

**SAUDI PAK INDUSTRIAL AND AGRICULTURAL INVESTMENT COMPANY LIMITED
SELECTED EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION |UN-AUDITED
FOR THE SIX MONTHS ENDED JUNE 30, 2009**

1. LEGAL STATUS AND OPERATIONS

Saudi Pak Industrial and Agricultural Investment Company Limited ("the Company") is a public limited company incorporated in Pakistan, jointly sponsored by the Governments of Kingdom of Saudi Arabia and Islamic Republic of Pakistan. The principal activity of the Company is to invest in the industrial and agro-based industrial projects in Pakistan on commercial basis and market their products in Pakistan and abroad.

The registered office of the Company is situated at Saudi Pak Tower , Jinnah Avenue, Islamabad.

2. STATEMENT OF COMPLIANCE

- 2.1 This condensed interim financial information has been prepared in accordance with the 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 (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984, or directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, or the directives issued by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives shall prevail.
- 2.2 The SBP through its BSD Circular Letter No. 11 dated September 11, 2002 has deferred the implementation of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for NBFIs till further instruction. According to the notification of SECP dated April 28, 2008, the IFRS 7 "financial instruments: disclosures" has not been made applicable for DFIs. In view of above, the requirements of these standards have not been considered in the preparation of this condensed interim financial information. The investments have been classified and valued in accordance with the requirements prescribed by the SBP's BSD Circular No. 4 dated February 17, 2006 and BSD Circular No. 10 dated July 13, 2004.
- 2.3 IAS 1 "Presentation of Financial Statements" has been revised. The amendments are effective for annual periods beginning on or after January 01, 2009 and requires apart from changing the names of certain components of financial statements, presentation of transactions with owners in statement of changes in equity and with non-owners in comprehensive income statement. Adoption of the above standard will only effect the presentation of financial statements. Since the Company has strictly followed the format of half-yearly financial statements prescribed by the SBP through the BSD Circular Letter No. 2 of 2004, therefore the above referred changes introduced through IAS 1 (revised) have not been taken into consideration in the preparation of these half-yearly financial statements.
- 2.4 This condensed interim profit and loss account includes results of three months period ended June 30, 2009 and 2008 which have not been subject to limited scope review.

3. BASIS OF PRESENTATION

The disclosures made in this condensed interim financial information have, however been limited based on the format prescribed by the State Bank of Pakistan, vide BSD Circular No. 2 dated May 12, 2004 and International Accounting Standard 34, Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and this condensed interim financial information should be read in conjunction with the financial statements of the Company for the year ended December 31, 2008.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

- 4.1 The accounting policies, underlying estimates and methods of computation followed in the preparation of this condensed interim financial information are same as those applied in preparing the most recent annual financial statements of the Company.

4.2 NEW APPROVED ACCOUNTING STANDARDS AND IFRS INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

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

- **IFRIC 15 - Agreements for the Construction of Real Estate (effective 1 January 2009)**

IFRIC 15 is applicable for accounting for revenue and associated expenses by entities undertaking the construction of real estate directly or through sub-contractors. The Interpretation clarifies situations in which the relevant contract is to be treated either as a contract for providing goods, providing services or construction contract under IAS 11.

- **IFRIC 17 - Distribution of Non-Cash Assets to Owners (effective 1 July 2009)**

This Interpretation deals with the situations when transfer of non-cash assets qualify for as dividends and the accounting treatment of distribution of such assets. This Interpretation is likely to affect the financial statements in case the entity decides to declare specie dividend to its shareholders.

- **IFRIC 18 - Transfer of Assets from Customers (effective 1 July 2009)**

IFRIC 18 is applied in situations where the customer transfers an item of property, plant and equipment or provides cash to acquire or construct such item and the entity must then use the item either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

5. INVESTMENTS - NET

	Held by Company	Given as collateral	Total
	(Rupees)		
As on June 30, 2009	5,771,645,738	188,290,000	5,959,935,738
As on December 31, 2008	4,929,249,102	3,673,325,000	8,602,574,102

	Note	June 30, 2009	December 31, 2008
		(Rupees)	
5.1 INVESTMENTS BY TYPE			
Held-for-trading securities		65,035,464	64,343,500
Available-for-sale securities		4,084,956,497	7,661,832,971
Held-to-maturity securities		2,375,048,696	2,327,186,230
		6,525,040,657	10,053,362,701
Subsidiaries		718,467,574	718,467,574
		7,243,508,231	10,771,830,275
Provision for diminution in the value of investments		(162,275,709)	(126,199,779)
Investments (Net of Provisions)		7,081,232,522	10,645,630,496
Surplus / (Deficit) on revaluation of available for sale securities		429,640,702	(137,402,200)
Deficit on revaluation of held for trading securities		(7,482,641)	(1,843,015)
Impairment loss on quoted securities		(1,543,454,845)	(1,903,811,179)
		<u>5,959,935,738</u>	<u>8,602,574,102</u>

6. ADVANCES - NET

Advances			
-In Pakistan		7,796,510,958	7,807,216,166
-Outside Pakistan		-	-
		7,796,510,958	7,807,216,166
Net investment in finance lease			
-In Pakistan		328,240,779	369,051,300
-Outside Pakistan		-	-
		328,240,779	369,051,300
		8,124,751,737	8,176,267,466
Provision for non-performing loans and advances	6.1	2,153,935,385	1,871,690,917
		<u>5,970,816,352</u>	<u>6,304,576,549</u>

6.1 Advances include Rs 2,976.157 million (December 31, 2008: Rs. 2,809.470 million) which have been placed under non-performing status as details below:-

Category of Classification	Domestic	Overseas	Total	Provision Required	Provision Held
	(Rupees in million)				
Substandard	70.352	-	70.352	13.988	13.988
Doubtful	1,153.078	-	1,153.078	457.980	457.980
Loss	1,752.727	-	1,752.727	1,681.967	1,681.967
	<u>2,976.157</u>	<u>-</u>	<u>2,976.157</u>	<u>2,153.935</u>	<u>2,153.935</u>

	Note	June 30, 2009	June 30, 2008
		----- (Rupees) -----	
7. OPERATING FIXED ASSETS			
Carrying amount at beginning of the period		2,369,626,607	2,432,780,218
Additions during the period	7.1	11,700,138	7,636,000
Book value of disposals	7.2	(18)	(820,000)
Depreciation for the period		(54,993,557)	(52,898,000)
Closing book value		<u>2,326,333,170</u>	<u>2,386,698,218</u>
Capital work in progress		-	-
Carrying amount at the end of the period		<u><u>2,326,333,170</u></u>	<u><u>2,386,698,218</u></u>
7.1 Additions during the period			
Building		-	2,144,000
Office equipments		2,467,554	2,397,000
Furniture, fixture & fittings		225,300	212,000
Motor vehicles		4,621,084	2,883,000
Intangible assets		4,038,883	-
Leaschold improvement		75,717	-
Electrical appliances		225,600	-
Security systems		46,000	-
		<u>11,700,138</u>	<u>7,636,000</u>
7.2 Book value of disposals			
Office equipments		15	30,000
Motor vehicles		3	790,000
		<u>18</u>	<u>820,000</u>
		June 30, 2009	December 31, 2008
		----- (Rupees) -----	
8. CONTINGENCIES AND COMMITMENTS			
8.1 Contingent liabilities			
Direct credit substitutes (Letter of comfort / Guarantees)		11,800,000	211,800,000
Transaction related contingent liabilities (Inland standby letter of credit)		208,825,000	8,825,000
		<u>220,625,000</u>	<u>220,625,000</u>
8.2 Commitments			
Undisbursed sanctioned financial commitments		1,697,343,000	2,166,054,000
Letter of credits (LCs)		179,051,000	-
Underwriting		-	-
Commitments for fixed capital expenditure		1,882,000	7,492,133
Foreign exchange contracts (USD 49.942 million) (2008: USD 50.013 million)		4,235,397,040	3,983,357,152
		<u>6,113,673,040</u>	<u>6,156,903,285</u>
9. TAX STATUS			

The assessment orders have been issued to the Company under section 122(5A) of the Income Tax Ordinance, 2001 (Ordinance) in respect of tax year 2004, 2005 and 2006. Through these assessments, tax liability of the Company has been assessed at Rs. 93,186,800, Rs. 99,412,177 and Rs. 95,164,738 respectively as against tax refund of Rs. 24,722,322, Rs. 30,461,951 and 46,439,285 declared by the Company. The additions made in the total income relates to 'Provision for Non-Performing Loans and Advances' and 'Proration of Administration Expenses' between exempt / PTR income and normal income.

The tax liability has been confirmed by the Commissioner of Income Tax (Appeals) and the Company's appeals are pending for adjudication before Income Tax Appellate Tribunal (ITAT). In the meanwhile, the Company has made payment of entire outstanding tax liability in respect of above against demand notice raised by the tax authorities.

10. RELATED PARTY TRANSACTIONS

Related parties comprise directors, key management personnel and entities over which directors are able to exercise significant influence and employee funds. Following are related parties of the Company:

Subsidiary Companies

Saudi Pak Leasing Company Limited
Saudi Pak Insurance Company Limited
Saudi Pak Real Estate Company Limited

Key management personnel

All heads of department
Directors
Employees' Provident Funds

Companies with common directorship

Mari Gas Company Limited
Heavy Mechanical Complex
Inter-State Gas System (Private) Limited
Pakistan Mineral Development Corporation
Private Power Infrastructure Board
National Telecommunication Corporation
SANDAK Project
United Bank Limited

June 30,
2009

June 30,
2008

(Rupees)

Following are the transactions with related parties:

Nature of Transactions	Name of the Company	June 30, 2009	June 30, 2008
Clean/letter-based placements	Saudi Pak Leasing Company Limited	150,000,000	100,000,000
Loans and advances	Saudi Pak Leasing Company Limited	183,208,501	100,000,000
Interest income	Saudi Pak Leasing Company Limited	27,210,626	6,552,433
Interest expense	Saudi Pak Leasing Company Limited	189,864	-
	Saudi Pak Real Estate Company Limited	463,932	-
Claims received	Saudi Pak Insurance Company Limited	348,860	387,000
Premium paid	Saudi Pak Insurance Company Limited	3,889,855	3,783,520
Contribution to the employees provident fund	Employee Provident Fund	1,620,333	1,510,559

11. RECLASSIFICATION OF COMPARATIVE FIGURES

Corresponding figures have been rearranged, wherever necessary for the purpose of comparison in the condensed interim financial information. For better presentation, reclassification made in the condensed interim financial information are as follows:

Reclassified from:	Reclassified to:	Rupees
Mark-up/return/interest earned	Mark-up/return/interest expensed	47,519,593
Other income	Income/(loss) from dealing in foreign currencies	285,957,586
Administrative expenses	Other charges for divestment of subsidiary	44,065,943

12. MINIMUM CAPITAL REQUIREMENT

State Bank of Pakistan through its letter No. BSD/BAI-3/608/463/2009 dated April 29, 2009 has allowed the Company to meet the minimum paid-up capital (free of losses) of Rs. 5 billion by September 30, 2009.

13. GENERAL

13.1 This condensed interim financial information was authorized for issue by the Board of Directors of the Company in its meeting held on _____.

13.2 Figures in this condensed interim financial information have been rounded off to the nearest rupee, except otherwise stated.

General Manager/Chief Executive

Director

Deputy Chairman

Chairman