



KPMG Taseer Hadi & Co.
Chartered Accountants

Pak China Investment Company Limited

Financial Statements
Year ended 31 December 2009

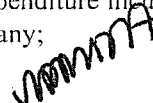
AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pak China Investment Company Limited ("the Company") as at 31 December 2009 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after 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.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. 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 above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said 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 account have been kept by the Company as required by the Companies Ordinance, 1984;
- 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 Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as indicated in note 3.5 with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;



- 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, statement of comprehensive income, 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 Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- d) in our opinion no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Date:

Islamabad

KPMG Taseer Hadi & Co.
Chartered Accountants
Engagement Partner
Muhammad Rehan Chughtai

Muhammad Rehan Chughtai

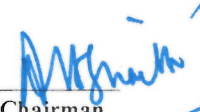
Pak China Investment Company Limited

Balance Sheet


As at December 31, 2009

	Note	2009 Rupees	2008 Rupees
ASSETS			
Cash and balances with treasury banks	5	1,363,660,166	6,670,005
Balances with other banks	6	9,147,791	3,772,068,973
Lendings to financial institutions	7	1,245,029,030	255,482,000
Investments	8	3,158,325,703	1,430,241,031
Advances	9	4,679,990,978	1,938,595,026
Fixed assets	10	187,828,157	28,114,974
Deferred tax assets	11	57,189,957	51,177,984
Other assets	12	239,474,405	85,849,965
		10,940,646,187	7,568,199,958
LIABILITIES			
Bills payable		-	-
Borrowings	13	975,684,500	726,754,175
Deposits and other accounts		-	-
Subordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	14	113,558,778	30,423,713
		1,089,243,278	757,177,888
NET ASSETS		9,851,402,909	6,811,022,070
REPRESENTED BY			
Share capital	15	6,457,200,000	6,457,200,000
Reserve	15.3	173,597,860	70,889,456
Advance against issue of shares	15.4	2,527,798,400	-
Unappropriated profit		694,391,435	283,557,820
		9,852,987,695	6,811,647,276
Deficit on revaluation of available for sale securities	16	(1,584,786)	(625,206)
		9,851,402,909	6,811,022,070
CONTINGENCIES AND COMMITMENTS	17		

The annexed notes 1 to 34 form an integral part of these financial statements.


Chairman


Managing Director


Director


Director

Pak China Investment Company Limited

Profit and Loss Account

For the year ended December 31, 2009

	Note	Year ended December 31, 2009 Rupees	For the period from July 1, 2008 to December 31, 2008 Rupees
Mark-up / return / interest earned	18	1,050,697,428	530,032,338
Mark-up / return / interest expensed	18.1	(36,434,574)	(6,215,296)
Net mark-up / interest income		1,014,262,854	523,817,042
Provision against non-performing loans and advances	9.3	197,272,636	-
Provision for diminution in the value of investments		-	50,000,000
Bad debts written off directly		-	-
		197,272,636	50,000,000
Net mark-up / interest income after provisions		816,990,218	473,817,042
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		47,732,976	17,395,468
Dividend income		-	-
Exchange gain		81,903,032	-
Gain on sale of securities		8,856,300	-
Unrealised gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income		337,769	-
Total non mark-up / interest income		138,830,077	17,395,468
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	19	165,705,651	71,067,275
Provision against lending to financial institutions		-	94,518,000
Other charges	20	50,000	-
Total non mark-up / interest expenses		165,755,651	165,585,275
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		790,064,644	325,627,235
Taxation	21	276,522,625	113,969,532
PROFIT AFTER TAXATION		513,542,019	211,657,703
Basic and diluted earnings per share	22	0.65	0.33

The appropriation of profit available is set out in the statement of changes in equity.

The annexed notes 1 to 34 form an integral part of these financial statements.


Chairman


Managing Director


Director


Director

Pak China Investment Company Limited
Statement of Comprehensive Income
For the year ended December 31, 2009

Profit after tax for the year/ period

TOTAL COMPREHENSIVE INCOME FOR THE YEAR/ PERIOD

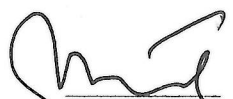
The annexed notes 1 to 34 form an integral part of these financial statements.

Year ended December 31, 2009	For the period from July 1, 2008 to December 31, 2008
Rupees	Rupees
513,542,019	211,657,703
<u>513,542,019</u>	<u>211,657,703</u>

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Chairman


Managing Director


Director


Director

Pak China Investment Company Limited

Cash Flow Statement


For the year ended December 31, 2009

	Note	For the year ended December 31, 2009 Rupees	For the period from July 1, 2008 to December 31, 2008 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		790,064,644	325,627,235
Adjustments for:			
Depreciation		9,345,485	2,295,495
Amortization		431,925	
Provision for diminution in the value of investments		-	50,000,000
Provision against lendings to financial institutions		-	94,518,000
Provision for gratuity		4,308,354	-
Provision against non-performing loans and advances		197,272,636	-
Loss on disposal of operating fixed assets including write off		360,376	55,097
		<u>1,001,783,420</u>	<u>472,495,827</u>
Decrease/ (increase) in operating assets			
Lendings to financial institutions		(1,135,029,030)	805,000,000
Advances		(2,788,668,588)	(1,766,571,358)
Others assets (excluding advance taxation)		(151,899,381)	(26,102,576)
		<u>(4,075,596,999)</u>	<u>(987,673,934)</u>
Increase/ (decrease) in operating liabilities			
Borrowings		248,930,325	726,754,175
Other liabilities (excluding current taxation)		(6,572,537)	(24,237,004)
		<u>242,357,788</u>	<u>702,517,171</u>
Gratuity paid		(6,033,413)	-
Income tax paid		(192,310,298)	(203,232,173)
		<u>(198,343,711)</u>	<u>(203,232,173)</u>
Net cash used in operating activities		<u>(3,029,799,502)</u>	<u>(15,893,109)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment in 'available-for-sale securities		(1,694,560,950)	(1,091,202,886)
Net investment in 'held-to-maturity' securities		(185,000,000)	-
Capital expenditure		(25,068,968)	(13,215,215)
Sale proceeds of property and equipment disposed-off		699,999	62,975
Net cash used in investing activities		<u>(1,903,929,919)</u>	<u>(1,104,355,126)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Deposit for issue of shares		2,527,798,400	-
Net cash flow from financing activities		<u>2,527,798,400</u>	<u>-</u>
Decrease in cash and cash equivalent		(2,405,931,021)	(1,120,248,235)
Cash and cash equivalents at beginning of the year/ period		3,778,738,978	4,898,987,213
Cash and cash equivalents at end of the year/ period	23	<u>1,372,807,957</u>	<u>3,778,738,978</u>

The annexed notes 1 to 34 form an integral part of these financial statements.


Chairman


Managing Director


Director


Director


Pak China Investment Company Limited
Statement of Changes in Equity
For the year ended December 31, 2009

	Share capital	Statutory Reserve	Unappropriated profit (Rupees)	Advance against issue of shares	Total
Balance as at July 01, 2008	6,457,200,000	28,557,915	114,231,658	-	6,599,989,573
Total comprehensive income for the year	-	-	211,657,703	-	211,657,703
Transfer to statutory reserve	-	42,331,541	(42,331,541)	-	-
Balance as at December 31, 2008	6,457,200,000	70,889,456	283,557,820	-	6,811,647,276
Balance as at January 01, 2009	6,457,200,000	70,889,456	283,557,820	-	6,811,647,276
Total comprehensive income for the year	-	-	513,542,019	-	513,542,019
Transfer to statutory reserve	-	102,708,404	(102,708,404)	-	-
<i>Transaction with owners recognised directly in equity</i>					
Advance against issue of shares	-	-	-	2,527,798,400	2,527,798,400
Balance as at December 31, 2009	6,457,200,000	173,597,860	694,391,435	2,527,798,400	9,852,987,695

The annexed notes 1 to 34 form an integral part of these financial statements.


Chairman


Managing Director


Director


Director

Pak China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2009

1. STATUS AND NATURE OF BUSINESS

Pak China Investment Company Limited ("the Company") was incorporated in Pakistan as a limited company on July 27, 2007. The registered office of the Company is situated at 13th Floor, Saudi Pak Tower, Blue Area, Islamabad. The Company is a 50:50 joint venture between the 'Government of China' and 'Government of Pakistan' through China Development Bank and Ministry of Finance respectively. The objective of the Company is to invest in infrastructure projects, both directly and through establishment of various subsidiary companies.

The Company has commenced business after obtaining Certificate of Commencement of Business from Securities and Exchange Commission of Pakistan ("SECP") on 02 November 2007 and permission to commence business from State Bank of Pakistan on 10 January 2008. The Federal Government of Pakistan specified the name of the Company for the purposes of section 3(A) of the Banking Companies Ordinance, 1962 on 15 December 2007.

2. 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, provisions of and directives issued under the Companies Ordinance, 1984 and the directives issued by the State Bank of Pakistan (SBP). In case requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and the directives issued by the SBP shall prevail.

International Accounting Standard 39, Financial Instruments: Recognition and Measurement, International Accounting Standard 40, Investment Property and International Financial Reporting Standard 7, "Financial Instruments: Disclosures" are not applicable to the Company. Accordingly, the requirements of these International Accounting Standards (IASs) and their respective interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), have not been considered in the preparation of these financial statements.

2.1 Forthcoming accounting standards/ interpretations

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning as mentioned thereagainst are either not relevant to Company's operations or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures:

Revised IFRS 3 Business Combinations (applicable for annual periods beginning on or after July 1, 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of an acquiree on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Company's financial statements.

Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 1, 2009) requires accounting for changes in ownership interest by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the Company's financial statements.

IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or October 1, 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Company's operations.

IFRIC 17 - Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when a company distributes non cash assets to its shareholders as dividend the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognized in the income statement. As the Company does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Company's financial statements.

The International Accounting Standards Board made certain amendments to existing standards as part of its second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Company's 2010 financial statements. These amendments are unlikely to have an impact on the Company's financial statements.

Amendment to IFRS 2 - Share-based Payment - Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2010). Currently effective IFRSs require attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its financial statements.

Amendment to IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (effective for annual periods beginning on or after February 1, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro-rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Company's financial statements.

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Pak China Investment Company Limited
Notes to the Financial Statements
For the year ended December 31, 2009

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 1, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Company's financial statements.

IAS 24 Related Party Disclosures (revised 2009) -- effective for annual periods beginning on or after January 1, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

Amendments to IFRIC 14 and IAS 19 -- The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on the Company's financial statements.

Improvements to IFRSs 2008 - Amendments to IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations - (effective for annual periods beginning on or after July 1, 2009). The amendments specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale if criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. This amendment is not likely to have any impact on the Company's Financial Statements.

3 BASIS OF PRESENTATION AND MEASUREMENT

3.1 Basis of presentation

These financial statements have been presented in accordance with the requirements of format prescribed by the State Bank of Pakistan's BSD Circular No 4 dated February 17, 2006.

3.2 Basis of measurement

These financial statements have been prepared on the historical cost basis except for available-for-sale investments, which are carried at fair value.

3.3 Functional and presentation currency

The financial statements are presented in Pakistan Rupees which is the Company's functional currency. The amounts have been rounded off to the nearest rupee.

3.4 Use of accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form basis of making the judgements about carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. Judgement made by the management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 30.

3.5 Changes in accounting policies

The Company has changed its accounting policies in the following areas:

- Presentation of financial statements; and
- Operating segments

(i) The Company applies revised IAS 1 "Presentation of Financial Statements", which became effective from January 01, 2009. As per the revision, all changes in owners equity are to be presented in the statement of changes in equity, whereas all non-owner changes in equity are to be presented in the statement of comprehensive income. To comply with this requirement, the Company has presented a statement of comprehensive income. In this statement, only profit for the year has been included as the deficit on revaluation on available for sale securities is being presented below equity as per the requirement of BSD Circular No 4 dated February 17, 2006.

Comparative information has been presented in conformity with the revised standard. The change in accounting policy impacts presentation only without any impact on earnings per share.

(ii) During the year, the Company has adopted IFRS 8 "Operating Segments". As per the requirements of IFRS 8, the management has assessed the disclosure requirements and believes that the information submitted to Chief Operating Decision Maker (COMD) is similar to the one required to be presented in the financial statements by SBP. The change in accounting policy impacts presentation only, there is no impact on earnings per share and comparative information.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the period presented, except as described in note 3.5.

4.1 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash and balances with treasury banks and with other banks.

4.2 Revenue recognition

- i. Income from loans, term finance certificates, bank deposits, and other investments is recognised under effective interest method, except where recovery is considered doubtful, the income is recognised on a receipt basis.
- ii. Commission and other income are accrued as and when due.

4.3 Sale and repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investment and the counter party liability is included in borrowings. Securities purchased under an agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The difference between the purchase/ sale and re-sale/ re-purchase price is recognised as mark-up income/ expense on a time proportion basis, as the case may be.

4.4 Advances

Advances are stated net of provisions for non-performing advances. Provision for advances is determined in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan from time to time. In addition, a general provision is maintained for advances (Refer note 9.3.1)

Provision against non-performing advances and general provision is charged to the profit and loss account. Advances are written off when there is no realistic prospect of recovery.

4.5 Investments

The Company classifies its investments as follows:

(a) Held to maturity

These are securities with fixed or determinable payments and maturity in respect of which the Company has the positive intent and ability to hold till maturity.

(b) Available for sale

These are investments that do not fall under the held for trading or held to maturity categories.

Investments are initially recognised at fair value which includes transaction costs associated with the investment.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Company commits to purchase or sell the investment.

Premium or discount on acquisition of investments is amortised through the profit and loss account over the remaining period till maturity using effective interest method.

In accordance with the requirements of the State Bank of Pakistan, quoted securities other than those classified as 'held to maturity' are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities classified as 'available for sale', is taken to a separate account shown in the balance sheet below equity.

In accordance with the BSID circular No. 14 dated September 24, 2004 issued by the State Bank of Pakistan, investments classified as 'held to maturity' are carried at amortised cost less impairment, if any.

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Impairment loss in respect of investments charged as available for sale (except term finance certificates) and held to maturity is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an investment below its cost is also considered an objective evidence of impairment. Provisions for diminution in the value of term finance certificates and sukuks is made as per the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in profit and loss account.

Profit / loss on sale of investments is credited / charged to the profit and loss account currently.

4.6 Taxation

Current

The charge for current taxation is based on taxable income at the current rates of taxation after taking into account the tax credits and tax rebates available, if any.

Deferred

The Company accounts for deferred taxation using the balance sheet liability method. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantively enacted at balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits will be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4.7 Operating fixed assets and capital work-in-progress

Fixed assets are stated at cost less accumulated depreciation and impairment loss (if any). Capital work in progress is stated at cost less impairment, if any.

Depreciation is calculated on a straight line method to write off the depreciable amount of each asset over its estimated useful life after taking into account residual value, if any. Rates of depreciation are specified in Note 10.2 to the financial statements. Depreciation on additions during the year is charged from the month of acquisition or the date the asset is available for use and on disposals upto the month of disposal.

The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within "other income" in profit or loss.

4.8 Intangible assets

Intangible assets having finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight line method over their estimated useful lives. The useful lives and amortization methods are reviewed and adjusted, if appropriate at each balance sheet date. Intangible asset having an indefinite useful life are stated at acquisition cost, less impairment loss, if any.

4.9 Staff Retirement Benefits

Defined benefit plan

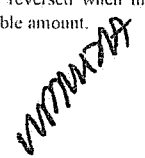
The Company operates an approved funded gratuity scheme for all its regular employees. Contributions are made in accordance with the actuarial recommendation and included in profit and loss account. The actuarial valuation is carried out using "Projected Unit Credit Method". The actuarial gains / losses in excess of corridor limit (10% of higher of present value of obligation and fair value of plan assets) are recognized over the expected remaining working life of the employees. The Company has adopted a policy of recognising transitional liability over a period of 5 years.

Defined contribution plan

The company operates a recognised provident fund scheme for all its regular employees for which equal monthly contributions are made both by the company and by the employees at the rate of 10% of the basic salary of the employee

4.10 Impairment

The carrying amount of the assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are reversed when there is an indication that impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.



Pak China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2009

4.11 Foreign currency

Foreign currency transactions are recorded at the rates prevailing on the date of transactions. Monetary assets and liabilities in foreign currency are reported in Pakistan Rupees at the rates of exchange prevailing on the balance sheet date. Exchange gains and losses are included in income currently.

4.12 Off-setting of financial assets and financial liabilities

'Financial assets' and 'financial liabilities' are only offset and the net amount is reported in the balance sheet if the Company has a legal right to set-off the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

4.13 Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the year including instrument mandatorily convertible into ordinary shares.

4.14 Provision of guarantee claims, off balance sheet items and other provisions

Provision for guarantee claims and other off balance sheet obligations are recognised when intimated and reasonable certainty exists for the Company to settle the obligation. Charge to profit and loss account is stated net of expected recoveries.

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

4.15 Dividend and appropriation to reserve

Dividend and appropriation to reserves, except appropriation which are required by law after the balance sheet date, are recognised as liability in the Company's financial statements in the year in which these are approved.

4.16 Segment information

A segment is distinguishable component of the Company that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company's primary format of reporting is based on business segments.

Business Segments

Following are the main segments of the Company:

Corporate Finance	Includes loans, advances and other transactions with corporate customers.
Treasury	Undertakes the Company's fund management activities through leveraging and investing in liquid assets such as short term placements It carries out spread based activities in the inter bank market and manages the interest rate risk exposure of the Company.

Geographical Segments

The Company's all business segments operate only in Pakistan.

		2009 Rupees	2008 Rupees
5	CASH AND BALANCES WITH TREASURY BANKS		
	Cash in hand in local currency	25,000	25,000
	With State Bank of Pakistan in local currency current account	5.1 4,702,939	6,587,054
	With National Bank of Pakistan in local currency current account	5.2 2,793,921	57,951
	foreign currency deposit account	1,356,138,306	-
		<u>1,363,660,166</u>	<u>6,670,005</u>

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Pak China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2009

- 5.1 The local currency current account is maintained with the State Bank Pakistan (SBP) as per the requirement to maintain a local currency cash reserve at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed from time to time by SBP.
- 5.2 This represents foreign currency deposit receipt (FDR) of National Bank of Pakistan. The return on this FDR ranges between 1% to 2% per annum during the period of placement and is maturing on January 03, 2010.

6	BALANCES WITH OTHER BANKS	Note	2009 Rupees	2008 Rupees
	In Pakistan			
	- Local currency current accounts		9,147,791	18,068,973
	- Local currency deposit accounts		-	3,754,000,000
			<u>9,147,791</u>	<u>3,772,068,973</u>
7	LENDINGS TO FINANCIAL INSTITUTIONS			
	Lending under letter of placements (LoPs)	7.2	1,015,000,000	350,000,000
	Repurchase agreement lending (Reverse Repo)	7.3 & 7.4	230,029,030	-
	Less: Provision against lending to financial institutions	7.5	-	(94,518,000)
			<u>1,245,029,030</u>	<u>255,482,000</u>

7.1 All lendings of the Company are in local currency.

7.2 LoPs carry interest ranging between 12 % to 12.75 % per annum (2008: 15.95 % to 20 % per annum) with maturities ranging between 4 days to 18 days (2008: 10 days to 16 days).

7.3 This is secured against underlying Government security, the differential between the contracted rate and re-sale price is amortised over the period of related contract and recorded under mark-up / return / interest earned. This carries mark-up at the rate 12.25% (2008: nil) per annum with maturity of 4 days (2008: nil).

7.4 Security held as collateral against lending to financial institution

	2009			2008		
	Held by the company	Further given as collateral	Total	Held by the company	Further given as collateral	Total
	Rupees			Rupees		
Market treasury bill	230,029,030	-	230,029,030	-	-	-
	<u>230,029,030</u>	<u>-</u>	<u>230,029,030</u>	<u>-</u>	<u>-</u>	<u>-</u>

7.5	Movement of provision against lending to financial institutions is as follows:	2009 Rupees	2008 Rupees
	Opening	94,518,000	-
	Charge during the period	-	94,518,000
	Adjusted during the year	(94,518,000)	-
		<u>-</u>	<u>94,518,000</u>

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8 INVESTMENTS

Investment by type

Note

		2009			2008		
		Held by the company	Given as collateral	Total	Held by the company	Given as collateral	Total
		Rupees			Rupees		
Available-for-sale securities							
Market treasury bills	8.1	751,393,195	979,515,813	1,730,909,008	359,755,656	731,447,230	1,091,202,886
Commercial papers	8.2	254,030,828	-	254,030,828	-	-	-
Sukuk certificates - secured	8.3	205,304,000	-	205,304,000	-	-	-
Term finance certificates - secured	8.4	595,520,000	-	595,520,000	-	-	-
Held-to-maturity securities							
Unlisted term finance certificates	8.5	375,000,000	-	375,000,000	390,000,000	-	390,000,000
Investment at cost		2,181,248,023	979,515,813	3,160,763,836	749,755,656	731,447,230	1,481,202,886
Less: Provision for diminution in value of investments	8.7	-	-	-	(50,000,000)	-	(50,000,000)
Investment (Net of provisions)		2,181,248,023	979,515,813	3,160,763,836	699,755,656	731,447,230	1,431,202,886
Deficit on revaluation of available-for-sale securities		(261,320)	(2,176,813)	(2,438,133)	(209,640)	(752,215)	(961,855)
Total investments		2,180,986,703	977,339,000	3,158,325,703	699,546,016	730,695,015	1,430,241,031

8.1 These carry interest ranging between 11.58% to 13.40% (2008: 12.51% to 13.85%) per annum with redemption period of 6 months to one year (2008: three months). These include mark-up accrued upto the year end

8.2 These are unsecured and carry interest ranging between 15% to 9 months KIBOR + 3.50% per annum (2008: nil) with redemption period of 6 months to 9 months (2008: nil).

8.3 These carry interest of 3 months KIBOR + 3% (2008: nil) with redemption period of 12 years (2008: nil).

8.4 These carry interest ranging between 3 months KIBOR + 3.25% to 6 months KIBOR + 2.5% (2008: nil) with redemption period of 5 to 10 years (2008: nil).

8.5 This carries interest of 6 months KIBOR + 3.25% per annum (2008: ranging between 6 months KIBOR + 2.75% to 3.25% per annum) with redemption period of 7 years (2008: 6 to 7 years).

8.6 Investment by segments

Note

2009

2008

Rupees

Rupees

Federal Government Securities

- Market treasury bills

1,730,909,008

1,091,202,886

Term finance certificates

- Listed

245,680,000

-

- Unlisted

724,840,000

390,000,000

Other investments

- Sukuk certificates

205,304,000

-

- Commercial papers

254,030,828

-

Investment at cost

3,160,763,836

1,481,202,886

Less: Provision for diminution in value of investments

8.7

-

(50,000,000)

Investment (Net of provisions)

3,160,763,836

1,431,202,886

Deficit on revaluation of available-for-sale securities

(2,438,133)

(961,855)

Total investments at market value

3,158,325,703

1,430,241,031

8.7 Particulars of provision for diminution in value of investment

Opening balance

(50,000,000)

-

Charge for the year

-

(50,000,000)

Provision transferred to advances alongwith the principal amount on non-issuance of certificates

50,000,000

-

Closing balance

-

(50,000,000)

8.7.1 Particulars of provision in respect of type and segment

Held-to-maturity securities

Unlisted term finance certificates

-

(50,000,000)

8.8 Principal terms of investment in Federal Government Securities

Name of investment

Market treasury bills

Maturity

6 months to one year

Principal payment

On maturity

Rate

11.58% to 13.40%

Coupon

at maturity

8.9 Investment in Term Finance Certificates

No of certificates	
2009	2008

Company Name

Name of Chief Executive

Redemption per certificate

2009 Rupees

2008 Rupees

Unlisted

75,000

38,000

-

40,000

30,000

-

39,968

-

Avari Hotels Limited

Byram D. Avari

5,000

375,000,000

190,000,000

Dewan Cement Limited

M.Yousaf Farooqi

5,000

-

200,000,000

Bank Alfalah Limited

Sirajuddin Aziz

5,000

150,000,000

-

Pak American Fertilizers Limited

Ahmed Jaudet Bilal

5,000

199,840,000

-

Listed

49,136

-

Askari Bank Limited

M R Mohkari

5,000

245,680,000

-

Book value at end of the year

970,520,000

390,000,000

1000000000

8.10 Quality of available-for-sale securities

	Note	2009		2008	
		Market Value Rupees	Rating	Market Value Rupees	Rating
Market treasury bills	8.10.1	1,730,909,008	Unrated	1,091,202,886	Unrated
Commercial papers	8.10.2				
-Azgard Nine Limited		160,918,583	A+	-	-
-Pak Electron Limited		93,112,245	A	-	-
Sukuk certificates		205,304,000	AA-	-	-
Term finance certificates	8.10.2				
-Askari Bank Limited		245,680,000	AA	-	-
-Pak American Fertilizer Limited		199,840,000	A+	-	-
-Bank Alfalah Limited		150,000,000	AA	-	-
		<u>2,785,763,836</u>		<u>1,091,202,886</u>	

8.10.1 These are Government of Pakistan guaranteed securities.

8.10.2 Ratings for these debt securities represent 'debt ratings'.

8.10.3 Local securities have either been rated by 'The Pakistan Credit Rating Agency Limited' (PACRA) or 'JCR-VIS Credit Rating Company Limited' (JCR-VIS). These ratings reflect independent credit risk assessment by respective credit rating entities.

9 ADVANCES

	Note	2009 Rupees	2008 Rupees
Inside Pakistan		4,927,263,614	1,938,595,026
Advances- gross		<u>4,927,263,614</u>	<u>1,938,595,026</u>
Provision against non-performing loans			
Specific provision	9.2	(200,000,000)	-
General provision		(47,272,636)	-
		<u>(247,272,636)</u>	<u>-</u>
Advances - net of provision		<u>4,679,990,978</u>	<u>1,938,595,026</u>

9.1 Particulars of advances

In local currency	9.1.1	<u>4,927,263,614</u>	<u>1,938,595,026</u>
Short term (for upto one year) - advances having contractual repayment period of one year		1,135,000,000	750,000,000
Long term (for over one year) - advances having contractual repayment period of more than one year		<u>3,792,263,614</u>	<u>1,188,595,026</u>
		<u>4,927,263,614</u>	<u>1,938,595,026</u>

9.1.1 This includes Rs. 200 million transferred during the year from investments on non-issuance of certificates by Dewan Cement Limited. This has been fully provided for and the amount of provision is included in the balance of specific provision.

9.2 Advances includes Rs. 200 million (2008, nil) which have been placed under non-performing status as detailed below:

Category of classification	2009 Rupees					
	Classified Advances			Provision required		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Other assets especially mentioned	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	200,000,000	-	200,000,000	200,000,000	-	200,000,000
	<u>200,000,000</u>	<u>-</u>	<u>200,000,000</u>	<u>200,000,000</u>	<u>-</u>	<u>200,000,000</u>

9.3 Particulars of provision against non-performing advances

	2009 Rupees			2008 Rupees		
	Specific	General	Total	Specific	General	Total
Opening balance	-	-	-	-	-	-
Charge for the year	150,000,000	47,272,636	197,272,636	-	-	-
Provision transferred from investments	50,000,000	-	50,000,000	-	-	-
Closing balance	<u>200,000,000</u>	<u>47,272,636</u>	<u>247,272,636</u>	<u>-</u>	<u>-</u>	<u>-</u>

9.3.1 General provision is maintained at the rate of 1% on advances other than non-performing advances.

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Pak China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 (Rupees)	2008 (Rupees)
0 FIXED ASSETS			
Capital work-in-progress	10.1	148,550,987	-
Property and equipment	10.2	38,003,585	28,114,974
Intangible asset	10.3	1,273,585	-
		<u>187,828,157</u>	<u>28,114,974</u>
10.1 Capital work-in-progress			
Advances to suppliers		1,050,487	-
Civil works		<u>147,500,500</u>	-
		<u>148,550,987</u>	-

10.2 Property and equipment

2009							
COST			DEPRECIATION				Rate of depreciation per annum
Opening balance as at Jan 01, 2009	Additions/ (deletions)/ (adjustments) during the year	Closing balance as at December 31, 2009	Opening balance as at Jan 01, 2009	Charge during the year (On deletion/ adjustments)	Closing balance as at December 31, 2009	Net book value as at December 31, 2009	
Rupees							
3,073,716	-	3,073,716	343,754	651,711	995,465	2,078,251	20%
10,172,649	5,245,917 (374,120) (56,995)	14,987,451	1,505,179	4,510,191 (147,354) (29,874)	5,838,142	9,149,309	33%
9,677,335	4,383,429 (1,089,406)	12,971,358	514,587	2,167,757 (282,918)	2,399,426	10,571,932	20%
5,987,075	6,367,865	12,354,940	226,360	1,479,247	1,705,607	10,649,333	20%
1,864,575	4,297,260	6,161,835	70,496	536,579	607,075	5,554,760	20%
30,775,350	20,294,471 (1,463,526) (56,995)	49,549,300	2,660,376	9,345,485 (430,272) (29,874)	11,545,715	38,003,585	

2008							
COST			DEPRECIATION			Net book value as at December 31, 2008	Rate of depreciation per annum %
Opening balance as at July 01, 2008	Additions/ (deletions) during the period	Closing balance as at December 31, 2008	Opening balance as at July 01, 2008	Charge during the period	Closing balance as at December 31, 2008		
Rupees							
3,022,276	51,440	3,073,716	36,694	307,060	343,754	2,729,962	20%
4,265,395	5,986,054 (78,800)	10,172,649	311,133	1,211,842 (17,796)	1,505,179	8,667,470	33%
1,322,918	8,493,017 (138,600)	9,677,335	57,647	479,737 (22,797)	514,587	9,162,748	20%
-	5,987,075	5,987,075	-	226,360	226,360	5,760,715	20%
-	1,864,575	1,864,575	-	70,496	70,496	1,794,079	20%
8,610,589	22,382,161 (217,400)	30,775,350	405,474	2,295,495 (40,593)	2,660,376	28,114,974	

10.2.1 The fair value of property and equipment as per the management estimate is not materially different from the carrying amount

10.2.2 Detail of disposals of operating fixed assets

Particulars of assets	Original cost	Accumulated depreciation	Book Value	Sale proceeds	Mode of disposal	Particulars of buyer
	Rupees					
Office equipment, furniture and fixture	1,463,526	430,272	1,033,254	699,999	Bid	Khurram Alvi
Office equipment	56,995	29,874	27,121	-	Write off	

10.3 Intangible asset

2009							
COST			Amortization			Net book value as at December 31, 2009	Rate of amortization per annum %
Opening balance as at Jan 01, 2009	Additions during the year	Closing balance as at December 31, 2009	Opening balance as at Jan 01, 2009	Amortization charge for the year	Closing balance as at December 31, 2009		
Rupees							
-	1,705,510	1,705,510	-	431,925	431,925	1,273,585	33%
-	1,705,510	1,705,510	-	431,925	431,925	1,273,585	

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Pak China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 Rupees	2008 Rupees
11 DEFERRED TAX ASSETS			
Debit/ (credit) balances arising on account of:			
Recognised in profit and loss account			
Accelerated tax depreciation allowance		(2,698,554)	(2,203,367)
Preliminary expenses		1,759,573	2,463,402
Provision against lending to financial institutions		-	33,081,300
Provision for diminution in value of investments		-	17,500,000
Provision for non-performing loans		86,545,423	-
Exchange gain		(28,666,061)	-
Provision for gratuity		(603,771)	-
Recognised in equity			
Deficit on revaluation of available for sale investments		853,347	336,649
		<u>57,189,957</u>	<u>51,177,984</u>
11.1 Movement of deferred tax is as follows:			
Opening balance		51,177,984	1,824,913
Credit for the year		5,495,275	49,016,422
Credited to equity		516,698	336,649
Closing balance		<u>57,189,957</u>	<u>51,177,984</u>
12 OTHER ASSETS			
Income / mark-up accrued in local currency		203,064,243	68,064,303
Income / mark-up accrued in foreign currency		1,077,480	-
Advances, deposits, advance rent and other prepayments		33,607,623	17,613,898
Receivable from gratuity fund		1,725,059	-
Others		-	171,764
		<u>239,474,405</u>	<u>85,849,965</u>
13 BORROWINGS			
In Pakistan		<u>975,684,500</u>	<u>726,754,175</u>
13.1 Detail/ particular of borrowings with respect to currencies and security			
In local currency, repurchase agreement borrowings - secured		<u>975,684,500</u>	<u>726,754,175</u>
13.2 The Company has arranged borrowings from financial institution against sale and repurchase of market treasury bills. The mark-up on these finances range between 12.15% to 12.20% per annum (2008: 10% to 14.5% per annum) with maturity ranging from 6 days to 18 days (2008: 7 days to 9 days).			
14 OTHER LIABILITIES		2009 Rupees	2008 Rupees
Mark-up/ return/ interest payable in local currency		1,918,263	575,106
Payable to suppliers		2,664,007	-
Accrued expenses		3,708,434	5,550,866
Salary payable		-	9,203,900
Retention money payable		579,468	-
Current taxation (Provisions less payments)		101,607,597	11,899,995
Withholding tax/ federal excise duty payable		2,898,279	180,996
Payable to provided fund		122,730	3,012,850
Others		60,000	-
		<u>113,558,778</u>	<u>30,423,713</u>
15 SHARE CAPITAL			
15.1 Authorised Share Capital			
2009 (Number of shares)	2008 (Number of shares)		
<u>1,214,000,000</u>	<u>1,214,000,000</u>	Ordinary shares of Rs. 10 each	<u>12,140,000,000</u>
15.2 Issued, Subscribed and Paid-up Share Capital			
2009 (Number of shares)	2008 (Number of shares)		
<u>645,720,000</u>	<u>645,720,000</u>	Ordinary shares of Rs. 10 each, issued for cash.	<u>6,457,200,000</u>
The Ministry of Finance (MOF) on behalf of the Government of Pakistan (GOP) and China Development Bank (CDB) on behalf of Government of China (GOC) each held 322,860,000 ordinary shares of the Company as at December 31, 2009.			
The Company has entered into a joint venture agreement with GOP and GOC dated July 18, 2007, wherein both the parties are committed to contribute US\$ 200 million (US\$ 100 million each) by November 20, 2009. Balance amount of US\$ 66 million (US\$ 33 million each) is yet to be contributed by the GOP and GOC.			
15.3 Reserves	Note	2009 Rupees	2008 Rupees
Compulsory reserve - statutory reserve	15.3.1	<u>173,597,860</u>	<u>70,889,456</u>

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Pak China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2009

15.3.1 Compulsory reserve - statutory reserve

According to BPD Circular No. 15 dated May 31, 2004 issued by SBP, an amount not less than 20% of the after tax profits shall be transferred to create a reserve fund till such time the reserve fund equals the amount of paid-up capital and after that a sum not less than 5% of profit after tax shall be credited to statutory reserve. Therefore in accordance with SBP requirements, the Company has transferred this amount to capital reserve.

15.4 ADVANCE AGAINST ISSUE OF SHARES

This represents amount contributed by Ministry of Finance and China Development Bank towards equity. The management is in the process of issuing shares against this deposit. Pursuant to the joint agreement as mentioned in note 15.2, GOP and GOC are committed to contribute a sum of upto US\$ 200 million (USD 100 million each). During the year, both the parties have contributed an aggregate sum of Rs. 2,528 million under this agreement.

	2009 Rupees	2008 Rupees
16 DEFICIT ON REVALUATION OF AVAILABLE FOR SALE SECURITIES		
Federal Government Securities		
Deficit on revaluation of available-for-sale securities - Gross	(2,438,133)	(961,855)
Deferred tax	853,347	336,649
Deficit on revaluation of available-for-sale securities - Net	<u>(1,584,786)</u>	<u>(625,206)</u>
17 CONTINGENCIES AND COMMITMENTS		
Transaction related contingent liabilities		
Letters of guarantees	47,475,964	-
Trade related contingent liabilities		
Letters of credit	495,783,011	349,641,820
Commitments		
The Company makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn except for Rs. 2,052,432,386 (2008: Rs. 1,846,404,974)		
Commitments against 'Repo' transactions	980,398,900	728,971,640
Commitments against 'Reverse Repo' transactions	230,337,730	-
18 MARK - UP / RETURN / INTEREST EARNED	For the year ended December 31, 2009	For the six months' period ended December 31, 2008
	Rupees	Rupees
On loans and advances to customers	465,671,559	86,013,537
On investments in		
- Held-to-maturity securities	53,418,545	4,175,425
- Available-for-sale securities	352,135,620	13,993,231
On deposits with other banks and financial institutions	179,394,529	425,850,145
On securities purchased under resale agreement	77,175	
	<u>1,050,697,428</u>	<u>530,032,338</u>
18.1 MARK - UP / RETURN / INTEREST EXPENSED		
Borrowings from financial institutions	4,409,130	-
Securities sold under repurchase agreements	32,025,444	-
	<u>36,434,574</u>	<u>6,215,296</u>

Pak China Investment Company Limited
Notes to the Financial Statements
For the year ended December 31, 2009

		For the year ended December 31, 2009	For the six months' period ended 31 December 2008
		Rupees	Rupees
19 ADMINISTRATIVE EXPENSES	<i>Note</i>		
Salaries, allowances and employees' benefits		102,324,263	37,973,012
Directors' fee		980,400	1,431,000
Gratuity		4,308,354	-
Employer's contribution to the provident fund		3,195,915	1,047,379
Traveling, conveyance, boarding and lodging		4,643,478	4,634,043
Rent, rates and taxes		22,406,388	12,068,882
Utilities		2,634,802	1,071,011
Communication		1,966,087	803,903
Office security charges		1,171,927	483,579
Professional training and staff welfare		82,997	68,200
Donation	19.1	500,000	-
Advertisements, periodicals and membership dues		2,653,511	282,378
Printing and stationery		1,202,994	482,169
Depreciation	10.2	9,345,485	2,295,495
Amortization	10.3	431,925	-
Auditors' remuneration	19.2	500,000	700,000
Legal, consultancy and other professional services		2,120,155	2,779,384
Repairs and maintenance		1,081,117	3,236,560
Insurance		1,271,159	199,793
Entertainment		528,477	280,668
Bank charges		101,537	4,947
Brokerage fee and commission		802,714	524,686
Miscellaneous		1,091,590	645,089
Loss on sale of operating fixed assets		333,255	55,097
Fixed assets written off		27,121	-
		<u>165,705,651</u>	<u>71,067,275</u>
19.1	This represents donation given to Prime Minister's Special fund for victims of terrorism in Pakistan. None of the directors or their spouses had any interest in the donee fund		
19.2	Auditors' remuneration		
Audit fee		300,000	500,000
Special certifications and sundry advisory services		150,000	150,000
Out of pocket expenses		50,000	50,000
		<u>500,000</u>	<u>700,000</u>
20 OTHER CHARGES			
Penalty imposed by SBP		<u>50,000</u>	<u>-</u>
21 TAXATION			
Current		315,055,452	162,985,954
Prior		(33,037,552)	-
Deferred		(5,495,275)	(49,016,422)
		<u>276,522,625</u>	<u>113,969,532</u>
21.1 Relationship between tax expense and accounting profit			
Profit before taxation		<u>790,064,644</u>	<u>325,627,235</u>
Tax at applicable rate of 35%		276,522,625	113,969,532
Net tax effect on income taxed at reduced rates		-	-
		<u>276,522,625</u>	<u>113,969,532</u>
		For the year ended 2009	For the six months' period ended 31 December 2008
22 BASIC AND DILUTED EARNINGS PER SHARE			
Profit for the year/ period (Rupees)		<u>513,542,019</u>	<u>211,657,703</u>
Weighted average number of ordinary shares (Number)		<u>793,174,907</u>	<u>645,720,000</u>
Basic/ diluted earnings per share (Rupees)		<u>0.65</u>	<u>0.33</u>
There is no dilutive effect on the basic earnings per share of the Company.			

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23 CASH AND CASH EQUIVALENTS

	2009 (Rupees)	2008 (Rupees)
Cash and balances with treasury banks	1,363,660,166	6,670,005
Balances with other banks	9,147,791	3,772,068,973
	<u>1,372,807,957</u>	<u>3,778,738,978</u>

24 STAFF STRENGTH

	(Number)	(Number)
Permanent	34	31
Temporary / on contractual basis	-	1
Own staff strength at end of the year/ period	34	32
Outsourced	9	8
Total staff strength	<u>43</u>	<u>40</u>

25 DEFINED BENEFIT PLAN

25.1 General description

The company operates an approved funded gratuity scheme for all its regular employees. Contributions are made in accordance with the actuarial recommendation.

The benefits under the gratuity scheme are payable on retirement at the age of 60 years or earlier cessation of service in lump sum. The benefit is equal to one month's last drawn basic salary for each year of eligible service or part thereof, subject to a minimum of one year of service.

25.2 Principal actuarial assumptions

	2009
Discount rate used	12.00%
Expected rate of return on plan assets	11.00%
Expected rate of salary increase	12.00%
Average remaining working lives of employees	12 years
Normal retirement age	60 years

25.3 Reconciliation of payable to defined benefit plan

	2009 (Rupees)
Present value of the defined benefit obligations	6,648,481
Fair value of plan assets	(6,098,916)
Net actuarial not recognized	58,109
Transitional liability to be recognised later	<u>(2,332,733)</u>
	<u>(1,725,059)</u>

25.4 Movement in defined benefit obligation

Transitional liability before amortization charge	2,915,916
Current service cost	3,375,261
Interest cost	349,910
Actuarial loss on obligation	7,394
Obligations at the end of the year	<u>6,648,481</u>

25.5 Movement in fair value of plan assets

Contributions	6,033,413
Actuarial gain on plan assets	65,503
Fair value at the end of the year	<u>6,098,916</u>

25.6 Plan assets consists of the following:

National saving centre (Special Saving Account)	6,000,000
Cash at bank	98,916
	<u>6,098,916</u>

25.7 Movement in payable to defined benefit plan

Charge for the year	4,308,354
Company's contribution to the fund made during the year	(6,033,413)
Closing balance	<u>(1,725,059)</u>

25.8 Charge for the defined benefit plan

Transitional liability charge due to application of IAS-19	583,183
Current service cost	3,375,261
Interest cost	349,910
	<u>4,308,354</u>

25.9 Actual Return on Plan Assets

	<u>65,503</u>
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Estimated charge for the next year is Rs. 4,945,914

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26 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2009	2008	2009	2008	2009	2008
	Rupees					
Fee	-	-	980,400	1,431,000	-	-
Managerial remuneration	12,431,749	3,627,724	17,400,000	6,600,000	42,778,176	11,724,398
Charge for defined benefit plan	813,762	-	1,406,538	-	1,641,967	-
Contribution to provident fund	455,549	219,861	960,000	400,002	1,528,150	764,307
Rent and house maintenance	4,671,725	2,287,800	-	1,663,800	-	-
Utilities	447,488	231,469	396,563	66,502	-	-
Medical	64,960	43,999	69,223	38,561	810,075	572,341
Others	661,998	1,679,808	215,855	26,750	-	8,648,165
	19,547,231	8,090,661	21,428,579	10,226,615	46,758,368	21,709,211
Number of persons	1	1	5	5	17	11

26.1 Executives mean employees, other than the chief executive and directors, whose basic salary exceed five hundred thousand rupees in a financial year. The Chief Executive and certain executives are also provided with other facilities, including the free use of the Company maintained car. Remuneration and other benefits to Directors include remuneration and benefits to the Company's Deputy Managing Director.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

27.1 On balance sheet financial instruments

	2009		2008	
	Book Value	Fair Value	Book Value	Fair Value
	Rupees			
Assets				
- Cash balances with treasury banks	1,363,660,166	1,363,660,166	6,670,005	6,670,005
- Balances with other banks	9,147,791	9,147,791	3,772,068,973	3,772,068,973
- Lendings to financial institutions	1,245,029,030	1,245,029,030	255,482,000	255,482,000
- Investments	3,158,325,703	3,158,325,703	1,430,241,031	1,430,241,031
- Advances	4,679,990,978	4,679,990,978	1,938,595,026	1,938,595,026
- Other assets	225,573,120	225,573,120	68,236,067	68,236,067
	10,681,726,788	10,681,726,788	7,471,293,102	7,471,293,102
Liabilities				
- Borrowings	975,684,500	975,684,500	726,754,175	726,754,175
- Other liabilities	9,052,902	9,052,902	18,342,722	18,342,722
	984,737,402	984,737,402	745,096,897	745,096,897

27.2 Off-balance sheet financial instruments

Purchase and resale agreements	230,337,730	230,337,730	-	-
Sale and repurchase agreements	980,398,900	980,398,900	728,971,640	728,971,640
Commitments to extend credits (In case materialize)	2,052,432,386	2,052,432,386	1,846,404,974	1,846,404,974

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Fair value of available for sale treasury bills and term finance certificates are calculated using market rates obtained from the active market. Other available for sale investments for which quoted market data is not available are carried at cost which approximates their carrying amount.

Fair value of fixed term loans and advances, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of advances is calculated in accordance with the Company's accounting policy.

In the opinion of the management, the fair value of the remaining financial assets and liabilities is not significantly different from the carrying values since assets and liabilities are either short term in nature or in the case of advances are frequently repriced.

28 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activities is as follows:

	2009			
	Corporate Finance	Treasury	Others	Total
	(Rupees)			
Total income - gross	601,702,160	539,754,600	337,769	1,141,794,529
Total expense	(197,272,636)	(36,434,574)	-	(233,707,210)
	404,429,524	503,320,026	337,769	908,087,319
Fee and commission income	47,732,976	-	-	47,732,976
Net operating income	452,162,500	503,320,026	337,769	955,820,295
Administrative expenses and other charges	-	-	-	(165,755,651)
Profit before taxation	-	-	-	790,064,644
Segment assets - gross	6,557,555,164	4,350,012,860	279,342,208	11,186,910,232
Segment non-performing loans	200,000,000	-	-	200,000,000
Segment provision including general provision	(247,272,636)	-	-	(247,272,636)
Segment liabilities	-	(977,602,763)	(111,640,515)	(1,089,243,278)
Segment return on net assets (ROA) %	9.86%	10.62%	0.15%	10.19%

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	2008		
	Corporate Finance	Treasury	Others
	(Rupees)		
Total income - gross	90,188,960	439,843,378	-
Total expense	(50,000,000)	(100,733,296)	-
	40,188,960	339,110,082	-
Fee and commission income	17,395,468	-	-
Net operating income	57,584,428	339,110,082	-
Administrative expenses			(71,067,275)
Profit before taxation			325,627,235
Segment assets - gross	2,278,595,026	5,124,462,009	165,142,923
Segment liabilities	-	(727,329,281)	(29,848,607)
Segment return on net assets (ROA) %	2.53%	7.71%	-

29 RELATED PARTY TRANSACTIONS

The Company has related party relationship with the entities in which its shareholders has any interest, key management personnel and its directors. Government of Pakistan (Ministry of Finance) is a related party of the Company, therefore all government authorities, agencies, affiliates and other organisations ("State-controlled entities") are related parties of the Company. Transactions with these state-controlled entities are not very significant and impracticable to quantify for disclosure in these financial statements.

The Company enters into transactions with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates.

	For the year ended December 31, 2009	For the six months' period ended December 31, 2008
	Rupees	Rupees
Transactions with associates due to common directorship (other than those with agencies and department of GOP)		
Payment to provident fund	4,037,961	-
Payment to gratuity fund	6,033,413	-
Placement of LOPs with related party	18,280,322,800	18,496,000,000
Treasury Bills	24,878,847,151	1,179,574,110
Mark-up receivable on LOPs of related party	2,550,343	-
Mark-up earned on LOPs during the year/ period	31,615,007	23,144,372
Mark-up receivable on treasury bills	-	6,216,237
Mark-up earned on treasury bills for the year/ period	44,160,292	7,277,837
Mark-up paid on treasury bills for the year/ period	9,198,261	-
Rent paid	15,025,349	9,828,992
Receivable from gratuity fund	1,725,059	-
Deposit for issuance of shares		
China Development Bank (Government of China)	1,263,899,200	-
Ministry of Finance (Government of Pakistan)	1,263,899,200	-

- 29.1 Key management personnel include the Managing Director, Deputy Managing Director, Deputy Chief Financial Officer, and the Company Secretary. Their salaries and other benefits other than the fee to executive directors amount to Rs. 49.37million (December 31, 2008: Rs. 17.2 million).

* This represents balance as at December 31, 2008.

30 CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

30.1 Scope Of Applications

As per the requirements of State Bank of Pakistan, the capital adequacy framework has been applicable on all banks and DFIs. The Company has implemented the capital adequacy framework under Basel - II regime on stand alone basis. With a short operating period, the balance sheet of the company remains relatively unleveraged. Hence the company is expected to maintain adequate capital against the regulatory requirement of minimum capital in the near future. However, the company remains cognizant of the fact that its going concern status is not dependent only on strong capital base but its ability to book quality assets that fits well on the risk and return spectrum it is pursuing. At present, the Company is dependent on its equity base to meet its capital requirements; however, it is contemplating various options to leverage its balance sheet in the ensuing years.

30.1.1 Capital Structure

	2009	2008
	Rupees	Rupees
Tier I Capital		
Shareholders equity	6,457,200,000	6,457,200,000
Deposit for issuance of shares	2,527,798,400	-
Reserve	173,597,860	70,889,456
Unappropriated / unremitted profits	694,391,435	283,557,820
Less: Adjustments		
Book value of intangible asset	(1,273,585)	-
Deficit on revaluation of available for sale securities	(1,584,786)	(625,206)
Total Tier I Capital	9,850,129,324	6,811,022,070

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Tier II Capital

General provision for loan losses subject to 1.25% of total risk weighted assets

47,272,636

-

Total Tier II Capital

47,272,636

-

Eligible Tier III Capital

-

-

Total Regulatory Capital Base

9,897,401,960

6,811,022,070

30.1.2 Capital Adequacy

As per BSD Circular No. 1 dated January 1, 2008, the State Bank of Pakistan has required all Banks / DFIs to adopt standardized approaches for Credit and Market Risk and Basic Indicator / Standardized approach for Operational Risk under Basel-II Regime from January 1, 2008. Pursuant to BSD circular No. 07 dated April 25, 2009 Banks / DFIs have to set aside an amount of capital equivalent to 10% (December 31, 2008: 9%) of their risk weighted assets for conducting business. The New Basel Regime not only covers additional risks, but also provide flexibility on capital assignment against different types of credit risks. Higher quality assets in each segment will decrease the capital requirements.

The Company's objectives when managing its capital are:

- To comply with the capital requirements set by the State Bank of Pakistan;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The growth prospects of the Company will be linked with the macroeconomic environment, industry conditions and its ability to attract quality assets. At present, Company has restricted its market risk by not participating in secondary stock trading. It is engaged in booking quality assets in loan segment.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Company will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

	2009		2008	
	Capital Requirements	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets
	Rupees		Rupees	
Credit Risk				
Portfolios subject to standardized approach (Simple)	642,491,535	6,424,915,352	422,603,376	4,695,593,072
Market risk				
Capital requirement for portfolios subject to standardized approach - Interest rate risk	5,644,773	56,447,727	2,005,450	22,282,780
Operational Risk				
Capital Requirement for operational risks	177,846,739	1,778,467,386	94,418,197	1,049,091,073
Total	825,983,047	8,259,830,465	519,027,023	5,766,966,925

Capital Adequacy Ratio

		2009	2008
		Rupees	Rupees
Total eligible regulatory capital held	(a)	9,897,401,960	6,811,022,070
Total Risk Weighted Assets	(b)	8,259,830,465	5,766,966,925
Capital Adequacy Ratio	(a) / (b)	120%	118%

31 RISK MANAGEMENT

The Company is primarily subject to interest rate risk, credit risk, market risk and liquidity risk. The management of Company is cognizant of these risks and has put in place requisite parameters to manage distinct risks within acceptable limits. The approach used for risk management has taken into account the nature and size of the organization. The core principle behind the risk management approach in the Company is that the members of the respective specialized risk management committees collaborate with relevant department in line with the risk management policies and frame works. A dedicated risk management function is also functioning to identify, quantify, monitor and control these risks.

31.1 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances that are considered doubtful for recovery.

31.1.1 Segment by class of business

	2009		2009	
	Advances		Contingencies and commitments	
	Rupees	Percent	Rupees	Percent
Fertilizer	267,376,515	5.43	242,881,662	9.36
Power	2,943,620,087	59.74	1,425,542,623	54.92
Steel	169,582,938	3.44	60,660,100	2.34
Sugar	200,000,000	4.06	-	-
Textiles	300,000,000	6.09	-	-
Telecommunication	300,000,000	6.09	-	-
Storage	461,684,073	9.37	366,619,166	14.12
Real Estate	85,000,000	1.73	500,000,000	19.26
Cement	200,000,000	4.06	-	-
	4,927,263,613	100	2,595,703,551	100

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Specific provision by class of business

Cement	200,000,000	100.00	-	-
	200,000,000	100.00	-	-

31.1.2 Segment by sector

	2009		2009	
	Advances		Contingencies and commitments	
	Rupees	Percent	Rupees	Percent
Public/Government	877,345,331	17.81	372,654,669	14.36
Private	4,049,918,282	82.19	2,223,048,882	85.64
	4,927,263,613	100	2,595,703,551	100

Specific provision by sector

Public/Government	-	-	-	-
Private	200,000,000	100	-	-
	200,000,000	100	-	-

Total assets employed are based in Pakistan.

31.1.3 Credit Risk-General Disclosures Basel II Specific

As per the SBP's instructions, the Company is using the standardized approach for ascertaining capital requirements for its credit risk. It is in the process of formulating its procedures for IRB approach for its credit risk. The Company will obtain necessary approvals and validation from SBP, before adopting IRB approach.

31.1.3.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach - Basel II specific

Types of Exposures and ECAI's used

Exposures	2009			2008		
	JCR-VIS	PACRA	OTHER (Specify) (Specify)	JCR-VIS	PACRA	OTHER (Specify) (Specify)
Corporate	✓	✓	x	✓	x	x
Banks	✓	✓	x	x	x	x

Credit Exposures subject to Standardised approach

Exposures	Rating category	2009			2008		
		Amount Outstanding Rupees	Deduction CRM Rupees	Net amount (Rupees)	Amount Outstanding Rupees	Deduction CRM Rupees	Net amount (Rupees)
Corporate	1	204,000,691	-	204,000,691	-	-	-
Corporate	2	564,435,414	-	564,435,414	190,000,000	-	190,000,000
Corporate	Unrated	2,735,218,827	-	2,735,218,827	2,088,595,026	-	2,088,595,026
Public Sector Entity	Unrated	438,672,666	-	438,672,666	-	-	-
Banks- less than 3 months funded in PKR		435,417,372	(230,029,030)	205,388,342	-	-	-
Banks- less than 3 months funded in FCY	1,2,3	271,227,661	-	271,227,661	-	-	-
Regulatory capital instruments of other banks		395,680,000	-	395,680,000	-	-	-
Total		5,044,652,631	(230,029,030)	4,814,623,601	2,278,595,026	-	2,278,595,026

Following is the list of main type of collateral taken by the Company:

- Government Securities
- Registered charge on stocks, book debts, receivables and other assets
- Pledge of sponsors' shares
- Guarantee of Government of Pakistan
- Industrial land and building mortgage (equitable)
- Personal guarantees
- Hypothecation over movable properties
- Registered charge over fixed assets

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51.2 Liquidity risk

Liquidity risk is the potential loss to the Company arising from either its inability to meet its obligation or to arrange the requisite funding for its assets at a reasonable price. The Company manages its liquidity risk by diversifying and ensuring the stability of its liability structure (funding mix). The risk management function generates and monitors daily liquidity position of the Company.

51.2.1 Maturities of assets and liabilities

	2009									
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
	(Rupees)									
Assets										
Cash and balances with treasury banks	1,363,660,166	1,363,660,166	-	-	-	-	-	-	-	-
Balances with other banks	9,147,791	9,147,791	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,245,029,030	1,245,029,030	-	-	-	-	-	-	-	-
Investments	3,158,325,703	-	106,711,763	1,900,799,821	62,509,885	140,417,570	145,550,170	241,140,340	561,196,150	-
Advances	4,679,990,978	-	96,525,000	329,175,000	99,583,332	436,276,290	704,852,778	1,360,205,554	1,613,045,401	40,327,623
Fixed assets	187,828,157	767,534	1,535,068	2,306,224	5,655,692	156,707,288	9,314,641	11,541,710	-	-
Deferred tax assets	57,189,957	704,648	(28,622,209)	717,653	68,856,098	(279,222)	2,447,017	5,069,354	8,154,045	142,574
Other assets	239,474,405	121,584,006	53,919,827	48,853,100	3,528,439	1,632,015	504,000	1,008,000	2,520,000	5,925,018
	10,940,646,187	2,740,893,175	230,069,449	2,281,851,798	240,133,446	734,753,942	862,668,606	1,618,964,958	2,184,915,596	46,395,215
Liabilities										
Borrowings	975,684,500	975,684,500	-	-	-	-	-	-	-	-
Other liabilities	113,558,778	11,371,713	-	579,468	101,607,597	-	-	-	-	-
	1,089,243,278	987,056,213	-	579,468	101,607,597	-	-	-	-	-
Net assets	9,851,402,909	1,753,836,962	230,069,449	2,281,272,330	138,525,849	734,753,942	862,668,606	1,618,964,958	2,184,915,596	46,395,215
Share capital	6,457,200,000									
Reserve	173,597,860									
Unappropriated profit	694,391,435									
Deposit for issue of shares	2,527,798,400									
Deficit on revaluation of available for sale securities -										
Net of tax	(1,584,786)									
	9,851,402,909									
	2008									
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
	(Rupees)									
Assets										
Cash and balances with treasury banks	6,670,005	6,670,005	-	-	-	-	-	-	-	-
Balances with other banks	3,772,068,973	3,772,068,973	-	-	-	-	-	-	-	-
Lendings to financial institutions	255,482,000	255,482,000	-	-	-	-	-	-	-	-
Investments	1,430,241,031	198,929,830	891,311,201	-	-	-	75,500,000	151,000,000	113,500,000	-
Advances	1,938,595,026	-	750,000,000	-	-	57,500,000	168,650,904	337,301,807	524,023,749	101,118,566
Operating fixed assets	28,114,974	562,481	1,124,961	1,687,442	3,374,883	6,749,766	6,749,766	7,865,675	-	-
Deferred tax asset	51,177,984	281,319	(110,662)	(165,994)	32,749,313	16,638,018	(1,025,008)	(465,834)	1,840,985	1,435,847
Other assets	85,849,965	48,369,189	26,227,782	4,341,230	4,799,604	2,112,160	-	-	-	-
	7,568,199,958	4,282,363,797	1,668,553,282	5,862,678	40,923,800	82,999,944	249,875,662	495,701,648	639,364,734	102,554,413
Liabilities										
Borrowings	726,754,175	726,754,175	-	-	-	-	-	-	-	-
Other liabilities	30,423,713	2,349,368	3,889,350	9,200,000	14,984,995	-	-	-	-	-
	757,177,888	729,103,543	3,889,350	9,200,000	14,984,995	-	-	-	-	-
Net assets	6,811,022,070	3,553,260,254	1,664,663,932	(3,337,322)	25,938,805	82,999,944	249,875,662	495,701,648	639,364,734	102,554,413
Share capital	6,457,200,000									
Reserves	70,889,456									
Un-appropriated profit	283,557,820									
Deficit on revaluation of 'available-for-sale' securities										
net of tax	(625,206)									
	6,811,022,070									

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1.3 Market risk

Market risk is the loss due to adverse movements in market rates or price such as foreign exchange rates, interest rates and equity prices and / or commodity prices. Market risk pertaining to the trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. All investments excluding trading book are considered as part of banking book. Banking book includes all investment other than available for sale market treasury bills. Due to diversified nature of investments in banking book, the Company is subject to interest rate risk only. The Company is using Basel-II standardized approach to calculate risk weighted assets against market risk exposure.

1.3.1 Interest rate risk

Interest rate risk is the risk that assets value will change due to change in the market interest rates. The Company manages its interest rate risk by entering into floating rate agreements with its customers. Major portion of the credit portfolio is linked to floating rate. To further keep the Company abreast of the interest rate risk, an Asset and Liability Committee (ALCO) meets on a monthly basis to discuss the interest rate risk strategy. Interest rate risk profile is also prepared on a monthly basis to ascertain the interest rates movements with regard to the portfolio.

	Effective yield / interest rate %	2009										Not exposed to yield / interest rate risk
		Total	Upto one month	Over one to three months	Over three to six months	Exposed to yield / profit risk Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years	
Rupees												
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks		1,363,660,166	1,356,138,306	-	-	-	-	-	-	-	-	7,521,860
Balances with other banks	6.00	9,147,791	9,147,791	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	12.44	1,245,029,030	1,245,029,030	-	-	-	-	-	-	-	-	-
Investments	13.82	3,158,325,703	-	106,711,763	1,909,799,821	62,509,885	140,417,570	145,550,170	241,140,340	561,196,150	-	-
Advances	15.27	4,679,990,978	-	96,525,000	329,175,000	99,583,332	436,276,290	704,852,778	1,360,205,554	1,613,045,401	40,327,623	-
Other assets	4.00	225,573,120	6,634,000	84,000	126,000	252,000	504,000	504,000	1,008,000	2,520,000	5,925,017	208,016,103
		10,681,726,788	2,616,949,127	203,320,763	2,230,100,821	162,345,217	577,197,860	850,906,948	1,602,353,894	2,176,761,551	46,252,640	215,537,963
Financial Liabilities												
Borrowings	12.15	975,684,500	975,684,500	-	-	-	-	-	-	-	-	-
Other liabilities		9,052,902	-	-	-	-	-	-	-	-	-	9,052,902
		984,737,402	975,684,500	-	-	-	-	-	-	-	-	9,052,902
On balance sheet gap		9,696,989,386	1,641,264,627	203,320,763	2,230,100,821	162,345,217	577,197,860	850,906,948	1,602,353,894	2,176,761,551	46,252,640	206,485,061
Off-balance sheet financial instruments												
Purchase and resale agreements	12.25	230,337,730	230,337,730	-	-	-	-	-	-	-	-	-
Sale and repurchase agreements	12.20	980,398,900	980,398,900	-	-	-	-	-	-	-	-	-
Commitments to extend credits (In case materialize)		2,052,432,386	-	-	-	-	-	-	-	-	-	2,052,432,386
Off-balance sheet gap - net		1,302,371,216	(750,061,170)	-	-	-	-	-	-	-	-	2,052,432,386
Total yield/ interest risk sensitivity gap		891,203,457	203,320,763	2,230,100,821	162,345,217	577,197,860	850,906,948	1,602,353,894	2,176,761,551	46,252,640	2,258,917,447	
Cumulative yield/ interest rate sensitivity gap		891,203,457	1,094,524,220	3,324,625,041	3,486,970,258	4,064,168,118	4,915,075,066	6,517,428,960	8,694,190,511	8,740,443,151	10,999,360,598	
2008												
	Effective yield / interest rate %	Total	Upto one month	Over one to three months	Over three to six months	Exposed to yield / profit risk Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years	Not exposed to yield / interest rate risk
Rupees												
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks		6,670,005	-	-	-	-	-	-	-	-	-	6,670,005
Balances with other banks	14.90	3,772,068,973	3,754,000,000	-	-	-	-	-	-	-	-	18,068,973
Lendings to financial institutions	14.39	255,482,000	255,482,000	-	-	-	-	-	-	-	-	-
Investments	12.57	1,430,241,031	198,929,830	891,311,201	-	-	75,500,000	151,000,000	113,500,000	-	-	-
Advances	12.95	1,938,595,026	-	750,000,000	-	-	57,500,000	168,650,904	337,301,807	524,023,749	101,118,566	-
Other assets		68,236,067	-	-	-	-	-	-	-	-	-	68,236,067
		7,471,293,102	4,208,411,830	1,641,311,201	-	-	57,500,000	244,150,904	488,301,807	637,523,749	101,118,566	92,975,045
Financial Liabilities												
Borrowings	12.25	726,754,175	726,754,175	-	-	-	-	-	-	-	-	-
Other liabilities		18,342,722	-	-	-	-	-	-	-	-	-	18,342,722
		745,096,897	726,754,175	-	-	-	-	-	-	-	-	18,342,722
On balance sheet gap		6,726,196,205	3,481,657,655	1,641,311,201	-	-	57,500,000	244,150,904	488,301,807	637,523,749	101,118,566	74,632,323
Off-balance sheet financial instruments												
Sale and repurchase agreements	14.00	728,971,640	728,971,640	-	-	-	-	-	-	-	-	-
Commitments to extend credit (In case materialize)		1,846,404,974	-	-	-	-	-	-	-	-	-	1,846,404,974
Off-balance sheet gap - net		1,117,433,334	(728,971,640)	-	-	-	-	-	-	-	-	(1,846,404,974)
Total yield/ interest risk sensitivity gap		2,752,686,015	1,641,311,201	-	-	-	57,500,000	244,150,904	488,301,807	637,523,749	101,118,566	(1,771,772,651)
Cumulative yield/ interest rate sensitivity gap		2,752,686,015	4,393,997,216	4,393,997,216	4,393,997,216	4,451,497,216	4,695,648,120	5,183,949,927	5,821,473,676	5,922,592,242	4,150,819,591	

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Pak China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2009

31.3.2 Foreign exchange risk

Foreign exchange risk arises in case of an on balance sheet / off balance sheet asset or liability position when there is adverse exchange rate movement. The Company has following exposure in this category of market risk.

	2009			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	Rupees			
Pakistan Rupee	9,339,489,767	1,089,243,278	-	8,250,246,489
United States Dollar	1,356,138,306	-	-	1,356,138,306
	10,695,628,073	1,089,243,278	-	9,606,384,795
	2008			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	Rupees			
Pakistan Rupee	7,488,907,000	757,177,888	-	6,731,729,112
	7,488,907,000	757,177,888	-	6,731,729,112

31.3.3 Equity risk

Equity price risk is the risk to the earnings or capital resulting from an adverse change in the value/ price of equity. The Company is not currently exposed to equity risk.

31.4 Capital risk management

The Company's objectives when managing capital risks are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders 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 Company may adjust the amount of dividend to shareholders, return of capital to shareholders, issue new shares or sell assets to reduce debt. In terms of BSD circular No. 19 of 2008 issued by the State Bank of Pakistan, DFIs are required to raise their paid up capital to Rs. 6 billion by December 31, 2009. Up to the year end, the Company has a paid up capital of Rs. 6.4 billion. The Company has also received deposit of Rs. 2.5 billion for issue of shares.

31.5 Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and system of the Company.

The risk management function in the Company monitors the operational risk in order to ensure the safeguarding of assets and to mitigate other related risks.

31.5.1 Operational Risk-Disclosures Basel II Specific

The Company has adopted the Basic Indicator Approach for ascertaining capital requirements for its operational risk. Up to the year end, the Company has not incurred any loss owing to operational risk.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS

32.1 Provision against non-performing loans and advances

The management reviews the loan portfolio to assess non-performing accounts and expected recovery on a quarterly basis. In determining the non-performing accounts and provision requirements, the relevant Prudential Regulations issued by the State Bank of Pakistan, payment status of mark-up and principal, expected future cash flows of the business, security position and personal wealth of the directors and owners are taken into account.

32.2 Classification of investments

In classifying investments as 'held-to-maturity' the Company follows the guidance provided in SBP circulars on classifying non derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgement, the Company evaluates its intention and ability to hold such investment to maturity.

Since the Company has no investment classified as 'held for trading', investments which are not classified as 'held to maturity' are classified as 'available-for-sale'.

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Pak China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2009

32.3 Impairment of available for sale investments

The management determines that 'available-for-sale' investments are impaired when there has been a significant or prolonged decline in market value/ fair value below its cost. In making this judgement, the management considers among other factors, the decline market price below cost by 20% as significant and if the decline in market price persists for 9 months as prolonged.

32.4 Income taxes

In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues and the appeals of the department pending at various levels of authorities

32.5 Operating fixed assets and intangible asset

The Company reviews the useful lives and residual value of operating fixed assets and intangible asset on a regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of operating fixed assets and intangible asset with a corresponding effect on the depreciation charge/ amortization and impairment.

32.6 Contingencies

The Company reviews the status of all the legal cases on a regular basis. Based on the expected outcome and lawyers' judgments, appropriate provision is made.

32.7 Valuation of financial instruments

The fair value of financial instruments that are not traded in active market is determined using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. For available for sale treasury bill investments, the Company uses PKRV rates available at the balance sheet date to ascertain their fair values. For available for sale quoted term finance certificates, the Company uses quoted market rates available at the balance sheet date to ascertain their fair value.

32.8 Gratuity

The Company's gratuity liability is determined using assumptions which are disclosed in note 25 to the financial statements which are used for determining present value of defined benefit obligations and fair value of plan assets. Any change in the assumptions from actual results would change the amount of unrecognised gains and losses.

33 DATE OF AUTHORISATION FOR ISSUE


These financial statements were authorised for issue in the Board of Directors meeting held on _____.

34 GENERAL

34.1 The Pakistan Credit Rating Agency Limited has issued long term credit rating of AA- and the short term rating of A1+ for the Company.

34.2 Pursuant to the decision of the Board of Directors on October 06, 2008, the accounting year of the Company has been changed from June 30 to December 31 and therefore comparative figures are for the period from July 01, 2008 to December 31, 2008. The Comparative figures in the profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity are for the period from July 1, 2008 to December 31, 2008 and therefore not comparable. Comparative figures in the balance sheet are as of December 31, 2008.

34.3 Captions as prescribed by BSD Circular No. 4 dated February 17, 2006 issued by the State Bank of Pakistan for which there are no amounts have not been reproduced in these financial statements except for the balance sheet and profit and loss account. Comparative information has been reclassified, rearranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year.


Chairman


Director


Managing Director


Director

