

Notes to the Accounts for the year ended June 30, 2005

1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Accounting convention

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

2.3 Net investments in Ijarah Finance (Restated)

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

Previously assets leased out were stated at cost less accumulated amortisation. The impact and rationale for change are described in note 3.

2.4 Receivable from terminated / matured contracts

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

2.5 Fixed assets

Tangible

Operating assets are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be

measured reliably. All other repairs and maintenance are charged to profit and loss account during the period in which they are incurred.

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

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

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

Intangible assets - computer software

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

2.6 Taxation

Current

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

Deferred

The Modaraba accounts for deferred taxation on all material temporary differences using the liability method. However, deferred tax assets as at June 30, 2005 amounting to Rs.29.42 million (2004 : deferred tax assets of Rs.40.25 million) has not been recognised in these financial statements as the management believes that the temporary differences will not reverse in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption.

2.7 Provisions

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

2.8 Cash and cash equivalents

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

2.9 Revenue recognition

Ijarah Finance (Restated)

The Modaraba follows the finance method for recognising income on ijarah contracts. Under this method the unearned income i.e the excess of aggregate ijarah rentals (including residual value) over the cost of the asset under ijarah facility is deferred and then amortised over the term of the Ijarah, so as to produce a constant rate of return on net investment in the ijarah. Documentation charges, front-end fee and other ijarah income are recognised as income on receipt basis.

Previously lease rental income was being accrued over the lease term on a straight line basis and amortisation of related assets was being charged to income applying the annuity method. The impact and rationale for change are described in note 3.

Musharika Finance

Profit on musharika arrangements is recognised on accrual basis.

Consumer Morabaha Finance

The Modaraba follows the finance method in recognising income on consumer morabaha finance. Under this method the unearned income i.e the excess of aggregate morabaha installments over the cost of the asset under morabaha facility is deferred and then amortised over the term of the morabaha, so as to produce a constant rate of return on consumer morabaha finance. Documentation charges, front-end fee and other morabaha income are recognised as income on a receipt basis.

Dividend Income

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

2.10 Borrowing costs

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

2.11 Staff retirement benefits

The Modaraba operates:

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

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

2.12 Financial instruments

Financial assets are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amount. Financial liabilities are classified according to the substance of contractual arrangements entered into.

2.13 Off-setting financial instruments

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

3. Change in Accounting Policy

During the year, the Modaraba changed its policy for finance leases. Previously, these were recorded at cost less accumulated amortisation. Now a receivable is recognised at an amount equal to present value of lease payments. The change has been made in order to comply with the requirements of International Accounting Standard 17 - Leases and SECP circular No. 10 of 2004 dated February 13, 2004. This has resulted in corresponding change for revenue recognition from these leases. Had the policy not been changed the profit for the year and net investment in Ijarah Finance (Assets Leased out) would have been higher by Rs. 31.963 million (2004: Rs. 2.979 million) and Rs.42.062 million (2004: Rs. 6.549 million) respectively.

4. CASH AND BANK BALANCES

	NOTE	2005 Rupees	2004 Rupees
With banks in current accounts		54,509	75,804
With bank in deposit account	4.1	13,404,402	16,816,656
Cheques in hand		19,517	3,149
Cash in hand		7,127	7,378
		13,485,555	16,902,987

4.1

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

5. RECEIVABLE FROM TERMINATED / MATURED CONTRCTS

	NOTE	2005 Rupees	2004 Rupees
Considered good		22,700,000	1,710,834
Considered doubtful		1,726,570	45,686,863
		24,426,570	47,397,697
Impairment loss against doubtful debts	5.2	1,726,570	45,686,863
	5.1	22,700,000	1,710,834

5.1

The amounts have been received subsequent to year end.

5.2

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

	2005 Rupees	2004 Rupees
Impairment loss ast July 1	45,686,863	55,845,910
Charge for the year	32,927	129,427
Impairment loss no longer required written back	(19,738,500)	(2,327,218)
Amounts written off	(24,254,720)	(7,961,256)
	1,726,570	45,686,863

5.3

Amounts due from associated undertakings at June 30 2005 NIL (2004:Rs. 1,710,834)

6. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	NOTE	2005 Rupees	2004 Rupees
Loan and advances to executives		275,340	160,896
Advances to suppliers and others		395,846	353,329
Deposits		51,800	101,800
Prepayments		118,431	175,367
Legal charges recoverable from lessees		201,780	464,280
Accrued profit on musharika arrangements		3,146,426	3,509,814
Others		83,948	2,970,817
Impairment loss against doubtful receivables	6.1	4,273,571 (201,780)	7,736,303 (464,280)
		4,071,791	7,272,023

6.1

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

	2005 Rupees	2004 Rupees
Impairment loss as at July 1	464,280	933,423
Charge for the year	-	20,791
Amounts written off	(262,500)	(489,934)
	201,780	464,280

7. MUSHARIKA ARRANGEMENTS - SECURED

	2005 Rupees	2004 Rupees
Considered good		
Current maturity of Musharika arrangements	-	102,199,945
Long-term portion of Musharika arrangements	200,000,000	200,000,000
	200,000,000	302,199,945

The profit receivable on these arrangements ranges from Re. 0.5134 to Re. 0.5356 (2004:Re. 0.1302 to Re. 0.5356) per rupees one thousand per day. The musharika arrangement is secured by funds provided under musharika financing.

8. NET INVESTMENT IN IJARAH FINANCE

	Note	2005		Total	2004
		Not later than one year	Later than one and less than five years		Total
Installment contract receivables		1,032,490,701	1,347,740,903	2,380,231,604	1,770,772,965
Add: Residual value		61,826,586	322,974,312	384,800,898	309,867,227
		1,094,317,287	1,670,715,215	2,765,032,502	2,080,640,192
Less: Unearned finance income		153,968,219	159,277,146	313,245,365	246,752,009
Allowance for potential Ijarah losses	8.3	3,912,275	-	3,912,275	6,642,213
	8.1	936,436,793	1,511,438,069	2,447,874,862	1,827,245,970

8.1

	2005 Rupees	2004 Rupees
Less than one year	936,436,793	693,383,026
One to five years	1,511,438,069	1,133,862,944
	2,447,874,862	1,827,245,970

8.2

There are no Ijarah contract receivables over five years. The Modaraba's implicit rate of return on Ijarah finance ranges from 4.65% to 23.25% per annum.

8.3 Allowance for Potential Ijarah losses

	2005 Rupees	2004 Rupees
Balance at beginning of the year	6,642,213	2,300,212
Provision / (reversal of provision) during the year	(2,729,938)	4,342,001
	3,912,275	6,642,213

8.4

This represent general provision against Ijarah finance to individuals.

9. FIXED ASSETS

9.1

The following is a statement of assets in own use:

	COST			ACCUMULATED DEPRECIATION			Net book value as at June 30, 2005	Depreciation rate % per annum
	As at July 01, 2004	Additions/ (deletions)	As at June 30, 2005	As at July 01, 2004	Charge for the year/ (accumulated depreciation on deletions)	As at June 30, 2005		
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Tangible								
Furniture and fittings	599,440	1,103,084	1,702,524	24,508	87,519	112,027	1,590,497	10
Office equipment, appliances and computer system	13,561,160	482,232 (4,322,274)	9,721,118	10,376,799	1,371,117 (4,265,563)	7,482,353	2,238,765	10 & 33.33
Motor vehicles	3,481,674	- (2,489,539)	992,135	638,740	227,197 (320,250)	545,687	446,448	20
	17,642,274	1,585,316 (6,811,813)	12,415,777	11,040,047	1,685,833 (4,585,813)	8,140,067	4,275,710	
Intangible								
Computer software	2,257,697	-	2,257,697	1,217,847	225,768	1,443,615	814,082	10
2005	19,899,971	1,585,316 (6,811,813)	14,673,474	12,257,894	1,911,601 (4,585,813)	9,583,682	5,089,792	
2004	20,789,938	4,532,983 (5,422,950)	19,899,971	11,410,533	3,170,635 (2,323,274)	12,257,894	7,642,077	

9.2 DISPOSAL OF FIXED ASSETS

The following assets were disposed of during the year:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of buyer
	Rupees	Rupees	Rupees	Rupees		
Motor vehicles	399,000	41,895	357,105	362,000	Negotiation	Salman Mustafa - Staff
-do-	1,227,500	157,529	1,069,971	1,150,000	Insurance Claim	New Hampshire Insurance
-do-	863,039	120,825	742,214	795,000	Negotiation	Ali Ahsan
	2,489,539	320,249	2,169,290	2,307,000		
Office equipment						
Items with written down value not exceeding Rs.5000 each	3,938,974	3,934,487	4,487	-	Write off	
Computer	215,000	195,292	19,708	-	Write off	
Mobile phone	5,300	1,060	4,240	2,500	Insurance Claim	New Hampshire Insurance
HP printers	163,000	134,725	28,275	10,500	Negotiation	Business Computing International
	4,322,274	4,265,564	56,710	13,000		
2005	6,811,813	4,585,813	2,226,000	2,320,000		
2004	5,422,950	2,323,274	3,099,676	4,117,652		

10. MUSHARIKA FINANCE

	2005 Rupees	2004 Rupees
Musharika with:		
- an associated undertaking - secured	693,794,692	505,509,313

10.1

The total facility for musharika finances available from a bank amounts to Rs.800 million (2004: Rs.575 million). The estimated share of profit payable on this facility ranges from Re. 0.1096 to Re. 0.2454 (2004: Re. 0.0844 to Re. 0.1096) per rupees one thousand per day. The facility is secured against hypothecation over the moveable leased out assets of the Modaraba.

11. MORABAHA FINANCE - SECURED

	2005 Rupees	2004 Rupees
- From a bank		
Current maturity of morabaha finance	100,000,000	50,000,000
Long-term maturity of morabaha finance	200,000,000	-
	300,000,000	50,000,000

11.1

The total facility for morabaha finance available from a bank amounts to Rs.300 million (2004: Rs.150 million). The estimated share of profit payable on the finance ranges from Re. 0.1118 to Re. 0.1134 (2004: Re. 0.0444) per rupees one thousand per day and is repayable by September, 2007. The facility is secured against hypothecation over the moveable leased out assets of the Modaraba.

12. SECURITY DEPOSITS

	2005 Rupees	2004 Rupees
Security deposits on Ijarah Finance	177,420,033	136,476,976
less: Repayable / adjustable with one year	(27,037,889)	(23,264,896)
	150,382,144	113,212,080

12.1

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

13. CREDITORS, ACCRUED AND OTHER LIABILITIES

	NOTE	2005 Rupees	2004 Rupees
Management fee		9,899,042	12,668,515
Profit payable on:			
- redeemable capital		2,934,314	2,566,452
- musharika finances		3,278,917	245,259
- morabaha finances		3,762,575	641,344
Accrued expenses		10,775,218	8,539,282
Amounts refundable to lessees		15,797,882	8,173,940
Others		65,701	39,191
		46,513,649	32,873,983

13.1

Amounts due to associated undertakings at June 30, 2005 aggregated Rs. 15,188,281 (2004: Rs. 15,773,825)

14. REDEEMABLE CAPITAL - PARTICIPATORY AND UNSECURED

	Repayable by	2005 Rupees	2004 Rupees
Musharika and accrued profit thereon-note 14.1	June 2008	401,966,875	345,638,836
Certificates of Musharika-note 14.2	June 2009	259,475,000	278,445,000
Less:		661,441,875	624,083,836
Current portion of redeemable capital		102,765,000	86,370,669
		558,676,875	537,713,167

14.1

The estimated share of profit payable on Musharika facilities ranges from Re.0.1644 to Re.0.4384 (2004: Re.0.1644 to Re. 0.4384) per rupees one thousand per day.

14.2

The estimated share of profit payable on Certificates of Musharika ranges from Re.0.08219 to Re.0.2164 (2004: Re.0.0685 to Re. 0.1644) per rupees one thousand per day.

15. CERTIFICATE CAPITAL

Authorised certificate capital

2005 Number of certificates	2004 Number of certificates		2005 Rupees	2004 Rupees
40,000,000	40,000,000	Modaraba certificates of Rs. 10 each	400,000,000	400,000,000
Issued, subscribed and paid-up capital				
28,500,000	28,500,000	Modaraba certificates of Rs. 10 each fully paid in cash	285,000,000	285,000,000
8,922,000	8,922,000	Modaraba certificates of Rs. 10 each issued as fully paid bonus certificates	89,220,000	89,220,000
37,422,000	37,422,000		374,220,000	374,220,000

15.1

As at June 30, 2005, the Standard Chartered Services of Pakistan (Private) Limited (the Management Company) and Standard Chartered Bank held 3,742,200 (2004:3,742,200) and 3,742,200 (2004: 3,742,200) certificates of Rs. 10 each respectively.

16. RESERVES

	Premium on modaraba certificates Rupees	Statutory Rupees	Reserve for issue of Bonus Certificates Rupees	2005 Rupees	2004 Rupees
Balance at July 1	135,000,000	223,000,000	-	358,000,000	335,000,000
Transferred to statutory reserve	-	19,250,000	-	19,250,000	23,000,000
Issue of bonus certificate	(18,711,000)	-	18,711,000	-	-
Balance at June 30	116,289,000	242,250,000	18,711,000	377,250,000	358,000,000

16.1

Statutory reserve represents profit set aside to comply with the Prudential Regulations for Modarabas issued by the SECP.

The Board of directors of the management company, in their meeting held on September 5 2005, have resolved to issue 5 certificates for every 100 certificates held as bonus certificates out of the premium on modaraba certificates.

17. CONTINGENCIES AND COMMITMENTS

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

18. FINANCIAL CHARGES

	2005 Rupees	2004 Rupees
Profit on redeemable capital	68,068,786	74,212,468
Profit on musharika finances	23,971,724	4,178,453
Profit on morabaha finances	10,033,654	2,719,149
Bank charges	21,062	18,188
	102,095,226	81,128,258

19. OTHER INCOME

	2005 Rupees	2004 Rupees
Profit on disposal of assets in own use	94,000	1,017,976
Others	1,224,273	403,279
	1,318,273	1,421,255

20. OPERATING EXPENSES

	NOTE	2005 Rupees	2004 Rupees
Salaries and other staff benefits	20.2	20,548,654	13,394,133
Depreciation	9.1	1,685,833	2,944,865
Amortisation	9.1	225,768	225,770
Advertising, travelling and entertainment		2,143,938	2,765,076
Postage		1,034,221	1,126,278
Telecommunication		562,993	878,709
Printing and stationery		2,571,871	1,712,489
Legal and professional		1,687,456	1,443,354
Repairs and maintenance		1,149,232	717,360
Charges by associated undertaking	20.3	3,808,515	6,879,928
Subscriptions		493,329	583,805
Auditors' remuneration	20.4	328,000	339,800
COM trustee fee		60,082	92,764
Insurance:			
- own assets		169,255	293,663
- assets leased out		506,745	468,526
Commission		-	29,533
Donations		-	59,000
Sundries		822,228	736,099
		37,798,120	34,691,152

20.1

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

20.2

Salaries and other benefits include Rs. 918,532 and Rs. 492,043 (2004: Rs. 789,096 and Rs. NIL) on account of Modaraba's contribution to the staff provident fund and gratuity fund respectively.

20.3

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

20.4 Auditors' Remuneration

	2005 Rupees	2004 Rupees
Audit fee	225,000	225,000
Review of six months period financial statements	40,000	40,000
Review reports on statement of compliance with code of corporate governance	40,000	40,000
Sundry advisory services and certification of remittance of profit to non-resident certificate holders	20,000	20,000
Out of pocket expenses	3,000	14,800
	328,000	339,800

21. MODARABA'S COMPANY'S MANAGEMENT FEE

In accordance with Modaraba Companies and Modaraba Rules, 1981 management fee @ 10% of annual profits is payable to management company. However, the management company has required to restrict the fee for the year to Rs. 9,899,042

22. EARNINGS PER CERTIFICATE

	2005 Rupees	2004 Rupees
Profit for the year	95,640,068	111,038,003
	Number of certificates	Number of certificates
Average number of certificates	37,422,000	37,422,000
	Rupees	Rupees
Earnings per certificate	2.56	2.97

23. REMUNERATION OF OFFICERS

	2005 Rupees	TOTAL 2004 Rupees
Remuneration and staff retirement benefits	19,894,336	12,921,616
Medical expenses reimbursed	254,937	294,060
Other benefits	399,381	178,457
	20,548,654	13,394,133
Number of persons at end of the year	25	22

24. MATURITIES OF ASSETS AND LIABILITIES

	Upto three months Rupees	Over 3 months to one year Rupees	Over 1 year to five years Rupees	Total Rupees
Assets				
Cash and bank balances	13,485,555	-	-	13,485,555
Receivable from terminated / matured contracts	22,700,000	-	-	22,700,000
Advances, deposits, prepayments and other receivables	3,329,188	742,603	245,836	4,317,627
Consumer Morabaha finance	77,866	-	-	77,866
Diminishing Musharika	61,638	184,914	4,536,270	4,782,822
Musharika arrangement	-	-	200,000,000	200,000,000
Net investment in Ijara finance - net of related deposits	263,321,855	673,114,938	1,511,438,069	2,447,874,862
Taxation recoverable	-	-	26,980,470	26,980,470
Fixed assets	-	-	5,089,792	5,089,792
Total Assets	302,976,102	674,042,455	1,748,290,437	2,725,308,994
Liabilities				
Musharika finance	693,794,692	-	-	693,794,692
Morabaha finance	100,000,000	-	200,000,000	300,000,000
Security deposits	9,414,437	17,623,452	150,382,144	177,420,033
Creditors, accrued and other liabilities	46,513,649	-	-	46,513,649
Redeemable Capital	23,440,000	79,325,000	558,676,875	661,441,875
Unclaimed profit distribution	15,842,071	-	-	15,842,071
Profit distribution	74,844,000	-	-	74,844,000
Total Liabilities	963,848,849	96,948,452	909,059,019	1,969,856,320
Net Assets / (Liabilities)	(660,872,747)	577,094,003	839,231,418	755,452,674

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

25. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

26. FINANCIAL INSTRUMENTS

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

	Effective Yield/ Profit rate %	Total Rupees	Exposed to Yield/profit risk			Not exposed to Yield/ Profit risk Rupees
			Upto 3 months Rupees	Over 3 months to one year Rupees	Over 1 year to five years Rupees	
Financial Assets						
Cash and Bank Balances	0.5% - 1.5%	13,485,555	13,431,046	-	-	54,509
Receivable from terminated / matured contracts	-	22,700,000	-	-	-	22,700,000
Advances, deposits, prepayments and other receivables	-	4,317,627	-	-	-	4,317,627
Consumer Morabaha finance	-	77,866	77,866	-	-	-
Diminishing Musharika	2.00%	4,782,822	61,638	184,914	4,536,270	-
Musharika Arrangement	18.75%-19.5%	200,000,000	-	-	200,000,000	-
Net investment in Ijara finance - net of related deposits	4.65%-23.25%	2,447,874,862	263,321,855	673,114,938	1,511,438,069	-
Taxation recoverable	-	26,980,470	-	-	-	26,980,470
Total Financial Assets as at June 30 2005		2,720,219,202	276,892,405	673,299,852	1,715,974,339	54,052,606
Liabilities						
Musharika finance	4%-8.96%	693,794,692	693,794,692	-	-	-
Morabaha finance	4.08%-4.14%	300,000,000	100,000,000	-	200,000,000	-
Security deposits	4.65%-23.25%	177,420,033	9,414,437	17,623,452	150,382,144	-
Creditors, accrued and other liabilities	-	46,513,649	-	-	-	46,513,649
Redeemable Capital	3.0%-16%	661,441,875	23,440,000	79,325,000	558,676,875	-
Unclaimed profit distribution	-	15,842,071	-	-	-	15,842,071
Profit distribution	-	74,844,000	-	-	-	74,844,000
Total Financial Liabilities as at June 30 2005		1,969,856,320	826,649,129	96,948,452	909,059,019	137,199,720
Total Yield / Profit risk sensitivity gap			(549,756,724)	576,351,400	806,915,320	(83,147,114)
Cumulative Yield / Profit risk sensitivity gap			(549,756,724)	26,594,676	833,509,996	750,362,882

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

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

27. RISK

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

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

27.1 CREDIT RISK

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

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

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

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

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

27.2 Market Risk

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

27.3 Liquidity Risk

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

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

28. SEGMENT BY CLASS OF BUSINESS

28.1 Net Investment in Ijarah Finance and Musharika arrangement

Note	2005		2004	
	Rupees	%age	Rupees	%age
Fuel and Energy	376,745,279	15.25	367,735,500	18.45
Pharmaceuticals and Chemicals	362,032,085	14.65	353,582,433	17.74
Food and Beverage	304,090,903	12.32	229,720,618	11.53
Sugar	204,750,176	8.29	200,000,000	10.04
Financial Institutions	122,956,769	4.98	112,009,394	5.62
Travel and Transport	90,951,270	3.68	73,381,240	3.68
Services	90,820,602	3.68	68,053,432	3.41
Textile	182,411,256	7.38	30,819,021	1.55
Electrical and Engineering	160,424,680	6.49	22,527,768	1.13
Communication	184,777,462	7.48	8,130,780	0.41
Leather	24,456,887	0.99	34,938,809	1.75
Distribution	25,509,846	1.03	33,520,923	1.68
Ceramics	16,546,301	0.67	28,375,763	1.42
Cement	131,385,952	5.32	9,769,921	0.49
Construction	37,623,139	1.52	140,883,856	7.07
Others	154,972,222	6.27	279,519,481	14.03
28.2	2,470,454,829	100	1,992,968,939	100

28.2

	2005 Rupees	2004 Rupees
Net investment in Ijarah Finance	2,447,874,862	1,827,245,970
Musharika arrangement	200,000,000	302,199,945
Security deposits	(177,420,033)	(136,476,976)
	2,470,454,829	1,992,968,939

28.3 For Musharika, Morabaha and Redeemable Capital

	Note	2005 Rupees	2004 Rupees
Sugar and allied		350,555,028	299,064,134
Paper and allied		10,000,000	10,000,000
Financial institutions		993,794,692	555,509,313
Engineering		41,411,847	36,574,702
Others		259,475,000	278,445,000
	28.4	1,655,236,567	1,179,593,149

28.4

Morabaha finance	300,000,000	50,000,000
Redeemable Capital	661,441,875	624,083,836
Musharika finance	693,794,692	505,509,313
	1,655,236,567	1,179,593,149

29. RELATED PARTIES TRANSACTIONS

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

	2005 Rupees	2004 Rupees
Lease contracts entered into during the year	34,927,935	5,551,000
Lease rentals received	44,041,724	86,340,835
Profit on musharika finance	23,971,724	4,178,453
Profit on deposit account	88,473	49,666
Bank charges and commission	21,062	47,721
Contribution to the Staff Provident Fund	918,532	789,096
Contribution to the Staff Gratuity Fund	492,043	-
Management fee	9,899,042	12,668,515
Profit distribution	14,968,800	18,711,000
Charge for reimbursement of portion salaries and benefits	3,808,515	6,879,928

29.1

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

30. DATE OF AUTHORISATION

These financial statements were authorised for issue on September 5, 2005 by the Board of Directors of the Management Company.

31. GENERAL

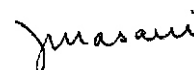
Corresponding figures have been rearranged and reclassified, where necessary, for the purpose of comparison.



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



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



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