



Annual Report 2008

Standard  
Chartered  
Modaraba

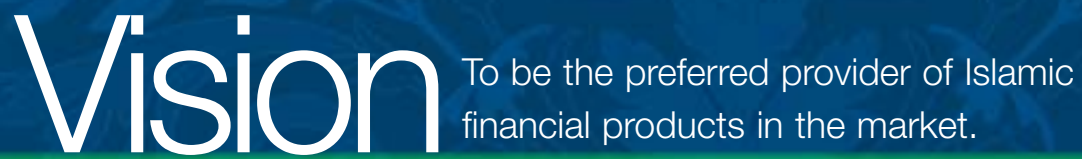


Rating by: PACRA



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.



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.

**Mission**

# 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 are ways to add value.

TRUSTWORTHY With you we will reach new heights.



Modaraba Team



Honours & Achievements

# Contents

<u>BOARD OF DIRECTORS</u>	<u>6</u>
<u>MODARABA INFORMATION</u>	<u>7</u>
<u>NOTICE OF ANNUAL REVIEW MEETING</u>	<u>8</u>
<u>DIRECTORS' REPORT</u>	<u>9</u>
<u>PATTERN OF CERTIFICATE HOLDING</u>	<u>13</u>
<u>STATEMENT OF VALUE ADDED</u>	<u>15</u>
<u>STATEMENT OF COMPLIANCE</u>	<u>16</u>
<u>AUDITORS' REVIEW REPORT TO THE MEMBERS</u>	<u>18</u>
<u>AUDITORS' REPORT TO THE CERTIFICATE HOLDERS</u>	<u>19</u>
<u>BALANCE SHEET</u>	<u>21</u>
<u>PROFIT &amp; LOSS ACCOUNT</u>	<u>22</u>
<u>STATEMENT OF CHANGES IN EQUITY</u>	<u>23</u>
<u>CASH FLOW STATEMENT</u>	<u>24</u>
<u>NOTES TO THE FINANCIAL STATEMENTS</u>	<u>25</u>
<u>SIX YEARS' FINANCIAL SUMMARY</u>	<u>42</u>

# Board of Directors



**Badar Kazmi**  
Chairman

Appointed as Director and Chairman of the Board on July 17, 2003. Also holds the positions of Chief Executive of Standard Chartered Bank (Pakistan) Limited, Chairman of Standard Chartered Leasing Limited and Chairman of Price Solution Pakistan (Private) Limited. He has an extensive and diversified banking experience of 28 years, holding key positions both locally and internationally including that of being the Regional Head of Global Markets, Middle East & South Asia as well as Africa.



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

Appointed to the Board on May 2, 2008 as Managing Director/ Chief Executive. Prior to his appointment, he was Head of Credit and Marketing of Standard Chartered Modaraba. He is a business graduate from USA having an extensive experience of over 20 years in corporate banking both locally and internationally. Prior to joining the Standard Chartered Group, he has held senior positions with Union Bank Limited, Faysal Bank Limited, National Bank of Oman and Mashreq Bank, Nairobi.



**Arjumand A. Minai**  
Director

Re-appointed to the Board on May 9, 2008 as Director after his resignation from the office of Managing Director/ Chief Executive. He is also a director on the board of Standard Chartered Leasing Limited and holds the position of Head of Islamic Banking, Standard Chartered Bank (Pakistan) Limited. He has an overall working experience of more than 29 years including banking experience of over 4 years. He has held senior positions in multinational companies and a management consulting organization besides having audit work experience with a leading audit firms in Pakistan and U.K.



**Cyrus J. Masani**  
Director

Appointed to the Board on May 09, 2005. He is also a director of Standard Chartered Leasing Limited and Price Solution Pakistan (Private) Limited. He holds the position of Chief Financial Officer, Standard Chartered Bank (Pakistan) Limited [SCBPL]. He has over 20 years of post qualification experience and has also held senior positions in a leading audit firm and a multinational company. Prior to joining SCBPL, he was the Chief Financial Officer of Standard Chartered Modaraba and Company Secretary of Standard Chartered Services of Pakistan (Private) Limited.



**Imran Ahad**  
Director

Appointed to the Board on April 19, 2006. He is also a director of Standard Chartered Leasing Limited and holds the position of Head of Client Relationships in Standard Chartered Bank (Pakistan) Limited [SCBPL]. He joined banking profession in 1985 and has an extensive experience of 23 years, holding key positions both locally and internationally. Prior to joining SCBPL, he had spent two years in BCCI, Pakistan and six years in Union National Bank, Abu Dhabi, UAE.



**Tufail Jawed Ahmad**  
Director

Appointed to the Board on March 12, 2007. He is also a director of Standard Chartered Leasing Limited and holds the position of Chief Risk Officer in Standard Chartered Bank (Pakistan) Limited. He joined banking profession in 1980, and has an extensive and diversified banking experience of 28 years, holding key positions both locally and internationally. Prior to joining the bank, he had spent two years in National Bank of Fujairah in Dubai, five years with Standard Chartered Bank in Dubai and twenty years with ANZ Group in Pakistan, UK and Bahrain.

# Modaraba Information

## Directors of Modaraba Company

Mr. Badar Kazmi  
Chairman

Mr. S. Zaheer Mehdi  
Managing Director/Chief Executive

Mr. Arjumand A. Minai  
Director

Mr. Cyrus J. Masani  
Director

Mr. Imran Ahad  
Director

Mr. Tufail J. Ahmad  
Director

## Company Secretary

Mr. Tahir H. Zaidi

## Audit Committee

Mr. Cyrus J. Masani  
Chairman

Mr. Imran Ahad  
Member

Mr. Tufail J. Ahmad  
Member

## Auditors

KPMG Taseer Hadi & Co.  
Chartered Accountants

## Bankers / Lending Institutions

Standard Chartered Bank (Pakistan) 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: 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

Famco Associates (Private) Limited.  
[Formerly Ferguson Associates (Pvt.) Ltd.]  
State Life Building No. 2A, 4th Floor  
I. I. Chundrigar Road, Karachi  
Phone: (021) 2426597, 2427012

## Web Address

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



# Notice of Annual Review Meeting

Notice is hereby given that the Ninth Annual Review Meeting of certificate-holders of Standard Chartered Modaraba (SCM) will be held on Thursday, November 27, 2008 at 11:00 a.m. at the Institute of Bankers, Moulvi Tamizuddin Khan Road, Karachi to review the performance of the Modaraba for the year ended June 30, 2008.

The certificate-holders whose names appear on the Register of certificate-holders of SCM as on November 20, 2008 will be eligible to attend the Annual Review Meeting.

On behalf of the Board



Tahir H. Zaidi  
Company Secretary  
Standard Chartered Services of Pakistan (Pvt) Ltd  
Managers of Standard Chartered Modaraba.  
Karachi: September 29, 2008

## 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 Second Report of the Directors of Modaraba Company

for the year ended June 30, 2008

The Board of Directors of Standard Chartered Services of Pakistan (Private) Limited, the Management Company of Standard Chartered Modaraba (SCM), are pleased to present the twenty second Directors' report of SCM, together with audited accounts for the year ended June 30, 2008.

## 1. Financial Results

Financial results are summarized as under:

	Year ended 30.06.2008	Year ended 30.06.2007
	(Rupees in thousands)	
<b>Net profit for the year</b>	97,299	82,196
Add: Unappropriated profit brought forward	9,124	8,201
Profit available for appropriation	106,423	90,397
Appropriations:		
Profit distribution @ 16% (2007: @15%)	72,614	64,834
Statutory reserve	19,460	16,439
	92,074	81,273
Unappropriated profit carried forward	14,349	9,124
Earnings per certificate	2.14	1.81

## 2. Profit Distribution

The Board in its meeting held on September 29, 2008 has approved the distribution of profit of Rs. 1.60 (16%) per certificate of Rs. 10 each, subject to deduction of zakat and tax at source where applicable, for the year ended June 30, 2008.

An amount of Rs.19.5 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 8.0% to 273 million as against 253 million last year. Moreover, Modaraba's financial cost has decreased by 2.7%. The net profit for the year ended June 30, 2008 was Rs. 97.3 million as compared to Rs. 82.2 million last year.

Modaraba's Balance Sheet has also shown a significant growth, total assets have increased by 20% to Rs. 3,076 million as against Rs. 2,561 million last year.

#### 5. Economic Outlook & Future Prospects

Real GDP growth remained robust at 5.8% during fiscal year 2008. Higher international oil and food prices along with sharp depreciation of the Rupee have triggered record high inflation. The average annualized inflation in 2008 increased to 12% from 7.8% in 2007.

The new government is confronted with the challenge of controlling inflation and correcting the rising budget and current account deficits. The government has started taking the necessary corrective measures including cutting back on subsidies and tightening the monetary policy. During 2008, State Bank of Pakistan (SBP) has raised its policy discount rate by 300 basis points to 13%. While these measures will slowdown the growth momentum of the economy, but they are expected to arrest the rising macroeconomic imbalance.

Deterioration in economic fundamentals and the volatility in the global financial and commodity markets suggest that we are looking at challenging times ahead. We will continue to place emphasis on service quality with focus on quality clients. Efforts to expand product range is under way and we constantly look for increased business opportunities.

#### 6. Model Financing Agreements for Modaraba

In May 2008 religious board for Modarabas of Securities and Exchange Commission of Pakistan (SECP) approved 12 shariah compliant model Islamic financing agreements for Modaraba Sector. The agreements have been designed to bring the Modaraba sector at a level-playing field with the financial institutions and to provide new products for the Islamic financial market.

#### 7. Islamic Financial Accounting Standards

The SECP notified the Islamic Financial Accounting Standard No. 1 Murabaha and Islamic Financial Accounting Standard No. 2 Ijarah issued by the Institute of Chartered Accountants of Pakistan. These standards relate to accounting for Murabaha and Ijarah transactions undertaken by a bank / financial institutions. These standards have not been adopted by the Modaraba pending resolution of certain issues, e.g., invoicing of goods, recording of inventories, concurrent application with other approved accounting standards in place, requiring application of accounting not consistent with substance of transactions, etc. Certain representations have been made for deferral of these standards from SECP through Modaraba Association of Pakistan.

#### 8. 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 Modarabs 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, 2008 except for those disclosed in the financial statements.
- The value of investments made by staff retirement benefit funds based on their respective accounts as at June 30, 2007 is as follows:

Provident Fund	Rs. 8.0 million
Gratuity Fund	Rs. 2.7 million

- During the year, eight (08) meetings of the Board of Directors were held. Attendance by each director is as follows:

Name of Director	No. of Meetings Attended
Badar Kazmi	08
S. Zaheer Mehdi	02
Arjumand A. Minai	08
Cyrus J. Masani	06
Imran Ahad	06
Tufail J. Ahmad	04
M. Afaq Khan	00
Jawed Akhlaq	03

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.

## 9. The Board of Directors and Audit Committee

The Extraordinary General Meeting of the Company (Standard Chartered Services of Pakistan (Private) Limited) was held on May 09, 2008 to elect six Directors of the Company for a period of three years, the names of the elected Directors are as follows:

1. Badar Kazmi
2. S. Zaheer Mehdi
3. Arjumand A. Minai
4. Cyrus J. Masani
5. Imran Ahad
6. Tufail J. Ahmad

Since the election there has been no change in the Board of Directors.

## 10. Our People

The Board places on record its appreciation for 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.

### 11. Auditors

On the recommendation of 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, 2009 subject to approval by the Registrar of Modaraba Companies and Modarabas.

### 12. Acknowledgment

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

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

On behalf of the Board



**Badar Kazmi**  
**Chairman**

September 29, 2008

## Pattern of holding of certificates by the certificate-holders as at June 30, 2008

Number of Certificate-holders	Certificate holding		Total Certificates held
	From	To	
1,411	1	50	28,200
660	51	100	47,472
4,083	101	500	1,227,658
1,274	501	1000	963,583
1,605	1001	5000	3,530,212
263	5001	10000	1,871,829
351	10001	above	37,714,576
9,647			45,383,530

Categories of Certificate – holders	Number	Certificates held	%
Individuals	9,506	17,596,852	38.77
Financial Institutions *	13	12,030,231	26.51
Investment Companies	6	731,983	1.61
Insurance Companies	14	6,550,580	14.43
Modarabas/Modaraba Companies **	9	4,670,755	10.29
Joint Stock Companies	65	1,354,763	2.99
Others			
- Eddie Company (Private) Limited	1	30,439	0.07
- Habib Bank AG Zurich, Deira Dubai	1	870	0.00
- Habib Bank AG Zurich, London	1	105,420	0.23
- Islamic Investment Company of TheGulf (Bahrain)	1	872	0.00
- Islamabad Stock Exchange (Guarantee) Limited	1	47	0.00
- N. B. P. Trustee - NI(U)T(LOC) Fund	1	1,298,975	2.86
- N. H. Securities (Private) Limited	1	38	0.00
- Managing Committee Ghazali Education Trust	1	577	0.00
- Managing Com. Karachi Zarhosti Banu Mandal	1	9,702	0.02
- Managing Comm. of Bismillah Taque Foundation	1	21,829	0.05
- Punjab Co-op Board for Liquidation	1	171	0.00
- The Nazir	1	430	0.00
- The Al- Malik Charitable Trust	1	17,395	0.04
- The Al- Malik Charitable Trust	1	4,158	0.01
- Trustees Al-Bader Welfare Trust	1	209,031	0.46
- Trustees Thal Jute Mills Ltd. Employees Retired Benefit Fund	1	4,851	0.01
- Trustees Crescent Leasing Corp. Limited Employees Provident Fund	1	143	0.00
- Trustees of Haji Muhammad Welfare Trust	1	129,150	0.28
- Trustees Mrs. K H Dinshaw & Mr. Hoshang Dinshaw	1	68,072	0.15
- Trustees Gul Ahmed Textile Mills Limited Employees Provident Fund	1	1,183	0.00
- Trustees Pak Services Limited Employees Provident Fund	1	467	0.00
- Trustees Thal Jute Mills Ltd. Employees Provident Fund	1	121,880	0.27
- Trustees Hafiz Foundation	1	1,212	0.00
- Trustees of Sana Industries Limited Employees Gratuity Fund	1	105,798	0.23
- Trustees Mama School Employees Gratuity Fund	1	12,127	0.03
- Trustees ICI Pakistan Mgt. Staff Provident Fund	1	1,039	0.00
- Trustees of ICI Pakistan Non Mgt Staff Provident Fund	1	779	0.00
- Trustees of New Jubilee Insurance Company Ltd. Staff Provident Fund	1	212,231	0.47
- Trustees Aloo & Minocher Dinshaw Charitable Trust	1	36,382	0.08
- Trustees of Faroukh & Roshein Karani Trust	1	6,063	0.01
- Trustees D.N.E. Dinshaw Charity Trust	1	23,843	0.05
- Trustees Adamjee Enterprises Staff Provident Fund	1	5,000	0.01
- Valika Properties (Private) Limited	1	1	0.00
- Zoroastrian Co-operative, Housing Society Limited	1	18,191	0.04
	9,647	45,383,530	100.00

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

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

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

as at June 30, 2008

### ADDITIONAL INFORMATION

Categories of Certificate-holders	Number	Certificates held	%
Associated Companies			
Standard Chartered Bank (Pakistan) Limited		4,538,353	10.00
Standard Chartered Services of Pakistan (Pvt) Limited		4,538,353	10.00
	2	9,076,706	20.00
NIT and ICP			
Investment Corporation of Pakistan		3,093	0.01
National Bank of Pakistan, Trustee deptt.		5,101,100	11.24
	2	5,104,193	11.25
Directors, CEO & their Spouse and Minor Children	-	-	-
Executives	-	-	-
Public Sector Companies and Corporations	4	5,050,228	11.13
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds	33	4,752,542	10.47
Certificate-holders holding ten percent or more certificates in the Modaraba (other than those reported above)	-	-	-

## Statement of Value Added

	2008		2007	
	Rupees	%	Rupees	%
Revenue from operations	273,008,486		252,738,504	
(Other charges) /income including impairment loss no longer required written back	7,415,159		10,164,849	
	280,423,645		262,903,353	
Financial and bank charges	19,894,476		55,854,896	
Operating expenses	9,371,662		8,698,471	
	29,266,138		64,553,367	
<b>Value Added</b>	<b>251,157,507</b>	<b>100</b>	<b>198,349,986</b>	<b>100</b>
Distributed as follows:				
To Employees				
As remuneration	32,207,589	13	28,561,595	14
To Investors				
As profit on redeemable capital	109,546,333	43	77,149,682	39
To Modarib				
As management fee	10,810,992	4	9,132,848	5
To Certificate-holders				
As profit on certificates	72,613,648	29	64,833,615	33
Retained in Business				
As depreciation	1,293,661	1	1,310,226	1
As capital reserves and retained earning	24,685,284	10	17,362,020	9
	251,157,507	100	198,349,986	100



# Statement of Compliance with the Code of Corporate Governance

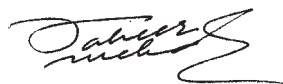
This statement is being presented to comply with the Code of Corporate Governance contained in the regulations of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Board of the management company presently comprises six 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 NBF, or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred during the year in the Board were filled within 30 days thereof.
5. The Modaraba has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the Modaraba.
6. The Board has developed a vision/ mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. The terms of appointment and remuneration package of the directors are not approved by the Board as they are nominees of Standard Chartered Bank (Pakistan) Limited.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Directors are conversant with their duties and responsibilities under the relevant laws applicable to the Modaraba, Prospectus and provisions of the Code of Corporate Governance etc.
10. The Board has approved the appointments of Chief Financial Officer and Company Secretary. Future appointment, if any, on these positions including remuneration, terms and conditions, as determined by the CEO, will be referred to the Board for approval.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Modaraba other than that disclosed in the pattern of holding of certificates.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the code.
15. The Board has formed an audit committee. It presently comprises three members.
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 internal audit function has been outsourced to a firm of chartered accountants. The terms of reference have been approved by the audit committee and the quarterly reports are provided to them.
18. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the person associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the code have been complied with.

On behalf of the Board



Syed Zaheer Mehdi  
Chief Executive  
September 29, 2008

# 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 Listing Regulations of the Karachi and Lahore Stock Exchanges where the Modaraba is listed.

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

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

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



KPMG Taseer Hadi & Co.  
Chartered Accountants  
Karachi

September 29, 2008

# Auditors' Report to the Certificate Holders

We have audited the annexed balance sheet of Standard Chartered Modaraba as at June 30, 2008 and the related profit and loss account, cash flow statement and the 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 the 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, are in agreement with the books of accounts and are further in accordance with the 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 (Floating 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, 2008 and of the profit, its cash flows and changes in equity for the year 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.

Without qualifying our opinion we draw attention to note 2.1 relating to adoption of Islamic Financial Accounting Standards.

*KPMG Taseer Hadi & Co.*


KPMG Taseer Hadi & Co.  
Chartered Accountants  
Karachi  
September 29, 2008

# Balance Sheet

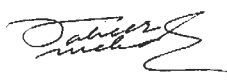
As at June 30, 2008

	Note	2008 Rupees	2007 Rupees
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	4	16,420,291	14,744,123
Advances, deposits, prepayments and other receivables	5	90,817,335	842,200
Short-term Murabaha receivables	6	103,792,329	19,145
Current portion of diminishing Musharika		3,481,137	240,136
Current portion of investment in Sukuk Certificates	7	3,125,000	-
Current portion of net investment in Ijarah finance	8	1,027,624,216	1,019,864,708
Taxation recoverable		8,195,027	8,126,073
<b>Total current assets</b>		<b>1,253,455,335</b>	1,043,836,385
<b>Non-current assets</b>			
Loans and advances to executives		196,239	79,518
Long-term portion of diminishing Musharika		6,566,687	13,012,199
Long-term portion of investment in Sukuk Certificates	7	71,875,000	-
Long-term portion of net investment in Ijarah finance	8	1,739,870,608	1,499,490,546
Fixed assets	9	4,036,330	4,340,973
<b>Total non-current assets</b>		<b>1,822,544,864</b>	1,516,923,236
<b>Total Assets</b>		<b>3,076,000,199</b>	2,560,759,621
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Musharika finance	10	989,441,571	218,031,960
Murabaha finance		-	100,000,000
Current maturity of security deposits	11	61,037,694	49,738,937
Creditors, accrued and other liabilities	12	84,294,522	62,818,456
Current portion of redeemable capital	13	625,423,587	819,505,067
Deferred Murabaha income		3,751,699	-
Unclaimed profit distribution		18,678,913	17,432,013
<b>Total current liabilities</b>		<b>1,782,627,986</b>	1,267,526,433
<b>Non-current liabilities</b>			
Long-term portion of security deposits	11	258,789,720	174,993,122
Long-term portion of redeemable capital	13	142,250,000	258,372,890
<b>Total non-current liabilities</b>		<b>401,039,720</b>	433,366,012
<b>Total Liabilities</b>		<b>2,183,667,706</b>	1,700,892,445
<b>Certificate holders' equity</b>			
Certificate capital	14	453,835,300	432,224,100
Reserves	15	351,533,613	353,685,027
Unappropriated profit		86,963,580	73,958,049
<b>Total Equity</b>		<b>892,332,493</b>	859,867,176
<b>Total Liabilities and Equity</b>		<b>3,076,000,199</b>	2,560,759,621
<b>CONTINGENCIES AND COMMITMENTS</b>			
	16		

The annexed notes 1 to 29 form an integral part of these financial statements.



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



**S. Zaheer Mehdi**  
Chief Executive  
Standard Chartered Services  
of Pakistan (Private) Limited



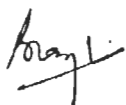
**Arjumand A. Minai**  
Director  
Standard Chartered Services  
of Pakistan (Private) Limited

# Profit and Loss Account

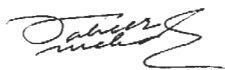
For the year ended June 30, 2008

	Note	2008 Rupees	2007 Rupees
Ijarah finance income		269,094,305	234,524,913
Profit on Musharika arrangement		-	17,634,198
Profit on Sukuk Certificates		2,447,946	-
Income on Murabaha transactions		40,630	5,585
Income on deposits with bank		1,425,605	573,808
		<b>273,008,486</b>	<b>252,738,504</b>
Financial charges	17	(129,440,809)	(133,004,578)
		<b>143,567,677</b>	<b>119,733,926</b>
(Provision) / reversal of doubtful debts	8.2	(957,182)	71,454
		<b>142,610,495</b>	<b>119,805,380</b>
Other income	18	8,372,341	10,093,395
Operating expenses	19	(42,872,912)	(38,570,292)
		<b>108,109,924</b>	<b>91,328,483</b>
Modaraba company's management fee	20	(10,810,992)	(9,132,848)
		<b>97,298,932</b>	<b>82,195,635</b>
Profit for the year		<b>97,298,932</b>	<b>82,195,635</b>
Earnings per certificate	21	<b>2.14</b>	<b>1.81</b>

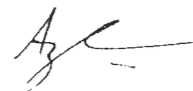
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Chief Executive  
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**Arjumand A. Minai**  
Director  
Standard Chartered Services  
of Pakistan (Private) Limited

# Statement of Changes in Equity

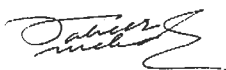
For the year ended June 30, 2008

	Certificate capital	Premium on modaraba certificates	Statutory reserve	Unappropriated profit	Total
	Rupees				
Balance as at June 30, 2006	392,931,000	116,289,000	260,250,000	47,494,641	816,964,641
Issue of bonus certificates @ 10%	39,293,100	(39,293,100)	-	-	-
Profit distribution for 2006 @ Re. 1 per certificate	-	-	-	(39,293,100)	(39,293,100)
Profit for the year ended June 30, 2007	-	-	-	82,195,635	82,195,635
Transfer to statutory reserve	-	-	16,439,127	(16,439,127)	-
Balance as at June 30, 2007	432,224,100	76,995,900	276,689,127	73,958,049	859,867,176
Issue of bonus certificates @ 5%	21,611,200	(21,611,200)	-	-	-
Profit distribution for 2007 @ Rs. 1.5 per certificate	-	-	-	(64,833,615)	(64,833,615)
Profit for the year ended June 30, 2008	-	-	-	97,298,932	97,298,932
Transfer to statutory reserve	-	-	19,459,786	(19,459,786)	-
Balance as at June 30, 2008	<u>453,835,300</u>	<u>55,384,700</u>	<u>296,148,913</u>	<u>86,963,580</u>	<u>892,332,493</u>

The annexed notes 1 to 29 form an integral part of these financial statements.



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Director  
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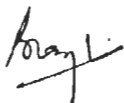


# Cash Flow Statement

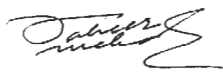
For the year ended June 30, 2008

	Note	2008 Rupees	2007 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit for the year		97,298,932	82,195,635
<b>Adjustment for:</b>			
Depreciation		1,293,661	1,310,224
(Profit) / loss on disposal of fixed assets		96,262	(136,771)
Impairment loss recognized / ( no longer required written back )		957,182	(71,454)
Profit on Musharika arrangement		-	(17,634,198)
Profit on Sukuk certificates		(2,447,946)	-
Income on deposits with bank		(1,425,605)	(573,808)
Profit on			
- Redeemable capital		109,546,333	77,149,682
- Murabaha finance		2,148,274	12,418,622
- Musharika finances		17,679,299	43,394,766
		127,847,460	115,857,063
		225,146,392	198,052,698
(increase) / decrease in operating assets			
Advances, deposits, prepayments and other receivables (excluding profit receivable on Sukuk certificates)		(89,016,847)	3,278,188
Murabaha finance		(103,773,184)	31,719
Diminishing musharika		3,204,511	(2,143,233)
Musharika arrangements		-	200,000,000
Investment in Sukuk certificates		(75,000,000)	-
Investment in Ijarah finance -net		(249,096,752)	(256,582,602)
Loans and advances to executives		(116,721)	(62,633)
		(513,798,993)	(55,478,561)
Increase / (decrease) in operating liabilities			
Creditors, accrued and other liabilities (excluding profit payable on redeemable capital, Murabaha finance and Musharika finances)		(6,784,112)	6,687,066
Deferred Murabaha income		3,751,699	-
Security deposits		95,095,355	38,969,449
		92,062,942	45,656,515
		(196,589,659)	188,230,652
Profit received / (paid) on			
- Musharika arrangement		-	20,780,613
- Sukuk certificates		1,489,658	-
- Redeemable capital		(84,558,837)	(64,912,273)
- Murabaha finances		(5,464,548)	(14,856,072)
- Musharika finances		(11,090,343)	(45,142,540)
Tax (paid) / refund received		(68,954)	-
		(99,693,024)	(104,130,272)
		(296,282,683)	84,100,380
Net cash flows from operating activities			
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(1,285,280)	(287,394)
Proceeds from disposal of fixed assets		200,000	556,500
Income on deposits with bank		1,425,605	573,808
Net cash flows from investing activities		340,325	842,914
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Redeemable capital less repayments		(310,204,370)	265,415,979
Murabaha finances less repayments		(100,000,000)	(100,000,000)
Musharika finances less repayments		771,409,611	(259,333,384)
Profits paid to certificate holders		(63,586,715)	(38,893,251)
Net cash flows from financing activities		297,618,526	(132,810,656)
Increase / (decrease) in cash and cash equivalents		1,676,168	(47,867,362)
Cash and cash equivalents at beginning of the year		14,744,123	62,611,485
Cash and cash equivalents at end of the year	4	16,420,291	14,744,123

The annexed notes 1 to 29 form an integral part of these financial statements.



**Badar Kazmi**  
Chairman  
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**S. Zaheer Mehdi**  
Chief Executive  
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**Arjumand A. Minai**  
Director  
Standard Chartered Services  
of Pakistan (Private) Limited

# Notes to the Financial Statements

For the year ended June 30, 2008

## 1. STATUS AND NATURE OF BUSINESS

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

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

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

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

The Securities and Exchange Commission of Pakistan notified the Islamic Financial Accounting Standard No. 1 Murabaha and Islamic Financial Accounting Standard No. 2 Ijarah issued by the Institute of Chartered Accountants of Pakistan. These standards relate to accounting for Murabaha and Ijarah transactions undertaken by a bank / financial institutions. These standards have not been adopted by the Modaraba pending resolution of certain issues, e.g., invoicing of goods, recording of inventories, concurrent application with other approved accounting standards in place, requiring application of accounting not consistent with substance of transactions, etc. Certain representations have been made for deferral of these standards.

### 2.2 Basis of measurement

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

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies relate to provision for potential Ijarah losses (note 8).

# Notes to the Financial Statements

For the year ended June 30, 2008

## 2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is Modaraba's functional currency. All financial information presented in Pakistan Rupees have been rounded to the nearest Rupee.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 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 the Securities and Exchange Commission of Pakistan (SECP) and is charged to the profit and loss account currently.

### 3.2 Receivable from terminated / matured contracts

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

### 3.3 Fixed assets

#### *Tangible*

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

Depreciation is charged to profit and loss account applying the straight-line method using the rates mentioned in note 9, over the estimated useful lives of the assets. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on all fixed assets is charged from the month in which the asset is put to use till the month of its disposal.

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

#### *Intangible assets - computer software*

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

### 3.4 Investments

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

# Notes to the Financial Statements

For the year ended June 30, 2008

## 3.5 Murabaha transaction

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

## 3.6 Taxation

### *Current*

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

### *Deferred*

The Modaraba accounts for deferred taxation on all material temporary differences using the liability method. However, deferred tax liability as at June 30, 2008 amounting to Rs. 32.589 million (2007: deferred tax assets of Rs. 28.877 million) has not been recognised in these financial statements as the management believes that the temporary differences will not reverse in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption.

## 3.7 Provisions

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

## 3.8 Cash and cash equivalents

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

## 3.9 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. Unrealized lease income pertaining to non-performing leases is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations.

### *Musharika Finance*

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

# Notes to the Financial Statements

For the year ended June 30, 2008

## *Murabaha transactions*

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

## *Interest on deposits / investments*

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

### **3.10 Retirement benefits**

The Modaraba operates:

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

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

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

### **3.11 Profit distribution to certificate holders**

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

### **3.12 Off setting financial instruments**

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

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after July 01, 2008:

Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after January 01, 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.

Revised IAS 23 - Borrowing costs (effective from January 01, 2009). Revised IAS 23 removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on Modaraba's financial statements.

# Notes to the Financial Statements

For the year ended June 30, 2008

IAS 29 – Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after April 28, 2008). The application of the standard is not likely to have an effect on the Modaraba's financial statements.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Modaraba's financial statements, with retrospective application required, are not expected to have any impact on the financial statements.

Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective for periods beginning on or after January 01, 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vest conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard is not likely to have any effect on Modaraba's financial statements.

Revised IFRS 3 Business Combinations (applicable for annual periods beginning on or after July 01, 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value and transaction costs other than share and debt issue costs to be expensed. The application of this standard is not likely to have an effect on Modaraba's financial statements.

Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 01, 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the Modaraba's financial statements.

IFRS 7 – Financial Instruments: Disclosures (effective for annual periods beginning on or after April 28, 2008). The application of the standard is not expected to have significant impact on the Modaraba's financial statements other than increase in disclosures.

IFRS 8 – Operating Segments (effective for annual periods beginning on or after April 28, 2008). The application of the standard is not likely to have an effect on the Modaraba's financial statements.

IFRIC 12 – Service Concession Arrangements (effective for annual periods beginning on or after January 01, 2008). IFRIC 12 provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private concession arrangements. IFRIC 12 is not relevant to the Modaraba's operations.

IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after July 01, 2008). IFRIC 13 addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. The application of IFRIC 13 is not likely to have an effect on the Modaraba's financial statements.

IFRIC 14 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after January 01, 2008). IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on minimum funding requirements (MFR) for such asset. IFRIC 14 is not expected to have any material impact on the Modaraba's financial statements.

IFRIC 15- Agreement for the Construction of Real Estate (effective for annual periods beginning on or after October 01, 2009). The amendment clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Modaraba's financial statements.

# Notes to the Financial Statements

For the year ended June 30, 2008

IFRIC 16- Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after October 01, 2008). IFRIC 16 clarifies what risks in foreign operations can be hedged and which entity in the group can hold hedge instrument. The amendment is not relevant to the Modaraba's financial statements.

The IASB's annual improvements project published in May 2008, contains a number of amendments which would generally be applicable for financial periods beginning on or after January 01, 2009. These amendments extend to 35 standards and include changes in terminology and accounting requirements. These amendments are unlikely to have an impact on the Modaraba's accounts.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged Items. The amendments shall be applied for annual periods beginning on or after July 01, 2009. The amendment clarifies how the existing principles underlying hedge accounting should be applied in two particular situations, (a) a one-sided risk in a hedged item, and (b) inflation in a financial hedged item.

IAS 27- 'Consolidated and separate financial statements (effective from January 01, 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor.

## 4. CASH AND BANK BALANCES

	Note	2008 Rupees	2007 Rupees
With banks in current accounts		1,155	3,967
With bank in deposit account	4.1	16,404,007	14,727,298
Cash in hand		15,129	12,858
		<u>16,420,291</u>	<u>14,744,123</u>

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

## 5. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLE

	2008 Rupees	2007 Rupees
Loan and advances to executives	182,014	93,986
Advances to suppliers and others	108,000	100,000
Deposits	51,800	51,800
Prepayments	487,490	480,363
Accrued profit on Sukuk certificates	958,288	-
Advance against Ijarah finance	88,240,380	-
Accrued profit on advance against Ijarah finance	709,835	-
Receivable from staff retirement benefit fund	72,974	72,974
Others	6,554	43,077
	<u>90,817,335</u>	<u>842,200</u>

## 6. SHORT TERM MURABAHA RECEIVABLE

Murabaha Receivable - gross	<u>103,792,329</u>	<u>19,145</u>
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This represents receivable under Murabaha arrangement on deferred payment basis at specified profit margin of 15.38% per annum. This is secured against charge over current assets, personal guarantee of the Chairman of the Company and demand promissory note.

# Notes to the Financial Statements

For the year ended June 30, 2008

## 7. INVESTMENT IN SUKUK CERTIFICATES - Held to maturity

	2008 Rupees	2007 Rupees
Investment in Sukuk Certificates	75,000,000	-
Less : Current portion of investment in Sukuk Certificates	3,125,000	-
	<u>71,875,000</u>	<u>-</u>

Name of Company	Rate	Term	Amount
Security Leasing Corporation Limited	11.95%	5 years	25,000,000
Shahraj Fabrics (Private) Limited	15.63%	5 years	50,000,000

## 8. NET INVESTMENT IN IJARAH FINANCE

Note	2008			2007		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
Instalment contract receivables	1,163,608,788	1,705,408,039	2,869,016,827	1,140,392,630	1,450,734,745	2,591,127,375
Add: Residual value	94,545,288	354,812,728	449,358,016	106,131,826	281,638,186	387,770,012
	<u>1,258,154,076</u>	<u>2,060,220,767</u>	<u>3,318,374,843</u>	<u>1,246,524,456</u>	<u>1,732,372,931</u>	<u>2,978,897,387</u>
Less: Unearned finance income	228,403,733	320,350,159	548,753,892	225,494,379	232,882,385	458,376,764
Allowance for potential Ijarah losses	2,122,551	-	2,122,551	1,165,369	-	1,165,369
Mark-up held in Suspense	3,576	-	3,576	-	-	-
	<u>1,027,624,216</u>	<u>1,739,870,608</u>	<u>2,767,494,824</u>	<u>1,019,864,708</u>	<u>1,499,490,546</u>	<u>2,519,355,254</u>

8.1 There are no Ijarah contract receivables over five years. The Modaraba's implicit rate of return on Ijarah finance ranges from 5.8% to 19.5% per annum (2007: 5.2% to 17.00% per annum).

### 8.2 Allowance for potential Ijarah losses

	2008 Rupees	2007 Rupees
Balance at beginning of the year	1,165,369	1,236,823
Specific provision during the year	437,621	-
General provision / (reversal of provision) during the year	957,182	(71,454)
	<u>2,122,551</u>	<u>1,165,369</u>

### 8.3 Provisions

Specific provision	437,621	-
General provision	1,684,930	1,165,369
	<u>2,122,551</u>	<u>1,165,369</u>

### 8.4 Mark-up held in suspense

Balance at beginning of the year	-	-
Income suspended during the year	3,576	-
	<u>3,576</u>	<u>-</u>

8.5 This represents provision against Ijarah finance to individuals.



# Notes to the Financial Statements

For the year ended June 30, 2008

## 9. FIXED ASSETS

9.1 The following is a statement of assets in own use:

	COST			ACCUMULATED DEPRECIATION			Net book value as at June 30, 2008	Depreciation rate % per annum
	As at July 1, 2007	Additions/ (deletions)	As at June 30, 2008	As at July 1, 2007	Charge for the year/ (accumulated depreciation on deletions)	As at June 30, 2008		
<b>Rupees</b>								
<b>Tangible</b>								
Furniture and fittings	1,702,524	-	1,702,524	452,539	170,256	622,795	1,079,729	10
Office equipment, appliances and computer systems	9,568,064	406,280	9,974,344	6,903,611	990,579	7,794,190	2,180,154	10 and 33.33
Motor vehicles	432,500	879,000	879,000	105,965	132,826	102,553	776,447	20
		(432,500)			(136,238)			
	11,703,088	1,285,280	12,555,868	7,362,115	1,293,661	8,519,538	4,036,330	
		(432,500)			(136,238)			
<b>Intangible</b>								
Computer software	2,257,697	-	2,257,697	2,257,697	-	2,257,697	-	33.33
<b>2008</b>	<b>13,960,785</b>	<b>1,285,280</b>	<b>14,813,565</b>	<b>9,619,812</b>	<b>1,293,661</b>	<b>10,777,235</b>	<b>4,036,330</b>	
		<b>(432,500)</b>			<b>(136,238)</b>			
<b>Rupees</b>								
<b>Tangible</b>								
Furniture and fittings	1,702,524	-	1,702,524	282,283	170,256	452,539	1,249,985	10
Office equipment, appliances and computer systems	9,803,903	287,394	9,568,064	6,137,698	1,067,058	6,803,611	2,764,453	10 and 33.33
Motor vehicles	1,424,635	-	432,500	727,548	72,910	105,965	326,535	20
		(992,135)			(694,493)			
	12,831,062	287,394	11,703,088	7,147,529	1,310,224	7,362,115	4,340,973	
		(1,515,368)			(1,095,638)			
<b>Intangible</b>								
Computer software	2,257,697	-	2,257,697	2,257,697	-	2,257,697	-	33.33
<b>2007</b>	<b>15,188,759</b>	<b>287,394</b>	<b>13,960,785</b>	<b>9,405,226</b>	<b>1,310,224</b>	<b>9,619,812</b>	<b>4,340,973</b>	
		<b>(1,515,368)</b>			<b>(1,095,638)</b>			

# Notes to the Financial Statements

For the year ended June 30, 2008

## 9.2 Disposal of fixed assets

The following assets were disposed of during the year:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of buyer
	Rupees					
Motor Vehicle	432,500	136,238	296,262	200,000	Negotiation	Fariha Rehman

## 10. MUSHARIKA FINANCE

	2008 Rupees	2007 Rupees
Musharika with :		
- an associated undertaking - secured	<u>989,441,571</u>	<u>218,031,960</u>

The total facility for musharika finance available from Standard Chartered Bank (Pakistan) Limited amounts to Rs. 1,200 million (2007: Rs. 800 million). The estimated share of profit payable on this facility ranges from Rs. 0.2885 to Rs. 0.3803 (2007: Rs.0.2474 to Rs. 0.2948) per rupee one thousand per day. The facility is secured against hypothecation over the moveable leased out assets of the Modaraba.

## 11. SECURITY DEPOSITS

	2008 Rupees	2007 Rupees
Security deposits on Ijarah finance	<u>319,827,414</u>	224,732,059
Less: Repayable / adjustable within one year	<u>(61,037,694)</u>	<u>(49,738,937)</u>
	<u>258,789,720</u>	<u>174,993,122</u>

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

## 12. CREDITORS, ACCRUED AND OTHER LIABILITIES

	2008 Rupees	2007 Rupees
Management fee	<u>10,810,992</u>	9,132,848
Profit payable on:		
- Redeemable capital	<u>45,672,962</u>	20,685,466
- Musharika finances	<u>7,700,279</u>	1,111,323
- Murabaha finances	-	3,316,274
Accrued expenses	<u>11,655,221</u>	10,613,225
Amounts refundable to lessees	<u>8,339,309</u>	17,819,657
Others	<u>115,759</u>	139,663
	<u>84,294,522</u>	<u>62,818,456</u>

12.1 Amounts due to associated undertakings at June 30, 2008 aggregated Rs. 18,511,271 (2007: Rs. 10,247,916).

## 13. REDEEMABLE CAPITAL - PARTICIPATORY AND UNSECURED

	Note	Repayable by	2008 Rupees	2007 Rupees
Musharika and accrued profit thereon				
- associated undertaking	13.1		-	143,000,000
- others	13.2	June 2009	<u>498,483,587</u>	<u>649,122,957</u>
			<u>498,483,587</u>	<u>792,122,957</u>
Certificates of Musharika	13.3	June 2013	<u>269,190,000</u>	<u>285,755,000</u>
			<u>767,673,587</u>	<u>1,077,877,957</u>
Less: Current portion of redeemable capital			<u>625,423,587</u>	<u>819,505,067</u>
			<u>142,250,000</u>	<u>258,372,890</u>

# Notes to the Financial Statements

For the year ended June 30, 2008

- 13.1** The estimated share of profit payable on Musharika facilities is Nil (2007: Rs. 0.2655 to Rs. 0.2805) per thousand per day.
- 13.2** The estimated share of profit payable on Musharika facilities ranges from Rs. 0.1644 to Rs. 0.3288 (2007: Rs. 0.1507 to Rs. 0.3014) per thousand per day.
- 13.3** The estimated share of profit payable on Certificates of Musharika ranges from Rs. 0.1507 to Rs. 0.3014 (2007: Rs. 0.0822 to Rs. 0.2192) per thousand per day.

## 14. CERTIFICATE CAPITAL

### Authorised certificate capital

2008	2007		2008 Rupees	2007 Rupees
Number of certificates				
<b>50,000,000</b>	50,000,000	Modaraba Certificates of Rs. 10 each	<b>500,000,000</b>	500,000,000
<b>Issued, subscribed and paid-up capital</b>				
<b>28,500,000</b>	28,500,000	Modaraba Certificates of Rs. 10 each fully paid in cash	<b>285,000,000</b>	285,000,000
<b>16,883,530</b>	14,722,410	Modaraba Certificates of Rs. 10 each issued as fully paid bonus certificates	<b>168,835,300</b>	147,224,100
<b>45,383,530</b>	43,222,410		<b>453,835,300</b>	432,224,100

As at June 30, 2008, the Standard Chartered Services of Pakistan (Private) Limited (the Management Company) and Standard Chartered Bank (Pakistan) Limited held 4,538,353 (2007: 4,322,241) and 4,538,353 (2007: 4,322,241) 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 profit till such time that reserves equals 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred.

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

	2008 Rupees	2007 Rupees
Cash dividend @ Rs.1.6 per certificate (2007: @ Rs. 1.5 per certificate)	<b>72,613,648</b>	64,833,615
Bonus shares Nil out of share premium account (2007: 5%)	-	21,611,200

## 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 was filed before the Appellate Tribunal (AT) and after hearing the case AT was pleased to allow the appeal and set aside the order passed against the Modaraba. In view of the decision of the Tribunal in favor of the Modaraba, no provision has, therefore, been made in these financial statements.

# Notes to the Financial Statements

For the year ended June 30, 2008

## 17. FINANCIAL CHARGES

	2008 Rupees	2007 Rupees
Profit on redeemable capital	109,546,333	77,149,682
Profit on Musharika finance	17,679,299	43,394,766
Profit on Murabaha finances	2,148,274	12,418,611
Bank charges	66,903	41,519
	<b>129,440,809</b>	<b>133,004,578</b>

## 18. OTHER INCOME

Profit on disposal of assets in own use	-	136,771
Gain on early termination of lease	4,890,445	5,892,479
Income on advance against Ijarah finance	709,835	-
Others	2,772,061	4,064,145
	<b>8,372,341</b>	<b>10,093,395</b>

## 19. OPERATING EXPENSES

	Note		
Salaries and other staff benefits	19.2	22,413,241	18,563,885
Depreciation	9.1	1,293,661	1,310,226
Advertising, traveling and entertainment		1,227,984	1,261,799
Postage		847,130	640,640
Telecommunication		397,219	274,232
Printing and stationery		1,722,736	735,926
Legal and professional		1,936,384	2,489,473
Repairs and maintenance		697,571	794,419
Charges by associated undertakings	19.3	9,794,348	9,997,710
Subscriptions		499,428	547,770
Auditors' remuneration	19.4	486,000	430,000
Loss on disposal of assets in own use		96,262	-
COM trustee fee		75,732	85,396
Insurance - own assets		71,825	112,913
Sundries		1,313,391	1,325,903
		<b>42,872,912</b>	<b>38,570,292</b>

**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. 943,500 and Rs. 773,167 (2007: Rs. 787,360 and Rs. 12,344) on account of Modaraba's contribution to the staff provident fund and gratuity fund respectively.

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

# Notes to the Financial Statements

For the year ended June 30, 2008

## 19.4 Auditors' remuneration

	<b>2008 Rupees</b>	2007 Rupees
Audit fee	<b>330,000</b>	300,000
Review of six months period financial statements	<b>66,000</b>	60,000
Review reports on statement of compliance with code of corporate governance	<b>45,000</b>	40,000
Certification of remittance of profit to non-resident certificate holders	<b>25,000</b>	20,000
Out of pocket expenses	<b>20,000</b>	10,000
	<b>486,000</b>	430,000

## 20. MODARABA COMPANY'S MANAGEMENT FEE

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

## 21. EARNINGS PER CERTIFICATE

		<b>2008 Rupees</b>	2007 Rupees
Profit for the year		<b>97,298,932</b>	82,195,635
Average number of certificates	(Number)	<b>45,383,530</b>	45,383,530
Earnings per certificate		<b>2.14</b>	1.81

## 22. REMUNERATION OF OFFICERS

	<b>2008 Rupees</b>	2007 Rupees
Remuneration and staff retirement benefits	<b>21,842,269</b>	18,036,661
Medical expenses reimbursed	<b>210,381</b>	240,080
Other benefits	<b>360,591</b>	287,144
	<b>22,413,241</b>	18,563,885
Number of persons at end of the year	<b>22</b>	21

# Notes to the Financial Statements

For the year ended June 30, 2008

## 23. MATURITIES OF ASSETS AND LIABILITIES

	2008									
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years
	Rupees									
<b>Assets</b>										
Cash and bank balances	16,420,291	16,420,291	-	-	-	-	-	-	-	-
Advances, deposits, prepayments and other receivables	90,817,335	89,041,785	1,200,197	248,206	276,145	38,002	12,000	1,000	-	-
Loans to executive	106,239	-	-	-	-	123,420	72,819	-	-	-
Murabaha finance	103,792,329	-	103,792,329	-	-	-	-	-	-	-
Diminishing Musharika	10,047,324	3,306,128	30,856	48,051	96,102	192,204	207,505	446,544	1,310,360	4,410,074
Investment in Sukuk Certificates	75,000,000	-	-	-	3,125,000	20,535,716	20,535,716	30,803,568	-	-
Net investment in Ijarah finance	2,767,494,324	93,781,757	191,479,170	258,291,215	497,019,204	759,729,395	610,024,294	388,784,144	392,705	-
Taxation recoverable	8,195,027	8,195,027	-	-	-	-	-	-	-	-
Fixed assets	4,036,330	-	7,347	1,049	503,262	-	392,259	910,276	2,222,137	-
<b>Total Assets</b>	<b>3,076,000,199</b>	<b>210,744,988</b>	<b>296,506,899</b>	<b>256,588,521</b>	<b>471,016,713</b>	<b>780,617,707</b>	<b>631,244,563</b>	<b>420,945,532</b>	<b>3,925,202</b>	<b>4,410,074</b>
<b>Liabilities</b>										
Musharika Finance	989,441,571	989,441,571	-	-	-	-	-	-	-	-
Security deposits	319,827,414	832,800	7,152,489	10,698,557	42,252,848	53,016,999	104,401,243	101,371,479	-	-
Creditors, accrued and other liabilities	84,294,522	20,312,258	29,684,491	15,133,793	4,860,930	211,902	3,870,100	10,721,148	-	-
Deferred Murabaha income	3,751,699	-	3,751,699	-	-	-	-	-	-	-
Redeemable Capital	767,573,587	34,448,309	220,871,296	198,102,120	172,001,862	16,330,000	57,150,000	68,770,000	-	-
Unclaimed profit distribution	18,678,913	18,678,913	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>2,183,667,706</b>	<b>1,063,813,851</b>	<b>261,458,975</b>	<b>223,935,470</b>	<b>218,615,640</b>	<b>69,558,900</b>	<b>165,421,343</b>	<b>180,862,627</b>	<b>-</b>	<b>-</b>
<b>Net Assets / (Liabilities)</b>	<b>892,332,493</b>	<b>(853,068,863)</b>	<b>35,046,924</b>	<b>32,653,051</b>	<b>252,401,073</b>	<b>711,058,807</b>	<b>465,823,220</b>	<b>240,082,905</b>	<b>3,925,202</b>	<b>4,410,074</b>

	2007									
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years
	Rupees									
<b>Assets</b>										
Cash and bank balances	14,744,123	14,744,123	-	-	-	-	-	-	-	-
Advances, deposits, prepayments and other receivables	842,200	85,645	280,051	201,929	274,575	-	-	-	-	-
Loans to executive	79,518	-	-	-	-	65,864	13,654	-	-	-
Consumer Murabaha finance	19,145	-	9,572	9,573	-	-	-	-	-	-
Diminishing Musharika	13,252,335	18,428	36,856	55,284	129,568	389,433	478,109	1,139,314	3,347,052	7,658,291
Net investment in Ijarah finance	2,519,355,254	96,922,848	197,321,056	275,400,052	450,220,752	696,149,626	440,164,598	363,176,332	-	-
Taxation recoverable	8,126,073	8,126,073	-	-	-	-	-	-	-	-
Fixed assets	4,340,973	-	-	40,689	-	1,214,164	379,925	770,187	1,936,008	-
<b>Total Assets</b>	<b>2,560,759,621</b>	<b>119,897,117</b>	<b>197,647,535</b>	<b>275,707,527</b>	<b>450,624,895</b>	<b>697,819,087</b>	<b>441,036,276</b>	<b>365,085,833</b>	<b>5,283,060</b>	<b>7,658,291</b>
<b>Liabilities</b>										
Musharika Finance	218,031,960	218,031,960	-	-	-	-	-	-	-	-
Murabaha Finance	100,000,000	-	100,000,000	-	-	-	-	-	-	-
Security deposits	224,732,059	1,207,000	11,902,403	14,278,316	22,351,218	67,082,700	53,678,017	54,232,405	-	-
Creditors, accrued and other liabilities	62,818,456	50,369,334	12,449,122	-	-	-	-	-	-	-
Redeemable Capital	1,077,877,957	151,845,101	501,720,539	30,994,566	134,944,862	22,522,890	96,220,000	139,630,000	-	-
Unclaimed profit distribution	17,432,013	17,432,013	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>1,700,892,445</b>	<b>438,885,408</b>	<b>626,072,063</b>	<b>45,272,882</b>	<b>157,296,080</b>	<b>89,605,590</b>	<b>149,898,017</b>	<b>193,862,405</b>	<b>-</b>	<b>-</b>
<b>Net Assets / (Liabilities)</b>	<b>859,867,176</b>	<b>(318,988,291)</b>	<b>(428,424,528)</b>	<b>230,434,645</b>	<b>293,328,815</b>	<b>608,213,497</b>	<b>291,138,259</b>	<b>171,223,428</b>	<b>5,283,060</b>	<b>7,658,291</b>

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.

# Notes to the Financial Statements

For the year ended June 30, 2008

## 25. FINANCIAL INSTRUMENTS

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

	Effective yield / profit rate	2008										Not exposed to yield / profit risk
		Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	
		Rupees										
	%											
<b>Assets</b>												
Cash and bank balances	2% - 5.5%	16,420,291	16,404,007	-	-	-	-	-	-	-	-	16,284
Advances, deposits and other receivables	2% - 13.53%	86,578,145	85,173,971	32,252	54,944	78,731	-	-	-	-	-	1,238,247
Loans to executive	2%	196,239	-	-	-	-	123,420	72,819	-	-	-	-
Murabah finance	14.83%	103,732,329	-	103,732,329	-	-	-	-	-	-	-	-
Diminishing Musharaka	2%	10,047,624	3,306,128	30,856	48,051	96,102	192,204	207,505	446,544	1,310,360	4,410,074	-
Investment in Sukuk Certificates	11.95% - 15.63%	75,000,000	-	25,000,000	50,000,000	-	-	-	-	-	-	-
Net investment injarah finance	5.84% - 19.50%	2,767,484,824	845,312,540	782,319,304	751,905,197	191,490,080	207,348,780	147,830,829	41,360,439	4,825,655	-	-
Taxation recoverable	-	8,196,027	-	-	-	-	-	-	-	-	-	8,196,027
<b>Total Financial Assets as at June 30, 2008</b>		<b>3,067,724,079</b>	<b>750,190,046</b>	<b>911,174,741</b>	<b>802,008,192</b>	<b>191,670,913</b>	<b>202,664,404</b>	<b>148,117,153</b>	<b>41,836,963</b>	<b>8,136,015</b>	<b>4,410,074</b>	<b>9,449,568</b>
<b>Liabilities</b>												
Musharaka Finance	10.53% - 13.88%	989,441,571	-	989,441,571	-	-	-	-	-	-	-	-
Security deposits	-	319,827,414	932,800	7,152,489	10,699,557	42,252,848	53,016,998	104,401,243	101,371,479	-	-	-
Creditors, accrued and other liabilities	-	72,639,301	-	-	-	-	-	-	-	-	-	72,639,301
Redeemable capital	5.50% - 12.00%	767,673,587	34,448,309	220,871,296	188,102,120	172,001,862	16,330,000	57,150,000	68,770,000	-	-	-
Unclaimed profit distribution	-	18,678,913	-	-	-	-	-	-	-	-	-	18,678,913
<b>Total Financial Liabilities as at June 30, 2008</b>		<b>2,168,260,786</b>	<b>35,381,109</b>	<b>1,217,465,356</b>	<b>208,801,677</b>	<b>214,254,710</b>	<b>69,346,998</b>	<b>161,551,243</b>	<b>170,141,479</b>	<b>-</b>	<b>-</b>	<b>91,318,214</b>
<b>Total yield / profit risk sensitivity gap</b>			<b>714,815,537</b>	<b>(306,290,615)</b>	<b>593,266,516</b>	<b>(22,583,797)</b>	<b>133,317,406</b>	<b>(13,434,099)</b>	<b>(128,364,466)</b>	<b>6,136,015</b>	<b>4,410,074</b>	
<b>Cumulative yield / profit risk sensitivity gap</b>			<b>714,815,537</b>	<b>408,524,922</b>	<b>1,001,791,437</b>	<b>979,207,640</b>	<b>1,112,525,046</b>	<b>1,099,090,956</b>	<b>970,726,460</b>	<b>976,922,475</b>	<b>981,332,549</b>	

	Effective yield / profit rate	2007										Not exposed to yield / profit risk
		Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	
		Rupees										
	%											
<b>Assets</b>												
Cash and bank balances	2%	14,744,123	14,727,298	-	-	-	-	-	-	-	-	16,825
Advances, deposits and other receivables	2%	361,837	9,170	18,385	27,685	38,746	-	-	-	-	-	267,851
Loans to executive	2%	79,518	-	-	-	-	65,864	13,654	-	-	-	-
Consumer Murabah finance	10%	19,145	-	9,572	9,573	-	-	-	-	-	-	-
Diminishing Musharaka	2%	13,252,335	18,428	38,856	55,284	129,568	388,433	478,109	1,139,314	3,347,052	7,658,291	-
Net investment injarah finance	5.20% - 17.00%	2,519,355,254	96,922,848	197,321,056	275,400,052	450,220,752	696,149,626	440,161,588	363,176,332	-	-	-
Taxation recoverable	-	8,126,073	-	-	-	-	-	-	-	-	-	8,126,073
<b>Total Financial Assets as at June 30, 2007</b>		<b>2,555,938,285</b>	<b>111,677,744</b>	<b>197,385,889</b>	<b>275,492,594</b>	<b>450,389,066</b>	<b>696,604,923</b>	<b>440,656,351</b>	<b>364,315,646</b>	<b>3,347,052</b>	<b>7,658,291</b>	<b>8,410,749</b>
<b>Liabilities</b>												
Musharaka Finance	9.03% - 10.17%	218,031,960	218,031,960	-	-	-	-	-	-	-	-	-
Murabah Finance	10.83% - 10.36%	100,000,000	-	100,000,000	-	-	-	-	-	-	-	-
Security deposits	-	224,732,059	1,207,000	11,902,403	14,278,316	22,351,218	67,082,700	53,878,017	54,232,405	-	-	-
Creditors and other liabilities	-	52,205,231	-	-	-	-	-	-	-	-	-	52,205,231
Redeemable capital	5.50% - 11.00%	1,077,577,957	161,945,101	501,720,538	30,984,686	134,944,882	22,622,980	98,220,000	139,830,000	-	-	-
Unclaimed profit distribution	-	17,432,013	-	-	-	-	-	-	-	-	-	17,432,013
<b>Total Financial Liabilities as at June 30, 2007</b>		<b>1,690,279,220</b>	<b>371,084,061</b>	<b>613,622,941</b>	<b>45,272,882</b>	<b>157,296,080</b>	<b>89,605,580</b>	<b>149,898,017</b>	<b>183,862,405</b>	<b>-</b>	<b>-</b>	<b>68,637,244</b>
<b>Total yield / profit risk sensitivity gap</b>			<b>(259,406,317)</b>	<b>(416,237,072)</b>	<b>230,219,712</b>	<b>293,092,986</b>	<b>606,999,343</b>	<b>293,758,334</b>	<b>170,453,241</b>	<b>3,347,052</b>	<b>7,658,291</b>	
<b>Cumulative yield / profit risk sensitivity gap</b>			<b>(259,406,317)</b>	<b>(675,643,389)</b>	<b>(445,423,676)</b>	<b>(152,330,691)</b>	<b>454,668,643</b>	<b>745,426,976</b>	<b>915,880,217</b>	<b>919,227,269</b>	<b>926,885,560</b>	

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.

# Notes to the Financial Statements

For the year ended June 30, 2008

## 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 risks arise directly through the Modaraba's commercial activities whilst Business, Regulatory, Operational and Reputational risks 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) Limited 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 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.



# Notes to the Financial Statements

For the year ended June 30, 2008

## 26.4 Capital risk management

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

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

## 27. SEGMENT BY CLASS OF BUSINESS

	Note	2008		2007	
		Rupees	%age	Rupees	%age
<b>27.1 Net Investment in Ijarah finance, Diminishing Musharika and Murabaha receivable</b>					
Fuel & energy		406,874,236	15.88	433,736,955	18.79
Pharmaceutical & chemicals		308,821,362	12.06	347,534,926	15.06
Food & beverage		173,999,404	6.79	156,946,344	6.80
Sugar		128,000,888	5.00	79,442,743	3.44
Financial institutions		144,069,438	5.62	47,891,837	2.08
Travel & transport		218,176,749	8.52	181,051,971	7.84
Services		263,664,406	10.29	183,827,364	7.97
Textile		255,809,003	9.99	104,303,368	4.52
Electrical & engineering		96,811,166	3.78	144,145,021	6.25
Communication		61,130,727	2.39	131,522,738	5.70
Leather		316,398	0.01	2,721,851	0.12
Distribution		20,671,074	0.81	36,458,311	1.58
Cement		143,847,986	5.62	183,370,468	7.95
Construction		36,463,766	1.42	1,679,749	0.07
Others		302,850,960	11.82	273,261,029	11.84
	27.2	<b>2,561,507,563</b>	<b>100</b>	<b>2,307,894,675</b>	<b>100</b>
				<b>2008</b>	<b>2007</b>
				<b>Rupees</b>	<b>Rupees</b>
<b>27.2</b> Net investment in Ijarah finance				<b>2,767,494,824</b>	2,519,355,254
Diminishing Musharika				<b>10,047,824</b>	13,252,335
Murabaha receivable				<b>103,792,329</b>	19,145
Security deposits				<b>(319,827,414)</b>	(224,732,059)
				<b>2,561,507,563</b>	<b>2,307,894,675</b>

# Notes to the Financial Statements

For the year ended June 30, 2008

## 28. RELATED PARTIES TRANSACTIONS

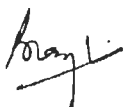
The related parties of the Modaraba comprise of holding company, management company, fellow subsidiary, staff retirement funds, directors and key management personnel. Transactions with related parties other than remuneration and benefits to key management personnel (which are employed by the management company) under the terms of their employment are as follows:

	2008 Rupees	2007 Rupees
<b>Holding Company</b>		
Lease rentals received	18,673,649	15,799,777
Profit on Musharika finance	17,679,299	43,394,766
Profit on deposit account	1,425,604	573,808
Bank charges and commission	66,903	41,519
Charge for reimbursement of portion salaries and benefits	9,794,348	9,997,710
<b>Staff retirement benefits funds</b>		
Contribution to the Staff Provident Fund	943,500	787,360
Contribution to the Staff Gratuity Fund	773,167	12,344
<b>Management Company</b>		
Management fee	10,810,992	9,132,848
<b>Other related party</b>		
Profit on Musharika finance	5,293,795	5,054,048

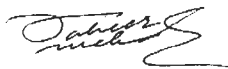
The Modaraba enters into transactions with related parties for lease of assets, borrowings under Musharika finances and other general banking services. These transactions are based on a transfer pricing policy under which all transactions are carried out on arm's length basis. The balances with related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

## 29. 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 29, 2008.



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



**S. Zaheer Mehdi**  
Chief Executive  
Standard Chartered Services  
of Pakistan (Private) Limited

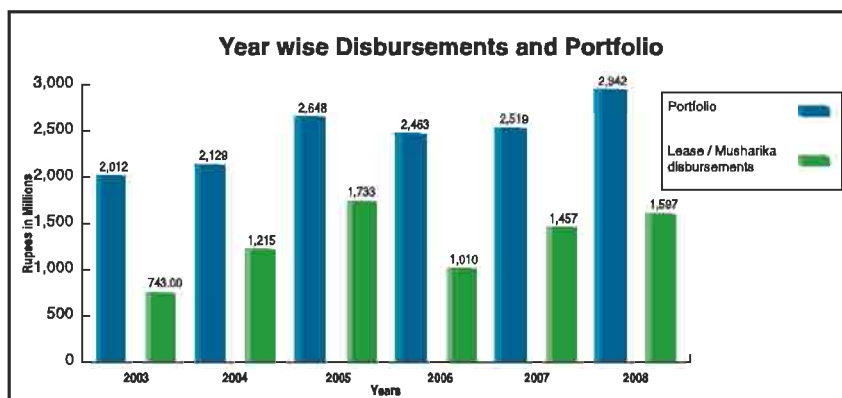
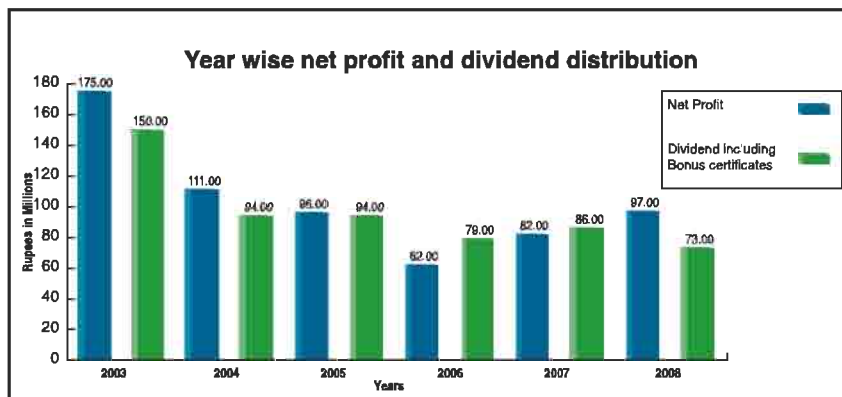
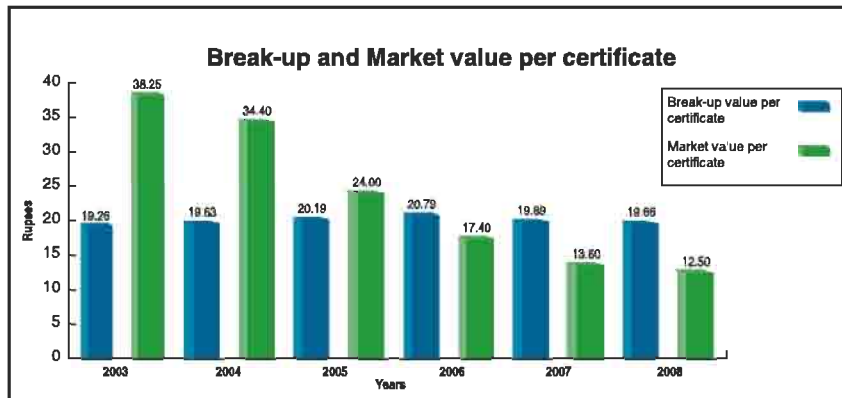


**Arjumand A. Minai**  
Director  
Standard Chartered Services  
of Pakistan (Private) Limited

# Standard Chartered Modaraba

Six Years' Financial Summary

	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08
<b>Key Financial Figures (Rs. In millions)</b>						
<b>Profit &amp; Loss Account</b>						
Revenues from operations	323	240	222	244	253	<b>273</b>
Financial charges	115	81	102	149	133	<b>129</b>
Impairment loss against doubtful debts	1	4	-	-	-	<b>1</b>
Net Profit	175	111	96	62	82	<b>97</b>
Dividend including Bonus certificates	150	94	94	79	86	<b>73</b>
<b>Balance Sheet</b>						
Certificate-holders' fund	386	377	378	440	506	<b>541</b>
Reserves	335	358	377	377	354	<b>352</b>
Borrowings from financial institutions	222	556	994	677	461	<b>989</b>
Redeemable capital and deposits	817	761	839	998	1,303	<b>1,088</b>
Portfolio	2,012	2,129	2,648	2,463	2,519	<b>2,942</b>
Lease / Musharika disbursements	743	1,215	1,733	1,010	1,457	<b>1,597</b>
<b>Key Financial Ratios</b>						
Return on equity (%)	24.27	15.10	12.72	7.53	9.56	<b>10.90</b>
Financial charges cover ratio	2.52	2.37	1.94	1.41	1.62	<b>1.33</b>
Profit before tax ratio (%)	54.18	46.25	43.24	25.22	32.52	<b>35.64</b>
Income / Expense ratio	1.97	1.85	1.64	1.32	1.45	<b>1.53</b>
Debt / Equity ratio	1.92	1.98	2.28	2.13	1.98	<b>2.45</b>
<b>Shares and Earnings</b>						
Break-up value per certificate	19.26	19.63	20.19	20.79	19.89	<b>19.66</b>
Market value per certificate	38.25	34.40	24.00	17.40	13.60	<b>12.50</b>
Earnings per certificate	4.68	2.97	2.56	1.42	1.81	<b>2.14</b>
Cash dividend per certificate	4.00	2.50	2.00	1.00	1.50	<b>1.60</b>
Bonus certificate (%)	-	-	5.00	10.00	5.00	<b>-</b>
Price earning ratio	8.17	11.58	9.38	12.25	7.16	<b>5.84</b>



# Your inspiration our achievements

**Standard Chartered Modaraba is a leading Islamic financial service provider which is committed to providing its customers with the best services and products. Our latest achievements take us higher in the eyes of our customers.**

- Entity ratings – Highest rating in the entire Modaraba & Leasing Sectors by PACRA AA+ for long-term and A1+ for short-term
- Best Performance Award by Modaraba Association of Pakistan In 2006 and 2007
- Corporate Excellence Award by Management Association of Pakistan in 2006 and 2007

## Indicative Profit Rates\* - Certificate of Musharika (Shariah Compliant Deposit Scheme)

Tenure	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	5 Years
Monthly	-	-	10.20%	10.25%	10.50%	10.75%	11.00%
Quarterly	-	-	10.40%	10.45%	10.70%	11.00%	11.25%
Half Yearly	-	-	10.60%	10.65%	11.00%	11.25%	11.50%
Yearly	-	-	11.00%	11.05%	11.20%	11.50%	11.75%
Maturity	8.50%	9.50%	11.00%	11.15%	11.50%	11.75%	12.00%

\* Subject to change.

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