

Annual Report 2010

Standard Chartered Modaraba



Rating by: PACRA

AA+ Long-Term

A1+ Short-Term

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



Vision

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

Mission

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

Value

We believe in our values:

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

Board of Directors

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



Our Team



Modaraba Information

Directors of Modaraba Company

Mr. Badar Kazmi
Chairman

Syed Zaheer Mehdi
Managing Director / Chief Executive

Mr. Cyrus J. Masani
Director

Mr. Shariq Saleem
Director

Mr. Imran Ahad
Director

Mr. Tufail J. Ahmad
Director

Company Secretary

Mr. Muhammad Siddique

Audit Committee

Mr. Cyrus J. Masani
Chairman

Mr. Imran Ahad
Member

Mr. Tufail J. Ahmad
Member

Auditors

A.F. Ferguson & Co.
Chartered Accountants

Bankers/ Lending Institutions

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

Legal Advisors

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

Registered and Head Office

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

Branch Offices

Standard Chartered Bank Building
P. O. Box 6131, Tufail Road
Lahore Cantt.
Phone: (042) 36066277-80

Standard Chartered Bank Building
6-A, 2nd Floor,
Union Arcade, F-7 Markaz
Islamabad
Phone: (051) 8342329, 8342330

Registrars & Share Registration Office

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

Web Address

www.scmodaraba.com

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Board of Directors



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 30 years, holding key positions both locally and internationally including that of being the Regional Head of Global Markets, Middle East & South Asia as well as Africa.



Shariq Saleem
Director

Appointed to the board on August 21, 2009 as Director. He also holds the position of Chief Information Officer in Standard Chartered Bank (Pakistan) Limited. He joined banking profession in 1983 and has an overall working experience of over 31 years. He has held senior positions in consumer, operations, project and general management in banking sector besides having been Managing Director of Standard Chartered Modaraba. Also has spent seven years in senior positions within Ministry of Industries, Government of Pakistan.



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 22 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.



Imran Ahad
Director

Appointed to the Board on April 19, 2006. He also 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 25 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.



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 22 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.



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 30 years, holding key positions both locally and internationally. Prior to joining the bank, he had spent two years in National Bank of Fujairah in Dubai, five years with Standard Chartered Bank in Dubai and twenty years with ANZ Group in Pakistan, UK and Bahrain.

Notice of Annual Review Meeting

Notice is hereby given that the Eleventh Annual Review Meeting of certificate-holders of Standard Chartered Modaraba (SCM) will be held on Thursday, October 21, 2010 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, 2010.

The certificate-holders whose names appear on the Register of certificate-holders of SCM as on October 13, 2010 will be eligible to attend the Annual Review Meeting.

On behalf of the Board



Muhammad Siddique
Company Secretary

Standard Chartered Services of Pakistan (Pvt) Ltd
Management Company of Standard Chartered Modaraba.
Karachi
September 7, 2010

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 Fourth Report of the Directors of Modaraba Company

The Board of Directors of Standard Chartered Services of Pakistan (Private) Limited, the Management Company of Standard Chartered Modaraba (SCM), is pleased to present the twenty fourth Directors' report of SCM, together with audited financial statements and auditors' report thereon for the year ended June 30, 2010.

1. Economy

Pakistan economy has gone through a phase of difficult political and economic reforms over the last two years, aimed at bringing greater stability to the economy. Significant progress has been made under the USD 11.3bn IMF loan and successful implementation of key reforms has helped to tackle inflation, build up the FX reserves and restore investor confidence. The economy was showing signs of recovery, growing at 4.1% in FY10 (ending in June 2010), the fastest pace in the last three years. However, the recent heavy floods have caused massive damage to the economy and threaten to derail the growth momentum. The scale of the devastation is large with 20mn people displaced and massive damage to the roads & power infrastructure, loss to the agriculture sector with cotton, rice and sugar crops badly damaged, and loss of livelihoods and houses expected to be close to USD 15bn (8% of GDP). Government projects growth will slowdown to 2% of GDP in FY11, from 4.1% in FY10. Whereas inflation is anticipated to rise sharply due to the loss of sugar and rice crops, and due to the breakdown of transport infrastructure disrupting supply of essential food commodities.

Reconstruction and rehabilitation of the flood affected areas and communities will be the key challenge ahead for policy makers. Significant fiscal reforms are expected to be carried out including tax reforms and power sector reforms to limit the build up in public debt and create fiscal space for the reconstruction spending. Large external support from the IMF and other international financial institutions will be critical to cushion the impact of the floods and sustain the recovery. Pakistan is expected to enter into a new IMF loan facility at the end of the current SBA facility in December 2010, giving balance of payment support in the medium term. Similarly, large FX aid commitments from the World Bank (i.e. USD 6.4bn over the next four years) and Asian Development Bank (USD 1.5bn annual assistance) will provide further support to the economy. Pakistan is a key partner to the US and NATO forces in Afghanistan and will continue to benefit from large aid flows, including the USD 7.5bn aid plan announced by the Obama administration for Pakistan over the next five years.

2. Operating Results and Business Overview

	June 30, 2010 (Rupees '000')	June 30, 2009 (Rupees '000')
Balance Sheet		
Certificate capital	453,835	453,835
Total equity	928,615	923,618
Investment in Ijarah finance and Ijarah assets	2,905,770	3,096,363
Investments in Murabaha finance, Diminishing Musharika and Sukuks	244,720	227,048
Redeemable capital	2,068,892	1,575,682
Profit and Loss		
Revenue (net of Ijarah assets depreciation)	407,692	396,590
Financial charges	243,953	237,221
Provisions (net of reversals/recoveries)	24,073	2,571
Operating expenses	46,744	41,354
Profit before management fee	92,922	115,443
Net profit	79,880	103,899

	June 30, 2010 (Rupees '000')	June 30, 2009 (Rupees '000')
Appropriations		
Net profit for the year	79,880	103,899
Add: Un appropriated profit brought forward	22,586	14,350
Profit available for appropriation	102,466	118,249
Profit distribution @ 17% (2009: @1.65%)	77,152	74,883
Statutory reserve	15,976	20,780
	93,128	95,663
Unappropriated profit carried forward	9,338	22,586
Earnings per certificate	1.76	2.29

By the Grace of Allah, considering the general economic downturn, poor credit off take and overall market conditions, your Modaraba's performance during the year has been most satisfactory. During the year under review, Modaraba's net profit reduced by 23% to Rs. 79.88 million as compared to Rs. 103.90 million during corresponding period of last year. The main reason for the decrease is adoption of IFAS-2 "Ijarah" during last year, provision for doubtful Sukuk (as per requirements of Prudential Regulations for Modarabas) and provision for workers' welfare fund. If the Modaraba had continued to account for Ijarah contracts as finance leases its net profit would have been higher by 15.76% to Rs. 144.57 million as compared to Rs. 124.88 million during the corresponding period last year.

To manage financial cost efficiently and effectively, Modaraba focused on raisings funds from general public through Certificates of Musharika (CoMs). Thus the balance of CoMs has been increased by 83% to Rs. 1,482 million as at June 30, 2010 as compared to Rs. 811 million as at close of last year.

Without compromising credit quality, Modaraba's investment in Ijarah finance, Ijarah assets, Murabaha finance, Diminishing Musharika, Term Deposits and Sukuks have increased by 3.82% to Rs. 3,450 million as against Rs. 3,323 million last year. Total assets have increased by 4.88% to Rs. 3,605 million as against Rs. 3,437 million last year.

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

Standard Chartered Modaraba has a well diversified asset portfolio comprising of Plant & Machinery, motor vehicles and equipments. Moreover, Modaraba's sector wise exposure is closely monitored and exposure is not beyond 20% in any industrial segment.

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

3. Profit Distribution

The Board in its meeting held on September 07, 2010 has approved the distribution of profit of Rs. 1.7 (17%) per certificate of Rs. 10 each, subject to deduction of zakat and tax at source where applicable, for the year ended June 30, 2010.

An amount of Rs. 15.98 million has been transferred to statutory reserve in compliance with the Prudential Regulations for Modarabas which require that not less than 20% and not more than 50% of the Modaraba's after tax profit be transferred to such reserve till such time as the reserve equals 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred.

4. External Annual Audit

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

5. Entity Ratings

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

6. Corporate and Financial Reporting Framework

- The financial statements, prepared by the management of the modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the modaraba have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates used are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements and any departures therefrom have been adequately disclosed.
- The system of internal control, which is in place, is sound in design and has been effectively implemented. It is being continuously reviewed by internal audit and other such procedures. The process of review will continue and any weakness in controls will be removed.
- Board is satisfied with the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data for the last six years in summarized form is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on June 30, 2010 except for those disclosed in the financial statements.
- The value of investments made by staff retirement benefit funds based on their respective unaudited accounts as at June 30, 2010 is as follows:

Provident Fund	Rs. 12.30 million
Gratuity Fund	Rs. 4.96 million

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

Name of Director	No. of Meetings Attended
Badar Kazmi	07
Syed Zaheer Mehdi	07
Cyrus J. Masani	06
Imran Ahad	05
Tufail J. Ahmad	07
Shariq Saleem	06

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

- The pattern of holding of certificates by the certificate-holders is included in this annual report.
- The Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any transaction in the certificates of the Modaraba during the year.

7. Our People

The Board places on record its appreciation of the services rendered by the staff members responsible for SCM affairs. Modaraba's record of achievements would not have been possible without the efforts of every employee. It is indeed the dedication and hard work of each one of them that has brought SCM to where it stands now. We will continue to invest in our Human Resources.

8. Auditors

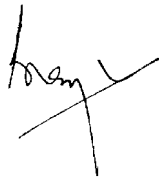
On the recommendation of Audit Committee, the Board has approved the appointment of the Messrs. A. F. Ferguson & Co., Chartered Accountants, as auditors for the year ending June 30, 2011, subject to approval by the Registrar of Modaraba Companies and Modarabas.

9. 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 7, 2010

Pattern of holding of certificates by the certificate-holders as at June 30, 2010

Number of Certificate-holders	Certificate holding		Total Certificates held
	From	To	
1,379	1	50	27,097
624	51	100	45,248
3,922	101	500	1,185,185
1,238	501	1000	942,305
1,499	1001	5000	3,297,795
255	5001	10000	1,857,157
350	10001	375000000	38,028,743
9,267			45,383,530

Categories of Certificate – holders	Number	Certificates held	%
Individual	9,142	19,550,849	43.08
Financial Institutions *	14	12,099,044	26.66
Investment Companies	6	50,861	0.11
Insurance Companies	13	5,810,769	12.80
Modarabas / Modaraba Management Companies**	8	4,671,251	10.29
Joint Stock Companies	53	1,978,092	4.36
Others			
- The Al-Malik Charitable Trust	1	17,395	0.04
- The Al-Malik Chari Table Trust	1	4,158	0.01
- Punjab Co-op. Board for Liquidation	1	171	0.00
- United Excecutors & Trustees Co.	1	210	0.00
- Islamic Investment Company of the Gulf (Bahrain)	1	872	0.00
- The Nazir	1	430	0.00
- Eddie Company (Pvt) Ltd.	1	30,439	0.07
- Trustees, Mama School Employee Gratuity Fund	1	12,127	0.03
- Zoroastrian Co-op. Housing Society Ltd.	1	18,191	0.04
- Millwala Sons (Private) Limited	1	17,000	0.04
- Trustees of New Jubilee Insurance Co. Ltd Staff Provident Fund	1	212,231	0.47
- Trustees Aloo & Minocher Dinshaw Charitable Trust	1	36,382	0.08
- Trustees of Faroukh & Roshen Karani Trust	1	6,063	0.01
- Manging Committee Karachi Zarhosti Banu Mandal	1	9,702	0.02
- Trustees Adamjee Enterprises Staff Provident Fund	1	5,000	0.01
- Managing Committee of Bismillah Taqee Found	1	21,829	0.05
- Trustees of Sana Industries Ltd. Employee Gratuity Fund	1	105,798	0.23
- Trustees of Haji Mohammed Welfare Trust	1	129,150	0.28
- Trustees Thal Ltd Employee Retirement Benifit Fund	1	4,851	0.01
- Trustees Al-Bader Welfare Trust	1	209,031	0.46
- Trustees-Thal Ltd Employee Provident Fund	1	121,880	0.27
- Trustee Gul Ahmed Textile Mills Ltd Employee Provident Fund	1	1,183	0.00
- Trustees Mrs. Khorshed H. Dinshaw & Mr. Hoshang N. E. Dinshaw	1	68,072	0.15
- Trustees D.N.E. Dinshaw Charity Trust	1	23,843	0.05
- Trustee of First Habib Modaraba Employees Contributory Provident Fund	1	17,050	0.04
- Trustee of Habib Modaraba Management Ltd. Employees	1	41,384	0.09
- Managing Committee Ghazali Education Trust	1	577	0.00
- Habib Bank AG Zurich, London	1	105,420	0.23
- Habib Bank AG Zurich, Deira Dubai	1	870	0.00
- Trustee- Hafiz Foundation	1	1,212	0.00
- Trustee Crescent Leasing Corporation Ltd. Provident Fund	1	143	0.00
	9,267	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, 2010

Additional Information

Categories of Certificate-holders	Number	Certificates held	%
Associated Companies			
Standard Chartered Services Of Pakistan (Pvt) Ltd (712-0)		4,538,353	10.00
Standard Chartered Bank (Pakistan) Limited.		4,538,353	10.00
	2	9,076,706	20.00
NIT & ICP			
National Bank of Pakistan, Trustee deptt.		5,101,060	11.24
Investment Corporation Of Pak		2,555	0.01
	3	5,103,615	11.25
Directors, CEO & their Spouse and Minor Children	-	-	-
Executives	-	-	-
Public Sector Companies and Corporations	3	4,114,665	9.07
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds	34	4,339,454	9.56
Certificate-holders holding ten percent or more certificates in the Modaraba (other than those reported above)	-	-	-

Statement of Value Added

	2010		2009	
	Rupees	%	Rupees	%
Revenue from operations (net of depreciation of Ijarah assets)	382,070,460		382,716,285	
(Other charges) /income including impairment loss no longer required written back	1,548,200		11,302,499	
	383,618,660		394,018,784	
Financial and bank charges	23,865,361		117,035,402	
Operating expenses	10,895,880		8,703,981	
	34,761,241		125,739,383	
Value Added	348,857,419	100	268,279,401	100
Distributed as follows:				
To Employees				
As remuneration	34,852,278	10	31,354,430	12
To Investors				
As profit on redeemable capital	220,087,144	63	120,185,763	45
To Modarib				
As management fee	9,292,250	3	11,544,339	4
To Certificate-holders				
As profit on certificates	77,152,001	22	74,882,825	28
To Revenue Authorities				
As workers' welfare fund	3,750,586	1	-	-
Retained in Business				
As depreciation	995,500	0	1,295,816	0
As capital reserves and retained earning	2,727,660	1	29,016,228	11
	348,857,419	100	268,279,401	100

Statement of Compliance with the Code of Corporate Governance

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

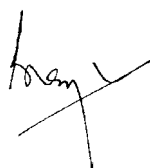
Regardless of the fact that Standard Chartered Services of Pakistan (Private) Limited, the management company of the Standard Chartered Modaraba, is a private limited company, the Board of Directors of management company are pleased to confirm that the code of corporate governance is being complied with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

Modaraba Management Company (hereafter referred to as Company) has applied the principles contained in the Code in the following manner:

1. At present the Board comprises of six directors of which five are non-executives and only the Chief Executive Officer (CEO) is an executive director.
2. The directors have confirmed that none of them is serving as a director in more than 10 listed companies, including this Company.
3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancy occurring on the Board during the year ended June 30, 2010 was duly filled within 30 days thereof.
5. The Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the Modaraba.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. The terms of appointment and remuneration package of the directors other than CEO are not approved by the board as they are nominees of Standard Chartered Bank (Pakistan) Limited.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded, circulated and signed by the Chairman of the Board of Directors.
9. The Directors are well conversant with their duties and responsibilities under the relevant laws applicable to the Modaraba, prospectus and provisions of the Code of Corporate Governance etc.
10. No appointment of Chief Financial Officer and Company Secretary was made during the current year. However, 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 certificates of the Modaraba other than that disclosed in the pattern of holding of certificates.
14. The Company has complied with all the corporate and financial reporting requirements of the code with respect to Modaraba.
15. The Board has formed an audit committee. It presently comprises three members who are non-executive directors, including chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function which has been outsourced to a firm of chartered accountants who are involved in the internal audit function.
18. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the person associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. All material information, as described in clause (xxiii) of the Code is disseminated to the Stock Exchanges and Securities and Exchange Commission of Pakistan in a timely fashion.
21. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
22. We confirm that all other material principles contained in the code have been complied with.

On behalf of the Board



Badar Kazmi
Chairman
September 7, 2010

Review Report on the Statement of Compliance With the Best Practices of the Code of Corporate Governance

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

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

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

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

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended June 30, 2010.

A.F. Ferguson & Co.
Chartered Accountants
Dated: September 7, 2010
Karachi

Auditors' Report to the Certificate Holders

We have audited the annexed balance sheet of Standard Chartered Modaraba as at June 30, 2010 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the modaraba management company's responsibility (Standard Chartered Services of Pakistan (Private) Limited) 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 management company in respect of Standard Chartered Modaraba, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion proper books of accounts have been kept by the management company in respect of Standard Chartered Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981;
- (b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon, have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of account and are further in agreement with accounting policies consistently applied except for the change as described in note 2.1.3 to the financial statements with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of state of the Modaraba's affairs as at June 30, 2010 and of the profit, its changes in equity and cash flows for the year then ended; and

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

The financial statements of Standard Chartered Modaraba for the year ended June 30, 2009 were audited by another firm of Chartered Accountants who had expressed an unqualified opinion thereon vide their report dated September 25, 2009.

A.F. Ferguson & Co.
Chartered Accountants
Engagement Partner: Rashid A. Jafer
Dated: September 7, 2010
Karachi

Balance Sheet as at June 30, 2010

	Note	2010 Rupees	2009 Rupees
ASSETS			
Current assets			
Cash and bank balances	3	77,803,945	42,741,602
Loans and receivables	4	300,000,000	-
Ijarah rentals receivable	5	41,082,814	18,870,752
Advances, deposits, prepayments and other receivables	6	14,699,975	39,881,274
Short-term Murabaha receivable	7	-	136,053,809
Current portion of investment in Sukuk certificates	8	4,687,503	13,392,858
Current portion of Diminishing Musharika	9	807,110	544,204
Current portion of net investment in Ijarah finance	10	675,009,453	762,896,707
Taxation recoverable		17,510,986	8,354,708
Total current assets		1,131,601,786	1,022,735,914
Non - current assets			
Loans and advances to employees		200,377	274,419
Long-term portion of investment in Sukuk certificates	8	37,890,622	58,482,142
Long-term portion of Diminishing Musharika	9	201,334,660	18,574,983
Long-term portion of net investment in Ijarah finance	10	280,376,512	966,599,037
Ijarah assets	10	1,950,383,580	1,366,866,901
Fixed assets in own use	11	3,277,513	3,649,699
Total non-current assets		2,473,463,264	2,414,447,181
TOTAL ASSETS		3,605,065,050	3,437,183,095
LIABILITIES AND EQUITY			
Current liabilities			
Musharika finance	12	9,472,819	232,514,635
Murabaha finance	13	-	130,000,000
Current maturity of security deposits	14	95,021,272	69,754,049
Creditors, accrued and other liabilities	15	132,517,060	127,235,236
Advance Ijarah rentals received		99,642,778	57,219,026
Current portion of redeemable capital	16	1,959,041,753	1,411,261,852
Deferred Murabaha income	7	-	4,840,932
Unclaimed profit distribution		21,721,026	19,970,920
Total current liabilities		2,317,416,708	2,052,796,650
Non - current liabilities			
Long-term portion of security deposits	14	249,183,608	296,348,546
Long-term portion of redeemable capital	16	109,850,000	164,420,000
Total non - current liabilities		359,033,608	460,768,546
TOTAL LIABILITIES		2,676,450,316	2,513,565,196
CERTIFICATE HOLDERS' EQUITY			
Authorised certificate capital			
50,000,000 (2009: 50,000,000) certificates of Rs 10 each	17	500,000,000	500,000,000
Certificate capital			
Issued, subscribed and paid-up certificate capital			
28,500,000 (2009: 28,500,000) certificates of Rs. 10 each issued as fully paid in cash		285,000,000	285,000,000
16,883,530 (2009: 16,883,530) certificates of Rs. 10 each issued as fully paid bonus	17	168,835,300	168,835,300
		453,835,300	453,835,300
Reserves	18	388,289,356	372,313,424
Unappropriated profit		86,490,078	97,469,175
		928,614,734	923,617,899
TOTAL LIABILITIES AND EQUITY		3,605,065,050	3,437,183,095
CONTINGENCIES AND COMMITMENTS			
	19		

The annexed notes 1 to 35 form an integral part of these financial statements.

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


Chairman


Chief Executive

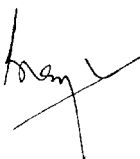

Director

Profit and Loss Account for the year ended June 30, 2010

	Note	2010 Rupees	2009 Rupees
Ijarah finance income		171,630,927	304,564,027
Ijarah rentals earned		644,627,853	180,865,168
Profit on Sukuk certificates		2,362,129	3,465,015
Income on Murabaha transactions		4,840,932	22,938,464
Income on Diminishing Musharika transactions		8,229,753	-
Income on deposits with bank		18,032,121	1,491,825
		<u>849,723,715</u>	<u>513,324,499</u>
Financial charges	20	(243,952,505)	(237,221,165)
Depreciation on assets under Ijarah arrangements	10.1	(467,653,254)	(130,608,214)
		<u>138,117,956</u>	<u>145,495,120</u>
Reversal / (provision) in respect of Ijarah finances - net	10.4	927,082	(2,571,488)
Provision in respect of Sukuk certificates	8	(25,000,000)	-
		<u>114,045,038</u>	<u>142,923,632</u>
Other income	21	25,621,118	13,873,987
Administrative and operating expenses	22	(46,743,660)	(41,354,227)
		<u>92,922,496</u>	<u>115,443,392</u>
Modaraba management company fee	23	(9,292,250)	(11,544,339)
Provision for workers' welfare fund	24	(3,750,586)	-
Profit before taxation		<u>79,879,660</u>	<u>103,899,053</u>
Taxation	2.13	-	-
Profit after taxation		<u>79,879,660</u>	<u>103,899,053</u>
Other comprehensive income / (loss) for the year		-	-
Total comprehensive income / (loss) for the year		<u><u>79,879,660</u></u>	<u><u>103,899,053</u></u>
Earnings per certificate	25	<u>1.76</u>	<u>2.29</u>

The annexed notes 1 to 35 form an integral part of these financial statements.

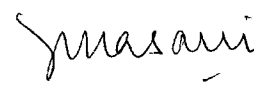
For Standard Chartered Services of Pakistan (Private) Limited
(Management Company)



Chairman



Chief Executive




Director

Cash Flow Statement for the year ended June 30, 2010

	Note	2010 Rupees	2009 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		79,879,660	103,899,053
Adjustment for non-cash and other items:			
Depreciation on fixed assets in own use	11.1	995,500	1,295,816
Depreciation on fixed assets under Ijarah arrangements	10.1	467,653,254	130,608,214
Loss on disposal of fixed assets	21	71,326	-
Profit on disposal of assets under Ijarah arrangements	21	(17,132,081)	(345,394)
(Reversal) / provision in respect of Ijarah finances	10.4	(927,082)	2,571,488
Provision in respect of Sukuk certificates	8	25,000,000	-
Profit on Sukuk certificates		(2,362,129)	(3,465,015)
Income on deposits with bank		(18,032,121)	(1,491,825)
Profit on:			
- Redeemable capital	20	220,087,144	120,185,763
- Murabaha finance	20	11,837,271	48,153
- Musharika finances	20	3,667,948	114,070,356
		690,859,030	363,477,556
		770,738,690	467,376,609
(Increase) / decrease in assets			
Advances, deposits, prepayments and other receivables		29,846,703	50,876,555
Ijarah rentals receivable		(22,212,062)	(18,870,752)
Murabaha finance		136,053,809	(32,261,480)
Diminishing musharika		(183,022,583)	(9,071,363)
Purchase against assets under Ijarah arrangements		(1,313,068,349)	(1,506,396,674)
Proceeds from disposal of assets under Ijarah arrangements		279,030,497	9,266,953
Investment in Ijarah finance -net		775,036,861	1,035,427,592
Loans and advances to employees		74,042	(78,180)
		(298,261,082)	(471,107,349)
Increase / (decrease) in liabilities			
Creditors, accrued and other liabilities		2,165,891	23,398,491
Advance Ijarah rentals received		42,423,752	57,219,026
Deferred Murabaha income		(4,840,932)	1,089,233
Security deposits		(21,897,715)	46,275,181
		17,850,996	127,981,931
		490,328,604	124,251,191
Profit received / (paid) on:			
- Sukuk certificates		3,087,409	3,524,521
- Redeemable capital		(206,462,154)	(104,475,990)
- Murabaha finances		(11,885,424)	-
- Musharika finances		(14,128,852)	(110,286,059)
Taxes paid		(9,156,278)	(159,681)
		(238,545,299)	(211,397,209)
Net cash generated from / (used in) operating activities		251,783,305	(87,146,018)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment in Sukuk certificates		4,296,875	3,125,000
Fixed capital expenditure	11.1	(769,640)	(909,185)
Proceeds from disposal of fixed assets		75,000	-
Income on deposits with bank		12,641,437	1,491,825
Net cash generated from investing activities		16,243,672	3,707,640
CASH FLOW FROM FINANCING ACTIVITIES			
Redeemable capital less repayments		493,209,901	808,008,265
Murabaha finances less repayments		(130,000,000)	130,000,000
Profit paid to certificate holders		(73,132,719)	(71,321,640)
Net cash generated from financing activities		290,077,182	866,686,625
Increase in cash and cash equivalents		558,104,159	783,248,247
Cash and cash equivalents at the beginning of year		(189,773,033)	(973,021,280)
Cash and cash equivalents at end of the year	31	368,331,126	(189,773,033)

The annexed notes 1 to 35 form an integral part of these financial statements.

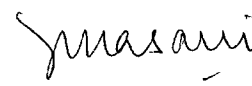
For Standard Chartered Services of Pakistan (Private) Limited
(Management Company)



Chairman



Chief Executive



Director

Statement of Changes in Equity for the year ended June 30, 2010

	Certificate capital	Reserves			Unappropriated profit	Total
		Premium on modaraba certificates	Statutory reserve	Sub Total		
Rupees						
Balance as at June 30, 2008	453,835,300	55,384,700	296,148,913	351,533,613	86,963,580	892,332,493
Profit distribution for 2008 @ Rs. 1.6 per certificate	-	-	-	-	(72,613,647)	(72,613,647)
Total comprehensive income for the year ended June 30, 2009	-	-	-	-	103,899,053	103,899,053
Transfer to statutory reserve	-	-	20,779,811	20,779,811	(20,779,811)	-
Balance as at June 30, 2009	453,835,300	55,384,700	316,928,724	372,313,424	97,469,175	923,617,899
Profit distribution for 2009 @ Rs. 1.65 per certificate	-	-	-	-	(74,882,825)	(74,882,825)
Total comprehensive income for the year ended June 30, 2010	-	-	-	-	79,879,660	79,879,660
Transfer to statutory reserve	-	-	15,975,932	15,975,932	(15,975,932)	-
Balance as at June 30, 2010	453,835,300	55,384,700	332,904,656	388,289,356	86,490,078	928,614,734

The annexed notes 1 to 35 form an integral part of these financial statements.

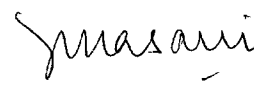
For Standard Chartered Services of Pakistan (Private) Limited
(Management Company)



Chairman



Chief Executive



Director

1 STATUS AND NATURE OF BUSINESS

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as explained in note 2.1.3 to these financial statements.

2.1 Basis of preparation

2.1.1 Statement of compliance

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

2.1.2 Accounting Convention

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

2.1.3 Changes in accounting policies and disclosures arising from standards, interpretations and amendments to published accounting standards that are effective in the current year:

- a) IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning of the comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and the comparative period.

The Modaraba has applied IAS 1 (revised) from July 1, 2009 and has chosen to present all non-owner changes in equity in one performance statement (referred to as profit and loss account). As a result the non-owner changes in equity which were previously required to be credited directly in the statement of changes in equity are now shown as other comprehensive income in the performance statement (referred to as profit and loss account in these financial statements). However currently, the Modaraba does not have any items of income and expenses representing other comprehensive income. Accordingly, the adoption of the above standard has not affected the values of the net assets and earnings per certificate and the restatement or reclassification of comparatives is not required.

- b) IFRS 8, 'Operating segments' became effective for annual periods beginning on or after January 1, 2009. IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard has not resulted in identification of any new reportable segment.
- c) IFRS 7 (Amendment) 'Financial instruments: Disclosures'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures as given in note 27.5 to these financial statements, but does not have an impact on the Modaraba's financial position or performance.

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

The following new standards and amendments to existing standards that are mandatory for the first time for the financial year beginning July 1, 2009 :

- a) IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of the amendment did not have any impact on the Modaraba's financial statements.
- b) IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation'. The amended standards require entities to classify puttable financial instruments, or components of 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 as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. One of the particular features is that apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity. The adoption of the amendment did not have any impact on the Modaraba's financial statements.
- c) IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009).
 - The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
- The distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
- IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

This amendment did not have any impact on the Modaraba's financial statements.

- d) IAS 36 (Amendment), 'Impairment of Assets' (effective from January 1, 2009). As per the new requirements, where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. Adoption of the amendment did not have any effect on the Modaraba's financial statements.
- e) IAS 38 (Amendment), 'Intangible Assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. Adoption of the amendment did not have any effect on the Modaraba's financial statements.
- f) IAS 23 (Amendment), 'Borrowing Costs' (effective from January 1, 2009). This standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. Further, the definition of borrowing cost has been amended so that interest expense is calculated using the effective interest method defined in IAS 39, 'Financial Instruments: Recognition and Measurement'. Adoption of this amendment did not have any effect on the Modaraba's financial statements.
- g) IFRS 2 (Amendment), 'Share-based payment' (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Adoption of this amendment did not have any effect on the Modaraba's financial statements.

There are other interpretations that were mandatory for the Modaraba's accounting periods beginning on or after July 1, 2009 but were considered not to be relevant or did not have any significant effect on the Modaraba's operations and are therefore not disclosed in these financial statements.

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Modaraba's accounting period beginning on or after July 1, 2010:

- IFRS 2 (Amendments), 'Group Cash-settled and Share-based Payment Transactions'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and Treasury Share Transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Modaraba's financial statements.
- IFRS 8 (Amendment), 'Operating segments' (effective from January 1, 2010). There is a minor amendment to the standard to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision maker. The amendment is not expected to have any impact on the Modaraba's financial statements.
- IAS 17 (Amendment), 'Leases' (effective from January 1, 2010). The amendment has deleted the specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating using the general principles of IAS 17. The amendment is not expected to have any impact on the Modaraba's financial statements.
- IAS 36 (Amendment), 'Impairment of Assets' (effective from January 1, 2010). The amendment clarifies that the largest cash generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment. The amendment is not expected to have a significant effect on the Modaraba's financial statements.
- IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2010). The amendment clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active market. The amendment is not expected to have any impact on the Modaraba's financial statements.

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

2.2 Islamic Financial Accounting Standard - 1

The Securities and Exchange Commission of Pakistan (SECP) notified the Islamic Financial Accounting Standard 1 (IFAS-1) issued by the Institute of Chartered Accountants of Pakistan relating to accounting for Murabaha transaction undertaken by a bank / financial institution, effective for financial periods beginning on or after January 1, 2006. The standard had not been adopted by the Modaraba pending resolutions of certain issues, e.g. invoicing of goods, recording of inventories, etc. During the current year, the Modaraba has adopted IFAS-1 after obtaining certain clarifications in respect of the afore-mentioned issues from the Shariah advisor of the Modaraba Association of Pakistan. However, the adoption of the above standard does not have any impact on the Modaraba's financial statements for the year ended June 30, 2010 as the Modaraba does not have any such transaction outstanding as at June 30, 2010.

2.3 Islamic Financial Accounting Standard - 2

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

- Muj'ir (lessors) shall present the assets subject to Ijarah in their balance sheet according to the nature of the asset, distinguished from the assets in own use.
- Costs, including depreciation on the assets given on Ijarah, incurred in earning the Ijarah income shall be recognized as an expense.
- Ijarah income shall be recognized in income on an accrual basis as and when the rental becomes due, unless another systematic basis is more representative of the time pattern in which the benefit of the use derived from the leased asset is diminished.

SECP, vide its letter No. SC/ M/ RW/ SCM /2009 dated March 9, 2009, SECP allowed that in case of Modarabas, IFAS-2 shall be applied for Ijarah transactions executed on or after July 1, 2008.

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

2.4 Critical accounting estimates and judgments

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

- i) Determination and measurement of useful life and residual value of fixed assets and Ijarah assets (notes 2.11, 10 and 11)
- ii) Provision for potential Ijarah losses (notes 2.8 and 10.4)

2.5 Cash and cash equivalents

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

2.6 Financial assets

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

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

2.6.1 Classification

a) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Modaraba's loans and receivables comprise of cash and bank balances, loans and advances to employees, Ijarah rental receivable, net investment in Ijarah finance, investment in diminishing musharika, advances, deposits and other receivables.

b) Held to maturity

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

2.6.2 Initial recognition and measurement

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

2.6.3 Subsequent measurement

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

2.6.4 Impairment

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

2.6.5 Derecognition

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

2.6.6 Offsetting of financial assets and liabilities

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

2.6.7 Financial liabilities

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

2.7 Net Investment in Finance lease

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

2.8 Provision for potential ijarah losses and write offs

Provision for non-performing leases, if any, is made in accordance with the requirements of the Prudential Regulations for Modarabas issued by the SECP and is charged to the profit and loss account currently. In addition to the provision specified by the SECP, the Modaraba also maintains a general provision to provide for potential lease losses on the Modaraba's portfolio which is determined on a consistent methodology based on management's best estimate. Outstanding balances in net investment in finance lease are written off when there is no realistic prospect of recovery.

2.9 Receivable from terminated / matured contracts

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

2.10 Murabaha transaction

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

2.11 Fixed assets

2.11.1 Tangible fixed assets

Owned assets

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account as and when incurred.

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

Depreciation on all fixed assets is charged to income using the straight-line method in accordance with the rates specified in note 11 to these financial statements and after taking into account residual value, if significant. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation is charged on additions from the month the asset is available for use and on disposals upto the month preceding the month of disposal.

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

Ijarah assets

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

2.11.2 Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only where it is probable that the future economic benefits associated with the asset will flow to the Modaraba and the cost of item can be measured reliably. Amortisation is charged to income using the straight line method in accordance with the rates specified in note 11 to these financial statements after taking into account residual value, if any. The residual values, useful lives and amortisation method are reviewed and adjusted, as appropriate, at each balance sheet date. Amortisation is charged from the month the asset is available for use while in the case of assets disposed of, it is charged till the month preceding the month of disposal.

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

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

2.12 Loans, advances and other receivables

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

2.13 Taxation

Current

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into account applicable tax credits, rebates and exemption available, if any. The income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate-holders. The Modaraba 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

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

2.14 Creditors, accrued and other liabilities

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

2.15 Provisions

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

2.16 Staff retirement benefits

The Modaraba operates:

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

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

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

2.17 Revenue recognition

- The Modaraba follows the finance method for recognising income on Ijarah contracts commencing prior to July 1, 2008 and accounted for as finance leases. Under this method the unearned income i.e. the excess of aggregate Ijarah rentals (including residual value) over the cost of the asset under Ijarah facility is deferred and then amortised over the term of the Ijarah, so as to produce a constant rate of return on net investment in the Ijarah. Gains / losses on termination of Ijarah contracts are recognised as income on receipt basis. Income on Ijarah is recognised from the date of delivering of the respective assets to the mustajir.

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

- For Ijarah arrangements commencing on or after July 1, 2008, Ijarah rentals are recognized as income on accrual basis, as and when rentals become due. In case of Ijarah arrangements with staggered rentals, the income is recognised on a straight line basis over the Ijarah term.
- Unrealised income in respect of non-performing Ijarah finance is held in suspense account, where necessary, in accordance with the requirements of Prudential Regulations for Modarabas issued by the SECP.
- Documentation charges, front end fees and other Ijarah related income are taken to profit and loss account when they are realised.
- Profit on Musharika arrangements is recognised under the effective mark-up rate method based on the amount outstanding.
- The Modaraba follows the finance method in recognising income on murabaha finance. Under this method the deferred murabaha income i.e. the excess of aggregate murabaha instalments over the cost of the asset under murabaha facility is deferred and then amortised over the term of the murabaha, so as to produce a constant rate of return on murabaha finance. Documentation charges, front-end fee and other murabaha income are recognised as income on a receipt basis.
- Profit on diminishing musharika is recognised on an accrual basis.
- Profit on modaraba finance is recognised on the basis of pre-agreed profit / loss sharing ratio when actual gain / loss on transaction is computed upon termination / completion of transaction.
- Mark-up / return on deposits / investments is recognised on accrual basis using the effective interest rate method.
- Other income is recognised as and when incurred.
- Dividend income is recognised when the Modaraba's right to receive the dividend is established.
- Income from shariah non-compliant avenues is not recognised in the profit and loss account and is classified as charity payable.

2.18 Proposed profit distribution to certificate-holders

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

2.19 Functional and presentation currency

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

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

2.20 Segment reporting

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

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

2.21 Earnings per certificate

Earning per certificate is calculated by dividing the profit attributable to certificate-holders by the weighted average number of certificates outstanding during the year.

	Note	June 30, 2010 Rupees	June 30, 2009 Rupees
3 CASH AND BANK BALANCES			
With banks in current accounts		23,255	7,755
With bank in deposit account	3.1 & 3.2	77,774,166	42,718,151
Cash in hand		6,524	15,696
		<u>77,803,945</u>	<u>42,741,602</u>

3.1 The balance has been kept in order to comply with the requirement of guidelines issued by the SECP for maintaining the prescribed liquidity against the Certificates of Musharika issued by the Modaraba.

3.2 This represents balance held with the Standard Chartered Bank (Pakistan) Limited (a related party). The deposit account carry profits at the rate of 6.25% (2009: 5%).

	Note	June 30, 2010 Rupees	June 30, 2009 Rupees
4 LOANS AND RECEIVABLES			
Term deposit receipts	4.1	<u>300,000,000</u>	<u>-</u>

4.1 Term Deposit Receipts include an amount of Rs. 200,000,000 (2009: nil) held with Standard Chartered Bank (Pakistan) Limited (a related party). Term deposit receipts with related party carry profit at the rate of 10.75% (2009: nil). Other deposit receipts carry profit at the rate of 11.10 % (2009: nil).

		June 30, 2010 Rupees	June 30, 2009 Rupees
5 IJARAH RENTALS RECEIVABLE			
Ijarah rentals receivable - considered good		<u>41,082,814</u>	<u>18,870,752</u>

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

	Note	June 30, 2010 Rupees	June 30, 2009 Rupees
6 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Loan and advances to employees		261,365	287,785
Advances to suppliers and others		54,000	51,000
Deposits		50,000	51,800
Prepayments		472,454	334,232
Accrued profit on Sukuk certificates	6.1	173,502	898,782
Accrued profit on Term Deposits Receipts		5,390,684	-
Accrued profit on Diminishing Musharika		8,229,753	-
Advance against assets under Ijarah arrangements		-	38,128,300
Others		68,217	129,375
		<u>14,699,975</u>	<u>39,881,274</u>
6.1 Accrued profit on Sukuk certificates		15,992,490	9,348,167
Less: Profit held in suspense		(15,818,988)	(8,449,385)
		<u>173,502</u>	<u>898,782</u>
7 SHORT-TERM MURABAHA RECEIVABLE			
Murabaha receivable - gross		-	136,053,809
Less: Deferred Murabaha income		-	(4,840,932)
		<u>-</u>	<u>131,212,877</u>
8 INVESTMENT IN SUKUK CERTIFICATES - Held to maturity			
Investment in Sukuk certificates	8.1	67,578,125	71,875,000
Less: Provision in respect of Sukuk certificates	8.1.2 & 8.1.3	(25,000,000)	-
		42,578,125	71,875,000
Less : Current portion of investment in Sukuk certificates		(4,687,503)	(13,392,858)
		<u>37,890,622</u>	<u>58,482,142</u>

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

8.1 Particulars of investment in Sukuk certificates

Name of investee company	Number of certificates				Profit / mark-up rate	Terms	Redemption Terms		Security	Carrying amount	
	As at July 01, 2009	Purchases during the year	Sales during the year	As at June 30, 2010			Principal	Profit		Balance as at June 30, 2010 Rupees	Balance as at June 30, 2009 Rupees
Sukuk certificates of Rs.5,000 each unless stated otherwise											
Security Leasing Corporation Limited	5,000	-	-	5,000	6.00%	4 years	note 8.1.1	note 8.1.1	First charge over specific leased assets and associated lease receivables with 25% security margin	17,578,125	21,875,000
Shahraj Fabrics (Private) Limited	10,000	-	-	10,000	14.47%	5 years	14 equal quarterly installment beginning from 21st month from the date of disbursement	Semi-annually in arrears	First pari passu charge over all present and future plant and machinery of the Company, equivalent to the Facility amount with a 25% margin	50,000,000	50,000,000

8.1.1 During the current year i.e. on March 18, 2010, the terms of the redemption of principal outstanding balance and payment of profit thereon have been restructured. Under the revised terms, principal redemption has commenced from April 2010 in 48 equal monthly installments payable in arrears, and profit will be payable at the rate of 6% for the first eighteen months commencing from the date of restructuring and from the nineteenth month profit will be payable at the rate of 1 month KIBOR.

8.1.2 Sukuk of Shahraj Fabrics (Private) Limited was overdue and accordingly classified as 'doubtful' as per requirements of Prudential Regulations for Modarabas. Consequently, management made a provision at the rate of 50 percent and suspended the accrued profit upto June 30, 2010.

Note	June 30, 2010 Rupees	June 30, 2009 Rupees
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8.1.3 Movement in provision against Sukuk certificates

Opening	-	-
Charge for the year	25,000,000	-
Closing	25,000,000	-

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

	Note	June 30, 2010 Rupees	June 30, 2009 Rupees
9 DIMINISHING MUSHARIKA			
Housing	9.1	27,141,770	19,119,187
Others	9.4	175,000,000	-
		<u>202,141,770</u>	<u>19,119,187</u>
Less: Current portion of Diminishing Musharika		(807,110)	(544,204)
		<u>201,334,660</u>	<u>18,574,983</u>

9.1 These represent finance provided to employees and officers of the Modaraba under diminishing musharika arrangement for renovation, construction and purchase of house. These carry profit at the rate of 2% (2009: 2%) per annum and are repayable on monthly basis over a maximum period of 25 years.

	Officers and employees	
	June 30, 2010 Rupees	June 30, 2009 Rupees
9.2 Reconciliation of carrying amounts of finance provided to employees and officers under diminishing musharika arrangement		
Opening balance	19,119,187	10,047,824
Disbursements during the year	8,733,306	12,622,500
Receipts during the year	(710,723)	(3,551,137)
Closing balance	<u>27,141,770</u>	<u>19,119,187</u>

9.3 The maximum aggregate amounts due from officers and employees at the end of any month during the year were Rs 27,208,018 (2009: 19,119,187).

9.4 This includes an amount of Rs. 125,000,000 due from a customer which has been restructured and converted into a diminishing musharika facility during the current year. Under the revised terms, the customer is required to make principal and profit payments in seventeen and nineteen quarterly installments commencing from February 15, 2012 and May 14, 2011 respectively.

	Note	June 30, 2010 Rupees	June 30, 2009 Rupees
10 IJARAH FINANCE			
Ijarah contracts commencing July 1, 2008- accounted for under IFAS 2	10.1	<u>1,950,383,580</u>	<u>1,366,866,901</u>
Ijarah contracts prior to July 1, 2008 - accounted for as finance leases	10.2	955,385,965	1,729,495,744
Less: Current portion of net investment in Ijarah finance	10.2	(675,009,453)	(762,896,707)
		<u>280,376,512</u>	<u>966,599,037</u>

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

10.1 Assets under Ijarah arrangements

The following is a statement of Ijarah assets:

	June 30, 2010		
	Ijarah Assets		Total
	Plant, Machinery & Equipment	Motor Vehicles	
	Rupees		
At July 01, 2009			
Cost	930,011,298	566,587,386	1,496,598,684
Accumulated depreciation	(77,426,634)	(52,305,149)	(129,731,783)
Net book value	852,584,664	514,282,237	1,366,866,901
Additions	546,030,109	767,038,240	1,313,068,349
Disposals			
Cost	(258,492,223)	(57,047,406)	(315,539,629)
Depreciation	43,560,028	10,081,185	53,641,213
	(214,932,195)	(46,966,221)	(261,898,416)
Depreciation charge for the year	(250,589,733)	(217,063,521)	(467,653,254)
Closing net book value	933,092,845	1,017,290,735	1,950,383,580
At June 30, 2010			
Cost	1,217,549,184	1,276,578,220	2,494,127,404
Accumulated depreciation	(284,456,339)	(259,287,485)	(543,743,824)
Net book value	933,092,845	1,017,290,735	1,950,383,580
	June 30, 2009		
	Ijarah Assets		Total
	Plant, Machinery & Equipment	Motor Vehicles	
	Rupees		
At July 01, 2008			
Cost	-	-	-
Accumulated depreciation	-	-	-
Net book value	-	-	-
Additions	930,636,218	575,760,456	1,506,396,674
Disposals			
Cost	(624,920)	(9,173,070)	(9,797,990)
Depreciation	51,678	824,753	876,431
	(573,242)	(8,348,317)	(8,921,559)
Depreciation charge for the year	(77,478,312)	(53,129,902)	(130,608,214)
Closing net book value	852,584,664	514,282,237	1,366,866,901
At June 30, 2009			
Cost	930,011,298	566,587,386	1,496,598,684
Accumulated depreciation	(77,426,634)	(52,305,149)	(129,731,783)
Net book value	852,584,664	514,282,237	1,366,866,901

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

10.2 Net Investment in Ijarah finance

Note	June 30, 2010			June 30, 2009		
	Not later than one year	Later than one year and less than five years	Total	Not later than one year	Later than one year and less than five years	Total
	Rupees					
Minimum Ijarah payments receivable	669,765,422	144,443,640	814,209,062	864,727,156	828,599,478	1,693,326,634
Add: Residual value	103,519,812	144,948,511	248,468,323	102,020,961	258,594,952	360,615,913
Gross investment in Ijarah finance	773,285,234	289,392,151	1,062,677,385	966,748,117	1,087,194,430	2,053,942,547
Less: Unearned finance income	90,103,152	9,015,639	99,118,791	196,117,285	120,595,393	316,712,678
Allowance for potential Ijarah losses	10.4	3,681,741	-	4,694,039	-	4,694,039
Suspended income	10.5	4,490,888	-	3,040,086	-	3,040,086
Net Investment in Ijarah finance	675,009,453	280,376,512	955,385,965	762,896,707	966,599,037	1,729,495,744

10.3 The Modaraba has entered into various Ijarah agreements for periods ranging from 3 to 6 years (2009: 3 to 6 years). Security deposits ranging from 0% to 30% (2009: 0% to 30%) are obtained at the time of disbursement. The rate of interest implicit in Ijarah finance ranges from 8.50% to 19.50% (2009: 6.40% to 20.70%) per annum.

10.4 Allowance for potential Ijarah losses

	2010			2009		
	Specific	General	Total	Specific	General	Total
	Rupees					
Opening Balance	343,415	4,350,624	4,694,039	437,621	1,684,930	2,122,551
Charge for the year	-	-	-	-	2,665,694	2,665,694
Reversal during the year	(127,659)	(799,423)	(927,082)	(94,206)	-	(94,206)
Amount written off during the year	(85,216)	-	(85,216)	-	-	-
Closing Balance	130,540	3,551,201	3,681,741	343,415	4,350,624	4,694,039

10.4.1 As at June 30, 2010, Ijarahs with outstanding principal of Rs. 58.413 million (2009: 32.981 million) have been classified as non-performing as per the requirements of Prudential Regulations for Modarabas issued by the SECP.

10.5 Suspended Income

	June 30, 2010 Rupees	June 30, 2009 Rupees
Balance at beginning of the year	3,040,086	3,576
Income suspended during the year	5,331,565	3,036,510
Reversals during the year	(3,880,763)	-
	4,490,888	3,040,086

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

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

	June 30, 2010				June 30, 2009			
	Not later than one year	Later than one and not later than five years	Later than five year	Total	Not later than one year	Later than one and not later than five years	Later than five year	Total
	Rupees							
Rentals receivable	763,267,548	1,491,461,349	135,536	2,254,864,433	453,600,176	1,280,727,944	62,904	1,734,391,024
Residual value	757,805	270,685,531	-	271,443,336	-	147,837,492	-	147,837,492
Total future Ijarah payments receivable	764,025,353	1,762,146,880	135,536	2,526,307,769	453,600,176	1,428,565,436	62,904	1,882,228,516

11 FIXED ASSETS IN OWN USE

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

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

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

June 30, 2009

	Owned Assets			Total	Intangible assets
	Furniture and fittings	Office equipment, appliances and computer systems	Motor vehicles		Computer software
Rupees					
At July 01, 2008					
Cost	1,702,524	9,974,344	879,000	12,555,868	2,257,697
Accumulated depreciation / amortisation	(622,795)	(7,794,190)	(102,553)	(8,519,538)	(2,257,697)
Net book value	1,079,729	2,180,154	776,447	4,036,330	-
Additions	-	909,185	-	909,185	-
Disposals					
Cost	-	-	-	-	-
Depreciation	-	-	-	-	-
Depreciation / amortisation charge for the year	(170,256)	(1,002,500)	(123,060)	(1,295,816)	-
Closing net book value	909,473	2,086,839	653,387	3,649,699	-
At June 30, 2009					
Cost	1,702,524	10,883,529	879,000	13,465,053	2,257,697
Accumulated depreciation / amortisation	(793,051)	(8,796,690)	(225,613)	(9,815,354)	(2,257,697)
Net book value	909,473	2,086,839	653,387	3,649,699	-
Depreciation / amortisation rate % per annum	10	10 and 33.33	20		33.33

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

	Note	June 30, 2010 Rupees	June 30, 2009 Rupees
12 MUSHARIKA FINANCE			
Musharika with:			
- an associated undertaking - secured	12.1	9,472,819	232,514,635

12.1 The total facility for musharika finance available from Standard Chartered Bank (Pakistan) Limited amounts to Rs. 500 million (2009: Rs. 1,200 million). The estimated share of profit payable on this facility ranges from Rs. 0.3907 to Rs. 0.3660 (2009: Rs.0.3918 to Rs. 0.4849) per rupee one thousand per day. The facility is secured against hypothecation over the moveable leased out assets of the Modaraba.

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

	Note	June 30, 2010 Rupees	June 30, 2009 Rupees
13 MURABAHA FINANCE			
Murabaha with other bank - secured			
Murabaha payable - gross	13.1	-	138,667,616
Less: Deferred murabaha expense		-	(8,619,463)
Murabaha profit payable shown in other liabilities		-	(48,153)
		<u>-</u>	<u>130,000,000</u>

13.1 The total facilities for murabaha finance available from Bank Islami Limited and Meezan Bank Limited amounted to Rs. 500 million (2009: 500 million) and Rs. 300 million (2009: nil) respectively. The rate of profit margin on these facilities ranges from Rs. 0.3575 to Rs. 0.3704 (2009: Rs. 0.3704), per rupee one thousand per day. These facilities were secured against hypothecation over the moveable leased out assets of the Modaraba.

14 SECURITY DEPOSITS

	June 30, 2010			June 30, 2009		
	Finance lease	Ijarah	Total	Finance lease	Ijarah	Total
	Rupees					
Security deposits	188,985,631	155,219,249	344,204,880	267,146,477	98,956,118	366,102,595
Less: Repayable / adjustable after one year	(94,634,194)	(154,549,414)	(249,183,608)	(197,392,428)	(98,956,118)	(296,348,546)
Current portion	<u>94,351,437</u>	<u>669,835</u>	<u>95,021,272</u>	<u>69,754,049</u>	<u>-</u>	<u>69,754,049</u>

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

	Note	June 30, 2010 Rupees	June 30, 2009 Rupees
15 CREDITORS, ACCRUED AND OTHER LIABILITIES			
Management fee payable		9,292,250	11,544,339
Profit payable on:			
- Redeemable capital		75,007,725	61,382,735
- Musharika finances		1,023,672	11,484,576
- Murabaha finances		-	48,153
Accrued expenses		14,552,893	13,265,956
Amounts refundable to lessees	15.2	27,381,296	29,111,390
Provision for Workers' Welfare Fund		3,750,586	-
Others		1,508,638	398,087
		<u>132,517,060</u>	<u>127,235,236</u>

15.1 Amounts due to associated undertakings at June 30, 2010 aggregated Rs. 11,815,922 (2009: Rs. 23,951,654).

15.2 This includes Rs. 1,681,543 (2009: Rs. 13,336,125) on account of termination charges received from musta'jir (lessees) and the termination process was completed subsequent to the balance sheet date. This also includes Rs. 8.798 million refundable to Ijarah customers in respect of withholding tax deposited by the customers pertaining to Ijarah vehicles. The amount will be refunded only if the Modaraba receives the refund from the tax department.

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

	Note	Repayable by	June 30, 2010 Rupees	June 30, 2009 Rupees
16 REDEEMABLE CAPITAL - PARTICIPATORY AND UNSECURED				
Musharika deposits	16.1	2011	587,026,753	764,521,852
Certificates of Musharika	16.2	2014	1,481,865,000	811,160,000
			<u>2,068,891,753</u>	<u>1,575,681,852</u>
Less: Current portion of redeemable capital			<u>(1,959,041,753)</u>	<u>(1,411,261,852)</u>
			<u>109,850,000</u>	<u>164,420,000</u>

16.1 The estimated share of profit payable on Musharika deposit facilities ranges from Rs. 0.2877 to Rs. 0.4205 (2009: Rs. 0.2945 to Rs. 0.4305) per thousand per day.

16.2 The estimated share of profit payable on Certificates of Musharika ranges from Rs. 0.2603 to Rs. 0.4247 (2009: Rs. 0.2795 to Rs. 0.4247) per thousand per day.

17 CERTIFICATE CAPITAL

Authorised certificate capital

June 30, 2010 (Number of certificates)	June 30, 2009		June 30, 2010 Rupees	June 30, 2009 Rupees
<u>50,000,000</u>	<u>50,000,000</u>	Modaraba Certificates of Rs. 10 each	<u>500,000,000</u>	<u>500,000,000</u>

Issued, subscribed and paid-up capital

28,500,000	28,500,000	Modaraba Certificates of Rs. 10 each fully paid in cash	285,000,000	285,000,000
16,883,530	16,883,530	Modaraba Certificates of Rs. 10 each issued as fully paid bonus certificates	168,835,300	168,835,300
<u>45,383,530</u>	<u>45,383,530</u>		<u>453,835,300</u>	<u>453,835,300</u>

17.1 As at June 30, 2010, the Standard Chartered Services of Pakistan (Private) Limited (the Management Company) and Standard Chartered Bank (Pakistan) Limited held 4,538,353 (2009: 4,538,353) and 4,538,353 (2009: 4,538,353) certificates of Rs. 10 each respectively.

18 RESERVES

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

During the current year, the Modaraba has transferred an amount of Rs 15,975,932 which represents 20% of the profit after tax.

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

19 CONTINGENCIES AND COMMITMENTS

19.1 During the year 2000-2001, the sales tax department had filed a case against Modaraba regarding the sales tax liability pertaining to the year 1997-2000. However, sales tax department did not mention any specific liability in the show cause notice. 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 favour of the Modaraba, no provision has been made in these financial statements in respect of the afore-mentioned matter.

19.2 An agreement was executed between Haleeb Foods and a consortium of financial institutions. As per terms of the agreement, Meezan Bank Limited had to provide Inland Usance L/C facility of Rs. 213.6 million to Haleeb Food Limited on behalf of all the participating institutions for procurement of packaging material from Tetra Pack. The Modaraba's assigned limit was Rs 12 million calculated on the basis of pro rata share. The Modaraba's outstanding balance of this facility was Rs 7.73 million as at June 30, 2010. The facility will expire in September 2010.

	Note	June 30, 2010 Rupees	June 30, 2009 Rupees
20 FINANCIAL CHARGES			
Profit on redeemable capital		220,087,144	120,185,763
Profit on Musharika finance		3,667,948	114,070,356
Profit on Murabaha finances		11,837,271	48,153
Bank charges		8,360,142	2,916,893
		<u>243,952,505</u>	<u>237,221,165</u>
21 OTHER INCOME			
Profit on disposal of Ijarah assets		17,132,081	345,394
Gain on early termination of Ijarah		3,450,333	5,642,872
Reversal of excess provision booked in prior years		-	1,380,888
Documentation fee		4,632,373	6,230,975
Loss on disposal of Fixed assets in own use		(71,326)	-
Others		477,657	273,858
		<u>25,621,118</u>	<u>13,873,987</u>
22 ADMINISTRATIVE AND OPERATING EXPENSES			
Salaries and other staff benefits	22.2 & 26	29,294,932	25,568,751
Depreciation on fixed assets in own use	11	995,500	1,295,816
Advertising, travelling and entertainment		861,099	792,968
Postage		760,831	677,317
Telecommunication		444,722	613,556
Printing and stationery		1,722,940	1,566,657
Legal and professional		2,871,645	1,982,995
Repairs and maintenance		1,219,629	1,044,459
Charges by associated undertakings	22.3	6,817,646	5,785,679
Subscriptions		514,800	472,225
Auditors' remuneration	22.4	569,000	530,000
Certificate of Musharika trustee fee		343,582	125,413
Insurance - own assets		53,064	49,714
Sundries		274,270	848,677
		<u>46,743,660</u>	<u>41,354,227</u>

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

- 22.1 Office space, utilities and related expenditure are borne by Standard Chartered Services of Pakistan (Private) Limited.
- 22.2 Salaries and other staff benefits include Rs. 1,201,060 and Rs. 999,116 (2009: Rs. 1,144,991 and Rs. 569,754) on account of Modaraba's contribution to the staff provident fund and gratuity fund respectively.
- 22.3 Charges by associated undertaking represent reimbursement of actual salary cost and other benefits of staff deployed on Modaraba affairs and miscellaneous expenses paid under service level agreement with Standard Chartered Bank (Pakistan) Limited.

	June 30, 2010 Rupees	June 30, 2009 Rupees
22.4 Auditors' remuneration		
Statutory audit fee	380,000	360,000
Half yearly review fee	80,000	72,000
Special reports and certificates	69,000	76,000
Out of pocket expenses	40,000	22,000
	<u>569,000</u>	<u>530,000</u>

23 MODARABA MANAGEMENT COMPANY FEE

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

24 WORKERS' WELFARE FUND

The Finance Act 2008 made certain changes to the Workers' Welfare Fund Ordinance, 1971. Through these amendments Workers' Welfare Fund (WWF) is payable @ 2% on the higher of the profit before taxation as per the financial statements or return of income. During the current year, the management has made a provision of Rs. 3.751 million (including an amount of Rs. 2.08 million relating to the prior year ended June 30, 2009) in respect of this liability.

	June 30, 2010 Rupees	June 30, 2009 Rupees
25 EARNINGS PER CERTIFICATE		
Profit after taxation for the year	<u>79,879,660</u>	<u>103,899,053</u>
	Number	Number
Average number of certificates	<u>45,383,530</u>	<u>45,383,530</u>
	Rupees	Rupees
Earnings per certificate	<u>1.76</u>	<u>2.29</u>

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

	Note	June 30, 2010 Rupees	June 30, 2009 Rupees
26 REMUNERATION OF OFFICERS			
Remuneration and staff retirement benefits		28,732,697	24,947,443
Medical expenses reimbursed		152,626	196,709
Other benefits		409,609	424,599
		<u>29,294,932</u>	<u>25,568,751</u>
		Number	Number
Number of employees at end of the year		<u>23</u>	<u>25</u>

27 FINANCIAL RISK MANAGEMENT

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

27.1 Market Risk

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

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

27.1.1 Currency risk

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

27.1.2 Profit rate risk

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

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

June 30, 2010

Effective yield / profit rate %	Total	Up to one month	Over one month to three months	Over three months to one year	Over one year to five years	Over five years	Not exposed to yield / profit risk	Rupees						
Financial Assets														
Cash and bank balances	6.25%	77,803,945	77,774,166	-	-	-	-	29,779						
Loans and receivables	10.75%-11.10%	300,000,000	200,000,000	100,000,000	-	-	-	-						
Ijarah rentals receivable	-	41,082,814	-	-	-	-	-	41,082,814						
Advances, deposits, and other receivables	2%	14,427,898	58,605	43,813	158,947	200,377	-	13,966,156						
Diminishing Musharika	2%-15.41%	202,141,770	66,282	175,132,665	618,277	3,856,704	22,467,842	-						
Investment in Sukuk Certificate	6%-14.47%	42,578,125	17,578,125	25,000,000	-	-	-	-						
Investment in Ijarah Finance	8.5%-19.5%	955,385,965	292,457,560	354,798,977	277,806,506	30,322,922	-	-						
Total Financial Assets as at June 30, 2010		1,633,420,517	587,934,738	654,975,455	278,583,730	34,380,003	22,467,842	55,078,749						
Financial Liabilities														
Musharika Finance	13.35%-14.26%	9,472,819	-	9,472,819	-	-	-	-						
Security deposits	-	344,204,880	-	-	-	-	-	344,204,880						
Creditors, accrued and other liabilities	-	128,766,474	-	-	-	-	-	128,766,474						
Unclaimed profit distribution	-	21,721,026	-	-	-	-	-	21,721,026						
Redeemable Capital	9.75%-15.5%	2,068,891,753	383,324,500	524,323,664	1,054,973,589	106,270,000	-	-						
Total Financial Liabilities as at June 30, 2010		2,573,056,952	383,324,500	533,796,483	1,054,973,589	106,270,000	-	494,692,380						
Total yield / profit risk sensitivity gap			204,610,238	121,178,972	(776,389,859)	(71,889,997)	22,467,842							
Cumulative yield / profit risk sensitivity gap			204,610,238	325,789,210	(450,600,649)	(522,490,646)	(500,022,804)							

June 30, 2009

Effective yield / profit rate %	Total	Up to one month	Over one month to three months	Over three months to one year	Over one year to five years	Over five years	Not exposed to yield / profit risk	Rupees						
Assets														
Cash and bank balances	5%	42,741,602	42,718,151	-	-	-	-	23,451						
Loans and receivables	-	-	-	-	-	-	-	-						
Ijarah rentals receivable	-	18,870,752	-	-	-	-	-	18,870,752						
Advances, deposits and other receivables	2%	39,821,461	38,155,070	54,525	206,489	274,419	-	1,130,958						
Murabaha Receivable	15.98%	131,212,877	-	131,212,877	-	-	-	-						
Diminishing Musharika	2%	19,119,187	52,017	104,034	388,153	2,355,021	16,219,962	-						
Investment in Sukuk Certificate	14.42%-15.68%	71,875,000	-	50,000,000	21,875,000	-	-	-						
Investment in Ijarah Finance	6.4%-20.7%	1,729,495,744	505,404,528	594,863,305	506,526,668	130,435,368	-	-						
Total Financial Assets as at June 30, 2009		2,053,136,623	586,329,766	776,234,741	528,996,310	133,064,808	16,219,962	20,025,161						
Liabilities														
Musharika Finance	14.3 %-17.70%	232,514,635	232,514,635	-	-	-	-	-						
Murabaha Finance	13.52%	130,000,000	-	-	130,000,000	-	-	-						
Security deposits	-	366,102,595	-	-	-	-	-	366,102,595						
Creditors, accrued and other liabilities	-	127,235,236	-	-	-	-	-	127,235,236						
Unclaimed profit distribution	-	19,970,920	-	-	-	-	-	19,970,920						
Redeemable capital	10.20%-15.71%	1,575,681,852	255,735,054	519,319,204	636,207,594	164,420,000	-	-						
Total Financial Liabilities as at June 30, 2009		2,451,505,238	488,249,689	519,319,204	766,207,594	164,420,000	-	513,308,751						
Total yield / profit risk sensitivity gap			98,080,077	256,915,537	(237,211,284)	(31,355,192)	16,219,962							
Cumulative yield / profit risk sensitivity gap			98,080,077	354,995,614	117,784,330	86,429,138	102,649,100							

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in profit rates at the reporting date would have increased / (decreased) profit for the year by the amount shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Profit and loss 100 bp	
	Increase Rupees	Decrease Rupees
As at June 30, 2010		
Cash flow sensitivity - variable rate financial assets	33,074,722	(33,074,722)
Cash flow sensitivity - variable rate financial liabilities	(20,951,893)	20,951,893
Net effect	<u>12,122,829</u>	<u>(12,122,829)</u>
As at June 30, 2009		
Cash flow sensitivity - variable rate financial assets	26,291,601	(26,291,601)
Cash flow sensitivity - variable rate financial liabilities	(17,285,882)	17,285,882
Net effect	<u>9,005,719</u>	<u>(9,005,719)</u>

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

27.1.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Modaraba is not exposed to equity securities price risk as the Modaraba does not hold any equity securities as at June 30, 2010.

27.2 Credit risk

27.2.1 Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The risk is generally limited to principal amounts and accrued profit thereon, if any. The Modaraba's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the Prudential Regulations for Modarabas issued by the SECP.

27.2.2 As at June 30, 2010 there were no financial assets which have been pledged as collateral for liabilities or contingent liabilities of the Modaraba.

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

27.2.4 A reconciliation of provision made during the year in respect of financial assets is given in note 8.1.3 and note 10.4 to these financial statements.

27.2.5 The maximum exposure to credit risk, by class of financial instruments at the end of the reporting period without taking into account any collateral held or other credit enhancement is given in note 27.4 to these financial statements except for an amount of Rs. 6,524.

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

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

	June 30, 2010 Rupees	June 30, 2009 Rupees
Bank balances		
AAA	77,797,421	42,725,906
Sukuk certificates ratings		
BBB+	-	21,875,000
CCC	17,578,125	-
Un-rated	50,000,000	50,000,000

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

	June 30, 2010		June 30, 2009	
	Total outstanding amount	Payment overdue (in days)	Total outstanding amount	Payment overdue (in days)
Net investment in Ijarah finance	13,486,711	1-179 days	35,809,062	1-179 days
Ijarah rentals receivable	11,032,795	1-179 days	4,046,826	1-179 days

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

	As at June 30, 2010				
	OAEM	Substandard	Doubtful	Loss	Total
Net investment in Ijarah finance	58,282,556	-	-	130,540	58,413,096
Sukuk Certificates	-	-	50,000,000	-	50,000,000
	As at June 30, 2009				
	OAEM	Substandard	Doubtful	Loss	Total
Net investment in Ijarah finance	32,743,431	-	-	238,391	32,981,822
Sukuk Certificates	50,000,000	-	-	-	50,000,000

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

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

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

Sector	2010		2009	
	Rupees	%	Rupees	%
FMCG/Food & Allied	494,826,022	17.59%	431,869,039	14.68%
Chemical	426,395,124	15.16%	294,000,971	10.00%
Petroleum	341,325,338	12.14%	341,012,291	11.59%
Water & Power	-	0.00%	219,583,387	7.47%
Travel Transport, Storage & Communication	221,038,227	7.86%	308,090,953	10.48%
Fuel & Energy	179,531,425	6.38%	189,447,715	6.44%
Miscellaneous	242,633,243	8.63%	208,987,855	7.11%
Sugar	150,703,677	5.36%	114,364,865	3.89%
Pharmaceuticals	152,850,692	5.44%	214,438,407	7.29%
Services	151,082,145	5.37%	165,938,460	5.64%
Textile	184,959,451	6.58%	245,895,130	8.36%
Cement	102,299,903	3.64%	81,493,698	2.77%
Automobile	64,827,043	2.31%	1,716,709	0.06%
Individual	41,407,140	1.47%	47,809,674	1.63%
Steel & Engineering	32,061,840	1.14%	46,370,135	1.58%
Financial Institutions	26,374,149	0.94%	30,062,763	1.02%
	<u>2,812,315,419</u>	<u>100%</u>	<u>2,941,082,052</u>	<u>100%</u>

	Note	June 30, 2010 Rupees	June 30, 2009 Rupees
Investment in Ijarah Finance / assets under Ijarah arrangements		2,905,769,545	3,096,362,645
Less: Security deposits held	14	(344,204,880)	(366,102,595)
Add: Allowance for potential Ijarah losses	10.4	3,681,741	4,694,039
Add: Mark-up held in suspense	10.5	4,490,888	3,040,086
		<u>2,569,737,294</u>	<u>2,737,994,175</u>
Short-term Murabaha receivable		-	131,212,877
Investment in Sukuk certificates	8	67,578,125	71,875,000
Investment in Diminishing Musharika other than staff house finance	9	175,000,000	-
		<u>2,812,315,419</u>	<u>2,941,082,052</u>

27.3 Liquidity Risk

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

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

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

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

	As at June 30, 2009			
	Total	Upto three months	More than three months and upto one year	More than one year
	Rupees			
Musharika finance	232,514,635	232,514,635	-	-
Murabaha finance	130,000,000	130,000,000	-	-
Security deposits	366,102,595	30,740,299	39,013,750	296,348,546
Creditors, accrued and other liabilities	127,235,236	127,235,236	-	-
Unclaimed profit distribution	19,970,920	19,970,920	-	-
Redeemable capital	1,575,681,852	775,054,258	636,207,594	164,420,000
	2,451,505,238	1,315,515,348	675,221,344	460,768,546

27.4 FINANCIAL INSTRUMENTS BY CATEGORY

	As at June 30, 2010			
	Loans and receivables	Assets at fair value through profit & loss	Held to maturity	Total
	Rupees			
ASSETS				
Cash and bank balances	77,803,945	-	-	77,803,945
Loans and receivables	300,000,000	-	-	300,000,000
Ijarah rentals receivable	41,082,814	-	-	41,082,814
Advances, deposits, prepayments and other receivables	14,427,898	-	-	14,427,898
Murabaha receivable	-	-	-	-
Diminishing Musharika	202,141,770	-	-	202,141,770
Investment in Sukuk certificates	-	-	42,578,125	42,578,125
Net investment in Ijarah finance	955,385,965	-	-	955,385,965
	1,590,842,392	-	42,578,125	1,633,420,517

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

	As at June 30, 2010		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	Rupees		
LIABILITIES			
Musharika finance	-	9,472,819	9,472,819
Murabaha finance	-	-	-
Security deposits	-	344,204,880	344,204,880
Creditors, accrued and other liabilities	-	128,766,474	128,766,474
Redeemable capital	-	2,068,891,753	2,068,891,753
Unclaimed profit distribution	-	21,721,026	21,721,026
	-	2,573,056,952	2,573,056,952

	As at June 30, 2009			
	Loans and receivables	Assets at fair value through profit & loss	Held to maturity	Total
	Rupees			
ASSETS				
Cash and bank balances	42,741,602	-	-	42,741,602
Loans and receivables	-	-	-	-
Ijarah rentals receivable	18,870,752	-	-	18,870,752
Advances, deposits, prepayments and other receivables	39,821,461	-	-	39,821,461
Murabaha receivable	131,212,877	-	-	131,212,877
Diminishing Musharika	19,119,187	-	-	19,119,187
Investment in Sukuk certificates	-	-	71,875,000	71,875,000
Net investment in Ijarah finance	1,729,495,744	-	-	1,729,495,744
	1,981,261,623	-	71,875,000	2,053,136,623

	As at June 30, 2009		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	Rupees		
LIABILITIES			
Musharika finance	-	232,514,635	232,514,635
Murabaha finance	-	130,000,000	130,000,000
Security deposits	-	366,102,595	366,102,595
Creditors, accrued and other liabilities	-	127,235,236	127,235,236
Redeemable capital	-	1,575,681,852	1,575,681,852
Unclaimed profit distribution	-	19,970,920	19,970,920
	-	2,451,505,238	2,451,505,238

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

27.5 Fair value of financial assets and liabilities

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

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

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

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

28 CAPITAL RISK MANAGEMENT

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

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

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

	June 30, 2010 Rupees	June 30, 2009 Rupees
Total borrowings	2,068,891,753	1,705,681,852
Less: Cash and cash equivalents	(368,331,126)	(189,773,033)
Net debt	1,700,560,627	1,895,454,885
Total equity	928,614,734	923,617,899
Total capital	2,629,175,361	2,819,072,784
Gearing ratio	64.7%	67.2%

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

29 SEGMENT INFORMATION

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

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

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

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

The Modaraba also has a diversified certificate holder population. As at June 30, 2010, there were only three (June 30, 2009: three) certificate holders who each held more than 10% of the Modaraba's certificate capital. Their holdings were 10%, 10% and 11.24% (June 30, 2009: 10%, 10% and 11.24%) respectively.

30 RELATED PARTIES TRANSACTIONS

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

	June 30, 2010 Rupees	June 30, 2009 Rupees
Holding Company		
Lease rentals received	4,553,780	8,853,899
Profit on Musharika finance	3,667,948	114,070,356
Profit on deposit account	15,198,970	1,491,825
Bank charges and commission	8,360,142	2,916,893
Charge for reimbursement of salaries and benefits	5,557,346	5,785,679
Charge for reimbursement of miscellaneous expenses	1,260,300	-
Staff retirement benefits funds		
Contribution to the staff provident fund	1,201,060	1,144,991
Contribution to the staff gratuity fund	999,116	569,754
Management Company		
Management fee	9,292,250	11,544,339
Other related party		
Reimbursement of salaries and benefits	1,323,300	1,303,721
Key management personnel remuneration		
Salaries and benefits	7,724,509	7,635,301
Contribution to staff provident fund	348,000	365,001
Contribution to the staff gratuity fund	290,000	304,167
Number of persons	3	3

Notes to and Forming Part of the Financial Statement for the year ended June 30, 2010

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

31 CASH AND CASH EQUIVALANT

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

		June 30, 2010 Rupees	June 30, 2009 Rupees
Cash and bank balances	3	77,803,945	42,741,602
Loans and receivables	4	300,000,000	-
Musharika finance	12	(9,472,819)	(232,514,635)
		<u>368,331,126</u>	<u>(189,773,033)</u>

32 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, whenever necessary, for the purposes of appropriate presentation. Significant reclassifications and rearrangements are as follows:

- Ijarah assets amounting to Rs. 1,950,383,580 have now been shown separately as a line item on the balance sheet. Previously, it was shown under the head 'Long-term portion of net investment in Ijarah finance / assets under Ijarah arrangements'. However, as the reclassification produces no changes in retained earnings, no comparative balance sheet as at June 30, 2008 has been presented.

Certain additional prior year disclosures have been included as required due to the change in accounting policies as explained in note 2.1.3 to these financial statements.

33 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on September 07, 2010 have approved cash dividend of Rs. 1.70 (2009: Rs. 1.65) per certificate. The financial statements of the Modaraba for the year ended June 30, 2010 do not include the effect of the final distribution which will be accounted for in the financial statements of the Modaraba for the year ending June 30, 2011.


34 DATE OF AUTHORISATION

These financial statements were authorised for issue on September 07, 2010 by the Board of Directors of the Management Company.

35 GENERAL

Figures have been rounded off to the nearest rupee.

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


Chairman

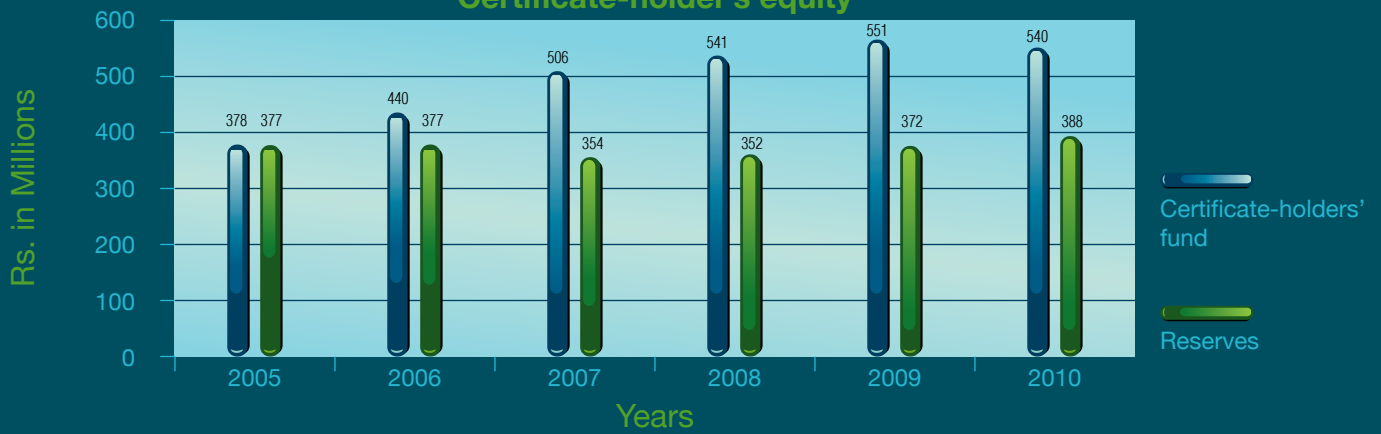

Chief Executive


Director

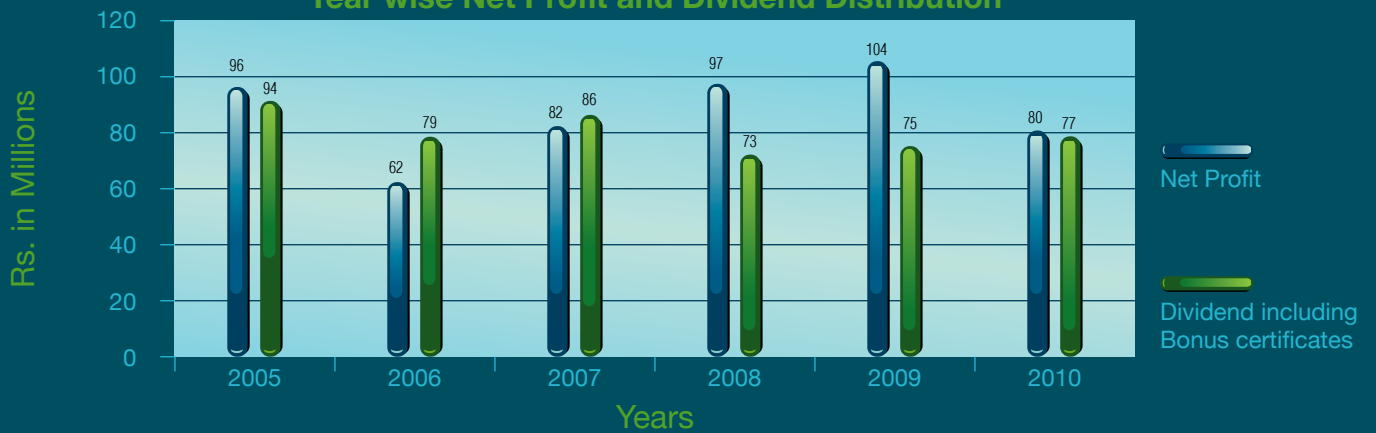
Break-up and Market value per certificate



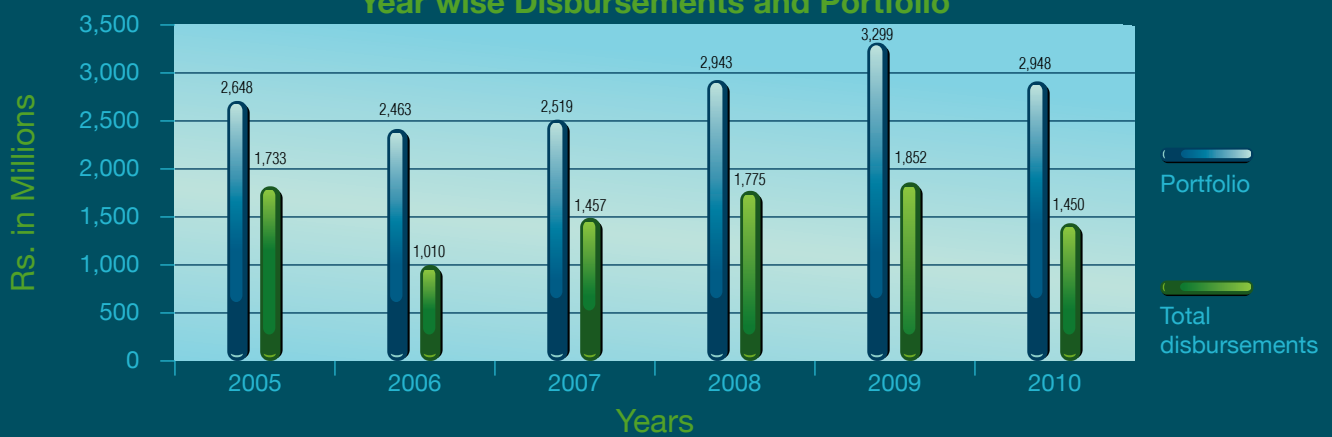
Certificate-holder's equity



Year wise Net Profit and Dividend Distribution



Year wise Disbursements and Portfolio



Six Years' Financial Summary

	Jun-05	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10
Key Financial Figures (Rs. In millions)						
Profit & Loss Account						
Revenues from operations	222	244	253	273	397	408
Financial charges	102	149	133	129	237	244
Impairment loss against doubtful debts	-	-	-	1	3	24
Net Profit	96	62	82	97	104	80
Dividend including Bonus certificates	94	79	86	73	75	77
Balance Sheet						
Certificate-holders' fund (cum dividend)	378	440	506	541	551	540
Reserves	377	377	354	352	372	388
Borrowings from financial institutions	994	677	318	989	363	9
Redeemable capital and deposits	839	998	1,303	1,088	1,942	2,413
Portfolio	2,648	2,463	2,519	2,943	3,299	2,948
Total disbursements	1,733	1,010	1,457	1,775	1,852	1,450
Key Financial Ratios						
Return on equity (%)	12.72	7.53	9.56	10.90	11.25	8.60
Financial charges cover ratio	1.94	2.43	1.62	1.33	2.28	3.05
Profit before tax ratio (%)	43.24	25.22	32.52	35.64	27.15	20.91
Income / Expense ratio	1.64	1.32	1.45	1.53	1.36	1.26
Debt / Equity ratio	2.28	2.13	1.98	1.97	2.10	2.24
Shares and Earnings						
Break-up value per certificate	20.19	20.79	19.89	19.66	20.35	20.46
Market value per certificate	24.00	17.40	13.60	12.50	9.35	9.45
Earning per certificate	2.56	1.42	1.90	2.14	2.29	1.76
Cash dividend per certificate	2.00	1.00	1.50	1.60	1.65	1.70
Bonus certificate (%)	5.00	10.00	5.00	-	-	-
Price earning ratio	9.38	12.25	7.16	5.83	4.08	5.37

