<COMPANY NAME>

SHORT TERM SUKUK--Musharakah (Shirkat-ul-Aqd)

Transfer payment

Give their share of ownership

Pay Annual Profit

Distribute profits on pro-rata basis

Offers profit sharing in Business

Enter into Musharaka (Shirkat-ul-Aqd)

**DETAILED TRANSACTION STRUCTURE OF  
<COMPANY NAME> SHORT TERM SUKUK  
BASED ON   
Musharakah (Shirkat-ul-Aqd)**

**Transaction Structure of <Company Name> Short Term Sukuk (Based on Musharakah Shirkat-ul-Aqd)**

**Background:**

<Company Name> (the “**<Company Ticker>**”) is proposing to raise finances under the Islamic mode of Musharaka (Shirkat-ul-Aqd) in the form of redeemable capital by issuance of Shariah compliant Sukuk Certificates (issued in scrip less form) in the aggregate amount of PKR <Amount in figures> (<Amount in words>) (the “**Sukuk Issue**”) to eligible institutional and other investors by way of private placement pursuant to the provisions of Section 66 of the Companies Act, 2017 (“**Investors**” or the “**Certificate Holders**”) for the purposes mentioned below.

**The Transaction Overview:**

This Short Term Sukuk is an unsecured, short-term instrument structured on the basis of Musharakah (Shirkat-ul-Aqd).

The contribution of the Investors will be utilized for advancing funds to <Company Ticker> on Musharakah (Shirkat-ul-Aqd) basis for participation in business activity of <Company Ticker> i.e., <Business Activity overview>. Each Sukuk certificate shall rank as pari-passu inter se with respect to the sums/investment in business due to them from the Issuer in respect of short term Sukuk Issue.

Under this arrangement, the Investors will invest in <Company Ticker’s> business by executing a Musharakah Agreement on <Company Ticker’s> shariah compliant inventory and accounts receivables during the Musharakah tenure of <Months>. The Musharakah profit/loss will be calculated after deducting the direct costs from the revenue received. This business profit will belong to <Company Ticker> and the Investors and will be distributed as per Profit Sharing Ratio in accordance with Annexure B attached hereto.

**Process Flow and Steps:**

1. A financial institution licensed to act as Investment Agent shall be appointed as the Investment Agent on behalf of the Sukuk Holders after signing the Sukuk Issuance Agreement.
2. A financial institution shall be appointed as the Issue Agent on behalf of the Musharaka Participants/ Certificate Holder after signing Sukuk Subscription and Issue Agency Agreement.
3. Upon appointment of Investment Agent, <Company Ticker> and **Issue Agent** will enter into a **Musharakah Agreement**, whereby Investor will Invest in <Company Ticker> business for <Business Activity>
4. Under the Musharakah Agreement, <Company Ticker>, when desirous of funds, shall provide Issue Agent a Musharaka Investment Notice.
5. On the Musharaka disbursement date, the Issue Agent shall provide funds to <Company Ticker> for investment in Musharakah business.
6. The total initial Musharakah Pool will be PKR **<Amount in figures>** compromising of Stock in Trade PKR **<Amount in figures>**, Account Receivables PKR **<Amount in figures>** and Sukuk Holder’s Contribution PKR **<Amount in figures>** based on Financial Statement of <Financial Statement month and Year>. Investors will contribute their investment in cash, whereas <Company Ticker>, will contribute through inventory and account receivables.
7. Following formula will be used to arrive at Total Average Musharakah Investment at the end of the Musharakah period:

**Total Average Musharakah Investment =** Adjusted COGS of the Musharakah Period multiplied by Inventory Turnover in Days (Calculated using opening and closing Values for the period) and divided by No. of days in Musharakah period + Adjusted COGS of the Musharakah Period multiplied by Average Collection Period (Calculated using opening and closing Values for the period) in Days and divided by No. of days in Musharakah period

1. The initial Investment amount will be PKR <Amount in figures> (<Amount in words>). While the initial investment ratio for the Investors and <Company Ticker> will be **XX:XX** respectively.
2. During the Sukuk tenure, <Company Ticker> shall ensure to maintain inventory quantity having worth of at least 33% of Sukuk issue. <Company Ticker> will be bound to intimate the Investment Agent if inventory level at any period of time during the Sukuk tenure, reduces below 33% value of Sukuk issue.
3. On Sukuk maturity date, the Investors will redeem their business investments along with the payment of provisional profit payable on the investments on the sukuk maturity date (Musharakah Period). Adjustment will be made (if necessary) after accounting for actual profit/loss of the <Months> (Musharakah Period) (as per Annexure B' attached herewith) in the underlying Musharakah business within 30 working days after the end of the relevant month of the termination of Musharakah.
4. The profit will be shared in two tiers. In the 1st tier, the profit will be shared on a pro rata basis in the total Musharakah Investment up to a profit ceiling which will be calculated at the end of the tenure of Musharakah as follows:

|  |
| --- |
| **Tier 1 Profit for Total Musharakah** = Expected Profit Rate (<KIBOR Tenure> + <Spread>) x Total Musharakah Investment x Days of Musharakah Period/365 |

Any profit for 1st Tier will be shared in the Investment ratio of Musharakah to be calculated at the end of tenure i.e.

**Initial ratio: Investor**: **<As per Investment Ratio>** **<Company Ticker>:** **<As per Investment Ratio>**Any profit above Tier 1 shall constitute Tier 2 Profit and will be shared through the following ratio:

**Investors**: **0.00001% <Company Ticker>**: **99.99999%**

1. Provisional profit will be the expected profit by investors provided as per Tier 1 Profit Share.
2. Musharakah loss, if any will be shared between the investors and **<Company Ticker>** in the investment ratio and the Provisional Profit Payments distributed prior to the determination of Musharakah loss as per the statement of Musharakah Income shall be returned by the Investors to the **<Company Ticker>** within (20) working days from the date of determination of the Musharakah loss. If the Musharakah loss is due to the negligence of the Issuer; the loss arising out of negligence of the Issuer shall be borne by the Issuer after finalization by the Shariah Advisor of the Sukuk Issue.
3. If the Musharakah Dissolution date occurs before the Provisional Profit Payment Date, the company shall pay the Provisional Profit till such date which shall be subject to a final adjustment.
4. In case of early dissolution prior to end of Musharakah tenure, whereby the investor’s equity in the Musharakah Investment will be purchased by <Company Ticker>, at the par Value subject to profit and loss adjustment.
5. <Company Ticker> shall provide the necessary details (i.e. External Audited Accounts and/or Management Account about units sold as well as direct costs incurred in Manufacturing/ selling of units along with expenses) required for calculation of the profit/loss of the business **<Company Ticker>** shall provide Inventory and receivables report on a monthly basis to the Investment Agent and if required by the Shariah Advisor **<Company Ticker>** shall arrange a visit to verify and confirm the level of inventory.
6. All applicable, fee, charges and expenses related to the issuance of the Sukuk as well as Shariah Audit and verification fee shall be paid by **<Company Ticker>**
7. **<Company Ticker>** and the Investment Agent shall be responsible for timely and orderly execution as well as completion of the legal documentation as approved by the Shariah Structure to ensure Shariah Compliance throughout the tenor of the Sukuk Issue.
8. **<Company Ticker>** shall appoint an external Shariah Auditor to ensure Shariah compliance of the short term Sukuk throughout the tenor.
9. Any other arrangement, matter or deviation or dispute arising out of the Issue shall require prior approval and consent of Shariah Advisor.

Regards,

**< Date >**

**Key Documentation:**

|  |  |
| --- | --- |
| **S.NO** | **DOCUMENTS** |
| 1 | <Name of Legal Agreements> |
| 2 | <Name of Legal Agreements> |
| 3 | <Name of Legal Agreements> |

**Annexure A  
Musharakah Income Statement:**

|  |  |
| --- | --- |
| **Musharakah Income Statement** | |
|  | **For Musharakah** |
| **Sales Revenue** | XXXX |
| **Less:** Sales Tax | (XXXX) |
| **Net Sales** | XXXXXX |
| **Less: Operating Costs** |  |
| **Total Operating Cost** | (XXXXX) |
|  |  |
| **Gross Profit/(Loss)** | XXXX/(XXXX) |
|  |  |
| **Share of Investor as per their Contribution in total production cost** | **XXXX** |
|  |  |

**Annexure B  
Musharakah Profit Computation:**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Total** | **Sukuk Holders** | **<Company Ticker>** |
|  |  |  |  |
| **Musharakah Investment** | **Rs C = <a+b>** | **Rs <Sukuk Holder Contribution (a)>** | **Rs <Company Contribution (b) >** |
|  |  |  |  |
| **Investment Ratio** | **100%** | **<a/c>** | **<b/c>** |
| **Musharakah Profit Upto Ceiling Tier 1** |  | **<a/c>** | **<b/c>** |
| **Musharakah Profit Above Ceiling Tier 2** |  | **0.00001%** | **99.99999%** |
| **Loss Sharing Ratio (if Any)** |  | **<a/c>** | **<b/c>** |
|  |  |  |  |
| **Running Musharakah Profit** | **XXXXX** |  |  |
|  |  |  |  |
| **Musharakah Profit Ceiling** | **XXXXX** |  |  |
|  |  |  |  |
| **Musharakah Profit Upto Ceiling Tier 1** | **XXXXX** | **XXXX** | **XXXX** |
|  |  |  |  |
| **Musharakah Profit Above Ceiling Tier 2** | **XXXX** | **XXXX** | **XXXX** |