) | - | - | - |

Statement of Value Added

| | 2011 | | 2010 | |
|---|---------------------------|------------|---------------------------|------------|
| | Rupees | % | Rupees | % |
| Revenue from operations (net of depreciation of Ijarah assets) | 389,826,964 | | 382,070,460 | |
| (Other charges) /income including impairment loss no longer required written back | <u>(14,132,892)</u> | | <u>1,548,200</u> | |
| | 375,694,072 | | 383,618,660 | |
| Financial and bank charges | <u>23,958,857</u> | | <u>23,865,361</u> | |
| Operating expenses | <u>13,429,947</u> | | <u>10,895,880</u> | |
| | 37,388,804 | | 34,761,241 | |
| Value Added | <u><u>338,305,268</u></u> | <u>100</u> | <u><u>348,857,419</u></u> | <u>100</u> |
| Distributed as follows: | | | | |
| To Employees | | | | |
| As remuneration | 37,186,767 | 11 | 34,852,278 | 10 |
| To Investors | | | | |
| As profit on redeemable capital | 200,226,694 | 59 | 220,087,144 | 63 |
| To Modarib | | | | |
| As management fee | 9,819,373 | 3 | 9,292,250 | 3 |
| To Certificate-holders | | | | |
| As profit on certificates | 79,421,178 | 23 | 77,152,001 | 22 |
| To Revenue Authorities | | | | |
| As workers' welfare fund | 1,767,487 | 1 | 3,750,586 | 1 |
| Retained in Business | | | | |
| As depreciation | 2,698,074 | 1 | 995,500 | 0 |
| As capital reserves and retained earning | 7,185,696 | 2 | 2,727,660 | 1 |
| | <u><u>338,305,268</u></u> | <u>100</u> | <u><u>348,857,419</u></u> | <u>100</u> |

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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

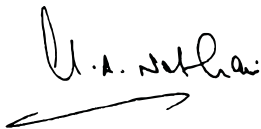
Regardless of the fact that Standard Chartered Services of Pakistan (Private) Limited, the Management Company of Standard Chartered Modaraba, is a private limited company, the Board of Directors of the management company are pleased to confirm that the code of corporate governance is being complied with in all material respects (pertaining to operations of the Modaraba).

The Modaraba management company (hereafter referred to as the Company) has applied the principles contained in the Code in the following manner.

1. At present the Board comprises of six directors of which five are non-executives and only the Chief Executive Officer (CEO) is an executive director.
2. The directors have confirmed that none of them is serving as a director in more than 10 listed companies, including this Company.
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 on the Board during the year ended June 30, 2011 and were duly filled within 30 days thereof.
5. The Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the Modaraba and the Company.
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 Company shall arrange for certification under "The Board Development Series" program offered by Pakistan Institute of Corporate Governance for their directors to acquaint them with their duties and responsibilities as per the timelines provided by Securities and Exchange Commission of Pakistan.
9. 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.
10. The Board met at least once in every quarter and written notices of the Board meetings, along with agenda and related papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated and signed by the Chairman of the Board of Directors.
11. The Directors are well conversant with their duties and responsibilities under the relevant laws applicable to the Modaraba, Prospectus and provisions of the Code of Corporate Governance etc.

12. No appointment of Chief Financial Officer and Company Secretary was made during the current year. However, future appointment, if any, on these positions including their remuneration, terms and conditions, as determined by the CEO, will be referred to the Board for approval.
13. 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.
14. The financial statements of the Modaraba were duly endorsed by the CEO and CFO before approval of the Board.
15. The directors, CEO and executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of holding of certificates.
16. The Modaraba has complied with all the corporate and financial reporting requirements of the Code with respect to the Modaraba.
17. The Board has formed an audit committee. It presently comprises three members who are non-executive directors, including the chairman of the committee.
18. 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.
19. 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.
20. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
22. All material information, as described in clause (xxiii) of the Code is disseminated to the Stock Exchanges and Securities and Exchange Commission of Pakistan in a timely manner.
23. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification and pricing methods for transactions that were made on terms equivalent to those that prevail in an arm's length transaction only if such terms can be substantiated.
24. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board



Mohsin A. Nathani
Chairman
September 28, 2011

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Standard Chartered Services of Pakistan (Private) Limited, the Management Company of Standard Chartered Modaraba, to comply with the requirements of Chapter XI of the Listing Regulations of the Karachi Stock Exchange and the Lahore Stock Exchange where the Modaraba is listed.

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

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

Further, Sub-Regulation (xiii a) of the Listing Regulation 35 of the Karachi Stock Exchange (Guarantee) Limited and the Lahore Stock Exchange (Guarantee) Limited requires the Modaraba to place before the Board of Directors of the Management Company for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length prices recording proper justification for using such alternate pricing mechanism. All such transactions are also required to be separately placed before the Audit Committee of the Management Company. We are only required and have ensured compliance of the requirement to the extent of approval of related party transactions by the Board of Directors of the Management Company and placement of such transactions before the Audit Committee of the Management Company. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

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

A. F. Ferguson & Co.
Chartered Accountants
Dated: October 3, 2011
Karachi

Auditor's Report to the Certificate Holdres

We have audited the annexed balance sheet of Standard Chartered Modaraba as at June 30, 2011 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 management company's responsibility (Standard Chartered Services of Pakistan (Private) Limited) which is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

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

- (a) in our opinion proper books of account have been kept by the management 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 account and are further in agreement with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- (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 June 30, 2011 and of the profit, its changes in equity and cash flows for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Modaraba and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

A. F. Ferguson & Co.

Chartered Accountants

Engagement Partner: Rashid A. Jafer

Dated: October 3, 2011

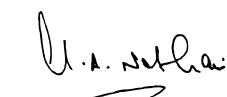
Karachi

BALANCE SHEET AS AT JUNE 30, 2011

| ASSETS | Note | June 30, 2011 | June 30, 2010 (Rupees) |
|---|------|-----------------------------|------------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and bank balances | 3 | 22,378,264 | 77,803,945 |
| Loans and receivable - Term deposit receipts | 4 | 70,000,000 | 300,000,000 |
| Ijarah rentals receivable | 5 | 67,373,434 | 41,082,814 |
| Advances, deposits, prepayments and other receivables | 6 | 217,527,415 | 14,699,975 |
| Current portion of investment in Sukuk certificates | 7 | 2,109,375 | 4,687,503 |
| Current portion of Diminishing Musharika | 8 | 80,980,321 | 807,110 |
| Current portion of net investment in Ijarah finance | 9 | 295,503,090 | 675,009,453 |
| Taxation recoverable | | <u>18,179,491</u> | <u>17,510,986</u> |
| Total current assets | | <u>774,051,390</u> | <u>1,131,601,786</u> |
| Non - current assets | | | |
| Loans and advances to employees | | 601,310 | 200,377 |
| Long-term portion of investment in Sukuk certificates | 7 | 8,203,125 | 37,890,622 |
| Long-term portion of Diminishing Musharika | 8 | 346,919,093 | 201,334,660 |
| Long-term portion of net investment in Ijarah finance | 9 | 63,324,379 | 280,376,512 |
| Ijarah assets | 9 | 2,965,667,860 | 1,950,383,580 |
| Fixed assets in own use | 10 | 2,341,898 | 3,277,513 |
| Total non-current assets | | <u>3,387,057,665</u> | <u>2,473,463,264</u> |
| TOTAL ASSETS | | <u><u>4,161,109,055</u></u> | <u><u>3,605,065,050</u></u> |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Musharika finance | 11 | 456,528,711 | 9,472,819 |
| Current maturity of security deposits | 12 | 116,455,506 | 95,021,272 |
| Creditors, accrued and other liabilities | 13 | 141,867,914 | 132,517,060 |
| Advance Ijarah rentals received | | 108,399,003 | 99,642,778 |
| Current portion of redeemable capital | 14 | 1,997,908,776 | 1,959,041,753 |
| Unclaimed profit distribution | | 23,534,996 | 21,721,026 |
| Total current liabilities | | <u>2,844,694,906</u> | <u>2,317,416,708</u> |
| Non - current liabilities | | | |
| Long-term portion of security deposits | 12 | 350,614,544 | 249,183,608 |
| Long-term portion of redeemable capital | 14 | 27,730,000 | 109,850,000 |
| Total non - current liabilities | | <u>378,344,544</u> | <u>359,033,608</u> |
| TOTAL LIABILITIES | | <u>3,223,039,450</u> | <u>2,676,450,316</u> |
| CERTIFICATE HOLDERS' EQUITY | | | |
| Authorised certificate capital 50,000,000 (2010: 50,000,000) certificates of Rs 10 each | 15 | <u>500,000,000</u> | <u>500,000,000</u> |
| Certificate capital | | | |
| Issued, subscribed and paid-up certificate capital 28,500,000 (2010: 28,500,000) certificates of Rs. 10 each issued as fully paid in cash | | 285,000,000 | 285,000,000 |
| 16,883,530 (2010: 16,883,530) certificates of Rs. 10 each issued as fully paid bonus certificates | 15 | 168,835,300 | 168,835,300 |
| | | <u>453,835,300</u> | <u>453,835,300</u> |
| Reserves | 16 | 405,610,730 | 388,289,356 |
| Unappropriated profit | | <u>78,623,575</u> | <u>86,490,078</u> |
| | | <u>938,069,605</u> | <u>928,614,734</u> |
| TOTAL LIABILITIES AND EQUITY | | <u><u>4,161,109,055</u></u> | <u><u>3,605,065,050</u></u> |
| CONTINGENCIES AND COMMITMENTS | | | |
| | 17 | | |

The annexed notes 1 to 33 form an integral part of these financial statements.

For Standard Chartered Services of Pakistan (Private) Limited
(Management Company)


Chairman


Chief Executive

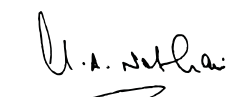

Director

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2011

| | Note | June 30, 2011 | June 30, 2010 |
|---|-------|--------------------------|--------------------------|
| (Rupees) | | | |
| Ijarah finance income | | 73,731,484 | 171,630,927 |
| Ijarah rentals earned | | 996,693,109 | 644,627,853 |
| Profit on Sukuk certificates | | 186,282 | 2,362,129 |
| Income on Murabaha transactions | | - | 4,840,932 |
| Income on Diminishing Musharika transactions | | 35,274,407 | 8,707,410 |
| Income on deposits with bank | | 15,998,361 | 18,032,121 |
| | | <u>1,121,883,643</u> | <u>850,201,372</u> |
| Financial charges | 18 | (224,185,552) | (243,952,505) |
| Depreciation on assets under Ijarah arrangements | 9.1 | (731,544,392) | (467,653,254) |
| Impairment against Ijarah assets | 9.1 | (3,131,253) | - |
| | | <u>163,022,446</u> | <u>138,595,613</u> |
| Reversal of provision in respect of Ijarah finances - net | | 2,498,701 | 927,082 |
| Provision in respect of Sukuk certificates | 7.1.3 | (27,578,125) | (25,000,000) |
| | | <u>137,943,022</u> | <u>114,522,695</u> |
| Other income | 19 | 13,565,498 | 25,143,461 |
| Administrative and operating expenses | 20 | (53,314,788) | (46,743,660) |
| | | <u>98,193,732</u> | <u>92,922,496</u> |
| Modaraba management company fee | 21 | (9,819,373) | (9,292,250) |
| Provision for workers' welfare fund | 22 | (1,767,487) | (3,750,586) |
| Profit before taxation | | <u>86,606,872</u> | <u>79,879,660</u> |
| Taxation | 2.12 | - | - |
| Profit after taxation | | <u>86,606,872</u> | <u>79,879,660</u> |
| Other comprehensive income for the year | | - | - |
| Total comprehensive income for the year | | <u><u>86,606,872</u></u> | <u><u>79,879,660</u></u> |
| Earnings per certificate | 23 | <u>1.91</u> | <u>1.76</u> |

The annexed notes 1 to 33 form an integral part of these financial statements.

For Standard Chartered Services of Pakistan (Private) Limited
(Management Company)


Chairman


Chief Executive

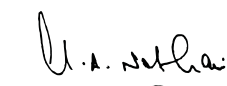

Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

| | Note | June 30, 2011 | June 30, 2010 |
|--|-------|------------------|------------------|
| (Rupees) | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before taxation | | 86,606,872 | 79,879,660 |
| Adjustment for non cash and other items: | | | |
| Depreciation on fixed assets in own use | 20 | 2,698,074 | 995,500 |
| Depreciation on fixed assets under Ijarah arrangements | 9.1 | 731,544,392 | 467,653,254 |
| Impairment against ijarah assets | 9.1 | 3,131,253 | - |
| (Gain) / Loss on disposal of fixed assets | 19 | (55,000) | 71,326 |
| Profit on disposal of assets under Ijarah arrangements | 19 | (7,433,433) | (17,132,081) |
| Reversal of provision in respect of Ijarah finances | | (2,498,701) | (927,082) |
| Provision in respect of Sukuk certificates | 7.1.3 | 27,578,125 | 25,000,000 |
| Profit on Sukuk certificates | | (186,282) | (2,362,129) |
| Income on deposits with bank | | (15,998,361) | (18,032,121) |
| Profit on: | | | |
| - Redeemable capital | 18 | 200,226,695 | 220,087,144 |
| - Murabaha finance | 18 | - | 11,837,271 |
| - Musharika finances | 18 | 10,103,884 | 3,667,948 |
| | | 949,110,646 | 690,859,030 |
| | | 1,035,717,518 | 770,738,690 |
| (Increase) / decrease in assets | | | |
| Advances, deposits, prepayments and other receivables | | (208,366,789) | 29,846,703 |
| Ijarah rentals receivable | | (27,343,120) | (22,212,062) |
| Murabaha finance | | - | 136,053,809 |
| Diminishing musharika | | (225,757,644) | (183,022,583) |
| Purchase of assets under Ijarah arrangements | | (1,945,317,934) | (1,313,068,349) |
| Proceeds from disposal of assets under Ijarah arrangements | | 202,791,442 | 279,030,497 |
| Investment in Ijarah finance -net | | 600,109,697 | 775,036,861 |
| Loans and advances to employees | | (400,933) | 74,042 |
| | | (1,604,285,281) | (298,261,082) |
| Increase / (decrease) in liabilities | | | |
| Creditors, accrued and other liabilities | | 20,382,959 | 2,165,891 |
| Advance Ijarah rentals received | | 8,756,225 | 42,423,752 |
| Deferred Murabaha income | | - | (4,840,932) |
| Security deposits | | 122,865,170 | (21,897,715) |
| | | 152,004,354 | 17,850,996 |
| | | (416,563,409) | 490,328,604 |
| Profit received / (paid) on | | | |
| - Sukuk certificates | | 359,784 | 3,087,409 |
| - Redeemable capital | | (216,678,733) | (206,462,154) |
| - Murabaha finances | | - | (11,885,424) |
| - Musharika finances | | (4,683,951) | (14,128,852) |
| Taxes paid | | (668,505) | (9,156,278) |
| | | (221,671,405) | (238,545,299) |
| | | (638,234,814) | 251,783,305 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Investment in Sukuk certificates | | 4,687,500 | 4,296,875 |
| Fixed capital expenditure | 10 | (1,762,459) | (769,640) |
| Proceeds from disposal of fixed assets | | 55,000 | 75,000 |
| Income on deposits with bank | | 21,364,208 | 12,641,437 |
| Net cash generated from investing activities | | 24,344,249 | 16,243,672 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Redeemable capital less repayments | | (43,252,977) | 493,209,901 |
| Murabaha finances less repayments | | - | (130,000,000) |
| Profit paid to certificate holders | | (75,338,031) | (73,132,719) |
| Net cash (used in) / generated from financing activities | | (118,591,008) | 290,077,182 |
| (Decrease) / increase in cash and cash equivalents | | | |
| | | (732,481,573) | 558,104,159 |
| Cash and cash equivalents at the beginning of year | | 368,331,126 | (189,773,033) |
| Cash and cash equivalents at end of the year | 29 | (364,150,447) | 368,331,126 |

The annexed notes 1 to 33 form an integral part of these financial statements.

For Standard Chartered Services of Pakistan (Private) Limited
(Management Company)


Chairman


Chief Executive


Director

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

| | Reserves | | | Sub Total | Unappropriated profit | Total |
|---|---------------------|----------------------------------|--------------------|--------------------|-----------------------|--------------------|
| | Certificate capital | Premium on modaraba certificates | Statutory reserve | | | |
| ----- (Rupees) ----- | | | | | | |
| Balance as at June 30, 2009 | 453,835,300 | 55,384,700 | 316,928,724 | 372,313,424 | 97,469,175 | 923,617,899 |
| Profit distribution for 2009 @ Rs. 1.65 per certificate | - | - | - | - | (74,882,825) | (74,882,825) |
| Total comprehensive income for the year ended June 30, 2010 | - | - | - | - | 79,879,660 | 79,879,660 |
| Transfer to statutory reserve | - | - | 15,975,932 | 15,975,932 | (15,975,932) | - |
| Balance as at June 30, 2010 | 453,835,300 | 55,384,700 | 332,904,656 | 388,289,356 | 86,490,078 | 928,614,734 |
| Profit distribution for 2010 @ Rs. 1.7 per certificate | - | - | - | - | (77,152,001) | (77,152,001) |
| Total comprehensive income for the year ended June 30, 2011 | - | - | - | - | 86,606,872 | 86,606,872 |
| Transfer to statutory reserve | - | - | 17,321,374 | 17,321,374 | (17,321,374) | - |
| Balance as at 30 June 2011 | <u>453,835,300</u> | <u>55,384,700</u> | <u>350,226,030</u> | <u>405,610,730</u> | <u>78,623,575</u> | <u>938,069,605</u> |

The annexed notes 1 to 33 form an integral part of these financial statements.

For Standard Chartered Services of Pakistan (Private) Limited
(Management Company)


Chairman


Chief Executive


Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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 thereunder 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 / ijarah 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 Statement of compliance

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

2.1.2 Accounting Convention

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

2.1.3 New and amended standards and interpretations that are effective in the current year

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

2.1.4 New and amended standards and interpretations that are not yet effective

Following are the new and amended standards and interpretations that have been published and are mandatory for the Modaraba's accounting period beginning on or after July 1, 2011.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

- IFRS 7, Financial Instruments (effective January 1, 2011). The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Modaraba's financial statements, other than certain additional disclosures.
- IAS 1, Presentation of financial statements (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any significant impact on the Modaraba's financial statements, other than certain additional disclosures.
- IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard is not expected to have any significant impact on the Modaraba's financial statements.

There are other new and amended standards and interpretations that have been published and are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Modaraba's operations and are therefore not detailed in these financial statements.

2.2 Islamic Financial Accounting Standard - 2

During the year ended June 30, 2008, Islamic Financial Accounting Standard 2 'Ijarah' issued by the Institute of Chartered Accountants of Pakistan which was notified by the Securities and Exchange Commission of Pakistan vide an SRO 431(1)/ 2007 dated May 5, 2007 was adopted. Under the above IFAS 2, the 'Ijarah' transactions are accounted for in the following manner:

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

Consequently, in preparation of these financial statements the Modaraba has accounted for leasing transactions executed before July 01, 2008 as finance leases consistent with prior years and has treated the leasing transactions executed on or after July 01, 2008 in accordance with the requirements of IFAS 2.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

2.3 Critical accounting estimates and judgments

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

- i) Determination and measurement of useful life and residual value of fixed assets and ijarah assets (notes 2.10, 9 and 10).
- ii) Provision for potential Ijarah losses (notes 2.5.4 and 9.4)

2.4 Cash and cash equivalents

Cash and cash equivalents include cash and balances with banks in current and deposit accounts, cash in hand, musharika finance and other short term highly liquid investments with original maturities of three months or less.

2.5 Financial assets

The management of the Modaraba determines the appropriate classification of its financial assets in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial instruments: Recognition and Measurement', at the time of acquisition of financial assets and re-evaluates this classification on a regular basis. The financial assets of the Modaraba have been classified in the following categories:

2.5.1 Classification

- a) Loans and receivables

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

- b) Held to maturity

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

2.5.2 Initial recognition and measurement

Financial assets are initially recognised at fair value including transaction costs.

2.5.3 Subsequent measurement

Subsequent to initial recognition, loans and receivables and held to maturity financial assets are carried at amortised cost.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

2.5.4 Impairment (including provision for potential ijarah losses and write offs)

The carrying amount of the Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the profit and loss account. For loans and receivables, a provision for impairment is established when there is objective evidence that the Modaraba will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Provision for non-performing leases, if any, is made in accordance with the requirements of the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan (SECP) and is charged to the profit and loss account currently. Outstanding balances in net investment in ijarah finance are written off when there is no realistic prospect of recovery.

2.5.5 Derecognition

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

2.5.6 Offsetting of financial assets and liabilities

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

2.6 Net Investment in Ijarah Finance

Ijarah financing entered prior to July 1, 2008 is accounted for as a finance lease whereby assets under ijarah arrangements are presented as receivable at an amount equal to the present value of the minimum ijarah payments, including estimated residual value, if any. Unearned income i.e. excess of aggregate rentals over the cost of the asset is recorded at the inception of the ijarah and is amortised over the term of the ijarah so as to produce a constant rate of return on net investment in ijarah.

2.7 Receivable from terminated / matured contracts

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

2.8 Murabaha transaction

Under murabaha financing, funds disbursed for purchase of goods are recorded as 'advance for murabaha'. On culmination of murabaha i.e. sale of goods to customers, murabaha financings are recorded at the deferred sale price net of profit. Goods purchased but remaining unsold at the balance sheet date are recorded as inventories.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

2.9 Financial liabilities

All financial liabilities are recognised at the time when the Modaraba becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include musharika finance, murabaha finance, redeemable capital, unclaimed profit distribution, creditors, accrued and other liabilities. They are initially recognised at fair value and subsequently stated at amortised cost.

2.10 Fixed assets

2.10.1 Tangible fixed assets

Owned assets

These 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 assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account as and when incurred.

Depreciation on all fixed assets is charged to income using the straight-line method in accordance with the rates specified in note 10 to these financial statements and after taking into account residual value, if significant. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation is charged on additions from the month the asset is available for use and on disposals upto the month preceding the month of disposal.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the profit and loss account, in the period in which they arise.

Ijarah assets

Assets leased out under Ijarah on or after July 1, 2008 are recorded as Ijarah assets and are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged to income applying the straight line method whereby the cost of an asset less salvage value is written off over the lease period, which is considered to be the estimated useful life of the asset.

2.10.2 Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only where it is probable that the future economic benefits associated with the asset will flow to the Modaraba and the cost of item can be measured reliably. Amortisation is charged to income using the straight line method in accordance with the rates specified in note 10 to these financial statements after taking into account residual value, if any. The residual values, useful lives and amortisation method are reviewed and adjusted, as appropriate, at each balance sheet date. Amortisation is charged from the month the asset is available for use while in the case of assets disposed of, it is charged till the month preceding the month of disposal.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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

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

2.11 Loans, advances and other receivables

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

2.12 Taxation

Current

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into account applicable tax credits, rebates and exemption 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 intends to continue availing the tax exemption by distributing at least 90% of its profits to the certificate holders.

Deferred

Deferred tax is recognised using the balance sheet liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts appearing in the financial statements. Deferred tax liability is recognised for all taxable temporary differences. Deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised. Deferred tax asset and liability is measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date. However, the Modaraba has not recognised any amount in respect of deferred tax in these financial statements as the Modaraba intends to continue availing the tax exemption in future years by distributing at least 90% of its profits to its certificate holders every year.

2.13 Creditors, accrued and other liabilities

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

2.14 Provisions

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

2.15 Staff 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 recognised as an employee benefit expense in the profit and loss account when they are due.

2.16 Revenue recognition

- The Modaraba follows the finance method for recognising income on Ijarah contracts commencing prior to July 1, 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. Gains / losses on termination of Ijarah contracts are recognised as income on receipt basis. Income on Ijarah is recognised from the date of delivering of the respective assets to the mustajir.
- For Ijarah arrangements commencing on or after July 1, 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.
- Unrealised income in respect of non-performing Ijarah finance is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations for Modarabas issued by the SECP.
- Documentation charges, front end fees and other Ijarah related income are taken to profit and loss account when they are realised.
- Profit on Musharika arrangements is recognised under the effective mark-up rate method based on the amount outstanding.
- The Modaraba follows the finance method in recognising income on murabaha finance. Under this method the deferred murabaha income i.e. the excess of aggregate murabaha instalments over the cost of the asset under murabaha facility is deferred and then amortised over the term of the murabaha, so as to produce a constant rate of return on murabaha finance. Documentation charges, front-end fee and other murabaha income are recognised as income on a receipt basis.
- Profit on diminishing musharika is recognised on an accrual basis.
- Profit on modaraba finance is recognised on the basis of pre-agreed profit / loss sharing ratio when actual gain / loss on transaction is computed upon termination / completion of the transaction.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

- Mark-up / return on deposits / investments is recognised on accrual basis using the effective interest rate method.
- Other income is recognised on accrual basis.
- Dividend income is recognised when the Modaraba's right to receive the dividend is established.
- Income from shariah non-compliant avenues is not recognised in the profit and loss account and is classified as charity payable.

2.17 Proposed profit distribution to certificate holders

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

2.18 Functional and presentation currency

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

2.19 Segment reporting

As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Chief Executive Officer of the Management Company has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

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

2.20 Earnings per certificate

Earnings per certificate is calculated by dividing the profit after taxation for the year by the weighted average number of certificates outstanding during the year.

| | Note | June 30, 2011 | June 30, 2010 |
|---------------------------------|------|-------------------|-------------------|
| 3 CASH AND BANK BALANCES | | | |
| With banks in current accounts | | 2,333,752 | 23,255 |
| With bank in deposit account | 3.1 | 20,024,512 | 77,774,166 |
| Cash in hand | | 20,000 | 6,524 |
| | | <u>22,378,264</u> | <u>77,803,945</u> |

- 3.1** This represents balance held with the Standard Chartered Bank (Pakistan) Limited (a related party). The deposit account carry profits at the rate of 6.24% (2010: 6.25%). The balance with bank in deposit account and Term Deposit Receipts (Note 4) have been kept in order to comply with the requirement of guidelines issued by the Securities and Exchange Commission of Pakistan (SECP) for maintaining the prescribed liquidity against the Certificates of Musharika issued by the Modaraba.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

| | Note | June 30, 2011 | June 30, 2010 |
|--|---------------|--------------------|--------------------|
| 4 LOANS AND RECEIVABLES | | | (Rupees) |
| Term deposit receipts | 4.1 | <u>70,000,000</u> | <u>300,000,000</u> |
| 4.1 | | | |
| Term Deposit Receipts includes an amount of Rs nil (2010: Rs. 200 million) held with Standard Chartered Bank (Pakistan) Limited (a related party). Term deposit receipts with related party carry profit at nil (2010: 10.75% per annum). Other deposit receipts carry profit at the rate of 12.95% per annum (2010: 11.10 % per annum). | | | |
| | Note | June 30, 2011 | June 30, 2010 |
| 5 IJARAH RENTALS RECEIVABLE | | | (Rupees) |
| Ijarah rentals receivable - considered good | | 71,484,418 | 41,082,814 |
| Less: allowance for potential Ijarah losses | | (1,052,500) | - |
| Less: profit held in suspense | | (3,058,484) | - |
| | | <u>67,373,434</u> | <u>41,082,814</u> |
| 6 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES | | | |
| Loan and advances to employees | | 441,078 | 261,365 |
| Advances to suppliers and others | | 26,000 | 54,000 |
| Deposits | | 50,000 | 50,000 |
| Prepayments | | 3,572,814 | 472,454 |
| Accrued profit on Sukuk certificates | 6.1 | - | 173,502 |
| Accrued profit on Term Deposits Receipts | | 24,837 | 5,390,684 |
| Accrued profit on Diminishing Musharika | | 17,458,284 | 8,229,753 |
| Advance against assets under Ijarah arrangements | | 195,794,600 | - |
| Others | | 159,802 | 68,217 |
| | | <u>217,527,415</u> | <u>14,699,975</u> |
| 6.1 | | | |
| Accrued profit on Sukuk certificates | | 23,372,864 | 15,992,490 |
| Less: Profit held in suspense | | (23,372,864) | (15,818,988) |
| | | <u>-</u> | <u>173,502</u> |
| 7 INVESTMENT IN SUKUK CERTIFICATES - Held to maturity | | | |
| Investment in Sukuk Certificates | 7.1 | 62,890,625 | 67,578,125 |
| Less: Provision in respect of Sukuk certificates | 7.1.2 & 7.1.3 | <u>52,578,125</u> | <u>25,000,000</u> |
| | | 10,312,500 | 42,578,125 |
| Less : Current portion of investment in Sukuk Certificates | | <u>2,109,375</u> | <u>4,687,503</u> |
| | | <u>8,203,125</u> | <u>37,890,622</u> |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

7.1 Particulars of investment in Sukuk Certificates

| Name of investee company | Number of certificates | | | | Profit / mark-up rate | Terms | Redemption terms | | Security | Carrying amount | |
|--------------------------|------------------------|---------------------------|-----------------------|---------------------|-----------------------|-------|------------------|--------|----------|-----------------------------|-----------------------------|
| | As at July 01, 2010 | Purchases during the year | Sales during the year | As at June 30, 2011 | | | Principal | Profit | | Balance as at June 30, 2011 | Balance as at June 30, 2010 |

Sukuk certificates of Rs.5,000 each unless stated otherwise

| | | | | | | | | | | | |
|---|--------|---|---|--------|--------|---------|--|--------------------------|---|------------|------------|
| Security Leasing Corporation Limited - (SLCL) | 5,000 | - | - | 5,000 | 0% | 4 years | note 7.1.1 | note 7.1.1 | First charge over specific leased assets and associated lease receivables with 25% security | 12,890,625 | 17,578,125 |
| Shahraj Fabrics (Private) Limited | 10,000 | - | - | 10,000 | 14.47% | 5 years | 14 equal quarterly installment beginning from 21st month from the date of disbursement | Semi-annually in arrears | First pari passu charge over all present and future plant and machinery of the Company, equivalent to the Facility amount with a 25% margin | 50,000,000 | 50,000,000 |

7.1.1 Last year on March 18, 2010, the terms of the redemption of principal outstanding balance and payment of profit thereon were restructured. Under the revised terms, principal redemptions were to commence from April 2010 in 48 equal monthly installments payable in arrears, and profit was to be payable at the rate of 6% for the first eighteen months commencing from the date of restructuring (3% cash and a 3% accrual basis with the accrued profits payable in equal installments from the 43rd to the 48th month) and at the rate of 1 month KIBOR thereafter i.e. from the 19th month. However, during the current year, the terms of the revised agreement were restructured once again with effect from March 19, 2011. Under the revised agreement, all future profit payments as per the first restructuring agreement were waived and the redemptions of the outstanding principal balance would continue as per the original restructuring agreement. The management, as a result of SLCL's deteriorating financial condition, has provided for the amount of outstanding principal by 20 percent.

7.1.2 Sukuk of Shahraj Fabrics (Private) Limited was overdue and accordingly classified as 'loss' as per requirements of Prudential Regulations for Modaraba. Consequently, management made a provision at the rate of 100 percent and suspended the accrued profit upto June 30, 2011.

7.1.3 Movement in provision against Sukuk Certificates

| | Note | June 30, 2011 | June 30, 2010 |
|---------------------|------|-------------------|-------------------|
| Opening | | 25,000,000 | - |
| Charge for the year | | 27,578,125 | 25,000,000 |
| Closing | | <u>52,578,125</u> | <u>25,000,000</u> |

(Rupees)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

| 8 DIMINISHING MUSHARIKA | | June 30, | June 30, |
|--|-----|--------------------|--------------------|
| | | 2011 | 2010 |
| | | (Rupees) | |
| Housing Finance - Staff | 8.1 | 25,662,161 | 27,141,770 |
| - Other individuals (including ex-employees) | | 17,988,267 | - |
| | | 43,650,428 | 27,141,770 |
| Others - corporate customers | 8.4 | 384,248,986 | 175,000,000 |
| | | 427,899,414 | 202,141,770 |
| Less: current portion of Diminishing Musharika | | (80,980,321) | (807,110) |
| | | <u>346,919,093</u> | <u>201,334,660</u> |

8.1 These represent finance provided to employees and officers of the Modaraba under diminishing musharika arrangement for renovation, construction and purchase of house. These carry profit at the rate of 2% (2010: 2%) per annum and are repayable on monthly basis over a maximum period of 25 years.

| 8.2 Reconciliation of carrying amounts of finance provided to employees and officers under diminishing musharika arrangement | | Officers and employees | |
|--|--|------------------------|-------------------|
| | | June 30, 2011 | June 30, 2010 |
| | | (Rupees) | |
| Opening balance | | 27,141,770 | 19,119,187 |
| Disbursements during the year | | 6,595,200 | 8,733,306 |
| Receipts during the year | | (3,079,824) | (710,723) |
| Transfer to diminishing musharika - others | | (4,994,985) | - |
| Closing balance | | <u>25,662,161</u> | <u>27,141,770</u> |

8.3 The maximum aggregate amounts due from officers and employees at the end of any month during the year were Rs 25,662,161 (2010: 27,208,018).

8.4 This includes an amount of Rs. 125,000,000 due from a customer which was restructured and converted into a diminishing musharika facility last year. Under the revised terms, the customer is required to make principal payments in seventeen quarterly installments commencing from February 15, 2012.

| 9 IJARAH FINANCE | | Note | June 30, | June 30, |
|--|-----|----------|----------------------|----------------------|
| | | | 2011 | 2010 |
| | | (Rupees) | | |
| Ijarah contracts commencing July,1 2008- accounted for under IFAS 2 | 9.1 | | <u>2,965,667,860</u> | <u>1,950,383,580</u> |
| Ijarah contracts prior to July 1, 2008 - accounted for as finance leases | 9.2 | | 358,827,469 | 955,385,965 |
| Less: Current portion of net investment in Ijarah finance | 9.2 | | <u>295,503,090</u> | <u>675,009,453</u> |
| | | | <u>63,324,379</u> | <u>280,376,512</u> |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

9.1 Assets under Ijarah arrangements

The following is a statement of ijarah assets:

| | -----Year ended June 30, 2011----- | | Total |
|----------------------------------|------------------------------------|----------------------|----------------------|
| | Ijarah Assets | | |
| | Plant, Machinery & Equipment | Motor vehicles | |
| | ------(Rupees)----- | | |
| At July 01, 2010 | | | |
| Cost | 1,217,549,184 | 1,276,578,220 | 2,494,127,404 |
| Accumulated depreciation | <u>(284,456,339)</u> | <u>(259,287,485)</u> | <u>(543,743,824)</u> |
| Net book value | 933,092,845 | 1,017,290,735 | 1,950,383,580 |
| Additions | 1,063,351,766 | 881,966,168 | 1,945,317,934 |
| Disposals | | | |
| Cost | <u>(112,913,000)</u> | <u>(191,855,812)</u> | <u>(304,768,812)</u> |
| Depreciation | 49,622,906 | 59,787,897 | 109,410,803 |
| | (63,290,094) | (132,067,915) | (195,358,009) |
| Depreciation charge for the year | (364,276,380) | (367,268,012) | (731,544,392) |
| Impairment against ijarah assets | <u>(3,131,253)</u> | - | <u>(3,131,253)</u> |
| Closing net book value | <u>1,565,746,884</u> | <u>1,399,920,976</u> | <u>2,965,667,860</u> |
| At June 30, 2011 | | | |
| Cost | 2,167,987,950 | 1,966,688,576 | 4,134,676,526 |
| Accumulated depreciation | (599,109,813) | (566,767,600) | (1,165,877,413) |
| Impairment against ijarah assets | <u>(3,131,253)</u> | - | <u>(3,131,253)</u> |
| Net book value | <u>1,568,878,137</u> | <u>1,399,920,976</u> | <u>2,965,667,860</u> |
| | | | |
| | -----Year ended June 30, 2010----- | | Total |
| | Ijarah Assets | | |
| | Plant, Machinery & Equipment | Motor vehicles | |
| | ------(Rupees)----- | | |
| At July 01, 2009 | | | |
| Cost | 930,011,298 | 566,587,386 | 1,496,598,684 |
| Accumulated depreciation | <u>(77,426,634)</u> | <u>(52,305,149)</u> | <u>(129,731,783)</u> |
| Net book value | 852,584,664 | 514,282,237 | 1,366,866,901 |
| Additions | 546,030,109 | 767,038,240 | 1,313,068,349 |
| Disposals | | | |
| Cost | <u>(258,492,223)</u> | <u>(57,047,406)</u> | <u>(315,539,629)</u> |
| Depreciation | 43,560,028 | 10,081,185 | 53,641,213 |
| | (214,932,195) | (46,966,221) | (261,898,416) |
| Depreciation charge for the year | <u>(250,589,733)</u> | <u>(217,063,521)</u> | <u>(467,653,254)</u> |
| Closing net book value | <u>933,092,845</u> | <u>1,017,290,735</u> | <u>1,950,383,580</u> |
| At June 30, 2010 | | | |
| Cost | 1,217,549,184 | 1,276,578,220 | 2,494,127,404 |
| Accumulated depreciation | <u>(284,456,339)</u> | <u>(259,287,485)</u> | <u>(543,743,824)</u> |
| Net book value | <u>933,092,845</u> | <u>1,017,290,735</u> | <u>1,950,383,580</u> |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

9.2 Net Investment in Ijarah Finance

| | Note | June 30, 2011 | | | June 30, 2010 | | |
|---------------------------------------|------|-------------------------|--|--------------------|-------------------------|--|--------------------|
| | | Not later than one year | Later than one year and less than five years | Total | Not later than one year | Later than one year and less than five years | Total |
| ----- (Rupees) ----- | | | | | | | |
| Minimum ijarah payments receivable | | 212,510,640 | 39,792,429 | 252,303,069 | 669,765,422 | 144,443,640 | 814,209,062 |
| Add: Residual value | | 104,899,703 | 27,766,295 | 132,665,998 | 103,519,812 | 144,948,511 | 248,468,323 |
| Gross investment in Ijarah finance | 9.3 | 317,410,343 | 67,558,724 | 384,969,067 | 773,285,234 | 289,392,151 | 1,062,677,385 |
| Less: Unearned finance income | | 21,771,573 | 4,234,345 | 26,005,918 | 90,103,152 | 9,015,639 | 99,118,791 |
| Allowance for potential Ijarah losses | 9.4 | 130,540 | - | 130,540 | 3,681,741 | - | 3,681,741 |
| Suspended income | 9.5 | 5,140 | - | 5,140 | 4,490,888 | - | 4,490,888 |
| Net Investment in Ijarah finance | | <u>295,503,090</u> | <u>63,324,379</u> | <u>358,827,469</u> | <u>675,009,453</u> | <u>280,376,512</u> | <u>955,385,965</u> |

9.3 The Modaraba has entered into various Ijarah agreements for periods ranging from 3 to 6 years (2010: 3 to 6 years). Security deposits ranging from 0% to 50% (2010: 0% to 30%) are obtained at the time of disbursement. The rate of profit implicit in Ijarah finance ranges from 8.50% to 19.50% (2010: 8.50% to 19.50%) per annum.

9.4 Allowance for potential Ijarah losses

| | 2011 | | | 2010 | | |
|------------------------------------|----------------|-------------|----------------|----------------|------------------|------------------|
| | Specific | General | Total | Specific | General | Total |
| ----- Rupees ----- | | | | | | |
| Opening Balance | 130,540 | 3,551,201 | 3,681,741 | 343,415 | 4,350,624 | 4,694,039 |
| Charge for the year | - | - | - | - | - | - |
| Reversal during the year | - | (3,551,201) | (3,551,201) | (127,659) | (799,423) | (927,082) |
| Amount written off during the year | - | - | - | (85,216) | - | (85,216) |
| Closing Balance | <u>130,540</u> | <u>-</u> | <u>130,540</u> | <u>130,540</u> | <u>3,551,201</u> | <u>3,681,741</u> |

9.4.1 As at June 30, 2011, Ijarahs with outstanding principal of Rs. 0.131 million (2010: Rs 58.413 million) have been classified as non-performing as per the requirements of Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan.

9.4.2 Until last year, in addition to specific provision against Ijarah finance, the Modaraba was also maintaining general provision against potential Ijarah losses based on management estimate. However, during the current year the management has decided that the general provision is no longer required as all potential Ijarah losses are timely identified and are subjected to provision as required under the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan. Accordingly, the balance of provision as at June 30, 2010 has been reversed.

9.5 Suspended Income - net investment in Ijarah Finance

| | June 30, 2011 | June 30, 2010 |
|----------------------------------|--------------------|--------------------|
| (Rupees) | | |
| Balance at beginning of the year | 4,490,888 | 3,040,086 |
| Income suspended during the year | - | 5,331,565 |
| Reversals during the year | <u>(4,485,748)</u> | <u>(3,880,763)</u> |
| | <u>5,140</u> | <u>4,490,888</u> |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

9.6 Contractual rentals receivable- Ijarah contracts commencing July 1, 2008

| | June 30, 2011 | | | | June 30, 2010 | | | |
|---|-------------------------|--|-----------------------|----------------------|-------------------------|--|-----------------------|----------------------|
| | Not later than one year | Later than one and not later than five years | Later than five years | Total | Not later than one year | Later than one and not later than five years | Later than five years | Total |
| | (Rupees) | | | | | | | |
| Rentals receivable | 1,291,368,835 | 2,363,694,234 | 60,474 | 3,655,123,543 | 763,267,548 | 1,491,461,349 | 135,536 | 2,254,864,433 |
| Residual value | 29,792,045 | 458,202,299 | - | 487,994,344 | 757,805 | 270,685,531 | - | 271,443,336 |
| Total future Ijarah payments receivable | <u>1,321,160,880</u> | <u>2,821,896,533</u> | <u>60,474</u> | <u>4,143,117,887</u> | <u>764,025,353</u> | <u>1,762,146,880</u> | <u>135,536</u> | <u>2,526,307,769</u> |

10 FIXED ASSETS IN OWN USE

| | -----Year ended June 30, 2011----- | | | | |
|---|------------------------------------|---|------------------|-------------------------|-----------------------|
| | Owned Assets | | | Total | Intangible assets |
| | Furniture and fittings | Office equipment, appliances and computer systems | Motor vehicles | | |
| | (Rupees) | | | | |
| At July 01, 2010 | | | | | |
| Cost | 1,885,764 | 10,154,331 | 879,000 | 12,919,095 | 2,257,697 |
| Accumulated depreciation / amortisation | (973,699) | (8,319,216) | (348,667) | (9,641,582) | (2,257,697) |
| Net book value | <u>912,065</u> | <u>1,835,115</u> | <u>530,333</u> | <u>3,277,513</u> | <u>-</u> |
| Additions | 545,997 | 119,770 | - | 665,767 | 1,096,692 |
| Disposals | | | | | |
| Cost | (867,319) | (4,915,403) | - | (5,782,722) | - |
| Depreciation | 867,319 | 4,915,403 | - | 5,782,722 | - |
| | - | - | - | - | - |
| Depreciation / amortisation charge for the year | <u>(821,245)</u> | <u>(1,199,369)</u> | <u>(530,333)</u> | <u>(2,550,947)</u> | <u>(147,127)</u> |
| Closing net book value | <u><u>636,817</u></u> | <u><u>755,516</u></u> | <u><u>-</u></u> | <u><u>1,392,333</u></u> | <u><u>949,565</u></u> |
| At June 30, 2011 | | | | | |
| Cost | 1,564,442 | 5,358,698 | 879,000 | 7,802,140 | 3,354,389 |
| Accumulated depreciation / amortisation | (927,625) | (4,603,182) | (879,000) | (6,409,807) | (2,404,824) |
| Net book value | <u>636,817</u> | <u>755,516</u> | <u>-</u> | <u>1,392,333</u> | <u>949,565</u> |
| Depreciation / amortisation rate % per annum | 33.33 | 20 and 33.33 | 33.33 | | 33.33 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

| | -----Year ended June 30, 2010----- | | | | Intangible assets |
|---|------------------------------------|---|----------------|-------------|-------------------|
| | Owned Assets | | | Total | |
| | Furniture and fittings | Office equipment, appliances and computer systems | Motor vehicles | | |
| | ----- (Rupees) ----- | | | | |
| At July 01, 2009 | | | | | |
| Cost | 1,702,524 | 10,883,529 | 879,000 | 13,465,053 | 2,257,697 |
| Accumulated depreciation / amortisation | (793,051) | (8,796,690) | (225,613) | (9,815,354) | (2,257,697) |
| Net book value | 909,473 | 2,086,839 | 653,387 | 3,649,699 | - |
| | | | | | |
| Additions | 183,240 | 586,400 | - | 769,640 | - |
| | | | | | |
| Disposals | | | | | |
| Cost | - | (1,315,598) | - | (1,315,598) | - |
| Depreciation | - | 1,169,272 | - | 1,169,272 | - |
| | - | (146,326) | - | (146,326) | - |
| Depreciation / amortisation charge for the year | (180,648) | (691,798) | (123,054) | (995,500) | - |
| Closing net book value | 912,065 | 1,835,115 | 530,333 | 3,277,513 | - |
| | | | | | |
| At June 30, 2010 | | | | | |
| Cost | 1,885,764 | 10,154,331 | 879,000 | 12,919,095 | 2,257,697 |
| Accumulated depreciation / amortisation | (973,699) | (8,319,216) | (348,667) | (9,641,582) | (2,257,697) |
| Net book value | 912,065 | 1,835,115 | 530,333 | 3,277,513 | - |
| | | | | | |
| Depreciation / amortisation rate % per annum | 10 | 10 and 33.33 | 20 | | 33.33 |

10.1 There were no disposals of fixed assets having net book value exceeding Rs. 50,000 individually.

10.2 During the year the Modaraba has changed the estimated useful lives of some classes of fixed assets in own use. The management believes that the revision in useful life provides a more reasonable estimate of the benefits to be obtained from the use of these assets.

The above change has been accounted for as a change in accounting estimate in accordance with the requirements of International Accounting Standards (IAS) 8, "Accounting Policies, Changes in Accounting Estimates and Errors" and has been recognised prospectively in the profit and loss account of the Modaraba in the current year. Had there been no change in the accounting estimate, the profit before taxation for the year ended June 30, 2011 would have been higher by Rs 1.313 million and depreciation charge for the year ended June 30, 2011 would have been lower by 1.488 million.

| | | Note | June 30, 2011 | June 30, 2010 |
|-----------|---------------------------------------|------|------------------|------------------|
| | | | (Rupees) | |
| 11 | MUSHARIKA FINANCE | | | |
| | Musharika with: | | | |
| | - an associated undertaking - secured | 11.1 | 456,528,711 | 9,472,819 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

- 11.1 The total facility for musharika finance available from Standard Chartered Bank (Pakistan) Limited amounts to Rs. 500 million (2010: Rs. 500 million). The estimated share of profit payable on this facility ranges from Rs. 0.3639 to Rs. 0.3978 (2010: Rs.0.3907 to Rs. 0.3660) per rupee one thousand per day. The facility is secured against hypothecation over the moveable leased out assets of the Modaraba.

12 SECURITY DEPOSITS

| | 2011 | | | 2010 | | |
|--|---------------------|-------------------|--------------------|-------------------|----------------|-------------------|
| | Finance lease | Ijarah | Total | Finance lease | Ijarah | Total |
| | ------(Rupees)----- | | | | | |
| Security deposits | 101,965,081 | 365,104,969 | 467,070,050 | 188,985,631 | 155,219,249 | 344,204,880 |
| Less: Repayable / adjustable after one year | 12,153,091 | 338,461,453 | 350,614,544 | 94,634,194 | 154,549,414 | 249,183,608 |
| Current portion | <u>89,811,990</u> | <u>26,643,516</u> | <u>116,455,506</u> | <u>94,351,437</u> | <u>669,835</u> | <u>95,021,272</u> |

- 12.1 Represents sums received under ijarah finance repayable / adjustable at the expiry of the lease period.

13 CREDITORS, ACCRUED AND OTHER LIABILITIES

| | Note | June 30, 2011 | June 30, 2010 |
|-------------------------------------|------|--------------------|--------------------|
| | | (Rupees) | |
| Management fee payable | | 4,819,373 | 9,292,250 |
| Profit payable on: | | | |
| - Redeemable capital | | 58,555,687 | 75,007,725 |
| - Musharika finances | | 6,443,605 | 1,023,672 |
| - Murabaha finances | | - | - |
| Accrued expenses | | 17,980,573 | 14,552,893 |
| Amounts refundable to lessees | 13.2 | 51,196,044 | 27,381,296 |
| Provision for Workers' Welfare Fund | | - | 3,750,586 |
| Penalty payable to charity | | 2,559,344 | 518,221 |
| Others | | 313,288 | 990,417 |
| | | <u>141,867,914</u> | <u>132,517,060</u> |

- 13.1 Amounts due to associated undertakings at June 30, 2011 aggregated Rs. 11,262,978 (2010: Rs. 10,315,922).

- 13.2 This includes Rs. 4.493 million (2010: Rs 1.682 million) on account of termination charges received from musta'jir (lessees) as the termination process was completed subsequent to the balance sheet date. This also includes Rs. 14.934 million (2010: Rs 8.798 million) refundable to ijarah customers in respect of withholding tax deposited by the customers pertaining to ijarah vehicles. The amount will be refunded only if the Modaraba receives the refund from the tax department.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

| 14 REDEEMABLE CAPITAL - PARTICIPATORY AND UNSECURED | Note | Repayable by | June 30, | June 30, |
|---|------|--------------|----------------------|----------------------|
| | | | 2011 | 2010 |
| | | | (Rupees) | |
| Musharika deposits | 14.1 | 2012 | 278,153,776 | 587,026,753 |
| Certificates of Musharika | 14.2 | 2014 | 1,747,485,000 | 1,481,865,000 |
| | | | <u>2,025,638,776</u> | <u>2,068,891,753</u> |
| Less: Current portion of redeemable capital | | | 1,997,908,776 | 1,959,041,753 |
| | | | <u>27,730,000</u> | <u>109,850,000</u> |

14.1 The estimated share of profit payable on Musharika deposits facilities ranges from Rs. 0.2740 to Rs. 0.3534 (2010: Rs. 0.2877 to Rs. 0.4205) per thousand per day.

14.2 The estimated share of profit payable on Certificates of Musharika ranges from Rs. 0.2671 to Rs. 0.4247 (2010: Rs. 0.2603 to Rs. 0.4247) per thousand per day.

15 CERTIFICATE CAPITAL

Authorised certificate capital

| June 30, 2011 (Number of certificates) | June 30, 2010 | | June 30, 2011 (Rupees) | June 30, 2010 (Rupees) |
|--|-------------------|--|------------------------------|------------------------------|
| <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 | 168,835,300 | 168,835,300 |
| <u>45,383,530</u> | <u>45,383,530</u> | | <u>453,835,300</u> | <u>453,835,300</u> |

15.1 As at June 30, 2011, Standard Chartered Services of Pakistan (Private) Limited (the Management Company) and Standard Chartered Bank (Pakistan) Limited held 4,538,353 (2010: 4,538,353) and 4,538,353 (2010: 4,538,353) certificates of Rs. 10 each respectively.

16 RESERVES

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

During the current year, the Modaraba has transferred an amount of Rs 17,321,374 which represents 20% of the profit after tax.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

17 CONTINGENCIES AND COMMITMENTS

- 17.1** An agreement was executed between Haleeb Foods Limited and consortium of financial institutions. As per terms of the agreement, Meezan Bank Limited had to provide Inland Usance L/C facility of Rs 213.6 million to Haleeb Foods Limited on behalf of all the participating institutions for procurement of packaging material from TetraPak. The limit was curtailed to Rs 5.402 million on the basis of pro rata share. The Modaraba's outstanding balance of this facility was Rs 5.332 million as at June 30, 2011. The facility will expire on December 31, 2011.
- 17.2** Another agreement was signed between Haleeb Foods Limited and consortium of financial institutions. As per terms of the agreement, Meezan Bank Limited had to provide working capital facilities to the extent of Rs 425 million to Haleeb Foods Limited. SCM's share out of the working capital line is Rs 22.886 Million which is to be provided in the shape of LC/Ijarah finance. LCs will be established by Meezan Bank Limited on behalf of the consortium and the outstanding balance of SCM's share was Rs 10.355 Million.
- 17.3** Letter of comfort issued to Standard Chartered Bank (Pakistan) Limited on behalf of Mannan Shahid Forgings Limited amounting to Rs 18,914,309 was also outstanding as of June 30, 2011.

| | Note | June 30, 2011 | June 30, 2010 |
|--|-----------|--------------------|--------------------|
| 18 FINANCIAL CHARGES | | | (Rupees) |
| Profit on redeemable capital | | 200,226,695 | 220,087,144 |
| Profit on Musharika finance | | 10,103,884 | 3,667,948 |
| Profit on Murabaha finances | | - | 11,837,271 |
| Bank commission and charges | | 13,854,973 | 8,360,142 |
| | | <u>224,185,552</u> | <u>243,952,505</u> |
| 19 OTHER INCOME | | | |
| Profit on disposal of Ijarah assets | | 7,433,433 | 17,132,081 |
| Gain on premature termination of Ijarah | | 1,688,728 | 3,450,333 |
| Documentation fee | | 4,381,354 | 4,632,373 |
| Profit / (Loss) on disposal of fixed assets in own use | | 55,000 | (71,326) |
| Others | | 6,983 | - |
| | | <u>13,565,498</u> | <u>25,143,461</u> |
| 20 ADMINISTRATIVE AND OPERATING EXPENSES | | | |
| Salaries and other staff benefits | 20.2 & 24 | 31,635,141 | 29,294,932 |
| Depreciation on fixed assets in own use | 10 | 2,698,074 | 995,500 |
| Advertising, travelling and entertainment | | 1,142,292 | 861,099 |
| Postage | | 710,457 | 760,831 |
| Telecommunication | | 444,714 | 444,722 |
| Printing and stationery | | 1,668,624 | 1,722,940 |
| Legal and professional | | 3,804,391 | 2,871,645 |
| Repairs and maintenance | | 2,520,586 | 1,219,629 |
| Charges by associated undertakings | 20.3 | 6,811,926 | 6,817,646 |
| Subscriptions | | 337,392 | 514,800 |
| Auditors' remuneration | 20.4 | 640,004 | 569,000 |
| Certificate of Musharika trustee fee | | 393,277 | 343,582 |
| Insurance - own assets | | 55,252 | 53,064 |
| Sundries | | 452,658 | 274,270 |
| | | <u>53,314,788</u> | <u>46,743,660</u> |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

- 20.1** Office space and related expenditure are borne by Standard Chartered Services of Pakistan (Private) Limited.
- 20.2** Salaries and other staff benefits include Rs.1,322,417 and Rs. 1,100,254 (2010: Rs. 1,201,060 and Rs. 999,116) on account of the Modaraba's contribution to the staff provident fund and gratuity fund respectively.
- 20.3** Charges by associated undertaking represent reimbursement of actual salary cost and other benefits of staff deployed on Modaraba affairs till March 31, 2011 and miscellaneous expenses paid under service level agreement with Standard Chartered Bank (Pakistan) Limited.

| | June 30, 2011 | June 30, 2010 |
|------------------------------------|------------------|------------------|
| 20.4 Auditors' remuneration | (Rupees) | |
| Statutory audit fee | 410,000 | 380,000 |
| Half yearly review fee | 100,000 | 80,000 |
| Special reports and certificates | 90,004 | 69,000 |
| Out of pocket expenses | 40,000 | 40,000 |
| | <u>640,004</u> | <u>569,000</u> |

21 MODARABA MANAGEMENT COMPANY FEE

In accordance with the Modaraba Companies and Modaraba Rules, 1981 management fee at the rate of 10 percent of annual profits is payable to the Management Company.

22 WORKERS' WELFARE FUND

The Finance Act 2008 made certain changes to the 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.

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. Pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to make provision for WWF amounting to Rs. 1.767 million in these financial statements.

| | 2011 | 2010 |
|------------------------------------|---------------------|-------------------|
| 23 EARNINGS PER CERTIFICATE | ------(Rupees)----- | |
| Profit after taxation for the year | <u>86,606,872</u> | <u>79,879,660</u> |
| | Number | Number |
| Average number of certificates | <u>45,383,530</u> | <u>45,383,530</u> |
| | ------(Rupees)----- | |
| Earnings per certificate | <u>1.91</u> | <u>1.76</u> |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

24 REMUNERATION OF OFFICERS

| | | |
|--|-------------------|-------------------|
| Remuneration and staff retirement benefits | 30,937,269 | 28,732,697 |
| Medical expenses reimbursed | 239,248 | 152,626 |
| Other benefits | 458,624 | 409,609 |
| | <u>31,635,141</u> | <u>29,294,932</u> |
| | Number | Number |
| Number of employees at end of the year | <u>26</u> | <u>23</u> |

25 FINANCIAL RISK MANAGEMENT

The Modaraba's activities are exposed to a variety of financial risks which mainly include market risk, credit risk and liquidity risk. The Board of Directors of the Management company has overall responsibility for the establishment and oversight of the Modaraba's risk management framework.

25.1 Market Risk

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

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

25.1.1 Currency risk

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

25.1.2 Profit rate risk

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market profit rates. The Modaraba has adopted appropriate policies to minimise its exposure to this risk. At the reporting date the profit rate profile of the Modaraba's significant profit bearing financial instruments in the periods in which they mature is as follows:

| -----2011----- | | | | | | | | |
|---|-----------------|--------------------|----------------------------------|-------------------------------------|--------------------------------|-----------------|--|-----------------|
| Effective yield / profit rate % | Total | Up to one month | Over one month to 3 months | Over three months to one year | Over one year to five years | Over 5 years | Not exposed to yield / profit risk | |
| ------(Rupees)----- | | | | | | | | |
| Financial Assets | | | | | | | | |
| Cash and bank balances | 6.24% | 22,378,264 | 20,024,512 | - | - | - | - | 2,353,752 |
| Loans and receivable - Term deposit receipts | 12.95% | 70,000,000 | - | 70,000,000 | - | - | - | - |
| Ijarah rentals receivable | - | 67,373,434 | - | - | - | - | - | 67,373,434 |
| Advances, deposits, and other receivables | 2% | 213,928,601 | 195,794,600 | - | - | - | - | 18,134,001 |
| Diminishing Musharika | 2% - 16.83% | 427,899,414 | 1,654,996 | 10,091,632 | 69,233,694 | 309,658,596 | 37,260,496 | - |
| Investment in Sukuk Certificate | 0% - 15.59% | 10,312,500 | - | - | 2,109,375 | 8,203,125 | - | - |
| Total Financial Assets as at June 30, 2011 | | 811,892,213 | 217,474,108 | 80,091,632 | 71,343,069 | 317,861,721 | 37,260,496 | 87,861,187 |
| Financial Liabilities | | | | | | | | |
| Musharika Finance | 13.28% - 14.52% | 456,528,711 | - | 456,528,711 | - | - | - | - |
| Security deposits | - | 467,070,050 | - | - | - | - | - | 467,070,050 |
| Creditors, accrued and other liabilities | - | 141,867,914 | - | - | - | - | - | 141,867,914 |
| Unclaimed profit distribution | - | 23,534,996 | - | - | - | - | - | 23,534,996 |
| Redeemable Capital | 9.75% - 15.5% | 2,025,638,776 | 235,062,668 | 398,722,945 | 1,364,123,163 | 27,730,000 | - | - |
| Total Financial Liabilities as at June 30, 2011 | | 3,114,640,447 | 235,062,668 | 855,251,656 | 1,364,123,163 | 27,730,000 | - | 632,472,960 |
| Total yield / profit risk sensitivity gap | | | | (17,588,560) | (775,160,024) | (1,292,780,094) | 290,131,721 | 37,260,496 |
| Cumulative yield / profit risk sensitivity gap | | | | (17,588,560) | (792,748,584) | (2,085,528,678) | (1,795,396,957) | (1,758,136,461) |
| -----2010----- | | | | | | | | |
| Effective yield / profit rate % | Total | Up to one month | Over one month to 3 months | Over three months to one year | Over one year to five years | Over 5 years | Not exposed to yield / profit risk | |
| ------(Rupees)----- | | | | | | | | |
| Financial Assets | | | | | | | | |
| Cash and bank balances | 6.25% | 77,803,945 | 77,774,166 | - | - | - | - | 29,779 |
| Loans and receivables | 10.75% - 11.10% | 300,000,000 | 200,000,000 | 100,000,000 | - | - | - | - |
| Ijarah rentals receivable | - | 41,082,814 | - | - | - | - | - | 41,082,814 |
| Advances, deposits, and other receivables | 2% | 14,173,521 | - | - | - | - | - | 14,173,521 |
| Diminishing Musharika | 2% - 15.41% | 202,141,770 | 66,282 | 175,132,665 | 618,277 | 3,856,704 | 22,467,842 | - |
| Investment in Sukuk Certificate | 6% - 14.47% | 42,578,125 | 17,578,125 | 25,000,000 | - | - | - | - |
| Total Financial Assets as at June 30, 2010 | | 677,780,175 | 295,418,573 | 300,132,665 | 618,277 | 3,856,704 | 22,467,842 | 55,286,114 |
| Financial Liabilities | | | | | | | | |
| Musharika Finance | 13.35% - 14.26% | 9,472,819 | - | 9,472,819 | - | - | - | - |
| Security deposits | - | 344,204,880 | - | - | - | - | - | 344,204,880 |
| Creditors, accrued and other liabilities | - | 128,766,474 | - | - | - | - | - | 128,766,474 |
| Unclaimed profit distribution | - | 21,721,026 | - | - | - | - | - | 21,721,026 |
| Redeemable Capital | 9.75% - 15.5% | 2,068,891,753 | 383,324,500 | 524,323,664 | 1,054,973,589 | 106,270,000 | - | - |
| Total Financial Liabilities as at June 30, 2010 | | 2,573,056,952 | 383,324,500 | 533,796,483 | 1,054,973,589 | 106,270,000 | - | 494,692,380 |
| Total yield / profit risk sensitivity gap | | | | (87,905,927) | (233,663,818) | (1,054,355,312) | (102,413,296) | 22,467,842 |
| Cumulative yield / profit risk sensitivity gap | | | | (87,905,927) | (321,569,745) | (1,375,925,057) | (1,478,338,353) | (1,455,870,511) |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in profit rates at the reporting date would have increased / (decreased) profit for the year by the amount shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis has been performed on the same basis as for 2010.

| | Profit and loss 100 bp | |
|---|------------------------|---------------------|
| | Increase | Decrease |
| As at June 30, 2011 | | |
| Cash flow sensitivity - variable rate financial assets | 34,436,551 | (34,436,551) |
| Cash flow sensitivity - variable rate financial liabilities | <u>(21,710,755)</u> | <u>21,710,755</u> |
| Net effect | <u>12,725,796</u> | <u>(12,725,796)</u> |
| As at June 30, 2010 | | |
| Cash flow sensitivity - variable rate financial assets | 33,074,722 | (33,074,722) |
| Cash flow sensitivity - variable rate financial liabilities | <u>(20,951,893)</u> | <u>20,951,893</u> |
| Net effect | <u>12,122,829</u> | <u>(12,122,829)</u> |

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

25.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Modaraba is not exposed to equity securities price risk as the Modaraba does not hold any equity securities as at June 30, 2011.

25.2 Credit risk

25.2.1 Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The 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 for Modarabas issued by the SECP.

25.2.2 As at June 30, 2011 there were no financial assets which have been pledged as collateral for liabilities or contingent liabilities of the Modaraba.

25.2.3 Outstanding amount of the Modaraba's net investment in Ijarah finance are secured against leased assets. In a few Ijarahs, additional collateral is also obtained in the form of mortgages of property. The Modaraba is entitled to repossess and sell these assets in case of default by the customers. During the current year, the Modaraba has not repossessed any assets.

25.2.4 A reconciliation of provision made during the year in respect of financial assets is given in note 7.1.3 and note 9.4 to these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

25.2.5 The maximum exposure to credit risk, by class of financial instruments at the end of the reporting period without taking into account any collateral held or other credit enhancement is given in note 25.4 to these financial statements except for cash in hand of Rs. 20,000 (2010: Rs 6,524).

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

| | June 30, 2011 | June 30, 2010 |
|----------------------------|---------------|---------------|
| | Rupees | |
| Bank balances | | |
| AAA | 22,358,264 | 77,797,421 |
| Sukuk certificates ratings | | |
| CCC | 12,890,625 | 17,578,125 |
| Un-rated | 50,000,000 | 50,000,000 |

25.2.7 An analysis of the age of significant financial assets that are past due but not impaired are as under:

| | June 30, 2011 | | June 30, 2010 | |
|----------------------------------|--------------------------------|---------------------------------|-----------------------------|---------------------------------|
| | Total outstanding amount | Payment overdue (in days) | Total outstanding amount | Payment overdue (in days) |
| Net investment in Ijarah finance | 10,748,989 | 1-179 days | 13,486,711 | 1-179 days |
| Ijarah rentals receivable | 16,622,560 | 1-179 days | 11,032,795 | 1-179 days |

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

| | As at June 30, 2011 | | | | |
|----------------------------------|---------------------|-------------|------------|------------|------------|
| | OAEM | Substandard | Doubtful | Loss | Total |
| Net investment in Ijarah finance | - | - | - | 130,540 | 130,540 |
| Ijarah rentals receivable | 16,260,082 | - | - | 4,416,355 | 20,676,437 |
| Sukuk Certificates | - | 12,890,625 | - | 50,000,000 | 62,890,625 |
| | As at June 30, 2010 | | | | |
| | OAEM | Substandard | Doubtful | Loss | Total |
| Net investment in Ijarah finance | 58,282,556 | - | - | 130,540 | 58,413,096 |
| Sukuk Certificates | - | - | 50,000,000 | - | 50,000,000 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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

Details of the industrial sector analysis of lease portfolio (excluding residual value) are as follows:

| Sectors | 2011 | | 2010 | |
|---|----------------------|-------------|----------------------|-------------|
| | (Rupees) | % | (Rupees) | % |
| FMCG/Food & Allied | 824,743,664 | 24.79% | 494,826,022 | 17.59% |
| Chemical | 452,939,948 | 13.61% | 426,395,124 | 15.16% |
| Petroleum | 67,680,734 | 2.03% | 341,325,338 | 12.14% |
| Travel Transport, Storage & Communication | 254,698,130 | 7.65% | 221,038,227 | 7.86% |
| Fuel & Energy | 258,771,650 | 7.78% | 179,531,425 | 6.38% |
| Miscellaneous | 266,883,102 | 8.02% | 242,633,243 | 8.63% |
| Sugar | 251,367,658 | 7.55% | 150,703,677 | 5.36% |
| Pharmaceuticals | 55,912,481 | 1.68% | 152,850,692 | 5.44% |
| Services | 200,087,323 | 6.01% | 151,082,145 | 5.37% |
| Textile | 205,276,214 | 6.17% | 184,959,451 | 6.58% |
| Cement | 76,417,393 | 2.29% | 102,299,903 | 3.64% |
| Automobile | 68,062,348 | 2.04% | 64,827,043 | 2.31% |
| Individual | 160,253,879 | 4.81% | 41,407,140 | 1.47% |
| Steel & Engineering | 160,775,178 | 4.83% | 32,061,840 | 1.14% |
| Financial Institutions | 21,950,388 | 0.65% | 26,374,149 | 0.94% |
| | <u>3,325,820,090</u> | <u>100%</u> | <u>2,812,315,419</u> | <u>100%</u> |

| | Note | 2011 (Rupees) | 2010 (Rupees) |
|---|------|----------------------|----------------------|
| Investment in Ijarah Finance / assets under Ijarah arrangements | | 3,324,495,329 | 2,905,769,545 |
| Less: Security deposits held | 12 | 467,070,050 | 344,204,880 |
| Add: Allowance for potential ijarah losses | 9.4 | 130,540 | 3,681,741 |
| Add: Impairment against ijarah assets | 9.1 | 3,131,253 | - |
| Add: Markup held in suspense | 9.5 | 5,140 | 4,490,888 |
| | | <u>2,860,692,212</u> | <u>2,569,737,294</u> |
| Investment in Sukuk certificates | 7 | 62,890,625 | 67,578,125 |
| Investment in Diminishing Musharika other than staff housing | 8 | 402,237,253 | 175,000,000 |
| | | <u>3,325,820,090</u> | <u>2,812,315,419</u> |

25.3 Liquidity Risk

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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

| | As at June 30, 2011 | | | |
|--|----------------------|----------------------|--|--------------------|
| | Total | Upto three months | More than three months and upto one year | More than one year |
| ------(Rupees)----- | | | | |
| Musharika finance | 456,528,711 | 456,528,711 | - | - |
| Security deposits | 467,070,050 | 19,959,330 | 96,496,176 | 350,614,544 |
| Creditors, accrued and other liabilities | 141,867,914 | 141,867,914 | - | - |
| Unclaimed profit distribution | 23,534,996 | 23,534,996 | - | - |
| Redeemable capital | 2,025,638,776 | 633,785,613 | 1,364,123,163 | 27,730,000 |
| | <u>3,114,640,447</u> | <u>1,275,676,564</u> | <u>1,460,619,339</u> | <u>378,344,544</u> |

| | As at June 30, 2010 | | | |
|--|----------------------|----------------------|--|--------------------|
| | Total | Upto three months | More than three months and upto one year | More than one year |
| ------(Rupees)----- | | | | |
| Musharika finance | 9,472,819 | 9,472,819 | - | - |
| Security deposits | 344,204,880 | 16,908,335 | 78,112,937 | 249,183,608 |
| Creditors, accrued and other liabilities | 128,766,474 | 128,766,474 | - | - |
| Unclaimed profit distribution | 21,721,026 | 21,721,026 | - | - |
| Redeemable capital | 2,068,891,753 | 907,648,164 | 1,054,973,589 | 106,270,000 |
| | <u>2,573,056,952</u> | <u>1,084,516,818</u> | <u>1,133,086,526</u> | <u>355,453,608</u> |

25.4 FINANCIAL INSTRUMENTS BY CATEGORY

| | As at June 30, 2011 | | | |
|--|-----------------------|---|-------------------|--------------------|
| | Loans and receivables | Assets at fair value through profit or loss | Held to maturity | Total |
| ------(Rupees)----- | | | | |
| ASSETS | | | | |
| Cash and bank balances | 22,378,264 | - | - | 22,378,264 |
| Loans and receivable - Term deposit receipts | 70,000,000 | - | - | 70,000,000 |
| Ijarah rentals receivable | 67,373,434 | - | - | 67,373,434 |
| Advances, deposits and other receivables | 213,928,601 | - | - | 213,928,601 |
| Diminishing Musharika | 427,899,414 | - | - | 427,899,414 |
| Investment in sukuk certificates | - | - | 10,312,500 | 10,312,500 |
| | <u>801,579,713</u> | <u>-</u> | <u>10,312,500</u> | <u>811,892,213</u> |

| | As at June 30, 2011 | | |
|--|--|-----------------------------|----------------------|
| | Liabilities at fair value through profit or loss | Other financial liabilities | Total |
| ------(Rupees)----- | | | |
| LIABILITIES | | | |
| Musharika finance | - | 456,528,711 | 456,528,711 |
| Security deposits | - | 467,070,050 | 467,070,050 |
| Creditors, accrued and other liabilities | - | 141,867,914 | 141,867,914 |
| Redeemable capital | - | 2,025,638,776 | 2,025,638,776 |
| Unclaimed profit distribution | - | 23,534,996 | 23,534,996 |
| | <u>-</u> | <u>3,114,640,447</u> | <u>3,114,640,447</u> |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

| | ----- As at June 30, 2010 ----- | | | |
|--|---------------------------------|--|--------------------------------|--------------------|
| | Loans and receivables | Assets at fair value through profit & loss | Held to maturity | Total |
| ASSETS | ----- (Rupees) ----- | | | |
| Cash and bank balances | 77,803,945 | - | - | 77,803,945 |
| Loans and receivable - Term deposit receipts | 300,000,000 | - | - | 300,000,000 |
| Ijarah rentals receivable | 41,082,814 | - | - | 41,082,814 |
| Advances, deposits and other receivables | 14,173,521 | - | - | 14,173,521 |
| Diminishing Musharika | 202,141,770 | - | - | 202,141,770 |
| Investment in sukuk certificates | - | - | 42,578,125 | 42,578,125 |
| | <u>635,202,050</u> | <u>-</u> | <u>42,578,125</u> | <u>677,780,175</u> |
| | ----- As at June 30, 2010 ----- | | | |
| | | Liabilities at fair value through profit or loss | Other financial liabilities | Total |
| LIABILITIES | ----- (Rupees) ----- | | | |
| Musharika finance | - | 9,472,819 | 9,472,819 | |
| Security deposits | - | 344,204,880 | 344,204,880 | |
| Creditors, accrued and other liabilities | - | 128,766,474 | 128,766,474 | |
| Redeemable capital | - | 2,068,891,753 | 2,068,891,753 | |
| Unclaimed profit distribution | - | 21,721,026 | 21,721,026 | |
| | <u>-</u> | <u>2,573,056,952</u> | <u>2,573,056,952</u> | |

25.5 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

Effective July 1, 2009, the Modaraba adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

Presently, the modaraba does not have any instruments which fall in the fair value hierarchy.

26 CAPITAL RISK MANAGEMENT

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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

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

| | 2011 | 2010 |
|------------------------------|-----------------------------|-----------------------------|
| | ------(Rupees)----- | |
| Total borrowings | 2,482,167,487 | 2,078,364,572 |
| Less: cash and bank balances | <u>22,378,264</u> | <u>77,803,945</u> |
| Net debt | 2,459,789,223 | 2,000,560,627 |
| Total equity | <u>938,069,605</u> | <u>928,614,734</u> |
| Total capital | <u><u>3,397,858,828</u></u> | <u><u>2,929,175,361</u></u> |
| Gearing ratio | 72.4% | 68.3% |

27 SEGMENT INFORMATION

As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Chief Executive Officer of the Management Company has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

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

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

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

The Modaraba also has a diversified certificate holder population. As at June 30, 2011, there were only three (June 30, 2010: three) certificate holders who each held more than 10% of the Modaraba's certificate capital. Their holdings were 10%, 10% and 11.24% (June 30, 2010: 10%, 10% and 11.24%) respectively.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

28 RELATED PARTY TRANSACTIONS

The related parties of the Modaraba comprise of the 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:

| | June 30, 2011 | June 30, 2010 |
|--|------------------|------------------|
| | (Rupees) | |
| Holding Company | | |
| Lease rentals received | - | 4,553,780 |
| Profit on Musharika finance | 10,103,884 | 3,667,948 |
| Profit on deposit account | 5,050,620 | 15,198,970 |
| Bank charges and commission | 13,854,973 | 8,360,142 |
| Charge for reimbursement of salaries and benefits | 5,551,626 | 5,557,346 |
| Charge for reimbursement of miscellaneous expenses | 1,260,300 | 1,260,300 |
| Staff retirement benefit funds | | |
| Contribution to the staff provident fund | 1,322,417 | 1,201,060 |
| Contribution to the staff gratuity fund | 1,100,254 | 999,116 |
| Management Company | | |
| Management fee | 9,819,373 | 9,292,250 |
| Other related party | | |
| Reimbursement of salaries and benefits | 2,394,468 | 1,323,300 |
| Key management personnel remuneration | | |
| Salaries and benefits | 9,393,981 | 7,724,509 |
| Contribution to staff provident fund | 365,266 | 348,000 |
| Contribution to the staff gratuity fund | 304,273 | 290,000 |
| Number of persons | 4 | 3 |

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 agreed terms. The balances with related parties have been disclosed in the respective notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

29 CASH AND CASH EQUIVALENTS

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

| Cash and bank balances | Note | June 30, 2011 | June 30, 2010 |
|--|------|----------------------|--------------------|
| | | (Rupees) | |
| Cash and bank balances | 3 | 22,378,264 | 77,803,945 |
| Loans and receivable - Term deposit receipts | 4 | 70,000,000 | 300,000,000 |
| Musharika Finance | 11 | <u>(456,528,711)</u> | <u>(9,472,819)</u> |
| | | <u>(364,150,447)</u> | <u>368,331,126</u> |

30 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, whenever necessary, for the purposes of appropriate presentation. No significant reclassifications have been made during the current year.

- Penalty payable to charity amounting to Rs. 2,559,344 have now been shown separately as a line item under the head creditors, accrued and other liabilities. Previously, it was shown in 'others' of the same head of account.
- Income on house loans to employees amounting to Rs. 419,704 has now been classified under the head 'Income on diminishing musharika'. Previously, it was shown in 'Others' of 'Other income'.

31 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on September 28, 2011 have approved cash distribution of Rs. 1.725 (2010: Rs. 1.70) per certificate. The financial statements of the Modaraba for the year ended June 30, 2011 do not include the effect of the final distribution which will be accounted for in the financial statements of the Modaraba for the year ending June 30, 2012.

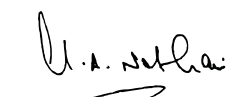
32 DATE OF AUTHORISATION

These financial statements were authorised for issue on September 28, 2011 by the Board of Directors of the Management Company.

33 GENERAL

33.1 Figures have been rounded off to the nearest rupee.

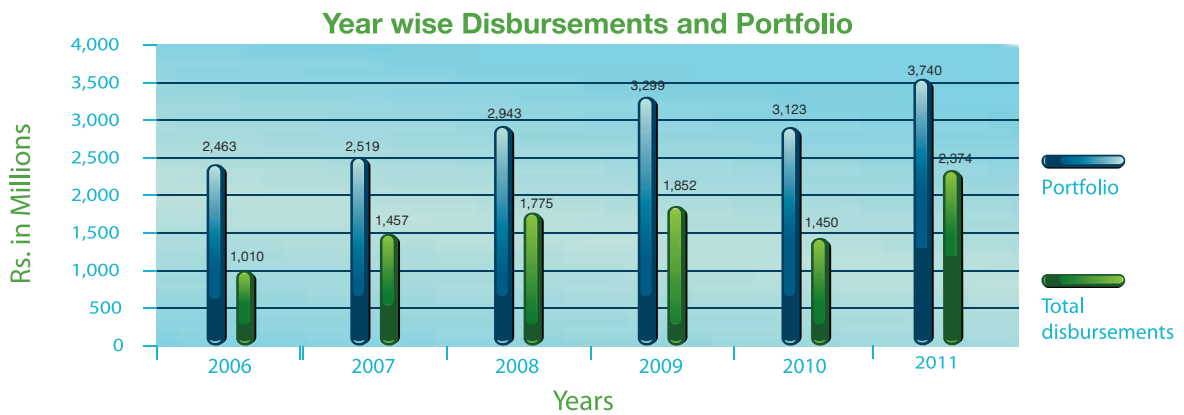
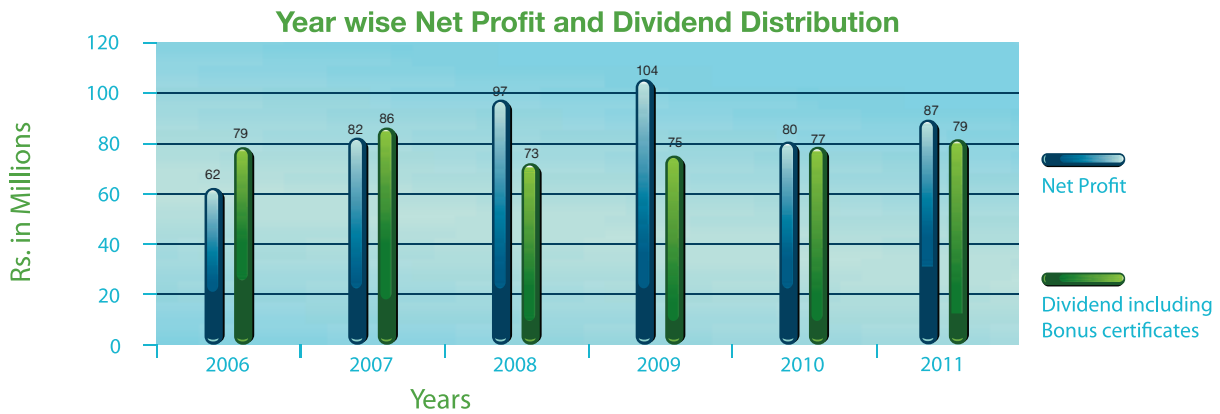
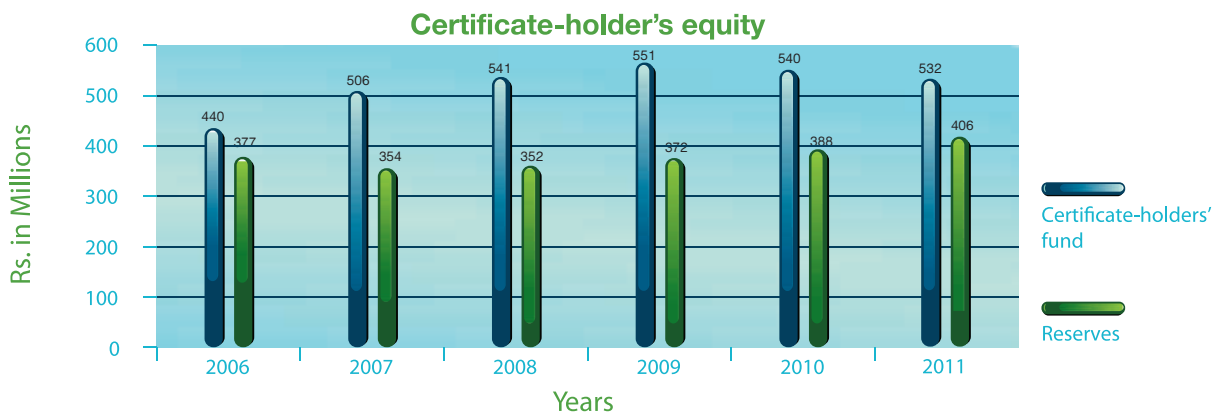
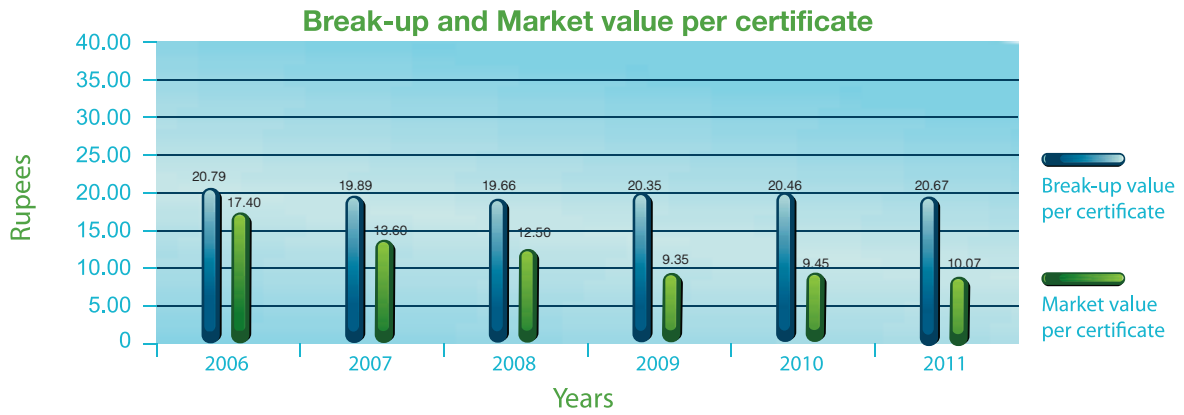
For Standard Chartered Services of Pakistan (Private) Limited
(Management Company)


Chairman


Chief Executive


Director

Graphs



Six Years' Financial Summary

| | Jun-06 | Jun-07 | Jun-08 | Jun-09 | Jun-10 | Jun-11 |
|--|--------|--------|--------|--------|--------|--------|
| Key Financial Figures (Rs. In millions) | | | | | | |
| Profit & Loss Account | | | | | | |
| Revenues from operations | 244 | 253 | 273 | 397 | 408 | 404 |
| Financial charges | 149 | 133 | 129 | 237 | 244 | 224 |
| Impairment loss against doubtful debts | - | - | 1 | 3 | 24 | 28 |
| Net Profit | 62 | 82 | 97 | 104 | 80 | 87 |
| Dividend including Bonus certificates | 79 | 86 | 73 | 75 | 77 | 79 |
| Balance Sheet | | | | | | |
| Certificate-holders' fund (cum dividend) | 440 | 506 | 541 | 551 | 540 | 532 |
| Reserves | 377 | 354 | 352 | 372 | 388 | 406 |
| Borrowings from financial institutions | 677 | 318 | 989 | 363 | 9 | 457 |
| Redeemable capital and deposits | 998 | 1,303 | 1,088 | 1,942 | 2,413 | 2,493 |
| Portfolio (other than staff finances) | 2,463 | 2,519 | 2,943 | 3,299 | 3,123 | 3,740 |
| Total disbursements | 1,010 | 1,457 | 1,775 | 1,852 | 1,450 | 2,374 |
| Key Financial Ratios | | | | | | |
| Return on equity (%) | 7.53 | 9.56 | 10.90 | 11.25 | 8.60 | 9.23 |
| Financial charges cover ratio | 2.43 | 1.62 | 1.33 | 2.28 | 3.05 | 2.59 |
| Net profit ratio (%) | 25.22 | 32.52 | 35.64 | 27.15 | 20.91 | 22.22 |
| Income / Expense ratio | 1.32 | 1.45 | 1.53 | 1.36 | 1.26 | 1.30 |
| Debt / Equity ratio | 2.13 | 1.98 | 1.97 | 2.10 | 2.24 | 2.65 |
| Shares and Earnings | | | | | | |
| Break-up value per certificate | 20.79 | 19.89 | 19.66 | 20.35 | 20.46 | 20.67 |
| Market value per certificate | 17.40 | 13.60 | 12.50 | 9.35 | 9.45 | 10.07 |
| Earning per certificate | 1.42 | 1.90 | 2.14 | 2.29 | 1.76 | 1.91 |
| Cash dividend per certificate | 1.00 | 1.50 | 1.60 | 1.65 | 1.70 | 1.725 |
| Bonus certificate (%) | 10.00 | 5.00 | - | - | - | - |
| Price earning ratio | 12.25 | 7.16 | 5.83 | 4.08 | 5.37 | 5.28 |

