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## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of **Pak China Investment Company Limited** as at 31 December 2010 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 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 statement of financial position 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;
  - (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;

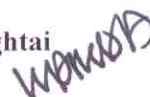
- (c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the 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 2010 and of the profit, 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: 22 August 2011

Islamabad



KPMG Taseer Hadi & Co.  
Chartered Accountants  
Muhammad Rehan Chughtai



Pak China Investment Company Limited  
Statement of Financial Position  
As at December 31, 2010

	Note	2010 Rupees	2009 Rupees
<b>ASSETS</b>			
Cash and balances with treasury banks	5	1,399,836,094	1,363,660,166
Balances with other banks	6	8,736,067	9,147,791
Lendings to financial institutions	7	1,264,139,593	1,245,029,030
Investments	8	3,099,786,748	3,158,325,703
Advances	9	5,308,893,009	4,697,462,564
Fixed assets	10	180,565,507	187,828,157
Deferred tax assets	11	3,043,945	57,189,957
Other assets	12	368,958,964	222,002,819
		11,633,959,927	10,940,646,187
<b>LIABILITIES</b>			
Bills payable		-	-
Borrowings	13	1,132,259,095	975,684,500
Deposits and other accounts		-	-
Subordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	14	24,497,667	113,558,778
		1,156,756,762	1,089,243,278
<b>NET ASSETS</b>		<b>10,477,203,165</b>	<b>9,851,402,909</b>
<b>REPRESENTED BY</b>			
Share capital	15	6,457,200,000	6,457,200,000
Reserve	15.3	285,671,066	173,597,860
Advance against issue of shares	15.4	2,593,499,200	2,527,798,400
Unappropriated profit		1,142,684,261	694,391,435
		10,479,054,527	9,852,987,695
Deficit on revaluation of assets - net of tax	16	(1,851,362)	(1,584,786)
		10,477,203,165	9,851,402,909
<b>CONTINGENCIES AND COMMITMENTS</b>			
	17		

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

AA Shahid  
Chairman

Managing Director

Director

Director

Pak China Investment Company Limited  
Profit and Loss Account  
For the year ended December 31, 2010

	Note	2010 Rupees	2009 Rupees
Mark-up / return / interest earned	18	1,252,143,235	1,050,697,428
Mark-up / return / interest expensed	18.1	(283,898,690)	(36,434,574)
Net mark-up / interest income		968,244,545	1,014,262,854
Provision against non-performing loans and advances	9.3	41,360,577	197,272,636
Provision for diminution in the value of investments		-	-
Bad debts written off directly	9.5	60,800,000	-
		102,160,577	197,272,636
Net mark-up / interest income after provisions		866,083,968	816,990,218

NON MARK-UP / INTEREST INCOME

Fee, commission and brokerage income	15,708,068	47,732,976
Dividend income	-	-
Exchange (loss)/gain	(39,020,927)	81,903,032
Gain on sale of securities	198,597,196	8,856,300
Unrealised gain / (loss) on revaluation of investments classified as held for trading	-	-
Other income	939,147	337,769
Total non mark-up / interest income	176,223,484	138,830,077

NON MARK-UP / INTEREST EXPENSES

Administrative expenses	19	180,205,244	165,705,651
Provision against lending to financial institutions		-	-
Other charges	20	621	50,000
Total non mark-up / interest expenses		180,205,865	165,755,651
Extra ordinary / unusual items		-	-

PROFIT BEFORE TAXATION

Taxation	21	862,101,587	790,064,644
		301,735,555	276,522,625

PROFIT AFTER TAXATION

		560,366,032	513,542,019
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Basic and diluted earnings per share	22	0.62	0.65
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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.

Atshailkh  
Chairman

常文强  
Managing Director

  
Director

  
Director

Pak China Investment Company Limited  
Statement of Comprehensive Income  
For the year ended December 31, 2010

	2010 Rupees	2009 Rupees
Profit after tax for the year	560,366,032	513,542,019
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>560,366,032</b>	<b>513,542,019</b>

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

  
Chairman

  
Managing Director

  
Director

  
Director



# Pak China Investment Company Limited

## Cash Flow Statement

For the year ended December 31, 2010

	Note	2010 Rupees	2009 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		862,101,587	790,064,644
Adjustments for:			
Depreciation		12,455,905	9,345,485
Amortization		1,060,640	431,925
Bad debts written off directly		60,800,000	-
Provision for gratuity		5,069,114	4,308,354
Provision against non-performing loans and advances		41,360,577	197,272,636
Loss on disposal of operating fixed assets including write off		76,829	360,376
		<u>982,924,652</u>	<u>1,001,783,420</u>
Decrease/ (increase) in operating assets			
Lendings to financial institutions		(19,110,563)	(1,135,029,030)
Advances		(713,591,022)	(2,788,668,588)
Others assets (excluding advance taxation)		(148,690,373)	(151,899,381)
		<u>(881,391,958)</u>	<u>(4,075,596,999)</u>
Increase/ (decrease) in operating liabilities			
Borrowings		156,574,595	248,930,325
Other liabilities (excluding current taxation)		1,522,642	(6,572,537)
		<u>158,097,237</u>	<u>242,357,788</u>
Gratuity paid		(3,334,885)	(6,033,413)
Income tax paid		(338,029,756)	(192,310,298)
		<u>(341,364,641)</u>	<u>(198,343,711)</u>
Net cash used in operating activities		<u>(81,734,710)</u>	<u>(3,029,799,502)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investment in 'available-for-sale' securities		1,558,588	(1,694,560,950)
Net investment in 'held-to-maturity' securities		56,570,250	(185,000,000)
Capital expenditure		(6,609,724)	(25,068,968)
Sale proceeds of property and equipment disposed-off		279,000	699,999
Net cash used in investing activities		<u>51,798,114</u>	<u>(1,903,929,919)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Advance against issue of shares		65,700,800	2,527,798,400
Net cash flow from financing activities		<u>65,700,800</u>	<u>2,527,798,400</u>
Increase/ (decrease) in cash and cash equivalent		<u>35,764,204</u>	<u>(2,405,931,021)</u>
Cash and cash equivalents at beginning of the year		1,372,807,957	3,778,738,978
Cash and cash equivalents at end of the year	23	<u><u>1,408,572,161</u></u>	<u><u>1,372,807,957</u></u>

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

  
Chairman

  
Managing Director

  
Director

  
Director

For the year ended December 31, 2010

9,054,527

## 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.

SBP vide BSD circular letter No. 7 of 2010 dated April 20, 2010 has clarified that two statement approach shall be adopted in the preparation of quarterly, half yearly and annual financial statements as mentioned in the revised IAS-1 "Presentation of Financial Statements". Accordingly, the Company has presented Profit and Loss account and Statement of Comprehensive Income separately in these financial statements. Further in accordance with this circular, the Company has opted not to present the changes in fair value of available for sale securities in Statement of Comprehensive Income and accordingly such changes are included in surplus / (deficit) on revaluation of available for sale securities.

### 2.1 Forthcoming accounting standards/ interpretations

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning as mentioned there against 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:

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 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.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 01, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on Company's financial statements.

IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after January 01, 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 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 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 Company's financial statements.

Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the 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 as modified for revaluation of certain investments at market rates in accordance with the requirements of BSD Circular No. 10 dated 13 July 2004 as amended through BSD Circular No. 11 dated 04 August 2004 and BSD Circular No. 14 dated 24 September 2004.

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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 Critical 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 32.

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.

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

Mark-up / return / interest income and expenses are recognised on a time proportion basis taking into account effective yield on the instrument, except where recovery is considered doubtful, the income is recognised on receipt basis. Interest / return / mark-up on rescheduled / restructured advances and investments is recognised as permitted by the Prudential Regulations issued by the State Bank of Pakistan.

A gain / (loss) on sale of securities is recognised in profit and loss account at the time of sale of relevant securities.

The surplus / (deficit) arising on revaluation of the Company's held for trading investment portfolio is taken to the profit and loss account.

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

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

Fee, commission and brokerage income is recognised as the services are rendered.

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. In accordance with the BSD 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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(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.

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 sukuk 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.

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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.

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 Borrowings

Borrowings other than repo are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at amortized cost with any difference between originally recognized amount and redemption value being recognized in the income statement over the period of borrowing on an effective interest rate basis.

4.16 Other liabilities

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

4.17 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.

4.18 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.
Trading & Sales	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.

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5	CASH AND BALANCES WITH TREASURY BANKS	Note	2010 Rupees	2009 Rupees
	Cash in hand in local currency		25,000	25,000
	With State Bank of Pakistan in local currency current account	5.1	6,243,511	4,702,939
	With National Bank of Pakistan in local currency current account		404,837	2,793,921
	foreign currency deposit account	5.2	1,393,162,746	1,356,138,306
			<u>1,399,836,094</u>	<u>1,363,660,166</u>

- 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 0.70% to 1% per annum (2009: 1% to 2%) during the period of placement and is maturing on January 05, 2011.

6	BALANCES WITH OTHER BANKS	Note	2010 Rupees	2009 Rupees
	In Pakistan			
	- Local currency current accounts		6,843,636	9,147,791
	- Local currency deposit accounts		1,892,431	-
			<u>8,736,067</u>	<u>9,147,791</u>

7 LENDINGS TO FINANCIAL INSTITUTIONS

	Lending under letter of placements (LoPs)	7.2	964,509,745	1,015,000,000
	Repurchase agreement lending (Reverse Repo)	7.3 & 7.4	299,629,848	230,029,030
			<u>1,264,139,593</u>	<u>1,245,029,030</u>

- 7.1 All lendings of the Company are in local currency.
- 7.2 LoPs carry interest ranging between 13.5 % to 13.75 % per annum (2009: 12 % to 12.75 % per annum) with maturities ranging between 6 days to 31 days (2009: 4 days to 18 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 of 12.75% (2009: 12.25%) per annum with maturity of 3 days (2009: 4 days).
- 7.4 Security held as collateral against lending to financial institution

	2010			2009		
	Held by the Company	Further given as collateral	Total	Held by the Company	Further given as collateral	Total
	Rupees			Rupees		
Market treasury bill	299,629,848	-	299,629,848	230,029,030	-	230,029,030
	<u>299,629,848</u>	<u>-</u>	<u>299,629,848</u>	<u>230,029,030</u>	<u>-</u>	<u>230,029,030</u>

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8 INVESTMENTS

Investment by type	Note	2010			2009		
		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	288,389,200	840,851,620	1,129,240,820	751,393,195	979,515,813	1,730,909,008
Commercial papers		-	-	-	254,030,828	-	254,030,828
Sukuk certificates - secured	8.2	505,126,000	-	505,126,000	205,304,000	-	205,304,000
Term finance certificates	8.3	910,638,428	-	910,638,428	595,520,000	-	595,520,000
Ordinary shares of listed company	8.4	239,200,000	-	239,200,000	-	-	-
Held-to-maturity securities							
Term finance certificates	8.5	318,429,750	-	318,429,750	375,000,000	-	375,000,000
Investment at cost		2,261,783,378	840,851,620	3,102,634,998	2,181,248,023	979,515,813	3,160,763,836
Less: Provision for diminution in value of investments		-	-	-	-	-	-
Investment (Net of provisions)		2,261,783,378	840,851,620	3,102,634,998	2,181,248,023	979,515,813	3,160,763,836
Deficit on revaluation of available-for-sale securities		(1,166,100)	(1,682,150)	(2,848,250)	(261,320)	(2,176,813)	(2,438,133)
Total investments		2,260,617,278	839,169,470	3,099,786,748	2,180,986,703	977,339,000	3,158,325,703

- 8.1 These carry interest ranging between 12.15% to 12.40% (2009: 11.58% to 13.40%) per annum with redemption period of one year (2009: six months to one year). These include mark-up accrued upto the year end.
- 8.2 These carry interest of 3 months KIBOR + 3% (2009: KIBOR + 3% ) with redemption period of 10.5 years (2009:11.5 years ).
- 8.3 These carry interest of 3 months KIBOR + 3.25% to 12 months KIBOR + 1% (2009: ranging between 3 months KIBOR + 3.25% to 6 months KIBOR + 2.5% ) with redemption period of 3-7 years(2009:5 to 10 years). This includes TFC of Rs. 180 million of Azgard Nine Limited which was converted from commercial paper upon maturity.
- 8.4 This represents shares of Agritech Limited obtained by the Company consequent to settlement of advance of Rs. 300 million with Azgard Nine Limited. The market value of shares was Rs 239.2 million at the date of settlement and the Company recognized Rs. 60.8 million in profit & loss account being the difference between the carrying amount of advance and market value of shares (Refer note 9.5).
- 8.5 This carries interest of 6 months KIBOR + 3.25% per annum (2009:6 months KIBOR + 3.25% per annum) with redemption period of 6 years (2009:7 years).

Investment by segments	2010 Rupees	2009 Rupees
Federal Government Securities		
- Market treasury bills	1,129,240,820	1,730,909,008
Term finance certificates		
- Listed	245,581,728	245,680,000
- Unlisted	983,486,450	724,840,000
Fully paid up ordinary shares - listed	239,200,000	-
Other investments		
- Sukuk certificates	505,126,000	205,304,000
- Commercial papers	-	254,030,828
Investment at cost	3,102,634,998	3,160,763,836
Less: Provision for diminution in value of investments	-	-
Investment (Net of provisions)	3,102,634,998	3,160,763,836
Deficit on revaluation of available-for-sale securities	(2,848,250)	(2,438,133)
Total investments at market value	3,099,786,748	3,158,325,703

8.7 Principal terms of investment in Federal Government Securities

Name of investment	Maturity	Principal payment	Rate	Coupon
Market treasury bills	one year	On maturity	12.15% to 12.40%	at maturity

8.8 Investment in Term Finance Certificates

No of certificates		Company Name	Note	Name of Chief Executive	Redemption per certificate	2010	2009
2010	2009					Rupees	Rupees
Unlisted							
75,000	75,000	Avani Hotels Limited		Byram D. Avani	4246	318,429,750	375,000,000
30,000	30,000	Bank Alfalah Limited		Sirajuddin Aziz	4998	149,940,000	150,000,000
40,000	40,000	Agritech Limited		Ahmed Jaudet Bila	4996	199,840,000	199,840,000
-	-	Pakistan National Shipping Corporation	8.8.1	Rashid Siddiqi	-	135,276,700	-
36,000	-	Azgard Nine Limited		Ahmed Sheikh	5000	180,000,000	-
Listed							
49,136	49,136	Askari Bank Limited		M R Mehkari	4998	245,581,728	245,680,000
Book value at end of the year						1,229,068,178	970,520,000

- 8.8.1 60,000 term finance certificates with face value of rupees 5000 each will be issued after full disbursement.

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8.9	Quality of available-for-sale securities	Note	2010		2009	
			Market Value Rupees	Rating	Market Value Rupees	Rating
	Market treasury bills	8.9.1	1,126,592,570	Unrated	1,730,909,008	Unrated
	Commercial papers					
	-Azgard Nine Limited		-	-	160,918,583	A+
	-Pak Electron Limited		-	-	93,112,245	A
	Sukuk certificates		505,126,000	AA-	205,304,000	AA-
	Term finance certificates	8.9.2				
	-Askari Bank Limited		245,581,728	AA-	245,680,000	AA
	-Agritech Limited		199,840,000	CCC	199,840,000	A+
	-Bank Alfalah Limited		149,940,000	AA-	150,000,000	AA
	-Pakistan National Shipping Corporation		135,276,700	AA-	-	-
	-Azgard Nine Limited		180,000,000	CCC	-	-
	Ordinary shares of listed company		239,000,000	CCC	-	-
			<u>2,781,356,998</u>		<u>2,785,763,836</u>	

8.9.1 These are Government of Pakistan guaranteed securities.

8.9.2 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	2010	2009
			Rupees	Rupees
	Inside Pakistan		5,569,721,333	4,927,263,614
	Staff loans	9.1	27,804,889	17,471,586
	Advances- gross		<u>5,597,526,222</u>	<u>4,944,735,200</u>
	Provision against non-performing loans			
	Specific provision	9.2	(235,636,000)	(200,000,000)
	General provision		(52,997,213)	(47,272,636)
			<u>(288,633,213)</u>	<u>(247,272,636)</u>
	Advances - net of provision		<u>5,308,893,009</u>	<u>4,697,462,564</u>
9.1	Particulars of advances			
	In local currency		<u>5,597,526,222</u>	<u>4,944,735,200</u>
	Short term (for upto one year) - advances having contractual repayment period of one year		750,000,000	1,135,000,000
	Long term (for over one year) - advances having contractual repayment period of more than one year		<u>4,847,526,222</u>	<u>3,809,735,200</u>
			<u>5,597,526,222</u>	<u>4,944,735,200</u>

9.2 Advances includes Rs. 270 million (2009: Rs 200 million ) which have been placed under non-performing status as detailed below:

Category of classification	2010								
	Rupees								
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Other assets especially mentioned	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	270,000,000	-	270,000,000	235,636,000	-	235,636,000	235,636,000	-	235,636,000
	<u>270,000,000</u>	<u>-</u>	<u>270,000,000</u>	<u>235,636,000</u>	<u>-</u>	<u>235,636,000</u>	<u>235,636,000</u>	<u>-</u>	<u>235,636,000</u>
	2009								
	Rupees								
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	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	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>	<u>200,000,000</u>	<u>-</u>	<u>200,000,000</u>

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9.3	Particulars of provision against non-performing advances	2010			2009		
		Rupees			Rupees		
		Specific	General	Total	Specific	General	Total
	Opening balance	200,000,000	47,272,636	247,272,636	-	-	-
	Charge for the year	35,636,009	5,724,577	41,360,577	150,000,000	47,272,636	197,272,636
	Provision transferred from investments	-	-	-	50,000,000	-	50,000,000
	Closing balance	235,636,000	52,997,213	288,633,213	200,000,000	47,272,636	247,272,636

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

9.4 Staff loans have been reclassified from other assets for better presentation.

9.5	Particulars of write offs:	Note	2010	2009
			Rupees	Rupees
	Directly charged to profit and loss account		60,800,000	-

9.6 Details of loan write off of Rs. 500,000/- and above  
In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person during the year ended 31st December 2010 is given at Annexure-I

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10	FIXED ASSETS	Note	2010	2009
			(Rupees)	(Rupees)
	Capital work-in-progress	10.1	149,039,013	148,550,987
	Property and equipment	10.2	28,354,982	38,003,585
	Intangible asset	10.3	3,171,512	1,273,585
			<u>180,565,507</u>	<u>187,828,157</u>
10.1	Capital work-in-progress			
	Advances to suppliers		-	1,050,487
	Civil works	10.1.1	149,039,013	147,500,500
			<u>149,039,013</u>	<u>148,550,987</u>
10.1.1 This represents value of work in progress on property located at DHA Karachi. The management is in the process of transferring the title of property in the Company's name.				

10.2 Property and equipment

	2010							Rate of depreciation per annum %
	COST			DEPRECIATION				
	Opening balance as at Jan 01, 2010	Additions/ (deletions)/ (adjustments) during the year	Closing balance as at December 31, 2010	Opening balance as at Jan 01, 2010	Charge during the year (on deletion/ adjustments)	Closing balance as at December 31, 2010	Net book value as at December 31, 2010	
	Rupees							
Vehicles	3,073,716	-	3,073,716	995,465	614,743	1,610,208	1,463,508	20%
Computer and office equipment	14,987,451	3,029,629 (744,900) (26,900)	17,245,280	5,838,142	5,544,350 (455,216) (10,402)	10,916,874	6,328,406	33%
Furniture and fixtures	12,971,358	150,000 (114,116)	13,007,242	2,399,426	2,593,457 (47,971)	4,944,912	8,062,330	20%
Leasehold improvements	12,354,940		12,354,940	1,705,607	2,470,988	4,176,595	8,178,345	20%
Electrical fittings	6,161,835		6,161,835	607,075	1,232,367	1,839,442	4,322,393	20%
	49,549,300	3,179,629 (859,016) (26,900)	51,843,013	11,545,715	12,455,905 (503,187) (10,402)	23,488,031	28,354,982	
	2009							Rate of depreciation per annum %
	COST			DEPRECIATION				
	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							
Vehicles	3,073,716	-	3,073,716	343,754	651,711	995,465	2,078,251	20%
Computer and office equipment	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%
Furniture and fixtures	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%
Leasehold improvements	5,987,075	6,367,865	12,354,940	226,360	1,479,247	1,705,607	10,649,333	20%
Electrical fittings	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	

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						
Computer and office equipment	744,900	455,216	289,684	243,000	As per policy	Syed Iqbal Ashraf
Furniture and fixtures	114,116	47,971	66,145	36,000	Bids	Muhammad Aslam Furniture

10.3 Intangible asset

	2010							Rate of amortization per annum %
	COST			Amortization				
	Opening balance as at Jan 01, 2010	Additions/ adjustment during the year	Closing balance as at December 31, 2010	Opening balance as at Jan 01, 2010	Amortization charge for the year/(on adjustment)	Closing balance as at December 31, 2010	Net book value as at December 31, 2010	
	Rupees							
Computer software	1,705,510	2,942,069 26,900	4,674,479	431,925	1,060,640 10,402	1,502,967	3,171,512	33%
	1,705,510	2,942,069 26,900	4,674,479	431,925	1,060,640 10,402	1,502,967	3,171,512	
	2009							Rate of amortization per annum %
	COST			Amortization				
	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	Net book value as at December 31, 2009	
	Rupees							
Computer software	-	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, 2010

	Note	2010 Rupees	2009 Rupees
<b>11 DEFERRED TAX ASSETS</b>			
Debit/ (credit) balances arising on account of:			
Recognised in profit and loss account			
Accelerated tax depreciation allowance		(1,503,160)	(2,698,554)
Preliminary expenses		1,055,744	1,759,573
Provision for non-performing loans		17,500,000	86,545,423
Exchange gain-net		(15,008,737)	(28,666,061)
Provision for gratuity		3,210	(603,771)
Recognised in equity		-	-
Deficit on revaluation of available for sale investments		996,888	853,347
		<u>3,043,945</u>	<u>57,189,957</u>
<b>11.1 Movement of deferred tax is as follows:</b>			
Opening balance		57,189,957	51,177,984
Charge/credit for the year		(54,289,552)	5,495,275
Credited to equity		143,540	516,698
Closing balance		<u>3,043,945</u>	<u>57,189,957</u>
<b>12 OTHER ASSETS</b>			
Income / mark-up accrued in local currency		349,824,359	203,064,243
Income / mark-up accrued in foreign currency		893,151	1,077,480
Advances, deposits, advance rent and other prepayments		18,241,454	16,136,037
Receivable from gratuity fund		-	1,725,059
		<u>368,958,964</u>	<u>222,002,819</u>
<b>13 BORROWINGS</b>			
In Pakistan		<u>1,132,259,095</u>	<u>975,684,500</u>
<b>13.1 Detail/ particular of borrowings with respect to currencies and security</b>			
In local currency, repurchase agreement borrowings - secured	13.2	832,259,095	975,684,500
Other borrowings	13.3	<u>300,000,000</u>	-
		<u>1,132,259,095</u>	<u>975,684,500</u>
<b>13.2</b>	The Company has arranged borrowings from financial institution against sale and repurchase of market treasury bills. The mark-up on these finances range between 12.9% to 12.95% per annum (2009: 12.15% to 12.2 % per annum) with maturity ranging from 6 days to 10 days (2009: 6 days to 18 days).		
<b>13.3</b>	This represents Murabaha finance obtained from Dawood Islamic Bank. The profit rate on the finance is 12.5% (2009: Nil) per annum and is maturing on 03 January 2011 (2009: Nil)		
<b>14 OTHER LIABILITIES</b>			
Mark-up/ return/ interest payable in local currency		7,235,016	1,918,263
Payable to suppliers		2,611,933	2,664,007
Accrued expenses		2,895,016	3,708,434
Retention money payable		-	579,468
Current taxation (Provisions less payments)		11,023,844	101,607,597
Withholding tax/ federal excise duty payable		117,358	2,898,279
Payable to gratuity fund		9,170	-
Payable to provided fund		-	122,730
Others		605,330	60,000
		<u>24,497,667</u>	<u>113,558,778</u>
<b>15 SHARE CAPITAL</b>			
<b>15.1 Authorised Share Capital</b>			
2010 (Number of shares)	2009 (Number of shares)		
1,214,000,000	1,214,000,000	Ordinary shares of Rs. 10 each	
		<u>12,140,000,000</u>	<u>12,140,000,000</u>
<b>15.2 Issued, Subscribed and Paid-up Share Capital</b>			
2010 (Number of shares)	2009 (Number of shares)		
645,720,000	645,720,000	Ordinary shares of Rs. 10 each, issued for cash	
		<u>6,457,200,000</u>	<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, 2010.			
<b>15.3 Reserves</b>	Note	2010 Rupees	2009 Rupees
Compulsory reserve – statutory reserve	15.3.1	<u>285,671,066</u>	<u>173,597,860</u>

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# Pak China Investment Company Limited

## Notes to the Financial Statements

For the year ended December 31, 2010

### 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(MOF) and China Development Bank(CDB) of USD 16 million each. Contribution received from CDB was recorded in the month of January 2009, when the prevailing the exchange rate prevailing at that date was USD/PKR: 78.99. The contribution from MOF was received in the month of September 2009 in Pakistani rupees converted at the exchange rate prevailing in January 2009. The exchange rate prevailing on the date of the contribution by MOF was USD/PKR: 83.1. The joint venture agreement requires that contribution from MOF should be in Pak Rupees equivalent of USD on the date of contribution. Accordingly the Board of Directors in its meeting held on 22nd July 2010 has resolved that MOF will further contribute an amount equal to the exchange difference between the exchange rate prevailing on the date of contribution by MOF and the exchange rate at which contribution was received from CDB.

As the shares are to be issued in the ratio of 50:50 to MOF and CDB, the contribution by CDB was revalued at the exchange rate applicable at the date of contribution by MOF.

The Company will issue the shares to MOF and CDB once the additional contribution by MOF is received.

	2010 Rupees	2009 Rupees
<b>16 Deficit on revaluation of assets - net of tax</b>		
Deficit arising on revaluation of treasury bills	(2,648,250)	(2,438,133)
Deficit arising on revaluation of quoted equity securities	(200,000)	-
Deferred tax	996,888	853,347
Deficit on revaluation of available-for-sale securities - Net	<u>(1,851,362)</u>	<u>(1,584,786)</u>

### 17 CONTINGENCIES AND COMMITMENTS

#### Transaction related contingent liabilities

Letters of guarantees	<u>111,379,987</u>	<u>47,475,964</u>
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#### Trade related contingent liabilities

Letters of credit	<u>99,998,542</u>	<u>495,783,011</u>
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#### 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. 653,757,438 (2009: Rs. 2,052,432,386).

	2010 Rupees	2009 Rupees
<b>18 MARK - UP / RETURN / INTEREST EARNED</b>		
On loans and advances to customers	745,778,456	465,671,559
On investments in		
- Held-to-maturity securities	55,897,727	53,418,545
- Available-for-sale securities	323,881,984	352,135,620
On deposits with other banks and financial institutions	99,335,499	179,394,529
On securities purchased under resale agreement	27,249,569	77,175
	<u>1,252,143,235</u>	<u>1,050,697,428</u>

### 18.1 MARK - UP / RETURN / INTEREST EXPENSED

Other borrowings	18,959,328	4,409,130
Securities sold under repurchase agreements	264,939,362	32,025,444
	<u>283,898,690</u>	<u>36,434,574</u>

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Pak China Investment Company Limited  
Notes to the Financial Statements  
For the year ended December 31, 2010

19	ADMINISTRATIVE EXPENSES	Note	2010 Rupees	2009 Rupees
	Salaries, allowances and employees' benefits		101,781,225	102,324,263
	Directors' fee		258,000	980,400
	Gratuity		5,069,114	4,308,354
	Employer's contribution to the provident fund		3,466,748	3,195,915
	Traveling, conveyance, boarding and lodging		7,335,676	4,643,478
	Rent, rates and taxes		26,221,184	22,406,388
	Utilities		3,125,389	2,634,802
	Communication		1,580,085	1,966,087
	Office security charges		1,757,000	1,171,927
	Professional training and staff welfare		238,891	82,997
	Donation	19.1	500,000	500,000
	Advertisements, periodicals and membership dues		1,222,144	2,653,511
	Printing and stationery		1,421,169	1,202,994
	Depreciation	10.2	12,455,905	9,345,485
	Amortization	10.3	1,060,640	431,925
	Auditors' remuneration	19.2	675,000	500,000
	Legal, consultancy and other professional services		2,832,224	2,120,155
	Repairs and maintenance		2,543,123	1,081,117
	Insurance		1,516,325	1,271,159
	Entertainment		889,455	528,477
	Bank charges		420,239	101,537
	Brokerage fee and commission		2,326,608	802,714
	Miscellaneous		1,432,271	1,091,590
	Loss on sale of operating fixed assets		76,829	333,255
	Fixed assets written off		-	27,121
			<u>180,205,244</u>	<u>165,705,651</u>
19.1	This represents donation given to Prime Minister's Flood Relief Fund. None of the directors or their spouses had any interest in the donee fund.			
19.2	<b>Auditors' remuneration</b>			
	Audit fee		425,000	300,000
	Half yearly review		125,000	100,000
	Special certifications and sundry advisory services		75,000	50,000
	Out of pocket expenses		50,000	50,000
			<u>675,000</u>	<u>500,000</u>
20	<b>OTHER CHARGES</b>			
	Penalty imposed by SBP		621	50,000
21	<b>TAXATION</b>			
	Current		316,829,241	315,055,452
	Prior		(69,383,238)	(33,037,552)
	Deferred		54,289,552	(5,495,275)
			<u>301,735,555</u>	<u>276,522,625</u>
21.1	<b>Relationship between tax expense and accounting profit</b>			
	Profit before taxation		862,101,587	790,064,644
	Tax at applicable rate of 35%.		301,735,555	276,522,625
			<u>301,735,555</u>	<u>276,522,625</u>
			For the year ended 2010	For the year ended 2009
22	<b>BASIC AND DILUTED EARNINGS PER SHARE</b>			
	Profit for the year (Rupees)		560,366,032	513,542,019
	Weighted average number of ordinary shares (Number)		905,069,920	794,817,427
	Basic/ diluted earnings per share (Rupees)		0.62	0.65
	There is no dilutive effect on the basic earnings per share of the Company.			

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# Pak China Investment Company Limited

## Notes to the Financial Statements

For the year ended December 31, 2010

### 23 CASH AND CASH EQUIVALENTS

	2010 (Rupees)	2009 (Rupees)
Cash and balances with treasury banks	1,399,836,094	1,363,660,166
Balances with other banks	8,736,067	9,147,791
	<u>1,408,572,161</u>	<u>1,372,807,957</u>

### 24 STAFF STRENGTH

	(Number)	(Number)
Permanent	33	34
Temporary / on contractual basis	1	-
Own staff strength at end of the year/ period	<u>34</u>	<u>34</u>
Outsourced	6	9
Total staff strength	<u>40</u>	<u>43</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

	2010	2009
Discount rate used	13%	12%
Expected rate of return on plan assets	13%	11%
Expected rate of salary increase	12%	12%
Average remaining working lives of employees	13 Years	12 years
Normal retirement age	60 years	60 years

#### 25.3 Reconciliation of payable to defined benefit plan

	2010 (Rupees)	2009 (Rupees)
Present value of the defined benefit obligations	8,085,333	6,648,481
Benefits payable	3,480,000	-
Fair value of plan assets	(9,830,809)	(6,098,916)
Actuarial gains to be recognised in later periods	24,196	58,109
Transitional liability to be recognised later	(1,749,550)	(2,332,733)
	<u>9,170</u>	<u>(1,725,059)</u>

#### 25.4 Movement in defined benefit obligation

Present value of defined benefit obligations at beginning of the year	6,648,481	2,915,916
Current service cost	4,419,983	3,375,261
Interest cost	797,818	349,910
Benefits paid during the year	(259,000)	-
Benefits due but not paid during the year	(3,480,000)	-
Actuarial (gain)/loss on obligation	(41,949)	7,394
Present value of defined benefit obligations at end of the year	<u>8,085,333</u>	<u>6,648,481</u>

#### 25.5 Movement in fair value of plan assets

Fair value of plan assets at beginning of the year	6,098,916	-
Expected return on plan assets	731,870	-
Contributions	3,334,885	6,033,413
Benefits paid during the year	(259,000)	-
Actuarial (loss)/gain on plan assets	(75,862)	65,503
Fair value of plan assets at end of the year	<u>9,830,809</u>	<u>6,098,916</u>

#### 25.6 Plan assets consists of the following:

Special Saving Account	2,868,000	6,000,000
Accrued interest	254,974	-
Cash at bank	6,707,835	98,916
	<u>9,830,809</u>	<u>6,098,916</u>

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		2010	2009
		(Rupees)	(Rupees)
25.7	Movement in payable to defined benefit plan		
	Opening balance	(1,725,059)	-
	Charge for the year	5,069,114	4,308,354
	Company's contribution to fund during the year	(3,334,885)	(6,033,413)
	Closing balance	9,170	(1,725,059)
25.8	Charge for the defined benefit plan		
	Transitional liability charge due to application of IAS-19	583,183	583,183
	Current service cost	4,419,983	3,375,261
	Interest cost	797,818	349,910
	Expected return on plan assets	(731,870)	-
		5,069,114	4,308,354
25.9	Actual Return on Plan Assets	656,008	65,503
25.10	Comparison of present value of defined benefit obligation , fair value of plan assets and deficit of gratuity fund for the last two years is as follows:		
		2010	2009
		Rupees	
	Present value of defined benefit obligation	8,085,333	6,648,481
	Fair value of plan assets	9,830,809	6,098,916
	(Surplus)/deficit	(1,745,476)	549,565
	Experience adjustments		
	- on obligations	41,949	(7,394)
	- on plan assets	(75,862)	98,916
	Estimated charge for the next year is 4,115,883 (2009:Rs. 4,945,914).		

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26 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	Rupees					
Fee	-	-	258,000	980,400	-	-
Managerial remuneration	15,907,760	12,431,749	7,900,182	17,400,000	43,104,302	42,778,176
Charge for defined benefit plan	1,247,877	813,762	-	1,406,538	3,130,651	1,641,967
Contribution to provident fund	536,953	455,549	400,000	960,000	1,978,925	1,528,150
Rent and house maintenance	4,981,659	4,671,725	-	-	-	-
Utilities	452,949	447,488	236,792	396,563	-	-
Medical	553,246	64,960	41,230	69,223	889,911	810,075
Others	725,121	661,998	-	215,855	-	-
	24,405,565	19,547,231	8,836,204	21,428,579	49,103,789	46,758,368
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

	2010		2009	
	Book Value	Fair Value	Book Value	Fair Value
	Rupees			
<b>Assets</b>				
- Cash balances with treasury banks	1,399,836,094	1,399,836,094	1,363,660,166	1,363,660,166
- Balances with other banks	8,736,067	8,736,067	9,147,791	9,147,791
- Lendings to financial institutions	1,264,139,593	1,264,139,593	1,245,029,030	1,245,029,030
- Investments	3,099,786,748	3,099,786,748	3,158,325,703	3,158,325,703
- Advances	5,308,893,009	5,308,893,009	4,679,990,978	4,679,990,978
- Other assets	355,339,060	355,339,060	222,002,819	222,002,819
	11,436,730,571	11,436,730,571	10,678,156,487	10,678,156,487
<b>Liabilities</b>				
- Borrowings	1,132,259,095	1,132,259,095	975,684,500	975,684,500
- Other liabilities	13,473,823	13,473,823	9,052,902	9,052,902
	1,145,732,918	1,145,732,918	984,737,402	984,737,402

27.2 Off -balance sheet financial instruments

Commitments to extend credits (In case materialize)	653,757,438	653,757,438	2,052,432,386	2,052,432,386
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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.

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28 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2010			
	Corporate Finance	Trading & Sales	Others	Total
	(Rupees)			
Total income	994,317,527	472,130,971	939,147	1,467,387,645
Total expense	(102,160,577)	(322,919,617)	(180,205,865)	(605,286,059)
Net income (loss)	892,156,950	149,211,354	(179,266,718)	862,101,587
Segment assets - gross	6,724,118,792	4,645,905,931	552,568,416	11,922,593,139
Segment non-performing loans	270,000,000	-	-	270,000,000
Segment provision including general provision	(288,633,213)	-	-	(288,633,213)
Segment liabilities	-	(1,132,259,095)	(24,497,667)	(1,156,756,762)
Segment return on net assets (ROA) %	13.43%	3.32%	(43.1%)	7.46%

	2009			
	Corporate Finance	Trading & Sales	Others	Total
	(Rupees)			
Total income	649,435,136	539,754,600	337,769	1,189,527,505
Total expense	(197,272,636)	(36,434,574)	(165,755,651)	(399,462,861)
Net income (loss)	452,162,500	503,320,026	(165,417,882)	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%

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.

	2010	2009
	Rupees	Rupees
Transactions with associates due to common directorship (other than those with agencies and department of GOP)		
Payment to provident fund	3,466,748	4,037,961
Payment to gratuity fund	3,334,885	6,033,413
Placement of LOPs with related party	15,701,509,754	18,280,322,800
Treasury Bills	10,217,844,152	24,878,847,151
Other borrowings	1,025,000,000	-
Mark-up receivable on LOPs of related party	7,942,654	2,550,343
Mark-up earned on LOPs during the year	55,419,233	31,615,007
Mark-up receivable on treasury bills	18,672,648	-
Mark-up earned on treasury bills for the year	33,324,067	44,160,292
Mark-up paid on treasury bills for the year	2,161,645	9,198,261
Mark-up paid on other borrowings for the year	444,133	-
Rent paid	16,527,884	15,025,349
(Payable)/ receivable to/from gratuity fund	(9,170)	1,725,059
Deposit for issuance of shares		
China Development Bank (Government of China) (2010 represents revaluation of balance for issuance of shares)	65,700,800	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. 34.7 million (2009: Rs. 49.37 million).

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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. 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

	2010 Rupees	2009 Rupees
<b>Tier I Capital</b>		
Shareholders equity	6,457,200,000	6,457,200,000
Deposit for issuance of shares	2,593,499,200	2,527,798,400
Reserve	285,671,066	173,597,860
Unappropriated / unremitted profits	1,142,684,261	694,391,435
Less: Adjustments		
Book value of intangible asset	(3,171,512)	(1,273,585)
Deficit on revaluation of available for sale securities	(2,848,250)	(2,438,133)
<b>Total Tier I Capital</b>	<b>10,473,034,765</b>	<b>9,849,275,977</b>
<b>Tier II Capital</b>		
General provision for loan losses subject to 1.25% of total risk weighted assets	52,997,213	47,272,636
<b>Total Tier II Capital</b>	<b>52,997,213</b>	<b>47,272,636</b>
Eligible Tier III Capital	-	-
<b>Total Regulatory Capital Base</b>	<b>10,526,031,978</b>	<b>9,896,548,613</b>

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, 2009: 10%) 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:

- a) To comply with the capital requirements set by the State Bank of Pakistan;
- b) 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
- c) 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, the 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.

	2010 Capital Requirements Rupees	2010 Risk Weighted Assets	2009 Capital Requirements	2009 Risk Weighted Assets
<b>Credit Risk</b>				
Portfolios subject to standardized approach (Simple)	700,687,947	7,006,879,474	642,491,535	6,424,915,352
<b>Market risk</b>				
Capital requirement for portfolios subject to standardized approach - Interest rate risk	191,511,214	1,915,112,142	5,644,773	56,447,727
<b>Operational Risk</b>				
Capital Requirement for operational risks	198,280,116	1,982,801,164	177,846,739	1,778,467,386
<b>Total</b>	<b>1,090,479,277</b>	<b>10,904,792,780</b>	<b>825,983,047</b>	<b>8,259,830,465</b>

		2010 Rupees	2009 Rupees
<b>Capital Adequacy Ratio</b>			
Total eligible regulatory capital held	(a)	10,526,031,978	9,896,548,613
Total Risk Weighted Assets	(b)	10,904,792,780	8,259,830,465
Capital Adequacy Ratio	(a) / (b)	97%	120%

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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

	2010			
	Advances - Gross		Contingencies and commitments	
	Rupees	Percent	Rupees	Percent
Fertilizer	469,239,870	8.38	30,760,130	3.56
Power	3,428,250,966	61.25	562,283,034	64.99
Steel	189,730,497	3.39	107,369,503	12.41
Sugar	162,500,000	2.90	-	-
Telecommunication	300,000,000	5.36	-	-
Storage	750,000,000	13.40	-	-
Real Estate	70,000,000	1.25	-	-
Cement	200,000,000	3.57	-	-
Transport, Storage and Communication	-	-	164,723,300	19.04
Others	27,804,889	0.50	-	-
	5,597,526,222	100	865,135,967	100

	2009			
	Advances - Gross		Contingencies and commitments	
	Rupees	Percent	Rupees	Percent
Fertilizer	267,376,515	5.41	242,881,662	9.36
Power	2,943,620,087	59.53	1,425,530,433	54.92
Steel	169,582,938	3.43	60,660,100	2.34
Sugar	200,000,000	4.04	-	-
Textiles	300,000,000	6.07	-	-
Telecommunication	300,000,000	6.07	-	-
Storage	461,684,073	9.34	366,619,166	14.12
Real Estate	85,000,000	1.72	500,000,000	19.26
Cement	200,000,000	4.04	-	-
Others	17,471,586	0.35	-	-
	4,944,735,199	100	2,595,691,361	100

31.1.2 Segment by sector

	2010			
	Advances - Gross		Contingencies and commitments	
	Rupees	Percent	Rupees	Percent
Public/Government	877,345,331	15.67	537,377,969	62.11
Private	4,720,180,891	84.33	327,757,998	37.89
	5,597,526,222	100	865,135,967	100

	2009			
	Advances - Gross		Contingencies and commitments	
	Rupees	Percent	Rupees	Percent
Public/Government	877,345,331	17.74	372,654,669	14.36
Private	4,067,389,868	82.26	2,223,036,692	85.64
	4,944,735,199	100.00	2,595,691,361	100.00

31.1.3 Details of non-performing advances and specific provisions by class of business

	2010		2009	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
		Rupees		Rupees
Cement	200,000,000	200,000,000	200,000,000	200,000,000
Real Estate	70,000,000	35,636,000	-	-
	270,000,000	235,636,000	200,000,000	200,000,000

31.1.4 Details of non-performing advances and specific provisions by sector

	2010		2009	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
		Rupees		Rupees
Public/Government	-	-	-	-
Private	270,000,000	235,636,000	200,000,000	200,000,000
	270,000,000	235,636,000	200,000,000	200,000,000

31.1.5 Geographical Segment Analysis

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	(Rupees)			
Pakistan	862,101,587	11,633,959,927	10,477,203,165	865,135,967
2009				
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	(Rupees)			
Pakistan	790,064,644	10,940,646,187	9,851,402,909	2,595,691,361

31.1.6 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.

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

Types of Exposures and ECAP's used

Exposures	2010			2009		
	JCR-VIS	PACRA	OTHER	JCR-VIS	PACRA	OTHER (Specify)
			Moody's			(Specify)
Corporate	✓	✓	x	✓	✓	x
Banks	✓	✓	✓	✓	✓	x

Credit Exposures subject to Standardised approach

Exposures	Rating category	2010			2009		
		Amount Outstanding Rupees	Deduction CRM Rupees	Net amount (Rupees)	Amount Outstanding Rupees	Deduction CRM Rupees	Net amount (Rupees)
Cash and cash equivalents		25,000	-	25,000	25,000	-	25,000
Claims on Government		6,243,511	-	6,243,511	4,702,939	-	4,702,939
Corporate	1	1,414,844,845	-	1,414,844,845	1,020,003,456	-	1,020,003,456
Corporate	2	2,076,273,627	-	2,076,273,627	1,128,870,828	-	1,128,870,828
Corporate	Unrated	1,979,266,793	-	1,979,266,793	2,735,218,827	-	2,735,218,827
Public Sector Entity	1	137,064,869	-	137,064,869	-	-	-
Public Sector Entity	Unrated	970,884,845	-	970,884,845	877,345,331	-	877,345,331
Claims denominated in foreign currency on banks with original maturity of 3 months or less		-	-	-	1,356,138,306	-	1,356,138,306
Banks- less than 3 months funded in PKR		1,281,327,799	(299,632,557)	981,695,242	1,256,970,742	(230,029,030)	1,026,941,712
Claim on Banks	4,5	1,393,162,746	-	1,393,162,746	-	-	-
Claims categorized as retail portfolio		3,329,953	-	3,329,953	-	-	-
Claim fully secured by residential property		27,804,889	-	27,804,889	-	-	-
Past due loans		435,149,957	-	435,149,957	-	-	-
Listed equity investments and regulatory capital investments		402,170,282	-	402,170,282	395,680,000	-	395,680,000
Investment in operating fixed assets		177,393,995	-	177,393,995	186,554,572	-	186,554,572
Other assets		13,250,476	-	13,250,476	296,664,362	-	296,664,362
Total		10,318,193,587	(299,632,557)	10,018,561,030	9,258,174,363	(230,029,030)	9,028,145,333

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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31.2 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.

31.2.1 Maturities of assets and liabilities

Total	2010								
	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)								
1,399,836,094	-	1,399,836,094	-	-	-	-	-	-	-
8,736,067	8,736,067	-	-	-	-	-	-	-	-
1,264,139,593	1,264,139,593	-	-	-	-	-	-	-	-
3,099,786,748	800,000	775,472,805	655,078,797	67,094,277	336,604,073	299,147,553	469,126,155	496,463,088	-
5,308,893,009	37,166,892	52,154,593	177,058,310	229,530,867	713,826,306	808,367,580	1,383,607,416	1,901,086,679	6,094,366
180,565,507	628,357	1,256,715	1,885,072	3,770,144	156,579,301	7,635,288	8,810,630	-	-
3,043,945	4,275	11,757	(13,999,029)	17,525,640	51,283	51,283	(601,264)	-	-
368,958,964	249,154,753	10,836,963	101,529,868	4,755,867	2,635,304	46,209	-	-	-
11,633,959,927	1,560,629,937	2,239,568,927	921,553,018	322,676,795	1,209,696,267	1,115,247,913	1,860,942,937	2,397,549,767	6,094,366
1,132,259,095	1,132,259,095	-	-	-	-	-	-	-	-
24,497,667	13,473,823	11,023,844	-	-	-	-	-	-	-
1,156,756,762	1,145,732,918	11,023,844	-	-	-	-	-	-	-
10,477,203,165	414,897,019	2,228,545,083	921,553,018	322,676,795	1,209,696,267	1,115,247,913	1,860,942,937	2,397,549,767	6,094,366
6,457,200,000									
285,671,066									
1,142,684,261									
2,593,499,200									
(1,851,362)									
10,477,203,165									

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Pak China Investment Company Limited  
Notes to the Financial Statements  
For the year ended December 31, 2010

	Effective yield / interest rate %	2009								Not exposed to yield / interest rate risk
		Exposed to yield / profit risk								
		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	
----- Rupees -----										
On balance sheet financial instruments										
Financial Assets										
Cash and balances with treasury banks	0.90	1,363,660,166	1,356,138,308	-	-	-	-	-	-	7,521,858
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	1,900,799,821	62,509,885	140,417,570	145,550,170	241,140,340	561,196,150
Advances	15.27	4,697,462,564	6,634,000	96,609,000	329,301,000	99,835,332	436,780,290	705,356,778	1,361,213,554	1,615,565,401
Other assets	4.00	222,002,819	-	-	-	-	-	-	-	222,002,819
		10,695,628,073	2,616,949,129	203,320,763	2,230,100,821	162,345,217	577,197,860	850,906,948	1,602,353,894	2,176,761,551
										46,167,209
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	-	-	-	-	-	-	-
On balance sheet gap		9,710,890,671	1,641,264,629	203,320,763	2,230,100,821	162,345,217	577,197,860	850,906,948	1,602,353,894	2,176,761,551
										46,167,209
Off-balance sheet financial instruments										
Commitments to extend credits (In case materialize)		2,052,432,386	2,052,432,386	-	-	-	-	-	-	2,052,432,386
Off-balance sheet gap - net		2,052,432,386	2,052,432,386	-	-	-	-	-	-	2,052,432,386
Total yield/ interest risk sensitivity gap		3,693,697,015	203,320,763	2,230,100,821	162,345,217	577,197,860	850,906,948	1,602,353,894	2,176,761,551	46,167,209
Cumulative yield/ interest rate sensitivity gap		3,693,697,015	3,897,017,778	6,127,118,599	6,289,463,816	6,866,661,676	7,717,568,624	9,319,922,518	11,496,684,069	11,542,851,278
										11,763,323,053

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Pak China Investment Company Limited  
Notes to the Financial Statements  
For the year ended December 31, 2010

31.3 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.

31.3.1 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 %	2010										Not exposed to yield / interest rate risk
		Exposed to yield / profit risk										
		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	Above ten years	
Rupees												
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks	0.9	1,399,836,094	-	1,393,567,584	-	-	-	-	-	-	-	6,268,510
Balances with other banks	6.0	8,736,067	8,736,067	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	13.05	1,264,139,593	1,264,139,593	-	-	-	-	-	-	-	-	-
Investments	14.10	3,099,786,748	800,000	775,472,805	655,078,797	67,094,277	336,604,073	299,147,553	469,126,155	496,463,088	-	-
Advances	15.55	5,308,893,009	37,166,892	52,154,593	177,058,310	229,530,867	713,826,306	808,367,580	1,383,607,416	1,901,086,679	6,094,366	-
Other assets		355,385,570	-	-	-	-	-	-	-	-	-	355,385,570
		11,436,777,081	1,310,842,552	2,221,194,982	832,137,107	296,625,144	1,050,430,379	1,107,515,133	1,852,733,571	2,397,549,767	6,094,366	361,654,080
Financial Liabilities												
Borrowings	12.15	1,132,259,095	1,132,259,095	-	-	-	-	-	-	-	-	-
Other liabilities		13,473,823	7,235,016	-	-	-	-	-	-	-	-	6,238,807
		1,145,732,918	1,139,494,111	-	-	-	-	-	-	-	-	6,238,807
On balance sheet gap		10,291,044,163	171,348,441	2,221,194,982	832,137,107	296,625,144	1,050,430,379	1,107,515,133	1,852,733,571	2,397,549,767	6,094,366	355,415,273
Off-balance sheet financial instruments												
Commitments to extend credits (In case materialize)		653,757,438	653,757,438	-	-	-	-	-	-	-	-	-
Off-balance sheet gap - net		653,757,438	653,757,438	-	-	-	-	-	-	-	-	355,415,273
Total yield/ interest risk sensitivity gap		825,105,879	2,221,194,982	832,137,107	832,137,107	296,625,144	1,050,430,379	1,107,515,133	1,852,733,571	2,397,549,767	6,094,366	710,830,547
Cumulative yield/ interest rate sensitivity gap		825,105,879	3,046,300,861	3,878,437,968	3,878,437,968	4,175,063,112	5,225,493,491	6,333,008,624	8,185,742,195	10,583,291,962	10,589,386,328	11,300,216,875

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Pak China Investment Company Limited  
Notes to the Financial Statements  
For the year ended December 31, 2010

	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
(Rupees)									
<b>Assets</b>									
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	-
Advances	4,697,462,564	6,634,000	96,609,000	329,301,000	99,835,332	436,780,290	705,356,778	1,361,213,554	561,196,150
Operating 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	1,615,565,401
Deferred tax asset	57,189,957	704,648	(28,622,209)	717,653	68,856,098	(279,222)	2,447,017	5,069,354	-
Other assets	222,002,819	114,950,006	53,835,827	48,727,100	3,276,439	1,128,015	-	-	142,574
	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	85,432
									46,395,215
<b>Liabilities</b>									
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	-	-	-	-
<b>Net assets</b>	<b>9,851,402,909</b>	<b>1,753,836,962</b>	<b>230,069,449</b>	<b>2,281,272,330</b>	<b>138,525,849</b>	<b>734,753,942</b>	<b>862,668,606</b>	<b>1,618,964,958</b>	<b>46,395,215</b>
Share capital	6,457,200,000								
Reserves	173,597,860								
Un-appropriated profit	694,391,435								
Advance against issue of shares	2,527,798,400								
Deficit on revaluation of assets - net of tax	(1,584,786)								
	<u>9,851,402,909</u>								

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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.

	2010			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	Rupees			
Pakistan Rupee	10,057,187,729	1,156,756,762	-	8,900,430,967
United States Dollar	1,393,162,746	-	-	1,393,162,746
	11,450,350,475	1,156,756,762	-	10,293,593,713
	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

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. Upto 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 upto the year end 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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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

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 August 22, 2011

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 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.

  
Chairman

  
Director

  
Managing Director

  
Director



STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF  
OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE PROVIDED  
DURING THE YEAR ENDED 31 DECEMBER 2010

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors NIC/ Passport No.	Father's/ Husband's name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total
				Principal	Interest/ Mark-up	Others	Total				
Rupees											
1.	Azgard Nine Limited 54600, Shahr-ah-e-roomi, Lahore.	Mueeb Afzal 35200-2144315-7 Ahmed N.Shaikh 35201-8953938-7 Aehsun N.Shaikh 35201-5252539-3 Khalid A.H Sagar 2435080 Irfan Nazir Ahmed 61101-1994174-3 Usman Rasheed 45101-0633360-7 Aamer Ghias 55201-4464173-3	Muhammad Afzal  Humayun N.Shaikh  Humayun N.Shaikh  Abdullah Hamad  Nazir Ahmed  Rasheed Ahmed  Mohammad Ghias	300,000,000	6,602,055	-	306,602,055	60,800,000	-	-	60,800,000
TOTAL:				300,000,000				60,800,000			60,800,000

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