



KPMG Taseer Hadi & Co.
Chartered Accountants

Pak China Investment Company Limited

Financial Statements
For the year ended 31 December 2008

These financial statements have been prepared for the year ended 31 December 2008 specifically for China Development Bank, however the Company's financial statements for its statutory purposes have been prepared for the six months' period ended 31 December 2008.

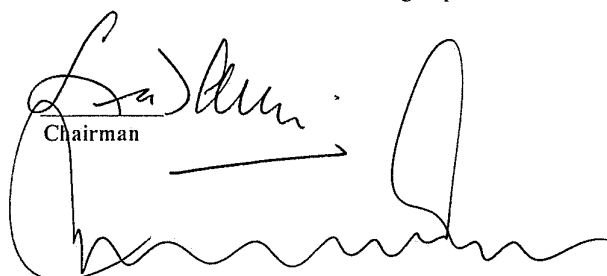
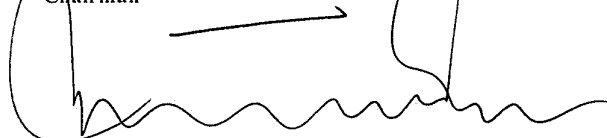
Pak-China Investment Company Limited

Balance Sheet

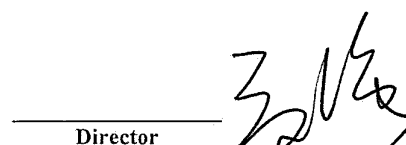
As at December 31, 2008

	Note	2008 Rupees	2007 Rupees
ASSETS			
Cash and cash equivalents	5	24,738,978	22,698,115
Loans and advances to banks and financial institutions	6	4,021,186,856	4,264,522,603
Loans and advances to customers	7	2,334,954,473	-
Investment securities	8	1,090,241,031	-
Property and equipment	9	28,114,974	405,548
Deferred tax asset	10	51,177,984	3,087,332
Other assets	11	17,785,662	5,692,224
Total assets		7,568,199,958	4,296,405,822
LIABILITIES			
Short term borrowings	12	726,754,175	-
Other liabilities	13	30,423,713	20,209,863
Total liabilities		757,177,888	20,209,863
EQUITY			
Share capital	14	6,457,200,000	4,249,000,000
Statutory reserve	14.3	70,889,455	4,599,192
Deficit on revaluation of available for sale investment securities (net of tax)		(625,206)	-
Retained earnings		283,557,821	18,396,767
Deposit for issue of shares		-	4,200,000
Total equity attributable to the equity holders of the company		6,811,022,070	4,276,195,959
Total liabilities and equity		7,568,199,958	4,296,405,822
CONTINGENCIES AND COMMITMENTS	15		

The annexed notes 1 to 28 form an integral part of these financial statements.


Chairman

Director


Chen Jianbo
Managing Director


Director

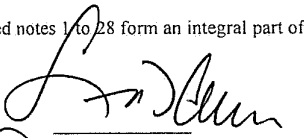
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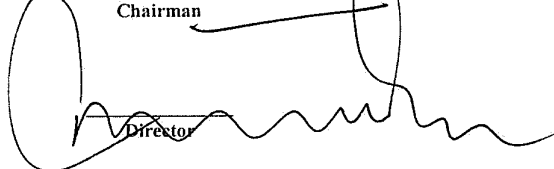
Pak-China Investment Company Limited
Profit and Loss Account
For the year ended December 31, 2008

	Note	For the year ended December 31, 2008 Rupees	For the period from July 27, 2007 to December 31, 2007 Rupees
Interest income	16	778,569,706	60,703,152
Interest expense	16	(6,215,296)	-
Net interest income		772,354,410	60,703,152
Fee and commission income	17	17,598,031	-
Operating income		789,952,441	60,703,152
Provision against loans and advances to financial institutions		(94,518,000)	-
Provision against loans and advances to customers		(50,000,000)	-
Personnel expenses	18	(72,102,078)	(8,229,000)
Depreciation		(2,689,422)	(11,547)
Other expenses	19	(60,796,966)	(17,084,207)
Profit before income tax		509,845,975	35,378,398
Income tax expense	20	(178,394,658)	(12,382,439)
Profit for the year/period		331,451,317	22,995,959
Basic and diluted earnings per share	21	0.59	0.29


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

The annexed notes 1 to 28 form an integral part of these financial statements.


Chairman


Director


Managing Director


Director

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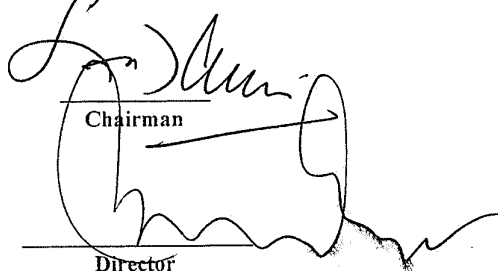
Pak-China Investment Company Limited

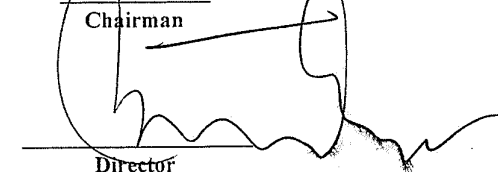
Cash Flow Statement

For the year ended December 31, 2008

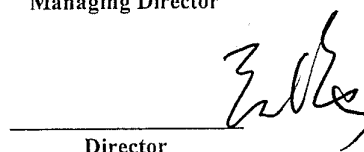
Note	For the year ended December 31, 2008	For the period from July 27, 2007 to December 31, 2007
	Rupees	Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	509,845,975	35,378,398
Adjustments for:		
Depreciation	2,689,422	11,547
Loss on sale of property and equipment	55,097	-
Provision against loans and advances to financial institutions	94,518,000	-
Provision for diminution in value of investments	50,000,000	-
Increase in operating assets		
Loans and advances to banks and financial institutions	(353,546,301)	-
Loans and advances to customers	(2,384,954,473)	-
Others assets	(12,034,703)	(5,692,224)
	(2,750,535,477)	(5,692,224)
Increase in operating liabilities		
Short term borrowings	726,754,175	-
Other liabilities (excluding current taxation)	9,160,580	9,363,138
	(2,014,620,722)	3,670,914
Income tax paid	(225,095,391)	(4,623,046)
Net cash used in operating activities	(2,239,716,113)	(952,132)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of investment securities	(1,091,202,886)	-
Investments in property and equipment	(30,575,655)	(417,095)
Sale of property and equipment	62,975	-
Net cash used in investing activities	(1,121,715,566)	(417,095)
CASH FLOW FROM FINANCING ACTIVITIES		
Issue of share capital	2,204,000,000	4,249,000,000
Deposit for issue of shares	-	4,200,000
Net cash flows from financing activities	2,204,000,000	4,253,200,000
(Decrease)/increase in cash and cash equivalents	(500,323,185)	4,287,220,718
Cash and cash equivalents at beginning of the year	4,287,220,718	-
Cash and cash equivalents at end of the year/period	3,786,897,533	4,287,220,718
Cash and cash equivalents comprises of :		
Cash and balances with banks	5 24,738,978	22,698,115
Loans and receivables	6.1 3,762,158,555	4,264,522,603
	3,786,897,533	4,287,220,718

The annexed notes 1 to 28 form an integral part of these financial statements.


Chairman


Director


Managing Director

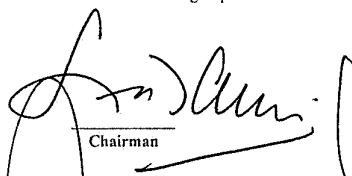


Director

KHARAKA

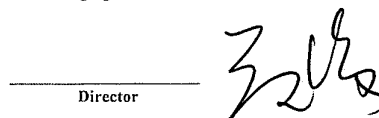
Pak-China Investment Company Limited
Statement of Changes in Equity
For the year ended December 31, 2008

	Share Capital	Statutory reserve	Retained earnings	Deficit on revaluation of available-for-sale investment securities	Deposit for issue of shares	Total
	Rupees					
Issue of shares	4,249,000,000	-	-	-	-	4,249,000,000
Changes in equity for the period ended December 31, 2007						
Profit for the period	-	-	22,995,959	-	-	22,995,959
Total recognised income and loss	-	-	22,995,959	-	-	22,995,959
Deposit for issue of shares	-	-	-	-	4,200,000	4,200,000
Transfer to statutory reserve	-	4,599,192	(4,599,192)	-	-	-
Balance as at December 31, 2007	4,249,000,000	4,599,192	18,396,767	-	4,200,000	4,276,195,959
Balance as at January 01, 2008	4,249,000,000	4,599,192	18,396,767	-	4,200,000	4,276,195,959
Issue of shares	2,208,200,000	-	-	-	(4,200,000)	2,204,000,000
Changes in equity for the year ended December 31, 2008						
Profit for the year	-	-	331,451,317	-	-	331,451,317
Total recognised income and loss	-	-	331,451,317	-	-	331,451,317
Transfer to statutory reserve	-	66,290,263	(66,290,263)	-	-	-
Deficit on revaluation of available-for-sale investment securities (net of tax)	-	-	-	(625,206)	-	(625,206)
Balance as at December 31, 2008	6,457,200,000	70,889,455	283,557,821	(625,206)	-	6,811,022,070

The annexed notes 1 to 28 form an integral part of these financial statements.


Chairman

Director


Chen Jianbo
Managing Director


Director

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Pak-China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2008

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 main 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 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.

These financial statements have been prepared for the year ended 31 December 2008 specifically for China Development Bank, however the Company's financial statements for its statutory purposes have been prepared for the six months' period ended 31 December 2008.

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) specifically for submission with China Development Bank for its internal purposes.

2.1 Forthcoming accounting standards/ interpretations

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2008, and have not been applied in preparing these financial statements:

IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Company's 2009 financial statements and will be applicable retrospectively. The Company is currently in the process of evaluating the potential effect of this interpretation.

Amendment to IFRS 2 *Share-based Payment— Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Company's 2009 financial statements, with retrospective application. The Company is currently in the process of evaluating the potential effect of this amendment.

Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Company's operations:

- the definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
- contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
- transaction costs, other than share and debt issue costs, will be expensed as incurred.
- any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
- any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Company's 2010 financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Company's 2010 financial statements.

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Pak-China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2008

IFRS 8 *Operating Segments* introduces the management approach to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Company's chief operating decision maker in order to assess each segment's performance and to allocate resources to them. Currently the Company presents segment information in respect of its business and geographical segments (see note 6). This standard will have no effect on the Company's reported total profit or loss or equity. The Company is currently in the process of determining the potential effect of this standard on the Company's segment reporting.

Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Company's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements as the Company plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements.

Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 will become mandatory for the Company's 2009 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional requirements, the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Company's 2009 financial statements.

Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Company loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Company's 2010 financial statements, are not expected to have a significant impact on the financial statements.

Amendments to IAS 32 and IAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation* require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Company's 2009 financial statements with retrospective application required, are not expected to have any significant impact on the financial statements.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Company's 2009 financial statements. The Company does not expect these amendments to have any significant impact on the financial statements.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Company's 2010 financial statements, with retrospective application required. The Company is currently in the process of evaluating the potential effect of this amendment.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* clarifies that:

- net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
- the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged
- on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

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Pak-China Investment Company Limited
Notes to the Financial Statements
For the year ended December 31, 2008

The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Company's 2009 financial statements, applies prospectively to the Company's existing hedge relationships and net investments. The Company is currently in the process of evaluating the potential effect of this Interpretation.

3. BASIS OF PRESENTATION

3.1 Basis of measurement

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

3.2 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.

3.3 Use of accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note no 26.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently in these financial statements.

4.1 Cash and cash equivalents

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

4.2 Revenue recognition

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

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Pak-China Investment Company Limited
Notes to the Financial Statements
For the year ended December 31, 2008

4.3 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

4.4 Investments

Available-for-sale investments

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair values on rates quoted on PKRV.

Interest income is recognised in profit and loss using the effective interest method.

Other fair value changes are recognised directly in equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity are recognised in profit or loss.

4.5 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous year.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences on initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4.6 Property and equipment

These are stated at cost less accumulated depreciation and impairment loss (if any)

Depreciation is calculated on a straight line method to write off the depreciable amount of each asset over its estimated useful life. Rates of depreciation are specified in Note 9.1 to the financial statements. Depreciation on additions during the year is charged from the date of acquisition or the date the asset is available for use and on disposals up to the date of disposal. Gain or loss on disposal of assets are taken to income currently.

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Pak-China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2008

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

4.7 Staff Retirement Benefits

The Company operates an unrecognized provident fund scheme for its employees. Monthly contributions at the rate of 10 % of basic salary are made by the Company. The Company's contribution is charged to income.

4.8 Impairment

The carrying amount of the assets, other than deferred tax asset, 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.

4.9 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.

4.10 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.

4.11 Segment information

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

Business Segments

Following are the main segments of the Company:

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

Geographical Segments

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

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Pak-China Investment Company Limited
Notes to the Financial Statements
For the year ended December 31, 2008

4.12 Borrowing cost

Markup, interest and charges on borrowings used for qualifying assets are capitalised. All other borrowings are charged to the profit and loss account.

4.13 Financial assets and liabilities

Recognition

The Company initially recognises loans and advances and short term borrowings on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date.

A financial asset or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Company writes off the loans and investment securities when they are determined to be uncollectible.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

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 on the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

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Pak-China Investment Company Limited
Notes to the Financial Statements
For the year ended December 31, 2008

Identification and measurement of impairment

At each balance sheet date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Company uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

4.14 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.

4.15 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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Pak China Investment Company Limited
Notes to the Financial Statements
For the year ended December 31, 2008

	Note	2008 (Rupees)	2007 (Rupees)
5 CASH AND CASH EQUIVALENTS			
Cash and balances with banks		18,151,924	22,698,115
Unrestricted balances with State Bank of Pakistan		6,587,054	-
		<u>24,738,978</u>	<u>22,698,115</u>
6 LOANS AND ADVANCES TO BANKS AND FINANCIAL INSTITUTIONS			
		2008 (Rupees)	2007 (Rupees)
Loans and receivables	6.1	3,762,158,555	4,264,522,603
Loans and advances to financial institutions	6.3	353,546,301	-
Less: Provision against loans and advances to financial institutions		(94,518,000)	-
		<u>4,021,186,856</u>	<u>4,264,522,603</u>
6.1 This represents term deposit receipts (TDRs) placed with different banks. The return on these TDRs ranges between 15.00% to 19.75 % per annum (2007: 7.5% to 10.1% per annum) and their maturity ranges between 7 days to 31 days (2007: 51 days to 90 days).			
6.2 All lendings of the Company are in local currency.			
6.3 This represents lending under letter of placements (LoPs). LoPs carry interest ranging between 15.95 % to 20.00% per annum (2007: nil) with maturities ranging between 10 day to 16 days (2007: nil).			
7 LOANS AND ADVANCES TO CUSTOMERS			
		2008 (Rupees)	2007 (Rupees)
Loans and advances to customers at amortized cost		2,384,954,473	-
Less: Provision against loans and advances to customers		(50,000,000)	-
		<u>2,334,954,473</u>	<u>-</u>
7.1 For upto one year		757,386,575	-
For over one year		1,577,567,898	-
		<u>2,334,954,473</u>	<u>-</u>
7.2 Movement of provision against loans and advances to customers			
		2008 (Rupees)	2007 (Rupees)
Opening balance		-	-
Charge for the year		50,000,000	-
Closing balance		<u>50,000,000</u>	<u>-</u>
This represents amount of provision held by the Company against principal receivable from Dewan Cement Limited on Term Finance Certificates of Rs. 200 million.			
8 INVESTMENT SECURITIES	Note	2008 (Rupees)	2007 (Rupees)
Available-for-sale investment securities	8.1	<u>1,090,241,031</u>	<u>-</u>
		<u>1,090,241,031</u>	<u>-</u>
These carry interest ranging between 12.51% per annum to 13.85% per annum with redemption period of three months.			
8.1 Available-for-sale investment securities			
Treasury bills		1,091,202,886	-
Less: Deficit on revaluation of available-for-sale investment securities	8.2	(961,855)	-
		<u>1,090,241,031</u>	<u>-</u>
8.2 Deficit on revaluation of available-for-sale investment securities			
Charge for the year		961,855	-
Closing balance		<u>961,855</u>	<u>-</u>
8.3 The transactions are conducted under terms that are usual and customary standard lending, and securities borrowing and lending activities.			

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Pak China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2008

For the year ended December 31, 2008		Note	2008 (Rupees)	2007 (Rupees)			
9	PROPERTY AND EQUIPMENT						
	Property and equipment	9.1	<u>28,114,974</u>	<u>405,548</u>			
9.1	Property and equipment						
		<u>2008</u>					
		Vehicles	Computer and office equipment	Furniture and fixtures	Leasehold improvements	Electrical fittings	Total
		(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)
	Cost						
	Opening balance as at January 1, 2008	-	417,095	-	-	-	417,095
	Acquisitions	3,073,716	9,834,354	9,815,935	5,987,075	1,864,575	30,575,655
	Disposals	-	(78,800)	(138,600)	-	-	(217,400)
	Balance at December 31, 2008	<u>3,073,716</u>	<u>10,172,649</u>	<u>9,677,335</u>	<u>5,987,075</u>	<u>1,864,575</u>	<u>30,775,350</u>
	Depreciation						
	Opening balance as at January 1, 2008	-	11,547	-	-	-	11,547
	Depreciation for the year	343,754	1,511,428	537,384	226,360	70,496	2,689,422
	Disposals	-	(17,796)	(22,797)	-	-	(40,593)
	Balance at December 31, 2008	<u>343,754</u>	<u>1,505,179</u>	<u>514,587</u>	<u>226,360</u>	<u>70,496</u>	<u>2,660,376</u>
	Carrying amounts						
	Balance at December 31, 2008	<u>2,729,962</u>	<u>8,667,470</u>	<u>9,162,748</u>	<u>5,760,715</u>	<u>1,794,079</u>	<u>28,114,974</u>
	Rate of depreciation (%)	20%	33%	20%	20%	20%	
		<u>2007</u>					
		Vehicles	Computer and office equipment	Furniture and fixtures	Leasehold improvements	Electrical fittings	Total
		(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)
	Cost						
	Acquisitions	-	417,095	-	-	-	417,095
	Balance at December 31, 2007	<u>-</u>	<u>417,095</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>417,095</u>
	Depreciation						
	Depreciation for the period	-	11,547	-	-	-	11,547
	Balance at December 31, 2007	<u>-</u>	<u>11,547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,547</u>
	Carrying amounts						
	Balance at December 31, 2007	<u>-</u>	<u>405,548</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>405,548</u>
	Rate of depreciation (%)	20%	33%	20%	20%	20%	

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Pak China Investment Company Limited
Notes to the Financial Statements
For the year ended December 31, 2008

10 DEFERRED TAX ASSET		2008	2007
		Rupees	Rupees
Recognised in profit and loss account			
Debit/ (credit) balances arising on account of:			
Accelerated tax depreciation allowance		(2,203,368)	(79,899)
Preliminary expenses		2,463,403	3,167,231
Provision of investments and financial institutions		50,581,300	-
Deficit on available for sale investments		336,649	-
		<u>51,177,984</u>	<u>3,087,332</u>
11 OTHER ASSETS			
Advances and other prepayments		17,613,898	5,692,224
Other receivable		171,764	-
		<u>17,785,662</u>	<u>5,692,224</u>
12 SHORT TERM BORROWINGS			
Short term borrowings		<u>726,754,175</u>	<u>-</u>
This carries markup ranges between 10% to 14.5% per annum (2007: nil) with 7 to 9 days (2007: nil) maturity. This is secured against the Company's T-Bills (refer note 8).			
13 OTHER LIABILITIES		2008	2007
		Rupees	Rupees
Accrued liabilities		8,563,716	1,830,052
Salary payable		9,203,900	7,500,000
Taxation (provision less payments)		11,899,995	10,846,725
Withholding tax/ federal excise duty payable		180,996	-
Other payables		575,106	33,086
		<u>30,423,713</u>	<u>20,209,863</u>
14 SHARE CAPITAL			
14.1 Authorised share capital		2008	2007
		Rupees	Rupees
2008 2007			
(Number of shares) (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>
14.2 Issued, subscribed and paid-up share capital		2008	2007
		Rupees	Rupees
2008 2007			
(Number of shares) (Number of shares)			
645,720,000 424,900,000	Ordinary shares of Rs. 10 each, issued for cash.	<u>6,457,200,000</u>	<u>4,249,000,000</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 (2007: 211,820,000) ordinary shares of the Company.			
The Company has entered into a joint venture agreement with GOP and GOC dated July 18, 2007, wherein both the parties are committed to contribute US\$ 200 million (US\$ 100 million each) equivalent to PKR 13,760 million (PKR 6,880 each) by November 20, 2009.			
14.3 Compulsory reserve - statutory reserve			
According to BPD Circular No. 15 dated May 31, 2004 issued by SBP, an amount not less than 20% of 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 CONTINGENCIES AND COMMITMENTS		2008	2007
		Rupees	Rupees
Trade related contingent liabilities			
Letters of credit		349,641,820	-
Commitments			
The Company makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn except for Rs. 1,846,404,974 (2007 : Nil).			
Commitments under 'REPO' transactions		728,971,640	-

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Pak China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2008

16 NET INTEREST INCOME	For the year ended December 31, 2008	For the period from July 27, 2007 to December 31, 2007
	(Rupees)	(Rupees)
Interest income		
Loans and advances to banks and financial institutions	627,562,056	60,703,152
Loans and advances to customers	117,465,355	-
Investment securities		
- Available-for-sale securities	13,993,231	-
Other (Profit on bank deposits)	19,549,064	-
Total interest income	<u>778,569,706</u>	<u>60,703,152</u>
Interest expense		
Short term borrowings	6,215,296	-
Total interest expense	<u>6,215,296</u>	-
Net interest income	<u>772,354,410</u>	<u>60,703,152</u>
17 FEE AND COMMISSION INCOME		
Fee and commission income		
Credit related fees	17,106,213	-
Commission	491,818	-
	<u>17,598,031</u>	<u>-</u>
18 PERSONNEL EXPENSES		
Salaries and benefits	67,091,228	7,500,000
Directors' fee	1,998,000	729,000
Contributions to defined contribution plans	3,012,850	-
	<u>72,102,078</u>	<u>8,229,000</u>
19 OTHER EXPENSES		
Traveling, conveyance, boarding and lodging	15,399,916	1,417,760
Rent, rates and taxes	21,191,764	1,835,589
Preliminary expenses	-	10,054,700
Utilities	1,815,907	-
Communication	1,090,088	7,941
Security charges	648,631	-
Professional training and staff welfare	145,342	-
Launching expenses	-	2,788,789
Advertisement, periodicals and membership fees	508,417	-
Printing and stationery	829,173	17,998
Auditors' remuneration	1,100,000	-
Legal, consultancy and other professional services	12,297,772	960,900
Repairs and maintenance	3,616,700	-
Insurance	211,402	-
Entertainment	426,902	-
Bank charges	7,647	-
Brokerage fee and commission	524,686	-
Loss on sale of property and equipment	55,097	-
Other	927,522	530
	<u>60,796,966</u>	<u>17,084,207</u>

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Pak China Investment Company Limited
Notes to the Financial Statements
For the year ended December 31, 2008

	For the year ended December 31, 2008	For the period from July 27, 2007 to December 31, 2007
	(Rupees)	(Rupees)
20 INCOME TAX EXPENSE		
Current year tax expense	226,148,661	15,469,771
Deferred tax income		
Origination of temporary differences	(47,754,003)	(3,087,332)
Total income tax expense	<u>178,394,658</u>	<u>12,382,439</u>
20.1 Reconciliation of effective tax rate		
Profit before taxation	<u>509,845,975</u>	<u>35,378,398</u>
Tax at the applicable rate of 35%	178,446,091	12,382,439
Net tax effect on income taxed at reduced rates	(51,433)	-
	<u>178,394,658</u>	<u>12,382,439</u>
21 BASIC AND DILUTED EARNINGS PER SHARE	2008	2007
Profit for the year/ period attributable to ordinary shareholders (Rupees)	<u>331,451,317</u>	<u>22,995,959</u>
Weighted average number of ordinary shares (Numbers)	<u>559,975,342</u>	<u>78,072,438</u>
Basic and diluted earnings per share (Rupees)	<u>0.59</u>	<u>0.29</u>
There is no dilutive effect on the basic earning per share of the Company.		

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22 FAIR VALUE OF FINANCIAL INSTRUMENTS

22.1 On balance sheet financial instruments

	2008		2007	
	Book Value	Fair Value	Book Value	Fair Value
	----- (Rupees) -----		----- (Rupees) -----	
Assets				
- Cash and cash equivalents	24,738,978	24,738,978	22,698,115	22,698,115
- Loans and advances to banks and financial institutions	4,021,186,856	4,021,186,856	4,264,522,603	4,264,522,603
- Loans and advances to customers	2,334,954,473	2,334,954,473	-	-
- Investment securities	1,090,241,031	1,090,241,031	-	-
- Other assets	171,764	171,764	-	-
	<u>7,471,293,102</u>	<u>7,471,293,102</u>	<u>4,287,220,718</u>	<u>4,287,220,718</u>
Liabilities				
- Short term borrowings	726,754,175	726,754,175	-	-
- Other liabilities	18,342,722	18,342,722	9,363,138	9,363,138
	<u>745,096,897</u>	<u>745,096,897</u>	<u>9,363,138</u>	<u>9,363,138</u>

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.

23 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2008			
	Corporate Finance	Treasury	Others	Total
	----- (Rupees) -----			
Total income - gross	117,465,355	661,104,351	-	778,569,706
Total expense	(50,000,000)	(100,733,296)	-	(150,733,296)
	<u>67,465,355</u>	<u>560,371,055</u>	<u>-</u>	<u>627,836,410</u>
Fee and commission income	17,598,031	-	-	17,598,031
Net operating income	<u>85,063,386</u>	<u>560,371,055</u>	<u>-</u>	<u>645,434,441</u>
Administrative and other expenses				(135,588,466)
Profit before taxation				<u>509,845,975</u>
Segment assets - gross	2,334,954,473	5,136,166,865	97,078,620	7,568,199,958
Segment liabilities	-	726,754,175	30,423,713	757,177,888
Segment return on net assets (ROA) %	3.64%	12.71%	-	-
For the period from July 27, 2007 to December 31, 2007				
	Corporate Finance	Treasury	Others	Total
	----- (Rupees) -----			
Total income - gross	-	60,703,152	-	60,703,152
Total interest expense - gross	-	-	-	-
	<u>-</u>	<u>60,703,152</u>	<u>-</u>	<u>60,703,152</u>
Fee and commission income	-	60,703,152	-	60,703,152
Net operating income	<u>-</u>	<u>60,703,152</u>	<u>-</u>	<u>60,703,152</u>
Administrative and other expenses				(25,324,754)
Profit before taxation				<u>35,378,398</u>
Segment assets - gross	-	4,287,220,718	9,185,104	4,296,405,822
Segment liabilities	-	-	20,209,863	20,209,863
Segment return on net assets (ROA) %	0.00%	1.42%	-	-

24 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 hence 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.

	2008 Rupees	2007 Rupees
Transactions with related parties		
Placement of LOPs with related party	19,396,000,000	-
Treasury Bills	1,179,574,110	-
Mark-up receivable on treasury bills	6,216,237	-
Mark-up earned on LOPs during the year	27,529,304	-
Mark-up earned on T-bills during the year	7,277,837	-
Key Management Personnel	69,574,297	8,629,000
Issue of shares		
China Development Bank (Government of China)	1,104,100,000	2,124,500,000
Ministry of Finance (Government of Pakistan)	1,104,100,000	2,124,500,000

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25 FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from financial instruments

- Credit risk
- Liquidity risk
- Market risk
- Operational risks

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established various committees which are responsible for developing and monitoring the Company's risk management policies. All Board committees report regularly to the Board of Directors on their activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk Management Department is responsible for monitoring compliance with the Company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company.

25.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances from customers and other banks and financial instruments. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure (Such as individual obligor default risk, country and sector risk)

25.1.1 Management of credit risk

The Board of directors has delegated responsibilities for the oversight of credit risk to its credit committee. A separate credit department, reporting to the credit committee, is responsible for management of the Company's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities require approval of the Board of Directors.
- Limiting concentrations of exposures to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided by credit department on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to promote best practice throughout the Company in the management of credit risk.

25.1.2 Exposure to credit risk

	Note	2008			2007		
		Loans and advances to banks and financial institutions	Loans and advances to customers	Investment securities	Loans and advances to banks and financial institutions	Loans and advances to customers	Investment securities
		(Rupees)			(Rupees)		
Carrying amount	6, 7, 8	4,021,186,856	2,334,954,473	1,090,241,031	4,264,522,603	-	-
Assets at amortised cost							
Individually impaired:							
- Impaired		240,000,000	200,000,000	-	-	-	-
Allowance for impairment		(94,518,000)	(50,000,000)	-	-	-	-
		145,482,000	150,000,000	-	-	-	-
Neither past due nor impaired							
- Not impaired		3,875,704,856	2,184,954,473	1,090,241,031	4,264,522,603	-	-
Carrying amount		3,875,704,856	2,184,954,473	1,090,241,031	4,264,522,603	-	-
Carrying amount - amortised cost	6, 7, 8	4,021,186,856	2,334,954,473	1,090,241,031	4,264,522,603	-	-

25.1.3 Impaired loans and advances to customers, banks and financial institutions

Impaired loans and advances to customers, banks and financial institutions for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreement.

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25.1.4 Allowances for impairment

The Company establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its investment security. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

25.1.5 Write-off policy

The Company writes off a loan or investment debt security balance, and any related allowances for impairment losses, when the Company credit determines that the loan or security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product specific past due status.

Set out below is an analysis of the gross and net (of allowance for impairment) amounts of individually impaired assets:

	2008				2007			
	Loans and advances to banks and financial institutions		Loans and advances to customers		Loans and advances to banks and financial institutions		Loans and advances to customers	
	(Rupees)		(Rupees)		(Rupees)		(Rupees)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Impaired	4,115,704,856	4,021,186,856	2,384,954,473	2,334,954,473	-	-	-	-
	4,115,704,856	4,021,186,856	2,384,954,473	2,334,954,473	-	-	-	-

The Company holds collateral against loans and advances due from customers in the form of mortgage interests over property, other registered securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below:

	2008	2007
	Loans and advances to customers Rupees	Loans and advances to customers Rupees
Against neither past due nor impaired:		
Property	6,019,161,651	-
	6,019,161,651	-

The Company's policy is to pursue timely realisation of collateral in an orderly manner. The Company generally does not use the collateral for its own operations.

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances and investment securities at the balance sheet date is shown below.

	2008			2007		
	Loans and advances to banks and financial institutions	Loans and advances to customers	Investment securities	Loans and advances to banks and financial institutions	Loans and advances to customers	Investment securities
	(Rupees)			(Rupees)		
Concentration by sector						
Corporate:						
-Power	-	1,397,105,024	-	-	-	-
-Manufacturing	-	434,573,162	-	-	-	-
-Telecommunication	-	307,449,534	-	-	-	-
-Hotel and services	-	195,826,753	-	-	-	-
-Financial institutions	4,021,186,856	-	1,090,241,031	4,264,522,603	-	-
	4,021,186,856	2,334,954,473	1,090,241,031	4,264,522,603	-	-

Settlement risk

The Company's activity may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Company mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

25.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities.

25.2.1 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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Treasury receives information regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Company.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

The Company relies on the capital injected by the Government of China through China Development Bank and Government of Pakistan through Ministry of Finance and trading assets as its primary sources of funding.

Exposure to liquidity risk

For this purpose net liquid assets are considered as including cash and cash equivalents, loans and advances to banks and financial institutions and investment securities for which there is an active and liquid market less borrowings maturing within the next month. Details of the reported Company's ratio of net liquid assets to borrowings at the reporting date and during the reporting period were as follows:

	2008	2007
At December 31	606.73%	-
Average for the period (average in the period of borrowings)	2417.67%	-
Maximum for the period (maximum in the period of borrowings)	3527.78%	-
Minimum for the period (minimum in the period of borrowings)	606.73%	-

25.2.2 Residual contractual maturities of financial liabilities

Note	2008				
	Carrying amount	Gross nominal inflow/ (outflow)	Less than one month	One to three months	Over one to five years
					More than five years
					(Rupees)
Non-derivative liabilities					
Short term borrowings	12	726,754,175	(726,754,175)	-	-
		726,754,175	(726,754,175)	-	-
Unrecognized loan commitments	15	1,846,404,974	(1,846,404,974)	-	-
		2,573,159,149	(2,573,159,149)	-	-
			(726,754,175)	-	(1,846,404,974)

The previous table shows the undiscounted cash flows on the Company's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity.

The gross nominal inflow/(outflow) disclosed in the previous table represents the contractual undiscounted cash flows relating to the principal and interest on the financial liability or commitment.

25.3 Market risks

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. The Company is exposed to interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

25.3.1 Management of market risks

The Company separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. Detailed risk management policies are developed and are subject to review and approval by ALCO. These policies are used for the day-to-day review of their implementation.

25.3.2 Exposure to interest rate risks - non-trading portfolios

The principal risk to which non trading portfolios are exposed is the risk of loss from fluctuations in the future cashflows or fair values of financial instruments because of change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits. The ALCO is the monitoring body for compliance with these limits and is assisted by treasury department and credit department in its day-to-day monitoring activities. A summary of the Company's interest rate gap position on non-trading portfolios is as follows:

Note	2008			
	Carrying amount	Less than 3 months	3-6 months	1-5 years
				More than 5 years
				(Rupees)
Cash and cash equivalents	5	24,738,978	24,738,978	-
Loans and advances to banks and financial institutions	6	4,021,186,856	4,021,186,856	-
Loans and advances to customers	7	2,334,954,473	-	-
Investment securities	8	1,090,241,031	1,090,241,031	-
		7,471,121,338	5,136,166,865	-
			-	2,334,954,473
Short term borrowings	12	(726,754,175)	(726,754,175)	-
		6,744,367,163	4,409,412,690	-
			-	2,334,954,473

UNAUDITED

	Note	2007				
		Carrying amount	Less than 3 months	3-6 months	1-5 years	More than 5 years
		(Rupees)				
Cash and cash equivalents	5	22,698,115	22,698,115	-	-	-
Loans and advances to banks and financial institutions	6	4,264,522,603	4,264,522,603	-	-	-
		4,287,220,718	4,287,220,718	-	-	-

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis points (bp) parallel fall or rise in all yield curves. An analysis of the Company's sensitivity to an increase or decrease in the market interest rates relating to balances of assets and liabilities at the balance sheet date, assuming no asymmetrical movement in the yield curves and a constant balance sheet position, is as follows

	2008 Rupees	2007 Rupees
Sensitivity of the projected net interest income		
Net profit after tax with 100 basis points increase	341,492,247	24,509,658
Net profit after tax with 100 basis points decrease	321,410,387	21,482,260

Sensitivity of the reported equity (Changes due to change in yield of T-bills)

Equity with 100 basis points increase	6,822,157,660	-
Equity with 100 basis points decrease	6,811,018,244	-

Interest rate movements affect retained earnings arising from increases or decreases in net interest income and affect equity by the fair value changes in treasury bills.

25.4 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within the Company. This responsibility is supported by the development of overall Company's standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

25.4.1 Operational Risk-Disclosures, Basel II Specific

As per SBP's BSD circular no. 08 of 2006, 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.

25.5 CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

Scope Of Applications

As per the requirements of State Bank of Pakistan, the capital adequacy framework has been applicable on all banks and DFIs. As the Company has no subsidiary or overseas operations, therefore the Basel-II frame work has applied to the Company only.

Capital Structure

Tier I Capital

	2008 Rupees
Shareholders equity	6,457,200,000
Statutory reserve	70,889,455
Retained earnings	283,557,821
Deficit on revaluation of available-for-sale investment securities	(625,206)
Total Regulatory Capital Base	6,811,022,070

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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. 30 dated November 25, 2008 Banks / DFIs have to set aside an amount of capital equivalent to 9% (2007: 8%) of their risk weighted assets for conducting business. The New Basel Regime not only covers additional risks, but also provide flexibility on capital assignment against different types of credit risks. Higher quality assets in each segment will decrease the capital requirements.

The Company's objectives when managing its capital are:

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

As per the joint venture agreement between MOF on behalf of GOP and CDB on behalf of GOC, sponsors will raise the capital base of the Company to USD 200 million by end of 2009. It speaks of strong commitment of the sponsors to maintain a strong capital base.

Pursuant to BSD circular no. 30 of 2008 dated November 25, 2008 issued by SBP, the Company is required to maintain the Capital Adequacy Ratio (CAR) at 9% by 31 December 2008. Furthermore, as per this circular, the Company will be required to achieve the minimum CAR of 10% and the requirement of variable CAR by 31 December 2009.

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

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

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

	2008	
	Capital Requirements	Risk Weighted Assets
	Rupees	
Credit Risk		
Portfolios subject to standardized approach (Simple)	422,603,376	4,695,593,072
Market risk		
Capital requirement for portfolios subject to standardized approach - Interest rate risk	2,005,450	22,282,780
Operational Risk		
Capital Requirement for operational risks	94,418,197	1,049,091,073
Total	519,027,023	5,766,966,925
Capital Adequacy Ratio		
Total eligible regulatory capital held (a)		2008 Rupees 6,811,022,070
Total Risk Weighted Assets (b)		5,766,966,925
Capital Adequacy Ratio (a) / (b)		118%

MANUWA

Pak China Investment Company Limited

Notes to the Financial Statements

For the year ended December 31, 2008

26 ACCOUNTING ESTIMATES AND JUDGEMENTS

26.1 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. Refer identification and measurement of impairment section of note 4.13

26.2 Income taxes

In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax laws.

26.3 Operating fixed assets

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

26.4 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.

26.5 Valuation of financial instruments

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

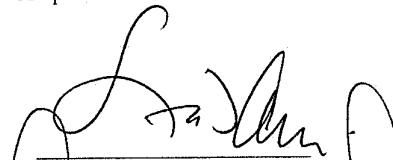
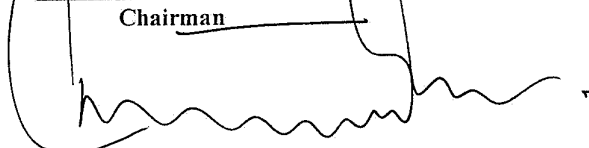
27 DATE OF AUTHORISATION FOR ISSUE

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

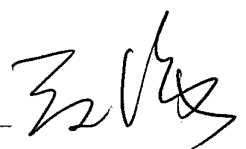
28 GENERAL

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

28.2 Comparative figures in the profit and loss account, cash flow statement and statement of changes in equity are for the period from July 27, 2007 to 31 December 2007 as this was the Company's first year of operations.


Chairman

Director

Managing Director


Director

