

Annual Report

June 30, 2006

Standard
Chartered
Modaraba



Rating by:
PACRA

The long-term rating is represented by three 'A's and a plus sign. The first two 'A's are solid green, and the third 'A' and the plus sign are white with a green outline.

Long-term

The short-term rating is represented by an 'A', a '1', and a plus sign. The 'A' is white with a blue outline, while the '1' and the plus sign are solid blue.

Short-term

Highest rating in the entire Modaraba and Leasing sectors.

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

Vision

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

Mission

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

We believe in our values

Courageous

With you we can
overcome obstacles.

Responsive

With you we will
triumph in partnership

Trustworthy

With you we will
reach new heights.

International

With you there are
no borders.

Creative

With you there are
ways to add value.



Corporate Excellence Award by Management Association of Pakistan.

Honours & Achievements



ANNUAL REPORT 2006

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Board of Directors



Badar Kazmi
Chairman

Appointed as Director and Chairman of the board on July 17, 2003. Also holds the position of Chief Executive Standard Chartered Bank, Pakistan. Has an extensive and diversified banking experience of 25 years, holding key positions both locally and internationally including that of being the Regional Head of Global Markets, Middle East & South Asia as well as Africa.



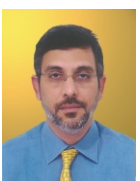
Shariq Saleem
Managing Director/Chief Executive

Appointed to the Board on January 19, 2004 as Managing Director / Chief Executive. Prior to his appointment he was Chief Operating Officer of Standard Chartered Bank, Pakistan. He joined banking profession in 1983 and has held a number of senior positions in consumer, operations, project and general management. He also spent seven years in senior positions with Ministry of Industries, Government of Pakistan.



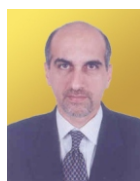
Cyrus J. Masani
Director

Appointed to the board on May 09, 2005. Also holds the position of head of Finance and Administration, Standard Chartered Bank, Pakistan. Prior to joining the bank, he was the Chief Financial Officer of Standard Chartered Modaraba and Company Secretary of Standard Chartered Services of Pakistan (Private) Ltd. He has over 17 years of post qualification experience and also held senior positions in a leading audit firm and a multinational company.



Muhammad Afaq Khan
Director

Appointed to the board on May 09, 2005. Also holds the position of head of Islamic Banking, Standard Chartered Bank, Dubai. Prior to joining the bank, he had spent two years in HSBC Group and thirteen years in CitiGroup and held a number of senior positions in Investment Banking, Corporate Banking and Financial Institutions of the two Groups.



Imran Ahad
Director

Appointed to the board on April 19, 2006. Also holds the position of Head of Client Relationships in Standard Chartered Bank. He joined banking profession in 1985, and has an extensive and diversified banking experience of 21 years, holding key positions both locally and internationally. Prior to joining the bank, he had spent two years in BCCI, Pakistan, and six years in Union National Bank, Abu Dhabi, UAE.



Arslan Nayeem
Director

Appointed to the board on July 21, 2006. Also holds the position of Senior Credit Officer in Standard Chartered Bank, Pakistan. He joined banking profession in 1995, and has banking experience of 12 years. In his career he has held various positions in Standard Chartered Group both locally and internationally.

Modaraba Information

Directors of Modaraba Company

Mr. Badar Kazmi
Chairman

Mr. Shariq Saleem
Managing Director/Chief Executive

Mr. Cyrus J. Masani
Director

Mr. Muhammad Afaq Khan
Director

Mr. Imran Ahad
Director

Mr. Arslan Nayeem
Director

Company Secretary

Mr. Asif Iqbal Alam

Audit Committee

Mr. Cyrus J. Masani
Chairman

Mr. Imran Ahad
Member

Mr. Arslan Nayeem
Member

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

Bankers / Lending Institutions

Standard Chartered Bank
MCB Bank Limited

Legal Advisors

Fazle Ghani Khan & Co.
Mohsin Tayebali & 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: 2450000

Branch Offices

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

Standard Chartered Bank Building
P. O. Box 1004
No. 1 Diplomatic Enclave
Islamabad
Phone: (051) 2088209

Registrars & Share Registration Office

Ferguson Associates (Pvt) Ltd.
P. O. Box 4716
State Life Building 1-A
Off. I. I. Chundrigar Road
Karachi-74000

Web Address

www.scmodaraba.com

Notice of Annual Review Meeting

Notice is hereby given that the Seventh Annual Review Meeting of certificate-holders of Standard Chartered Modaraba (SCM) will be held on Tuesday, December 12, 2006 at 10:30 am at The Institute of Bankers, Moulvi Tamizuddin Khan Road, Karachi, to review the performance of the Modaraba for the year ended June 30, 2006.

The certificate holders whose names appear on the Register of certificate-holders of SCM as on December 05, 2006 will be eligible to attend the Annual Review Meeting.

By order of the Board



Asif Iqbal Alam
Company Secretary
Standard Chartered Services of Pakistan (Pvt) Ltd.
Managers of Standard Chartered Modaraba
Karachi: September 19, 2006

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, 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 SECP, Form 'A' and Annual Statement of Collection / Deduction of Withholding Tax from dividend payments u/s 150 of Income Tax Ordinance, 2001 to Income Tax Authorities. Above statutory returns now require Computerized NIC numbers 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.

Twentieth Report of the Directors of Modaraba Company for the year ended June 30, 2006

The Board of Directors of Standard Chartered Services of Pakistan (Private) Limited, the Management Company of Standard Chartered Modaraba (SCM), has pleasure in presenting the twentieth Directors' report of SCM, together with audited accounts for the year ended June 30, 2006.

1. Financial Results

Financial results are summarized as under:

	Year ended 30.06.2006 (Rupees in thousands)	Year ended 30.06.2005 (Rupees in thousands)
Net profit for the year	61,512	95,640
Add: Unappropriated profit brought forward	3,982	2,437
Profit available for appropriation	65,494	98,077
Appropriations:		
Profit distribution @ 10% (2005: @ 20%)	39,293	74,844
Statutory reserve	18,000	19,250
	57,293	94,094
Unappropriated profit carried forward	8,201	3,983
Earnings per certificate	1.57	2.43

2. Profit Distribution

The Board, in its meeting held on September 19, 2006, has approved the distribution of profit of Rs. 1(10%) per certificate of Rs. 10 each, subject to deduction of zakat and tax at source where applicable, for the year ended June 30, 2006. The Director also approved a bonus issue of 10% i.e. 10 certificates for every 100 existing certificates held by transfer from the share premium reserve account.

An amount of Rs. 18 million has been transferred to statutory reserve in compliance with the Prudential Regulations for Modarabas which require that not less than 20% and not more than 50% of the Modaraba's after tax profit be transferred to such reserve till such time as the reserve equals 100% of the paid-up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred.

3. Entity Ratings

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

4. Review of Operations

During the period under review, Modaraba's gross income has been increased by 10% to 244 million as against 222 million last year. However, Modaraba's financial cost has increased by 46%.

Moreover, reversal in impairment loss stood at 2.6 million as against 22 million last year. The increase in financial cost and lower reversal in impairment loss has resulted in decrease in profits.

5. Economic Outlook and Future Prospects

According to the data released by State Bank of Pakistan real GDP grew by 6.6% during fiscal year 2006. Increased interest rates, high oil prices and pressure on foreign exchange triggered high inflation. SBP adopt a monetary tightening stance to curb inflation. Inflation seems to be under control with inflation at 7.92% against the inflation of 9.28% last year. The real challenge for the economic managers in years to come is to address the trade deficit and current account balance.

The economic fundamentals seem to be sound and promising indicating potential for growth in every sector of the economy especially consumer credit. Your Modaraba, therefore, has every reason to look into the future with optimism. We will continue to place emphasis on service quality with focus on quality clients. Efforts to expand product range are under way and we constantly look forward to increased business opportunities.

6. Corporate and Financial Reporting Framework

- The financial statements, prepared by the management of the modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the modaraba have been maintained.
- Accounting policies have been consistently applied in preparation of financial statements. Accounting estimates used are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.
- The system of internal control, which is in place, is being continuously reviewed by internal audit and other such procedures. The process of review will continue and any weakness in controls will be removed.
- Board is satisfied with the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data for the last six years in summarized form is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on June 30, 2006 except for those disclosed in the financial statements.

- The value of investments made by staff retirement benefit funds based on their respective audited accounts as at June 30, 2005 is as follows:

Provident Fund	Rs. 7.5 million
Gratuity Fund	Rs. 3.5 million

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

Name of Director	No. of Meetings Attended
Badar Kazmi	07
Shariq Saleem	06
Rehan M. Shaikh	06
Cyrus J. Masani	07
Muhammad Saleem	07
Muhammad Afaq Khan	02

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

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

7. The Board of Directors and Audit Committee

The following changes have taken place in board of directors since the Directors' report for the last quarter:

- Mr. Rehan M. Shaikh and Mr. Muhammad Saleem resigned from the offices of directors of the company.
- Mr. Imran Ahad, Head of Client Relationships, SCB, Pakistan, and Mr. Arslan Nayeem, Senior Credit Officer, SCB, Pakistan and also a member of audit committee were appointed as directors of the company.

The following changes have taken place in the Audit Committee since the Directors' report for the last quarter:

- Mr. Rehan M. Shaikh and Mr. Muhammad Saleem resigned from the audit committee.
- Mr. Imran Ahad, Head of Client Relationships, SCB, Pakistan was appointed as member of the audit committee.

The Board wishes to place on record its appreciation and gratitude to the outgoing directors and officers for the valuable services rendered by them.

8. Our People

The Board places on record its appreciation of the services rendered by the staff members responsible for SCM's 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.

9. Auditors

On the recommendation of the Audit Committee, the Board has approved the appointment of the present auditors Messrs. KPMG Taseer Hadi & Co., Chartered Accountants as auditors for the year ending June 30, 2007 subject to approval by the Registrar of Modaraba Companies and Modarabas.

10. Acknowledgment

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

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

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Badar Kazmi', with a horizontal line extending from the bottom of the signature.

Badar Kazmi
Chairman

September 19, 2006

Pattern of holding of certificates by the certificate-holders as at June 30, 2006

No. of Certificate-holders	Certificate holding		Total Certificates Held
	From	To	
1,437	1	50	28,929
629	51	100	45,246
4,120	101	500	1,134,523
1,339	501	1000	932,134
1,684	1001	5000	3,481,175
284	5001	10000	1,967,231
287	10001	above	31,703,862
9,780		Total	39,293,100

Categories of Certificate-holders	Number	Certificates held	Percentage
Individuals	9,633	13,375,075	34.04
Financial Institutions *	19	16,772,323	42.69
Investment Companies	4	1,314,005	3.34
Insurance Companies	16	6,474,056	16.48
Modarabas / Modaraba Companies **	9	114,856	0.29
Joint Stock Companies	59	439,012	1.12
Others			
- Trustees Al-Bader Welfare Trust	1	173,800	0.44
- Trustees Thal Jute Mills Ltd. Employees Retired Benefit Fund	1	4,200	0.01
- Trustees Crescent Leasing Corp. Ltd. Employees Provident Fund	1	125	0.00
- Trustees of Haji Muhammad Welfare Trust	1	25,000	0.06
- Habib Bank AG Zurich, Deira Dubai	1	4,681	0.01
- Trustees of Thal Jute Mills Ltd. Employees Provident Fund	1	105,525	0.27
- N. H. Securities Private Limited	1	1	0.00
- Managing Committee Ghazali Education Trust	1	500	0.00
- Trustees Hafiz Foundation	1	1,050	0.00
- Habib Bank AG Zurich, London	1	49,000	0.12
- Trustees Mrs. K H Dinshaw & Mr. Hoshang Dinshaw	1	56,133	0.14
- Progressive Investment Management (Private) Limited	1	5,788	0.01
- Trustees Gul Ahmed Textiles Mills Ltd. Employees Provident Fund	1	1,025	0.00
- Trustees Pak Services Limited Employees Provident Fund	1	38,500	0.10
- Islamic Investment Company of The Gulf (Bahrain)	1	756	0.00
- M/S NH Securities Private Limited	1	33	0.00
- The Nazir High Court of Sindh Karachi	1	718	0.00
- Media Line	1	500	0.00
- The Nazir	1	373	0.00
- Trustees of Sana Industries Limited Employees Gratuity Fund	1	10,500	0.03
- Eddie Company (Pvt.) Limited	1	26,355	0.07
- Allied Investment Services Private Limited	1	210	0.00
- Fidelity International Opportunities Fund	1	304	0.00
- Simco Enterprises	1	69	0.00
- The Al-Malik Charitable Trust	1	15,061	0.04
- Atif Mushtaq and Co.	1	166	0.00
- Punjab Co-op Board for Liquidation	1	149	0.00
- The Al-Malik Charitable Trust	1	3,600	0.01
- Razzaque Umerani & Co.	1	351	0.00
- United Executors and Trustees Co.	1	210	0.00
- Zoroastrian Co-operative, Housing Society Limited	1	15,750	0.04
- Trustees Mama School Employees Gratuity Fund	1	10,500	0.03
- Trustees ICI Pakistan Mgt Staff Provident Fund	1	900	0.00
- Valika Properties (Pvt.) Ltd.	1	3,465	0.01
- Trustees of New Jubilee Insurance Co. Ltd. Staff Provident Fund	1	183,750	0.47
- Trustees of ICI Pakistan Non-Management Staff Provident Fund	1	675	0.00
- Trustees Aloo & Minocher Dinshaw Charitable Trust	1	31,500	0.08
- Managing Com. Karachi Zarhosti Banu Mandal	1	8,400	0.02
- Trustees of Faroukh & Roshein Karani Trust	1	5,250	0.01
- Managing Comm. of Bismillah Taqee Foundation	1	18,900	0.05
Total	9,780	39,293,100	100.00

* Includes Standard Chartered Bank, Pakistan Branch (3,929,310 certificates)

** Includes Standard Chartered Services of Pakistan (Private) Limited (3,929,310 certificates)

Pattern of holding of certificates by the certificate-holders as at June 30, 2006

Additional Information

Categories of Certificate-holders	Number	Certificates held	Percentage
Associated Companies			
Standard Chartered Bank, Pakistan Branch		3,929,310	10.00
Standard Chartered Services of Pakistan (Pvt) Ltd.		3,929,310	10.00
	2	7,858,620	20.00
NIT and ICP			
Investment Corporation of Pakistan		21,228	0.05
National Bank of Pakistan, Trustee deptt.		5,541,192	14.10
	2	5,562,420	14.15
Directors, CEO & their Spouse and Minor Children			
	-	-	-
Executives			
	1	500	-
Public Sector Companies and Corporations			
	5	5,175,592	13.17
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds			
	38	5,840,763	14.86
Certificate-holders holding ten percent or more certificates in the Modaraba (other than those reported above)			
	-	-	-

Statement of Value Added

	2006		2005	
	Rupees	%	Rupees	%
Revenue from operations	243,896,272		221,645,745	
(Other charges)/income including impairment loss no longer required written back	7,685,301		23,786,711	
	251,581,573		245,432,456	
Financial and bank charges	61,130,639		34,026,440	
Operating expenses	8,066,991		11,529,350	
	69,197,630		45,555,790	
Value Added	182,383,943	100	199,876,666	100
Distributed as follows:				
To Employees				
As remuneration	23,748,139	13	24,357,169	12
To Investors				
As profit on redeemable capital	88,360,188	48	68,068,786	34
To Modarib				
As management fee	6,800,195	4	9,899,042	5
To Certificate-holders				
As profit on certificates	39,293,100	22	74,844,000	38
Retained in Business				
As depreciation	1,963,454	1	1,911,601	1
As capital reserves and retained earning	22,218,867	12	20,796,068	10
	182,383,943	100	199,876,666	100

Statement of Compliance with the Code of Corporate Governance

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

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

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

13. The directors, CEO and executives do not hold any interest in the shares of the Modaraba other than that disclosed in the pattern of holding of certificates.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the code.
15. The Board has formed an audit committee. It presently comprises three members who are non-executive directors including chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function which has been outsourced to a firm of chartered accountants who are involved in the internal audit function.
18. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the person associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the code have been complied with.

On behalf of the Board



Shariq Saleem
Chief Executive

September 19, 2006

Review Report to the Members on 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 in respect of Standard Chartered Modaraba to comply with the Listing Regulations of the Karachi and Lahore Stock Exchanges where the Modaraba is listed.

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

As part of our audit of 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.

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

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

September 19, 2006

Auditors' Report to the Certificate Holders

We have audited the annexed balance sheet of Standard Chartered Modaraba as at June 30, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of Standard Chartered Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied except for the change as described in note 2.12 with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair

view of the state of the Modaraba's affairs as at June 30, 2006 and of the profit, its cash flows and changes in equity for the year then ended; and

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

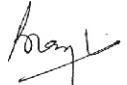
KPMG Taseer Hadi & Co.
KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi


September 19, 2006

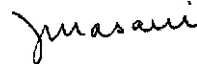
Balance Sheet as at June 30, 2006

	NOTE	2006 Rupees	2005 Rupees
ASSETS			
Current assets			
Cash and bank balances	3	62,611,485	13,485,555
Receivable from terminated / matured contracts	4	-	22,700,000
Advances, deposits, prepayments and other receivables	5	7,266,813	4,071,791
Consumer Morabaha Finance		50,864	77,866
Current portion of diminishing Musharika		386,673	246,552
Current portion of Musharika arrangements	6	200,000,000	-
Current portion of Net Investment in Ijarah Finance	7	922,348,604	936,436,793
Taxation recoverable		8,126,073	26,980,470
Total current assets		1,200,790,512	1,003,999,027
Non-current assets			
Loans and advances to executives		16,885	245,836
Long-term portion of diminishing Musharika		10,722,429	4,536,270
Long-term portion of Musharika arrangement	6	-	200,000,000
Long-term portion of Net Investment in Ijarah Finance	7	1,340,352,594	1,511,438,069
Fixed Assets	8	5,783,533	5,089,792
Total non-current assets		1,356,875,441	1,721,309,967
Total Assets		2,557,665,953	2,725,308,994
LIABILITIES AND EQUITY			
Current liabilities			
Musharika finance	9	477,365,344	693,794,692
Current maturity of Morabaha finance	10	100,000,000	100,000,000
Current maturity of security deposits	11	35,553,543	27,037,889
Creditors, accrued and other liabilities	12	48,079,216	46,513,649
Current portion of redeemable capital	13	610,131,978	102,765,000
Unclaimed profit distribution		17,032,164	15,842,071
Total current liabilities		1,288,162,245	985,953,301
Non-current liabilities			
Long-term portion of Morabaha Finance	10	100,000,000	200,000,000
Long-term portion of security deposits	11	150,209,067	150,382,144
Redeemable capital	13	202,330,000	558,676,875
Total Non-Current liabilities		452,539,067	909,059,019
Total liabilities		1,740,701,312	1,895,012,320
Certificate holders' equity			
Certificate capital	14	392,931,000	374,220,000
Reserves	15	376,539,000	377,250,000
Unappropriated profit		47,494,641	78,826,674
		816,964,641	830,296,674
CONTINGENCIES AND COMMITMENTS	16		
		2,557,665,953	2,725,308,994

The annexed notes 1 to 30 form an integral part of these financial statements.


Badar Kazmi
 Chairman
 Standard Chartered Services
 of Pakistan (Private) Limited

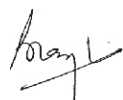

Shariq Saleem
 Chief Executive
 Standard Chartered Services
 of Pakistan (Private) Limited


Cyrus J. Masani
 Director
 Standard Chartered Services
 of Pakistan (Private) Limited

Profit and Loss Account for the year ended June 30, 2006

	NOTE	2006 Rupees	2005 Rupees
Ijarah finance income		205,234,043	182,582,498
Profit an musharika arrangement		38,302,487	38,780,450
Income on morabaha finance		15,454	25,285
Income on deposits with bank		344,288	290,439
		243,896,272	221,678,672
Financial charges	17	149,490,827	102,095,226
		94,405,445	119,583,446
(Impairment loss) / Reversals			
- Impairment loss against doubtful debts		-	(32,927)
- Impairment loss on doubtful debts no longer required written back	4.1 & 7.3	2,675,452	22,468,438
		2,675,452	22,435,511
		97,080,897	142,018,957
Other income	18	5,009,849	1,318,273
Operating expenses	19	(33,778,584)	(37,798,120)
		68,312,162	105,539,110
Modaraba company's management fee	20	6,800,195	9,899,042
Profit for the year		61,511,967	95,640,068
Earnings per certificate	21	1.57	2.43

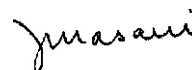
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Badar Kazmi
Chairman
Standard Chartered Services
of Pakistan (Private) Limited



Shariq Saleem
Chief Executive
Standard Chartered Services
of Pakistan (Private) Limited

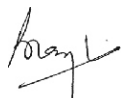


Cyrus J. Masani
Director
Standard Chartered Services
of Pakistan (Private) Limited

Statement of Changes in Equity For the year ended June 30, 2006

	Note	Certificate capital Rupees	Premium on modaraba certificates Rupees	Statutory reserve Rupees	Unappro- priated profit Rupees	TOTAL Rupees
Balance as at June 30, 2004 as previously reported		374,220,000	135,000,000	223,000,000	2,436,606	734,656,606
Change in accounting policy with respect to profit distribution (note 2.12)		-	-	-	93,555,000	93,555,000
Balance as at 30 June 2004 as restated		374,220,000	135,000,000	223,000,000	95,991,606	828,211,606
Profit for the year ended 30 June 2005		-	-	-	95,640,068	95,640,068
Transferred to statutory reserve		-	-	19,250,000	(19,250,000)	-
Profit distribution for 2004 @ Rs. 2.5 per certificate		-	-	-	(93,555,000)	(93,555,000)
Balance as at 30 June 2005 restated		374,220,000	135,000,000	242,250,000	78,826,674	830,296,674
Issue of bonus certificate @ 5%		18,711,000	(18,711,000)	-	-	-
Profit distribution for 2005 @ Rs. 2 per certificate		-	-	-	(74,844,000)	(74,844,000)
Profit for the year ended 30 June 2006		-	-	-	61,511,967	61,511,967
Transfer to statutory reserve		-	-	18,000,000	(18,000,000)	-
Balance as at June 30 2006		392,931,000	116,289,000	260,250,000	47,494,641	816,964,641

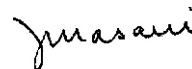
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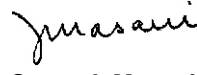
Cash Flow Statement for the year ended June 30, 2006

	NOTE	2006 Rupees	2005 Rupees
Cash Flow from Operating Activities			
Profit for the year		61,511,967	95,640,068
Adjustment for:			
Depreciation / amortisation		1,963,454	1,911,601
Profit / (loss) on disposal of fixed assets		2,165	(94,000)
Impairment loss against doubtful debts		-	32,927
Impairment loss no longer required written back		(2,675,452)	(22,468,438)
Profit on musharika arrangement		(38,302,487)	(38,780,450)
Income on deposits with bank		(344,288)	(290,439)
Profit on			
- redeemable capital		28,004,330	16,499,944
- morabaha finances		17,517,754	10,033,654
- musharika finances		43,601,581	23,971,724
		49,767,057	(9,183,477)
		111,279,024	86,456,591
(Increase) / decrease in current assets			
Receivable from terminated / matured contracts		22,700,000	(1,283,595)
Advances, deposits, prepayments and other receivables		(3,195,022)	2,836,844
		19,504,978	1,553,249
Increase / (decrease) in current liabilities			
Creditors, accrued and other liabilities (excluding profit payable on redeemable capital, morabaha finance, and musharika finances)		(5,519,515)	7,116,917
		125,264,487	95,126,757
Increase / decrease in:			
Investment in Ijarah Finance - net		187,849,116	(617,898,954)
Musharika arrangements less repayments		-	102,199,945
Profit received on musharika arrangements		38,302,487	39,143,838
Loans and advances to executives		228,951	76,860
Consumer Morabaha Finance		27,002	(77,866)
Diminishing Musharika		(6,326,280)	(4,782,822)
Security deposits		8,342,576	40,943,057
		228,423,852	(440,395,942)
Profit paid on			
- redeemable capital		(22,490,587)	(16,132,082)
- morabaha finances		(15,526,594)	(6,912,423)
- musharika finances		(44,021,401)	(20,938,066)
Tax refund received		18,854,397	1,920,914
		(63,184,185)	(42,061,657)
Net cash flows from operating activities		290,504,154	(387,330,842)
Cash Flow From Investing Activities			
Fixed capital expenditure		(2,675,470)	(1,585,316)
Proceeds from disposal of fixed assets		16,110	2,320,000
Income on deposits with bank		344,288	290,439
Net cash flows from investing activities		(2,315,072)	1,025,123
Cash Flow from Financing Activities			
Redeemable capital less repayments		151,020,103	37,358,039
Morabaha finances less repayments		(100,000,000)	250,000,000
Musharika finances less repayments		(216,429,348)	188,285,379
Profits paid to certificate holders		(73,653,907)	(92,755,131)
Net cash flows from financing activities		(239,063,152)	382,888,287
Increase / (decrease) in cash and cash equivalents		49,125,930	(3,417,432)
Cash and cash equivalent at beginning of the year		13,485,555	16,902,987
Cash and cash equivalents at end of the year	3	62,611,485	13,485,555

The annexed notes 1 to 30 form an integral part of these financial statements.


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Shariq Saleem
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Cyrus J. Masani
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Notes to the Financial Statement for the year ended June 30, 2006

1. LEGAL STATUS AND NATURE OF BUSINESS

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

The Modaraba is a perpetual modaraba and is primarily engaged in leasing of plant, machinery, motor vehicles (both commercial and private), computer equipment etc. The Modaraba may also invest in commercial and industrial ventures suitable for the Modaraba. The Modaraba is listed on the Karachi and Lahore Stock Exchanges.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Basis of preparation

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

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after 1 July 2006 and are not expected to have a significant effect on Modaraba's financial statements or not relevant to Modaraba:

- Amendment to IAS 1 Presentation of Financial Statements Capital Disclosures;
- IAS 19 (Amendment), Employee Benefits; disclosures of defined benefit plan
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions,
- IAS 39 (Amendment), The Fair Value Option
- Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates: net investment in foreign operation
- IFRIC 4, Determining whether an Arrangement contains a Lease
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6, Liabilities arising from Participating in a Specific market - Waste Electrical and Electronic Equipment
- IFRIC 9, Reassessment of Embedded Derivatives
- IFRIC 10, Interim Financial Reporting and Impairment

2.3 Net investment in Ijarah Finance

Assets owned by the Modaraba but subject to finance lease are included in the financial statements as "Net investment in Ijarah finance" at an amount equal to the present value of the lease payments, including estimated residual value. Allowance for non-performing leases is made in accordance with Prudential Regulations for Modarabas issued by SECP and is charged to the profit and loss account currently.

2.4 Receivable from terminated / matured contracts

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

2.5 Fixed assets

Tangible

Operating assets are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's 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 profit and loss account during the period in which they are incurred.

Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. In respect of additions and deletions during the year, depreciation is charged proportionately to the period of use.

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount.

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

Intangible assets - computer software

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

2.6 Taxation

Current

The income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits after transfer to Statutory Reserve are distributed to the certificate-holders. The Modaraba has decided to continue availing the tax exemption and hence no provision has been made in these financial statements for tax liability for the current year.

Deferred

The Modaraba accounts for deferred taxation on all material temporary differences using the liability method. However, deferred tax assets as at June 30, 2006 amounting to Rs 20.346 million (2005 : deferred tax assets of Rs.29.42 million) has not been recognised in these financial statements as the management believes that the temporary differences will not reverse in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption.

2.7 Provisions

Provisions are recognised when the Modaraba has a legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

2.8 Cash and cash equivalents

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

2.9 Revenue recognition

Ijarah Finance

The Modaraba follows the finance method for recognising income on ijarah contracts. 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. Documentation charges, front-end fee and other ijarah income are recognised as income on receipt basis.

Musharika Finance

Profit on musharika arrangements is recognised on accrual basis.

Consumer Morabaha Finance

The Modaraba follows the finance method in recognising income on consumer morabaha finance. Under this method the unearned income i.e the excess of aggregate morabaha installments over the cost of the asset under morabaha facility is deferred and then amortised over the term of the morabaha, so as to produce a constant rate of return on consumer morabaha finance.

Documentation charges, front-end fee and other morabaha income are recognised as income on a receipt basis.

Dividend Income

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

2.10 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.11 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.

2.12 Profit distribution to certificate holders

Profit distribution to certificate holders is recognised as a liability in the period in which such distribution is announced. Previously profit distribution to certificate holders were being recognised as a liability in the period to which these distributions related although approved and announced in the subsequent period. The change has been made in view of the circular 06/2006 issued by the institute of Chartered Accountants of Pakistan and to comply with the requirements of International Accounting Standard 10 - Events after the balance sheet date. This circular and standard requires that if an entity declares dividends to holders of equity instruments after the balance sheet date, the entity shall not recognise those dividends as a liability at the balance sheet date.

The change in accounting policy had the following impact on these financial statements.

	2006	2005
	(Rupees)	(Rupees)
Decrease in profit distribution payable	39,293,100	74,844,000
Increase / (decrease) in unappropriated profit	39,293,100	(18,711,000)

2.13. Off setting financial instruments

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

3. CASH AND BANK BALANCES

	NOTE	2006 Rupees	2005 Rupees
With banks in current accounts		8,160	54,509
With bank in deposit account	3.1	62,595,501	13,404,402
Cheques in hand		-	19,517
Cash in hand		7,824	7,127
		62,611,485	13,485,555

3.1

This balance has been kept to comply with the requirement of maintaining the prescribed liquidity against the Certificates of Musharika issued by the Modaraba in line with the provisions of the scheme.

4. RECEIVABLE FROM TERMINATED / MATURED CONTRACTS

	NOTE	2006 Rupees	2005 Rupees
Considered good		-	22,700,000
Considered doubtful		-	1,726,570
		-	24,426,570
Impairment loss against doubtful debts	4.1	-	(1,726,570)
		-	22,700,000

4.1

The movement in impairment loss against doubtful debts is given below:

	2006 Rupees	2005 Rupees
Impairment loss as at July 1	1,726,570	45,686,863
Charge for the year	-	32,927
Impairment loss no longer required written back	(1,726,570)	(19,738,500)
Amounts written off	-	(24,254,720)
	-	1,726,570

5. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	NOTE	2006 Rupees	2005 Rupees
Loan and advances to executives		72,090	275,340
Advances to suppliers and others		77,000	395,846
Deposits		51,800	51,800
Prepayments		417,879	118,431
Legal charges recoverable from lessees		-	201,780
Accrued profit on musharika arrangements		3,146,425	3,146,426
Others		3,501,619	83,948
Impairment loss against doubtful receivables	5.1	7,266,813	4,273,571
		-	(201,780)
		7,266,813	4,071,791

5.1

The movement in impairment loss against doubtful receivables for the year is given below:

	2006 Rupees	2005 Rupees
Impairment loss as at July 1	201,780	464,280
Charge for the year	-	-
Amounts written off	(201,780)	(262,500)
	-	201,780

6. MUSHARIKA ARRANGEMENTS

	2006 Rupees	2005 Rupees
Considered good		
Current maturity of Musharika arrangements	200,000,000	-
Long-term portion of Musharika arrangements	-	200,000,000
	200,000,000	200,000,000

The profit receivable on these arrangements ranges from Re. 0.5137 to Re. 0.5356 (2005: Re. 0.5137 to Re. 0.5356) per rupees one thousand per day. The musharika arrangement is secured by funds provided under musharika financing.

7. NET INVESTMENT IN IJARAH FINANCE

	NOTE	2006		2005
		Not later than one year	Later than one and less than five years	Total
Installment contract receivables		1,056,408,251	1,158,269,170	2,214,677,421
Add: Residual value		37,607,328	331,726,403	369,333,731
		1,094,015,579	1,489,995,573	2,584,011,152
Less: Unearned finance income		170,430,152	149,642,979	320,073,131
Allowance for potential Ijarah losses	7.3	1,236,823	-	1,236,823
	7.1	922,348,604	1,340,352,594	2,262,701,198

7.1

	2006 Rupees	2005 Rupees
Less than one year	922,348,604	936,436,793
One to five years	1,340,352,594	1,511,438,069
	2,262,701,198	2,447,874,862

7.2

There are no Ijarah contract receivables over five years. The Modaraba's implicit rate of return on Ijarah finance ranges from 4.65% to 19.50% per annum.

7.3 Allowance for Potential Ijarah losses

	NOTE	2006 Rupees	2005 Rupees
Balance at beginning of the year		3,912,275	6,642,213
Reversal of provision during the year		(2,675,452)	(2,729,938)
	7.4	1,236,823	3,912,275

7.4

This represent general provision against Ijarah finance to individuals.

8. FIXED ASSETS

8.1

The following is a statement of assets in own use:

	COST			ACCUMULATED DEPRECIATION			Net book value as at June 30, 2006	Depreciation rate % per annum
	As at July 01, 2005	Additions/ (deletions)	As at June 30, 2006	As at July 01, 2005	Charge for the year/ (accumulated depreciation on deletions)	As at June 30, 2006		
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
Tangible								
Furniture and fittings	1,702,524	-	1,702,524	112,027	170,256	282,283	1,420,241	10
Office equipment, appliances and computer systems	9,721,118	2,242,970 (2,160,185)	9,803,903	7,482,353	797,255 (2,141,910)	6,137,698	3,666,205	10 & 33.33
Motor vehicles	992,135	432,500	1,424,635	545,687	181,861	727,548	697,087	20
	12,415,777	2,675,470 (2,160,185)	12,931,062	8,140,067	1,149,372 (2,141,910)	7,147,529	5,783,533	
Intangible								
Computer software	2,257,697	-	2,257,697	1,443,615	814,082	2,257,697	-	33.33
2006	14,673,474	2,675,470 (2,160,185)	15,188,759	9,583,682	1,963,454 (2,141,910)	9,405,226	5,783,533	

	COST			ACCUMULATED DEPRECIATION			Net book value as at June 30, 2005	Depreciation rate % per annum
	As at July 01, 2004	Additions/ (deletions)	As at June 30, 2005	As at July 01, 2004	Charge for the year/ (accumulated depreciation on deletions)	As at June 30, 2005		
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
Tangible								
Furniture and fittings	599,440	1,103,084	1,702,524	24,508	87,519	112,027	1,590,497	10
Office equipment, appliances and computer systems	13,561,160	482,232 (4,322,274)	9,721,118	10,376,799	1,371,117 (4,265,563)	7,482,353	2,238,765	10 & 33.33
Motor vehicles	3,481,674	- (2,489,539)	992,135	638,740	227,197 (320,250)	545,687	446,448	20
	17,642,274	1,585,316 (6,811,813)	12,415,777	11,040,047	1,685,833 (4,585,813)	8,140,067	4,275,710	
Intangible								
Computer software	2,257,697	-	2,257,697	1,217,847	225,768	1,443,615	814,082	10
2005	19,899,971	1,585,316 (6,811,813)	14,673,474	12,257,894	1,911,601 (4,585,813)	9,583,682	5,089,792	

8.2 DISPOSAL OF FIXED ASSETS

The following assets were disposed of during the year:

	Cost Rupees	Accumulated depreciation Rupees	Net book value Rupees	Sale proceeds Rupees	Mode of disposal	Particulars of buyer
Sony Digital Camera	21,500	3,225	18,275	11,610	Insurance Claim	New Hampshire Insurance
25 Computers	2,138,685	2,138,685	-	-	Donated	Dowities Operation Theater
2006	2,160,185	2,141,910	18,275	11,610		
2005	6,811,813	4,585,813	2,226,000	2,320,000		

8.3

During the year, in view of the fast technological changes the modaraba revised the useful life of computer software. These are now amortised over a period of 3 years instead of ten years. The change in estimate has resulted in amortisation charge being higher by Rs. 588,314 and profit for the year being lower by similar amount.

9. MUSHARIKA FINANCE

	2006 Rupees	2005 Rupees
Musharika with: - an associated undertaking	477,365,344	693,794,692

9.1

The total facility for musharika finances available from a bank amounts to Rs.800 million (2005: Rs.800 million). The estimated share of profit payable on this facility ranges from Re. 0.2510 to Re. 0.2753 (2005: Re. 0.1096 to Re. 0.2454) per rupees one thousand per day. The facility is secured against hypothecation over the moveable leased out assets of the Modaraba.

10. MORABAHA FINANCE

	2006 Rupees	2005 Rupees
- From a bank		
Current maturity of morabaha finance	100,000,000	100,000,000
Long-term maturity of morabaha finance	100,000,000	200,000,000
	200,000,000	300,000,000

10.1

The total facility for morabaha finance available from a bank amounts to Rs.200 million (2005: Rs.300 million). The estimated share of profit payable on the finance ranges from Re. 0.2573 to Re. 0.2578 (2005: Re. 0.1118 to Re 0.1134) per rupees one thousand per day and is repayable by September, 2007. The facility is secured against hypothecation over the moveable leased out assets of the Modaraba.

11. SECURITY DEPOSITS

	2006 Rupees	2005 Rupees
Security deposits on Ijarah Finance	185,762,610	177,420,033
Less: Repayable / adjustable within one year	(35,553,543)	(27,037,889)
	150,209,067	150,382,144

11.1

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

12. CREDITORS, ACCRUED AND OTHER LIABILITIES

	2006 Rupees	2005 Rupees
Management fee	6,800,195	9,899,042
Profit payable on:		
- redeemable capital	8,448,057	2,934,314
- musharika finances	2,859,097	3,278,917
- morabaha finances	5,753,735	3,762,575
Accrued expenses	8,145,609	10,775,218
Amounts refundable to lessees	16,022,697	15,797,882
Others	49,826	65,701
	48,079,216	46,513,649

12.1

Amounts due to associated undertakings at June 30, 2006 aggregated Rs. 9,659,185 (2005: Rs. 15,188,281)

13. REDEEMABLE CAPITAL - PARTICIPATORY AND UNSECURED

	Repayable by	2006 Rupees	2005 Rupees
Musharika and accrued profit thereon-note 13.1	Dec 2008	466,561,978	401,966,875
Certificates of Musharika-note 13.2	June 2011	345,900,000	259,475,000
		812,461,978	661,441,875
Less:			
Current portion of redeemable capital		610,131,978	102,765,000
		202,330,000	558,676,875

13.1

The estimated share of profit payable on Musharika facilities ranges from Re.0.1644 to Re.0.4384 (2005: Re.0.1644 to Re. 0.4384) per rupees one thousand per day.

13.2

The estimated share of profit payable on Certificates of Musharika ranges from Re.0.0822 to Re.0.2192 (2005: Re.0.08219 to Re. 0.2164) per rupees one thousand per day.

14. CERTIFICATE CAPITAL

Authorised certificate capital

2006	2005		2006	2005
Number of certificates			Rupees	Rupees
40,000,000	40,000,000	Modaraba certificates of Rs. 10 each	400,000,000	400,000,000
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
10,793,100	8,922,000	Modaraba certificates of Rs. 10 each issued as fully paid bonus certificates	107,931,000	89,220,000
39,293,100	37,422,000		392,931,000	374,220,000

As at June 30, 2006, the Standard Chartered Services of Pakistan (Private) Limited (the Management Company) and Standard Chartered Bank held 3,929,310 (2005:3,742,200) and 3,929,310 (2005: 3,742,200) certificates of Rs. 10 each respectively.

15. RESERVES AND PROFIT DISTRIBUTION

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

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

Cash dividend @ Rs. 1 per certificate (2005: @ Rs. 2 per certificate)	39,293,100	74,844,000
Bonus shares @ 10% out of share premium account (2005: 5%)	39,293,100	18,711,000

The above distributions have been considered while estimating the tax liability for the year.

16. CONTINGENCIES AND COMMITMENTS

During the year 2000-2001, the Sales Tax Department had issued a show cause notice to the Modaraba in which it was alleged that during July 1997 to June 2000, the Modaraba had received a total amount of Rs. 364,882,919 on which sales tax was due. However, no specific amount in respect of the alleged sales tax liability was mentioned in the show cause notice. By an order dated January 29, 2002, the Collector, Collectorate of Customs, Sales Tax and Central Excise decided the case against the Modaraba to the extent that the liabilities towards sales tax should be determined on the basis of amount received after June 16, 1998. The department has not determined the liability under this order and no demand notice has been issued so far. An appeal against this order has been filed before the Appellate Tribunal and was fixed for hearing on August 26, 2004. The tribunal after hearing the case was pleased to allow the appeal and set aside the order passed against the Modaraba. In view of the decision of the Tribunal in favor of the Modaraba, no provision has, therefore, been made in these financial statements.

17. FINANCIAL CHARGES

	2006 Rupees	2005 Rupees
Profit on redeemable capital	88,360,188	68,068,786
Profit on musharika finances	43,601,581	23,971,724
Profit on morabaha finances	17,517,754	10,033,654
Bank charges	11,304	21,062
	149,490,827	102,095,226

18. OTHER INCOME

	2006 Rupees	2005 Rupees
(Loss) / Profit on disposal of assets in own use	(2,165)	94,000
Gain on early termination of leases	3,011,344	-
Others	2,000,670	1,224,273
	5,009,849	1,318,273

19. OPERATING EXPENSES

	NOTE	2006 Rupees	2005 Rupees
Salaries and other staff benefits	19.2	16,498,413	20,548,654
Depreciation	8.1	1,149,372	1,685,833
Amortisation	8.1	814,082	225,768
Advertising, travelling and entertainment		963,329	2,143,938
Postage		428,806	1,034,221
Telecommunication		241,051	562,993
Printing and stationery		1,475,075	2,571,871
Legal and professional		1,585,039	1,687,456
Repairs and maintenance		637,119	1,149,232
Charges by associated undertaking	19.3	7,249,726	3,808,515
Subscriptions		430,711	493,329
Auditors' remuneration	19.4	393,000	328,000
COM trustee fee		92,916	60,082
Insurance:			
- own assets		107,626	169,255
- assets leased out		262,038	506,745
Donations		165,777	-
Sundries		1,284,504	822,228
		33,778,584	37,798,120

19.1

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

19.2

Salaries and other benefits include Rs. 803,835 and Rs. 509,317 (2005: Rs. 918,532 and Rs. 492,043) on account of Modaraba's contribution to the staff provident fund and gratuity fund respectively.

19.3

Charges by associated undertaking represents reimbursement of a portion of actual salary cost and benefits of staff deployed on Modaraba affairs.

19.4 Auditors' Remuneration

	2006 Rupees	2005 Rupees
Audit fee	270,000	225,000
Review of six months period financial statements	60,000	40,000
Review reports on statement of compliance with code of corporate governance	40,000	40,000
Sundry advisory services and certification of remittance of profit to non-resident certificate-holders	20,000	20,000
Out of pocket expenses	3,000	3,000
	393,000	328,000

20. MODARABA'S COMPANY'S MANAGEMENT FEE

In accordance with Modaraba Companies and Modaraba Rules, 1981 management fee @ 10% of annual profits is payable to management company. However the management company has required to restrict the fee for the year to Rs. 6,800,195.

21. EARNINGS PER CERTIFICATE

	2006 Rupees	2005 Rupees
Profit for the year	61,511,967	95,640,068
	Number of certificates	Number of certificates
Average number of certificates	39,293,100	39,293,100
	Rupees	Rupees
Earnings per certificate	1.57	2.43

22. REMUNERATION OF OFFICERS

	2006 Rupees	2005 Rupees
Remuneration and staff retirement benefits	15,888,601	19,894,336
Medical expenses reimbursed	231,258	254,937
Other benefits	378,554	399,381
	16,498,413	20,548,654
Number of persons at end of the year	19	25

23. MATURITIES OF ASSETS AND LIABILITIES

	Upto three months Rupees	Over 3 months to one year Rupees	Over 1 year to five years Rupees	Total Rupees
Assets				
Cash and bank balances	62,611,485	-	-	62,611,485
Advances, deposits, prepayments and other receivables	7,012,554	254,259	16,885	7,283,698
Consumer Morabaha finance	12,716	38,148	-	50,864
Diminishing Musharika	95,343	291,330	10,722,429	11,109,102
Musharika arrangement	-	200,000,000	-	200,000,000
Net investment in Ijarah finance - net of related deposits	259,518,236	662,830,368	1,340,352,594	2,262,701,198
Taxation recoverable	-	8,126,073	-	8,126,073
Fixed assets	-	-	5,783,533	5,783,533
Total Assets	329,250,334	871,540,178	1,356,875,441	2,557,665,953
Liabilities				
Musharika finance	477,365,344	-	-	477,365,344
Morabaha finance	100,000,000	-	100,000,000	200,000,000
Security deposits	8,900,414	26,653,130	150,209,066	185,762,610
Creditors, accrued and other liabilities	48,079,216	-	-	48,079,216
Redeemable Capital	61,645,000	548,486,978	202,330,000	812,461,978
Unclaimed profit distribution	17,032,164	-	-	17,032,164
Total Liabilities	713,022,138	575,140,108	452,539,066	1,740,701,312
Net Assets / (Liabilities)	(383,771,804)	296,400,070	904,336,375	816,964,641

The above are based on contractual maturities and not on their expected realisation, which may change due to sale / rollover, etc.

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

In the opinion of management, fair value of financial assets and liabilities, other than those short term in nature, cannot be calculated with sufficient reliability due to absence of current and active market for such assets and reliable data regarding market rates for similar instruments. The Modaraba's short term financial instruments are expected to be settled in short term hence, their carrying amount is not considered to be materially different from fair values.

25. FINANCIAL INSTRUMENTS

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

	Effective Yield/ Profit rate %	Total Rupees	Exposed to Yield/profit risk			Not exposed to Yield/ Profit risk Rupees
			Upto 3 months Rupees	Over 3 months to one year Rupees	Over 1 year to five years Rupees	
Financial Assets						
Cash and Bank Balances	1.5% - 2%	62,611,485	62,595,498	-	-	15,987
Advances, deposits, prepayments and other receivables	-	7,283,698	-	-	-	7,283,698
Consumer Morabaha finance	10%	50,864	12,716	38,148	-	-
Diminishing Musharika	2%	11,109,102	95,343	291,330	10,722,429	-
Musharika Arrangement	18.75%-19.5%	200,000,000	-	200,000,000	-	-
Net investment in Ijarah finance - net of related deposits	4.65%-19.50%	2,262,701,198	259,518,236	662,830,368	1,340,352,594	-
Taxation recoverable	-	8,126,073	-	-	-	8,126,073
Total Financial Assets as at June 30 2006		2,551,882,420	322,221,793	863,159,846	1,351,075,023	15,425,758
Liabilities						
Musharika finance	9.16%-10.05%	477,365,344	477,365,344	-	-	-
Morabaha finance	9.39%-9.41%	200,000,000	100,000,000	-	100,000,000	-
Security deposits	4.65%-23.25%	185,762,610	8,900,414	26,653,130	150,209,066	-
Creditors, accrued and other liabilities	-	48,079,216	-	-	-	48,079,216
Redeemable Capital	3%-16%	812,461,978	61,645,000	548,486,978	202,330,000	-
Unclaimed profit distribution	-	17,032,164	-	-	-	17,032,164
Total Financial Liabilities as at 30 June 2006		1,740,701,312	647,910,758	575,140,108	452,539,066	65,111,380
Total Yield / Profit risk sensitivity gap			(325,688,965)	288,019,738	898,535,957	
Cumulative Yield / Profit risk sensitivity gap			(325,688,965)	(37,669,227)	860,866,730	

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Profit rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market profit rates.

26. RISK

Risk is inherent in the Modaraba's business and the effective management of that risk is seen as a core competence within the Modaraba. Through its risk management structure, the modaraba seeks to manage efficiently the seven core risks:

Credit, Market and Liquidity risk arise directly through the Modaraba's commercial activities whilst Business, Regulatory, Operational and Reputational risk are a normal consequence of any business undertaking.

26.1 CREDIT RISK

Credit risk is the risk that a counterparty will not settle its obligation in accordance with agreed terms.

Clear responsibilities for credit risk are delegated to Risk Officers through the Standard Chartered Group (the Group) credit chain. Each credit decision in the Modaraba is approved by two directors including the Managing Director. The Senior Credit Officer of Standard Chartered Bank, Pakistan lends his support to all credit decisions of the Modaraba.

Special procedures for managing credit risk are determined with specific policies and procedures to adapt to business goals.

Credit analysis includes review of facility detail, credit grade determination and financial analysis. There is a clear segregation of duties with facility applications being prepared by people who are not part of the approval chain.

The Modaraba employs a variety of tools to monitor the portfolio and to ensure the timely recognition of problem credits. Accounts are placed on Early Alert when they display signs of weakness. Such accounts are subject to a dedicated process involving senior risk officers and representatives from a recovery unit, which is independent of the business unit. Account plans are re-evaluated and remedial actions are agreed and monitored until complete recovery has not taken place. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account or immediate movement of the account into the control of the specialist recovery unit.

26.2 Market Risk

The Modaraba recognises market risk as the exposure created by the potential changes in the market prices and rates. The Modaraba measures the impact of market price and rate risk using Value at Risk (VaR) model, which is monitored by an Asset Liability Management Committee.

26.3 Liquidity Risk

The Modaraba defines liquidity risk as the risk that funds will not be available to meet liabilities as they fall due.

A range of tools is used for the management of liquidity. These comprise commitment and underwriting guidelines, key balance sheet ratios and medium-term funding requirements. Moreover, day-to-day monitoring of future cash flows takes place and suitable levels of liquid reserves are maintained by the business.

27. SEGMENT BY CLASS OF BUSINESS

27.1 Net Investment in Ijarah Finance and Musharika arrangement

	Note	2006		2005	
		Rupees	%age	Rupees	%age
Fuel and Energy		368,340,270	16.18	376,745,279	15.25
Pharmaceuticals and Chemicals		300,870,857	13.21	362,032,085	14.65
Food and Beverage		290,655,508	12.77	304,090,903	12.31
Sugar		203,010,417	8.92	204,750,176	8.29
Financial Institutions		72,774,435	3.20	122,956,769	4.98
Travel and Transport		123,369,049	5.42	90,951,270	3.68
Services		173,862,357	7.64	90,820,602	3.68
Textile		157,448,041	6.91	182,411,256	7.38
Electrical and Engineering		150,373,190	6.60	160,424,680	6.49
Communication		147,441,237	6.48	184,777,462	7.48
Leather		13,599,336	0.60	24,456,887	0.99
Distribution		14,784,120	0.65	25,509,846	1.03
Ceramics		1,359,037	0.06	16,546,301	0.67
Cement		80,285,967	3.53	131,385,952	5.32
Construction		18,066,471	0.79	37,623,139	1.52
Others		160,698,296	7.06	154,972,222	6.27
	27.2	2,276,938,588	100	2,470,454,829	100

27.2

	2006 Rupees	2005 Rupees
Net investment in Ijarah Finance	2,262,701,198	2,447,874,862
Musharika arrangement	200,000,000	200,000,000
Security deposits	(185,762,610)	(177,420,033)
	2,276,938,588	2,470,454,829

27.3 For Musharika, Morabaha and Redeemable Capital

	Note	2006 Rupees	2005 Rupees
Sugar and allied		410,910,883	350,555,028
Paper and allied		10,000,000	10,000,000
Financial institutions		677,365,344	993,794,692
Others		391,551,095	300,886,847
	27.4	1,489,827,322	1,655,236,567

27.4

Morabaha finance		200,000,000	300,000,000
Redeemable Capital		812,461,978	661,441,875
Musharika finance		477,365,344	693,794,692
		1,489,827,322	1,655,236,567

28. RELATED PARTIES TRANSACTIONS

The related parties of the Modaraba comprise associated companies, management company, staff retirement funds, directors and key management personnel. Transactions with related parties other than remuneration and benefits to key management personnel under the terms of their employment are as follows:

	2006 Rupees	2005 Rupees
Associated companies		
Lease contracts entered into during the year	-	34,927,935
Lease rentals received	34,407,481	44,041,724
Profit on musharika finance	43,601,581	23,971,724
Profit on deposit account	212,109	88,473
Bank charges and commission	61,304	21,062
Charge for reimbursement of salaries and benefits	7,249,726	3,808,515
Staff retirement benefits funds		
Contribution to the Staff Provident Fund	803,835	918,532
Contribution to the Staff Gratuity Fund	509,317	492,043
Management Company		
Management fee	6,800,195	9,899,042

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 arm's length basis. The balances with related parties have been disclosed in the respective note.

Key management personnel are employed by the management company / associated company and their salaries and benefits are borne by Management Company or are reimbursed by the Modaraba.

29. ACCOUNTING ESTIMATES AND JUDGEMENTS

Provision against non-performing loans and advances

The Modaraba reviews its loan portfolio of Ijarah, Musharika and Morabaha financing to assess amount of non-performing contracts and provision required there against on a quarterly basis. The provision is made in accordance with group policies which fully comply with the prudential regulations issued by the SECP.

Income taxes

No provision has been made in these financial statements for income taxes as the Modaraba plans to distribute at least 90% of its profits to certificate-holders.

30. DATE OF AUTHORISATION

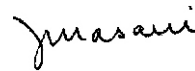
These financial statements were authorised for issue by the Board of Directors of the Management Company in their meeting held on September 19, 2006.



Badar Kazmi
Chairman
Standard Chartered Services
of Pakistan (Private) Limited



Shariq Saleem
Chief Executive
Standard Chartered Services
of Pakistan (Private) Limited



Cyrus J. Masani
Director
Standard Chartered Services
of Pakistan (Private) Limited

Standard Chartered Modaraba Six Years' Financial Summary

	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06
Key Financial Figures (Rs. in millions)						
Profit & Loss Account						
Revenues from operations	312	332	323	240	222	244
Financial Charges	115	128	115	81	102	149
Impairment loss against doubtful debts	5	2	1	4	-	-
Net Profit	149	172	175	111	96	62
Dividend including Bonus certificates	123	150	150	94	94	79
Balance Sheet						
Certificate-holders' fund	409	396	386	377	378	440
Reserves	264	299	335	358	377	377
Borrowings from financial institutions	780	477	222	556	994	677
Redeemable capital and deposits	386	852	817	761	839	998
Portfolio	2,096	2,365	2,012	2,129	2,648	2,463
Lease / Musharika disbursements	966	1,210	743	1,215	1,733	1,010
Key Financial Ratios						
Return on equity (%)	22.14	24.75	24.27	15.10	12.72	7.53
Financial charges cover ratio	2.30	2.34	2.52	2.37	1.94	1.41
Profit before tax ratio (%)	47.76	51.81	54.18	46.25	43.24	25.22
Income / Expense ratio	1.85	1.92	1.97	1.85	1.64	1.32
Debt / Equity ratio	2.22	2.55	1.92	1.98	2.28	2.13
Shares and Earnings						
Break-up value per certificate	17.99	18.58	19.26	19.63	20.19	20.79
Market value per certificate	19.05	24.10	38.25	34.40	24.00	17.40
Earning per certificate	3.98	4.61	4.68	2.97	2.43	1.57
Cash dividend per certificate	3.30	4.00	4.00	2.50	2.00	1.00
Bonus certificate (%)	-	-	-	-	5.00	10.00
Price earning ratio	4.79	5.23	8.17	11.58	9.87	11.08

