

Nineteenth Report of the Directors of Modaraba Company for the year ended June 30, 2005

The Board of Directors of Standard Chartered Services of Pakistan (Private) Limited, the Management Company of Standard Chartered Modaraba (SCM), has pleasure in presenting the nineteenth Directors' report of SCM, together with audited accounts for the year ended June 30, 2005.

1. Financial Results

Financial results are summarized as under:

	Year ended 30.06.2005 (Rupees in thousands)	Year ended 30.06.2004 (Rupees in thousands)
Net profit for the year	95,640	111,038
Add: Unappropriated profit brought forward	2,437	7,954
Profit available for appropriation	98,077	118,992
Appropriations:		
Profit distribution @ 20% (2004: @ 25%)	74,844	93,555
Statutory reserve	19,250	23,000
	94,094	116,555
Unappropriated profit carried forward	3,983	2,437
Earnings per certificate	2.56	2.97

2. Profit Distribution

The Board, in its meeting held on September 5, 2005, has approved the distribution of profit of Rs. 2.0 (20%) per certificate of Rs. 10 each, subject to deduction of zakat and tax at source where applicable, for the year ended June 30, 2005. The Director also approved a bonus issue of 5% i.e. 5 certificates for every 100 existing certificates held by transfer from the share premium reserve account.

An amount of Rs. 19.25 million has been transferred to statutory reserve in compliance with the Prudential Regulations for Modarabas which require that not less than 20 % of the Modaraba's after tax profit be transferred to such reserve till such time as the reserve equals 100% of the paid-up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred.

3. Entity Ratings

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

4. Review of Operations

During the period under review, business gained momentum. Leases and musharika investment of Rs. 1.733 billion were written compared to Rs. 1.215 billion last year. This surge in business has

resulted in increase in combined portfolio of lease and musharika by 24 %. However, the net profit for the year ended June 30, 2005 was Rs. 95.6 million as compared to Rs. 111 million last year.

During the year, the Modaraba changed its accounting policy for leases to comply with the International Accounting Standard 17 "Leases" and Securities and Exchange Commission of Pakistan circular No. 10 of 2004 dated February 13, 2004. Had the policy not been changed the profit for the year would have been higher by Rs. 31.963 million. This change in policy is fully explained in note 3 to the Accounts.

5. Economic Outlook and Future Prospects

According to the Economic Survey 2004-05, real GDP grew by 8.4% during fiscal year 2005, which is the fastest growth rate experienced since past two decades. This makes Pakistan one of the fastest growing economies. However, this tremendous growth has been achieved at the cost of rising inflation. The real challenge for the economic managers in years to come is to address the rising inflation.

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

6. Corporate and Financial Reporting Framework

- The financial statements, prepared by the management of the modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the modaraba have been maintained.
- Accounting policies have been consistently applied in preparation of financial statements except for change in accounting policy as disclosed in Note 3 of the Notes to the Accounts. Accounting estimates used are based on reasonable and prudent judgement.
- International Accounting Standards, as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.
- The system of internal control, which is in place, is being continuously reviewed by internal audit and other such procedures. The process of review will continue and any weakness in controls will be removed.
- Board is satisfied with the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data for the last six years in summarized form is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on June 30, 2005 except for those disclosed in the financial statements.

- The value of investments made by staff retirement benefit funds based on their respective accounts as at June 30, 2004 is as follows:

Provident Fund	Rs. 6.8 million
Gratuity Fund	Rs. 4.4 million

- During the year, nine (09) meetings of the Board of Directors were held. Attendance by each director is as follows:

Name of Director	No. of Meetings Attended
Badar Kazmi	08
Shariq Saleem	09
Rehan M. Shaikh	08
Cyrus J. Masani	01
Muhammad Saleem	01
Muhammad Afaq Khan	00

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

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

7. The Board of Directors and Audit Committee

In order to strengthen the governance structure and role of Board of Directors, the size of the board has been increased from three to six directors. Consequently, the following three new members have joined the Board in May 2005:

- Mr. Cyrus J. Masani, Head of Finance and Administration-SCB, Pakistan.
- Mr. Muhammad Saleem, Head of Global Markets-SCB, Pakistan.
- Mr. Muhammad Afaq Khan, Head of Islamic Banking-SCB.

Following changes have taken place in the Audit Committee:

- Mr. Tahir Nazir Chaudhry resigned. Mr. Muhammad Saleem (Director) and Mr. Arsalan Nayeem (Senior Credit Officer, SCB Pakistan) were appointed as members of the audit committee.
- Mr. Faraz Haider (Manager Compliance, wholesale Banking SCB, Pakistan) joined as a member of audit committee and resigned the same year.
- Mr. Cyrus J. Masani became chairman of audit committee in place of Mr. Rehan M. Shaikh.

The Board wishes to place on record its appreciation and gratitude to the outgoing members of the audit committee for the valuable services rendered by them.

8. Our People

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

9. Auditors

On the recommendation of the Audit Committee, the Board has approved the appointment of the present auditors Messrs. Taseer Hadi Khalid & Co., Chartered Accountants as auditors for the year ending June 30, 2006 subject to approval by the Registrar of Modaraba Companies and Modarabas.

10. Acknowledgment

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

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

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Badar Kazmi', with a long horizontal stroke extending to the right.

Badar Kazmi
Chairman

September 05, 2005