

Annual Report 2003



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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the Name of Allah,
The Most Beneficent,
The Most Merciful.



OUR VISION

To be ^{The} *Financial House of Excellence*



OUR MISSION

Providing value to our
Customers

Optimizing returns for our
Shareholders

Attracting, motivating and retaining top quality
Professionals

Pursuing our
Corporate Values

Maintaining high standards of
Corporate Governance

Be innovative in our
Business Approach



50%



GOVERNMENT OF PAKISTAN
THROUGH
STATE BANK OF PAKISTAN



50%



GOVERNMENT OF KUWAIT
THROUGH
KUWAIT INVESTMENT AUTHORITY



A JOINT VENTURE

The Company is a joint venture between the Governments of **Pakistan** and **Kuwait**.



CHAIRMAN

MANAGING DIRECTOR



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BOARD OF DIRECTORS



BOARD OF DIRECTORS

NASER ABDUL MOHSEN AL MARRI	CHAIRMAN
NAWID AHSAN	DIRECTOR
ABDULLAH ABDULWAHAB AL-RAMADHAN	DIRECTOR
JAVED SADIQ MALIK	DIRECTOR
MOHAMMAD SAUD AL-ABHOUL	DIRECTOR
ZAIGHAM MAHMOOD RIZVI	MANAGING DIRECTOR
EXECUTIVE COMMITTEE	
NASER ABDUL MOHSEN AL MARRI	
ZAIGHAM MAHMOOD RIZVI	
AUDIT COMMITTEE	
ABDULLAH ABDULWAHAB AL-RAMADHAN	CHAIRMAN
NAWID AHSAN	
ZAIGHAM MAHMOOD RIZVI	
WAMIQ RIZVI	COMPANY SECRETARY



MANAGEMENT

SHAHID USMAN

DEPUTY GENERAL MANAGER &
CHIEF FINANCIAL OFFICER

RANA AHMED HUMAYUN

SENIOR EXECUTIVE VICE PRESIDENT

MOHAMMAD ALI QURESHI

SENIOR EXECUTIVE VICE PRESIDENT

S. MUJAHID NAQVI

EXECUTIVE VICE PRESIDENT

HASEEB BABAR

ADVISOR - BALANCE SHEET MANAGEMENT

TASNIMUL HAQ FAROOQUI

SENIOR VICE PRESIDENT

WAMIQ RIZVI

SENIOR VICE PRESIDENT

FARHAN MAJIK

HEAD OF CAPITAL MARKETS

MAZHAR SHARIF

SENIOR VICE PRESIDENT

HINA AKHLAQ

SENIOR VICE PRESIDENT

SHAHBAZ JAMEEL

SENIOR VICE PRESIDENT

DIRECTORS' REPORT

On behalf of the Board of Directors of Pak Kuwait, it is my privilege to present the 25th Annual Report along with the financial statements for the year ended December 31, 2003.

Financial Highlights

Summary of financials and appropriations is as follows:

	(Rs. in millions)	
	2003	2002
Profitability		
Net Operating Income	3,295	1,699
Administrative and general expenses	276	195
Operating profit	3,019	1,504
(Reversal)/provision for contingencies	(16)	(826)
Profit before taxation	3,035	2,330
Taxation	205	203
Profit after tax for the year	2,830	2,127
Appropriations:		
Transfer to compulsory reserve	566	425
Transfer to general reserve	235	-
Transfer to contingencies reserve	22	20
Transfer to marketable & government securities fluctuation reserve	1,427	667
Transfer to reserve for issue of bonus shares	-	350
Interim cash dividend	-	165
Final cash dividend	580	500

Dividend

The Board of Directors is pleased to approve a final cash dividend of Rs 580 million for the year ended December 31, 2003. With these declarations, the cumulative dividend payout amounts to Rs. 4,112 million since the inception of the company.

Business Environment & Economic Conditions

The year under review presented spectacular economic performance spurred by significant progress in furthering the structural reforms agenda. Other contributing factors include proactive and pro-growth monetary management by the economic managers of the country while keeping inflation tightly under wraps despite high M2 growth rate. The above was complimented by dramatic positive swing in the Indo Pak relations at the end of the year. The GDP growth of 5.1% recorded for the fiscal year ended June 30, 2003 was the highest in seven years and exceeded the budget target of 4.5% and compared favorably with 3.4% in the preceding year. The target for 2003-04 GDP growth is set at 5.3%, and it is expected that the target would be surpassed by the year-end. The surge in capital inflows on account of workers remittances coupled with improving balance of payment position has helped the government to build record level of foreign exchange reserves exceeding US Dollars 12 billion. This has strengthened Pakistan's external position to an extent that for the first time in its history the government has decided to pre-pay expensive loans from multilateral institutions to reduce its external indebtedness.

The positive trends reflected on the economic front and improving geopolitical environment presented tremendous opportunities in the financial markets of the country. In the wake of low interest rate scenario earnings on account of capital gains, both on account of trading in government securities and in the soaring stock market, contributed significantly to change the fortunes of the financial sector. The prevalence of record low interest rate environment has also provided impetus to the investment plans of the private sector as reflected by the robust credit off-take from banks by the private sector, substantially higher imports of capital goods, revival of shelved investment plans by large businesses coinciding with an anecdotal increase in queries regarding potential investment opportunities and more generally a visible change in investment sentiments. As a result the growth rate in the industrial production is expected to cross double digit for the first time in many years. All these are the signs of prospering economic growth and Pakistan's economic outlook appears promising.

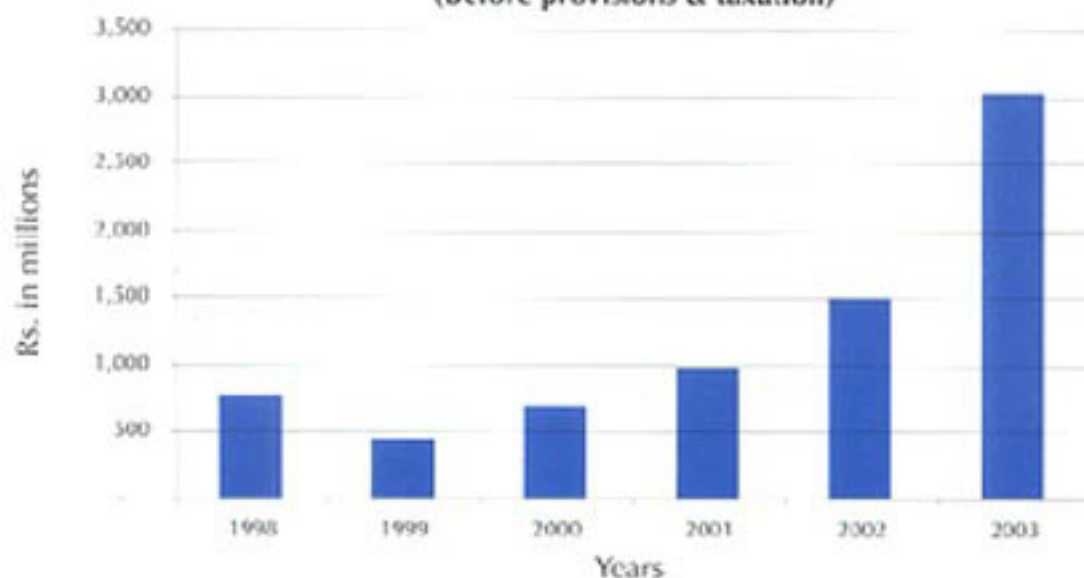
Company Performance

By the Grace of Allah (SWT), it is heartening for me to report that the company has yet again surpassed its previous record in terms of profitability, registering an unprecedented highest ever profit after tax in the history of the company during 2003 i.e. Rs. 2,830 million, reflecting an increase of 33% over the preceding year. The paramount contribution towards this sterling performance was largely supported by Capital Markets Department. The shift in treasury's strategic focus and reorientation of its operational capability resulted in it becoming one of the core contributors towards the profitability of the company during 2003. The Corporate Finance Department had a challenging year but proactive and aggressive marketing approach and reengineering of operational dynamics has started to show positive results as reflected by arresting trend of prepayments and significant growth in new assets.

The company's asset base reflected a healthy growth during 2003, ensuring consistency in balance sheet growth, as depicted by the trend over the last three years. The balance sheet stood at Rs. 16,554 million reflecting a robust growth of 17% on Year on Year basis i.e. from Rs. 14,136 million as at December 31, 2002. This growth in asset base was primarily driven by incremental investment as well as impact of revaluation in marketable securities and significant investments in corporate paper, latter being a strategic decision to offset past experiences in terms of pre-payment and renegotiating of agreed terms in conventional lending to corporates.

Furthermore in the beginning of 2003, a strategy was evolved to review the liability mix to ensure Pak Kuwait's competitiveness in the current circumstances. This was a significant move and given the low interest rate environment, the long term funding facility availed at higher cost was prepaid which allowed Pak Kuwait to switch the costly funding facility with cheaper local currency funds available in the market via two privately placed corporate bond (TFC) issues. This proactive approach to manage both sides of the balance sheet resulted in not only surpassing the ambitious targets both in terms of earnings as well as balance sheet growth but has put the company in a position to achieve sustainable growth in years to come.

**Operating Profit
(Before provisions & taxation)**



Credit & Corporate Governance Rating

I am proud to report that both the senior management as well as the Board is committed to adopt an open approach in terms of information disclosure as well as supporting independent/external reviews/surveillance as demonstrated by our initiative to be the only financial institution to open our doors to be rated by two rating agencies as well as the only private sector financial institution to have volunteered itself for a Code of Corporate Governance Rating (CGR), which currently is not mandatory for us. This is a clear reflection of our confidence in our systems and approach towards doing business and it would not be out of place to mention that currently we hold the distinction of being the only company rated AAA (long term) & A-1+ (short term) by both the external rating agencies i.e. PACRA & JCR – VIS (being maintained for the last four years), and for the highest CGR rating (8 on a scale of 1-10) for a private sector company.

Capital Markets

The outstanding performance of equities continued unabated during the year and the new peaks were seen in the history of stock exchange index. This journey of new heights in the KSE index level, starting the year 2003 at 2,701 and closing at 4,471 recorded an increase of 1,770 points or 66% during the year, was achieved on the strength of continuing economic policies, promising economic indicators and extra ordinary achievements on the geopolitical scene. This included resolving the thorny constitutional issue of Legal Frame Work Order on the internal political scene and on the external front through opening a new chapter in the relationship between Pakistan and India. The introduction of new scrip such as OGDC helped in broaden the base of stock market, it has also created an immense interest of both corporate and general investors as reflected in heavy over subscription of this mega issue and fueled the continuous advancement of the index.

The unparallel performance of Karachi Stock Exchange helped capital markets department to book higher capital gains and dividends. Furthermore, Pak Kuwait's portfolio out performed the KSE-100 index by a wide margin of over 27%. This was achieved through the professional guidance of the senior management and vigilance of staff members. The capital gains for the year amounted to Rs. 2,455 million and the dividend income of Rs. 471 million brought a total contribution of Rs. 2,926 million to the company's income. The stock market portfolio duly marked to market at the year-end 2003 stood at Rs.7,479 million versus cost of Rs. 5,975 million (2002: Rs. 5,170 million) and (2002: Rs 3,710 million).

Treasury

The treasury function, which has succeeded in establishing a strong local currency portfolio of government securities, had to disinvest most of its portfolio to realize the capital gains in view of the indication of halting the slide in interest rates. The market developed a scenario where interest rates showed reversal of the trend after bottoming out and stabilized at a bit higher level. Presently, Pak Kuwait is playing an active role in local treasury market and has built its niche by actively engaging in repos, reverse repos and activities in other debt instruments and certificate of investment operations. The money market operations of the company generated income of Rs. 328 million for the year under review and the size of portfolio duly increased to Rs. 5,354 million as against Rs. 4,277 million at the year-end 2002.

Corporate Finance

As per the SBP performance report, all major economic indicators including exports, remittances, current account surplus, foreign exchange reserves, foreign direct investment and inflation have represented signs of improvement. The manufacturing sector depicted an upbeat performance rising by 10% during the first quarter as against 4.3% in the previous corresponding period mainly on account of impressive growth in automobile, electronic goods and leather industries.

In the light of positive changing market conditions, the corporate finance department has repositioned itself to service different market segments including local corporate financing and participating actively in new issues of debt instruments. It has successfully arrested the declining trend in long term assets portfolio, significantly reduced the prepayments and booked quality assets. The total sanctions during the year amounted to Rs. 3,443 million out of which Rs. 2,680 million were disbursed raising the lending portfolio to Rs. 2,671 million from Rs. 2,177 million in year 2002.

Going forward the focus is on a realistic marketing strategy for year 2004 and onwards, which envisage realistic targets of booking the assets and developing a balanced portfolio with low and manageable risk. As a step in this direction Pak Kuwait Representative Office is being set up in Lahore, which is expected to be operational by the 1st quarter 2004. The physical presence and seasoned local staff in Lahore will enhance Pak Kuwait's understanding of the dynamics of the Punjab's credit market while improving customer relationship services in terms of personalized customer handling and quick turnaround time. With the strong performance of the economy improved

Government policies and initiatives for encouraging developmental activities, it is expected that the growth pace will be sustained in 2004, providing business opportunities to financial institutions. The corporate finance function is continuously concentrating on enhancing its advisory and syndication business to increase fee income. It is also important to note that with active monitoring of the loan portfolio no new name has been infected and at the same time significant achievement has been made in recovering some of the bad loans through court proceedings as well as under State Bank of Pakistan's new initiatives.

Future Outlook

The improved macro economic outlook has paved the way for increased corporate activity with organizations eager to pursue growth opportunities. The economic managers of the country are striving hard to accelerate the pace of growth by creating an enabling environment to induce long awaited investment from the private sector.

With the increasing competition from banks and other financial institutions, new business strategies are being evolved to diversify company business in a manner that will not only result in maintaining Pak Kuwait's position as a leading development financial institution but will also create new and innovative business avenues and products to ensure continued higher profitability and growth. During the year Pak Kuwait took the initiative to launch the First Takaful Insurance Company, a company based on Shariah compliant principles of insurance. The negotiations are in progress to induct a foreign technical partner having a sound standing and experience in Shariah based insurance business. Pak Kuwait has also taken the initiative to launch a Non Bank Finance Company (NBFC) to undertake the asset management business. The initial feasibility has been prepared and a technical feasibility of the proposed schemes of funds has been outsourced to a consultant. The negotiations with prospective foreign technical partners are underway. On the operational side the ISO 9001:2000 certification has been achieved that would lead to stronger systems and controls. The Digital Archiving is progressing at a fast pace and work on business continuity plan and disaster recovery is being actively pursued.

Compliance with Code of Corporate Governance

Pak Kuwait has traditionally adhered to all rules and regulations and with the same spirit it has complied with the requirements of Code of Corporate Governance, as practicably applicable. In this connection, the compliance of relevant clauses of the code is stated below:

- These financial statements present fairly the state of affairs of the company, the result of its operations, cash flow and changes in equity.
- The company has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied in preparation of financial statements, and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored. The controls which are in place are being continuously reviewed by the Internal Audit department and the process of review and monitoring will continue with the object to improve further.
- All liabilities in regard to the payment on account of taxes, duties, levies and charges have been fully provided and will be paid in due course or where claim was not acknowledged as liability the same is disclosed as contingent liabilities in the notes to the accounts.
- There is no doubt about the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The Board of Directors and employees of the company have signed 'Statement of Ethics and Business Practices'.

Board Meetings

Three Meetings of the Board of Directors of Pak Kuwait were held in the year 2003 instead of four due to the following reason:

The First Meeting of the Board of Directors for the year 2003 was scheduled to be held in Karachi in the first quarter of 2003. Due to the event related to the US coalition led war with Iraq, it was not possible for the Kuwaiti Directors to leave Kuwait to attend the Board Meeting. Immediately on cessation of hostilities, the Board meeting was held in April 2003. The Meetings of the Board of Directors for the year 2003 were held as per the following schedule:

First Meeting of the First Quarter	Could not be held due to hostilities between USA and Iraq
Second Meeting of the Second Quarter	17 th April 2003
Third Meeting of the Third Quarter	24 th July 2003
Fourth Meeting of the Fourth Quarter	06 th November 2003

Details of Attendance is as follows:

Name of Directors	Meetings Attended	Remarks
Naser Abdul Mohsen Al-Marri	2	
Abdulazim M.A. Al-Shamali	1	Replaced by Mr. Naser Abdul Mohsen Al-Marri
Zaigham Mahmood Rizvi	3	
Abu Shamim M. Ariff	2	Replaced by Mr. Nawid Ahsan
Emad Yousef Al-Munayea	1	Replaced by Mr. Mohammad Saud Al-Abhouh
Abdullah Abdulwahab Al-Ramadhan	3	
Javed Sadiq Malik	2	
Mohammad Saud Al-Abhouh	2	
Nawid Ahsan	1	

Summarized Operating and Financial Data for the last six years

	(Rs. in millions)					
	2003	2002	2001	2000	1999	1998
Paid up Capital	1,500	1,150	1,150	1,150	1,100	1,100
Reserves	6,295	4,395	2,932	2,819	2,770	2,220
Total Assets	16,554	14,136	10,787	9,882	11,420	21,169
Operating Profit	3,019	1,504	984	685	442	764
Net Profit (after tax & provisions)	2,830	2,127	314	298	800	288
Cash Dividend	580	665	200	200	250	150
Stock Dividend	-	350	-	-	-	50

Statement of Investments of Provident and Gratuity Funds

Investments of Provident and Gratuity Funds as at December 31, 2003 according to their respective un-audited accounts were Rs 40.785 million and Rs 0.557 million, respectively. Investment of Provident Fund amounted to Rs 14.080 million as at December 31, 1998 according to its audited accounts.

Directors

During the year 2003 Mr. Naser Abdul Mohsen Al-Marri has been elected the new Chairman of the company in place of Mr. Abdulazim M. A. Al-Shamali who has served the Board in the capacity of Chairman and Board member for 11 & 17 years respectively. Besides, Mr. Nawid Ahsan and Mr. Mohammad Saud Al-Abhoul have been nominated as Directors, replacing Mr. Abu Shamim M. Arifi and Mr. Emad Yousef Al-Monayea.

Auditors

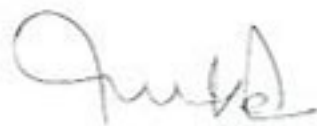
Clause (xli) of the Code of Corporate Governance requires that the auditors who have been engaged since last five years or more, as on December 31, 2003, must be changed not later than the Annual General Meeting immediately following December 31, 2003. Accordingly, the present external auditors Messrs. A. F. Ferguson & Co. stand retired and the Audit Committee has recommended the name of Messrs. Taseer Hadi Khalid & Co. Chartered Accountants, a member firm of KPMG International to be the auditors for the year ending December 31, 2004. The matter of change of auditors shall be taken up in the ensuing Annual General Meeting after completion of all the legal formalities.

Acknowledgement

Pak Kuwait continues to fulfill its social obligations through making contributions to health and education sector in an effort to help develop these social sectors. In addition, senior executives have participated as guest speakers at various external functions, which helps generate goodwill and publicity for Pak Kuwait.

No institution can be successful without its people who are to be complimented for performing well under difficult circumstances. Pak Kuwait, therefore, continues to support staff social activities and training programs, besides participation in seminars within the country and abroad. I wish to put on record the appreciation by the Board of Directors for the hard work put in by the staff members leading to the highest ever profit earned by the company.

I extend my continued appreciation to my colleagues on the Board for their consistent support and guidance during the year. On their behalf I would like to express special thanks and appreciation to our outgoing Chairman Mr. Abdulazim M. A. Al-Shamali and our outgoing Directors Mr. Abu Shamim M. Arifi and Mr. Emad Yousef Al-Monayea for their valuable contribution and support to Pak Kuwait and wish them well for the future. On behalf of the Board of Directors I welcome the incoming directors Mr. Mohammad Saud Al-Abhoul and Mr. Nawid Ahsan and look forward to working with them.



Naser Abdul Mohsen Al-Marri
Chairman

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED DECEMBER 31, 2003

This statement is being presented to comply with the Code of Corporate Governance framed by the Securities & Exchange Commission of Pakistan which was made applicable to the company through paragraph 3 of the BSD Circular No. 15 issued by the State Bank of Pakistan.

The company has applied the principles contained in the Code in the following manner:

1. The company encourages representation of independent non-executive directors. At present the Board has one executive director.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year three directors were replaced.
5. Statement of Ethics and Business Practices has been approved and signed by the Board of Directors and also signed by the employees of the company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies alongwith the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Managing Director have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter, except for the first quarter due to reasons stated in the Directors' Report. Written notices of the Board meetings, alongwith agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The company had arranged an orientation course for its directors to apprise them of their duties and responsibilities.
10. The appointments of the Chief Financial Officer and the Company Secretary have been approved by the Board.
11. The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the company were duly endorsed by the Managing Director and Chief Financial Officer before approval of the Board.
13. The directors, Managing Director and executives do not hold any interest in the shares of the company.
14. The company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises of three members, of whom two are non-executive directors including the Chairman of the Committee, who are the core members. The Managing Director is a non-core member of the Audit Committee.
16. During the year, three Audit Committee meetings were held, which included review of the half-yearly results and one meeting subsequent to year end to review the annual financial results of the company as required by the Code. The terms of reference have been framed and advised to the Committee for compliance.
17. The Board has set-up an effective internal audit function.
18. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan. The auditors or any partners of the firm, their spouses and minor children do not hold shares of the company.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied.



Chief Executive

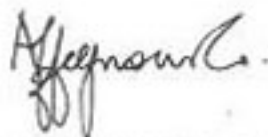
REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the statement of compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Pakistan Kuwait Investment Company (Private) Limited to comply with paragraph 3 of the BSD Circular No. 15 dated June 13, 2002 issued by the State Bank of Pakistan.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company personnel and review of various documents prepared by the company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended December 31, 2003.



A. F. FERGUSON & CO.
Chartered Accountants
Karachi, February 26, 2004

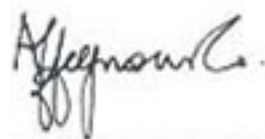
AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Kuwait Investment Company (Private) Limited as at December 31, 2003 and the related profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that-

- (a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion-
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied.
 - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 2003 and of the profit, its changes in equity and cash flows for the year then ended; and
- (d) in our opinion no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.



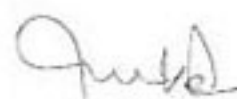
A. F. FERGUSON & CO.
Chartered Accountants
Karachi, February 26, 2004

BALANCE SHEET
AS AT DECEMBER 31, 2003

		2003	2002
	Note	Rupees '000	
ASSETS			
Cash and bank balances	3	770,839	811,283
Investments	4	8,647,502	7,043,986
Placements with and lending to financial institutions	5	4,208,348	1,933,507
Commercial paper	6	24,529	-
Loans and advances	7	1,531,673	2,589,875
Amounts recoverable under finance leases	8	387,834	490,543
Advances, deposits, prepayments and other receivables	9	805,648	1,106,674
Deferred taxation	10	104,447	94,521
Tangible fixed assets	11	73,487	65,195
		<u>16,554,307</u>	<u>14,135,584</u>
LIABILITIES			
Borrowings from financial institutions	12	899,417	1,138,351
Certificates of investment	13	2,416,000	2,516,000
Creditors, accrued expenses and other liabilities	14	1,673,951	877,352
Loan and finance	15	-	808,385
Term finance certificates	16	2,000,000	-
Foreign currency deposits		-	1,333,407
Taxation		161,567	278,126
Other staff benefits		62,279	33,707
Staff retirement gratuity	17	22,811	18,339
		<u>7,236,025</u>	<u>7,003,667</u>
NET ASSETS		<u>9,318,282</u>	<u>7,131,917</u>
REPRESENTED BY			
Issued, subscribed and paid-up capital	18	1,500,000	1,150,000
RESERVES			
Capital reserves			
- compulsory reserve	19.1	2,060,817	1,494,835
- reserve for issue of bonus shares	19.1	-	350,000
- special reserve	19.1	80,045	80,045
		<u>2,140,862</u>	<u>1,924,880</u>
Revenue reserves			
- general reserve	19.2	1,989,924	1,754,698
- contingencies reserve	19.2	70,144	48,500
- marketable and government securities reserve	19.2	2,093,643	666,585
		<u>4,153,711</u>	<u>2,469,783</u>
		<u>6,294,573</u>	<u>4,394,663</u>
		<u>7,794,573</u>	<u>5,544,663</u>
Surplus on revaluation of investments	4.5	1,523,709	1,587,254
		<u>9,318,282</u>	<u>7,131,917</u>
CONTINGENCIES AND COMMITMENTS			
	20		

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


Chief Executive


Chairman

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2003

		2003	2002
	Note	Rupees '000	
Financial and other income - gross	21	3,512,055	2,241,532
Financial charges - gross	22	217,263	542,794
		<u>3,294,792</u>	<u>1,698,738</u>
Administrative and general expenses	23	275,968	194,776
Operating profit		<u>3,018,824</u>	<u>1,503,962</u>
Reversal of provision for contingencies	24	(15,950)	(826,038)
PROFIT BEFORE TAXATION		<u>3,034,774</u>	<u>2,330,000</u>
Taxation	25	204,864	202,723
PROFIT AFTER TAXATION		<u>2,829,910</u>	<u>2,127,277</u>
Basic earnings per share	26	<u>Rs 47,165</u>	<u>Rs 35,455</u>

Note: The appropriations of profit available are set out in the statement of changes in equity.

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


Chief Executive


Chairman

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2003

	Issued, subscribed and paid-up capital	Capital reserves				Revenue reserves			Total
		Compulsory	Reserve for issue of bonus shares	Special	General	Contingencies	Marketable and government securities	Unappropriated profit	
Rupees '000									
Balance as at January 1, 2002	1,150,000	1,069,380	-	80,045	1,754,698	28,263	-	-	4,082,386
Profit for the year ended December 31, 2002	-	-	-	-	-	-	-	2,127,277	2,127,277
Transfer to compulsory reserve	-	425,455	-	-	-	-	-	(425,455)	-
Transfer to reserve for issue of bonus shares	-	-	350,000	-	-	-	-	(350,000)	-
Transfer to contingencies reserve	-	-	-	-	-	20,237	-	(20,237)	-
Transfer to marketable and government securities reserve	-	-	-	-	-	-	666,585	(666,585)	-
Interim dividend at a rate of Rs 1,587 per share	-	-	-	-	-	-	-	(165,000)	(165,000)
Final dividend proposed at a rate of Rs 10,669 per share	-	-	-	-	-	-	-	(500,000)	(500,000)
Balance as at December 31, 2002	1,150,000	1,494,835	350,000	80,045	1,754,698	48,500	666,585	-	5,544,663
Issue of bonus shares	350,000	-	(350,000)	-	-	-	-	-	-
Profit for the year ended December 31, 2003	-	-	-	-	-	-	-	2,829,910	2,829,910
Transfer to compulsory reserve	-	565,982	-	-	-	-	-	(565,982)	-
Transfer to general reserve	-	-	-	-	255,226	-	-	(255,226)	-
Transfer to contingencies reserve	-	-	-	-	-	21,644	-	(21,644)	-
Transfer to marketable and government securities reserve	-	-	-	-	-	-	1,427,058	(1,427,058)	-
Proposed dividend at a rate of Rs 9,667 per share	-	-	-	-	-	-	-	(580,000)	(580,000)
Balance as at December 31, 2003	1,500,000	2,060,817	-	80,045	1,989,924	70,144	2,093,643	-	7,794,573

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


Chief Executive


Chairman

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
Note	Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated from operations	28 2,146,430	181,068
Dividends received	502,989	485,309
Financial income received	554,754	974,281
Financial charges paid	(303,399)	(349,163)
Forward cover fee (received)/paid	3,095	(120,329)
Investments	(1,194,034)	(477,650)
Loans and advances	(307,970)	1,500,871
Amounts recoverable under finance leases	145,289	(127,059)
Long term foreign currency deposits	-	(2,076,367)
Certificates of investment	(200,000)	85,000
Taxes paid	(251,345)	(130,554)
	<u>(1,050,621)</u>	<u>(235,661)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure	(26,545)	(33,601)
Proceeds from sale of fixed assets	1,819	13,418
	<u>(24,726)</u>	<u>(20,183)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Loan and finance	(611,527)	(84,626)
Dividend paid during the year	(500,000)	(365,000)
	<u>(1,111,527)</u>	<u>(449,626)</u>
Net increase in bank balances	(40,444)	(524,402)
Cash and cash equivalents at the beginning of the year	811,283	1,335,685
Cash and cash equivalents at the end of the year	<u>770,839</u>	<u>811,283</u>

The annexed notes form an integral part of these financial statements


Chief Executive


Chairman

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2003

1. LEGAL STATUS AND OPERATIONS

The company was incorporated in Pakistan as a private limited company on March 17, 1979 and is a joint venture between the governments of Pakistan and Kuwait. The objective of the company is to profitably promote industrial investments in Pakistan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain investments are valued at market rates in accordance with the requirements of BSD circular 20 dated August 4, 2000.

2.2 Basis of presentation

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), the directives issued by the State Bank of Pakistan (SBP), and the International Accounting Standards (IASs) issued by the International Accounting Standards Committee (IASC) and interpretations issued by Standing Interpretations Committee of the IASC (the interpretations), as adopted in Pakistan. However, the requirements of the Ordinance and the directives of the SBP have been followed in case where their requirements are not consistent with the requirements of the IASs and the interpretations.

The SBP through its BSD circular letter No. 11 dated September 11, 2002 has deferred the implementation of IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 40 'Investment Property' for Non-Bank Financial Institutions (NBFIs) in Pakistan. Accordingly, the requirements of those International Accounting Standards (IASs) have not been considered in the preparation of these financial statements.

2.3 Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents comprise of cash in hand and balances with other banks.

2.4 Investments

Investments in government securities are valued at rates quoted on the PKRV (Reuters Page) and quoted investments including investments in associates on the basis of market rates of the Karachi Stock Exchange as at the balance sheet date and any surplus / (deficit) arising on revaluation of investments is not taken to profit and loss account except when actually realised and instead is kept in a separate account called 'surplus/deficit on revaluation of investments' and is shown below equity. Unquoted investments including investments in associates are stated at cost. Impairment loss is recognised whenever the carrying amount of an investment exceeds its recoverable amount. An impairment loss is recognised in income currently. Profits and losses on sales of investments during the year are included in income currently.

Premium on acquisition of government securities is amortised over the period to maturity of government securities on a straight line basis.

2.5 Loans and advances

Advances are stated net of provision for doubtful debts. Provision for doubtful debts is determined on the basis of 'Rules of Business for Non-Bank Financial Institutions' issued by the State Bank of Pakistan and charged to the profit and loss account.

Advances are written off when there is no realistic prospect of recovery.

2.6 Amounts recoverable under finance leases

Consistent with prior years when assets are held subject to finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

2.7 Taxation

Current

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

Deferred

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

Consistent with prior years the company recognises deferred tax asset / liability on deficit / surplus on revaluation of investments which is adjusted against the related surplus.

2.8 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation except leasehold land which is stated at cost.

Depreciation is charged to the profit and loss account applying the straight line method whereby the cost of an asset is written off over its estimated service life.

The full annual rate of depreciation is applied on the cost of additions while no depreciation is charged on assets deleted during the year.

Maintenance and normal repairs are charged to income as and when incurred.

Profit or loss on sale or retirement of fixed assets is included in income currently.

2.9 Staff retirement benefits

The company operates a funded gratuity scheme for all its permanent and contract employees. Contribution to the fund is made every year. The scheme was approved by the Commissioner of Income Tax effective May 1, 2000.

The projected unit credit method, as allowed under the International Accounting Standard No. 19 'Employee Benefits' (revised 2000), was used for actuarial valuation based on the following significant assumptions.

- discount rate – 6% per annum
- expected rate of increase in salaries – 6% per annum
- expected rate of return on investment – 6% per annum

Actuarial gains or losses are recognised in accordance with the actuarial recommendation.

The last actuarial valuation of the scheme was conducted as at December 31, 2003.

The company also operates a recognised provident fund scheme for its employees. Equal monthly contributions are made, both by the company and the employees, to the fund at the rate of 10 % of the basic pay.

2.10 Employees' compensated absences

Liability in respect of employees compensated absences is recognised on the basis of actuarial valuation and is accounted for in the period in which these are earned in terms of basic salary earned upto the balance sheet date.

The last actuarial valuation of the employees' compensated absences was conducted as of December 31, 2003.

2.11 Revenue recognition

- (i) Dividend income is recognised when the company's right to receive payment is established.
- (ii) Gain on sale of shares and income from loans, term finance certificates, debentures, bank deposits, government securities and reverse repo transactions are recognised on accrual basis, except where recovery is considered doubtful the income is recognised on receipt basis.
- (iii) The company follows the finance method in recognising income on lease contracts. Under this method the unearned income i.e. the excess of aggregate lease rentals and the estimated residual value over the cost of the leased asset is deferred and then amortised over the term of the lease, so as to produce a constant rate of return on net investment in the lease.

2.12 Foreign currencies

Monetary assets and liabilities in foreign currencies are reported in Pakistan rupees at the rates of exchange prevailing on the balance sheet date except those liabilities covered under forward exchange contracts which are reported at the contractual rates. Foreign currency transactions during the year are recorded at the rates prevailing on the date of transaction.

Exchange gains and losses are included in income currently.

2.13 Off-setting of financial assets and financial liabilities

A financial asset and financial liability is setoff and the net amount is reported in the balance sheet if the company has a legal right to setoff the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.14 Related party transactions

For the purpose of ascertaining whether an investee company is associated or not, that investee company where a director or officer of the company has been nominated as a director on its (the investee company's) behalf and the company has a shareholding in excess of twenty percent in that investee company and is therefore able to exercise significant influence over that investee company has been considered as an associated company.

3. CASH AND BANK BALANCES**2003****2002**

Rupees '000

Balances with banks in:		
-Current accounts	36,844	67,712
-Savings accounts	533,408	618,270
-Call deposits	173,587	107,301
Cash reserve with the SBP - note 3.1	27,000	18,000
	<u>770,839</u>	<u>811,283</u>

- 3.1 This represents the amount required to be maintained with the SBP by the company in accordance with the regulations of SBP for NBFIs.

4. INVESTMENTS**2003****2002**

Rupees '000

Government securities		
Treasury bills - notes 4.1, 4.2 and 4.4	298,756	631,317
Federal Investment Bond (FIB)	-	25,000
Pakistan Investment Bonds (PIBs) - notes 4.1, 4.3 and 4.4	75,510	679,735
	<u>374,266</u>	<u>1,336,052</u>
Surplus on revaluation of investments - note 4.5	900	195,901
	<u>375,166</u>	<u>1,531,953</u>
Quoted securities		
Listed companies, modarabas, TFCs and mutual funds - at cost - notes 4.6 and 4.8	5,706,290	3,358,800
Surplus on revaluation of investments - note 4.5	717,304	1,045,504
	<u>6,423,594</u>	<u>4,404,304</u>
Unquoted redeemable capital - note 4.7	208,460	99,237
Less: Provision for diminution in the value of investments - note 4.9	60,885	46,150
	<u>147,575</u>	<u>53,087</u>
Unquoted ordinary shares	97,349	89,559
Less: Provision for diminution in the value of investments - note 4.9	52,126	62,508
	<u>45,223</u>	<u>27,051</u>
Investment in associates		
Quoted ordinary shares		
Cost	751,711	545,647
Surplus on revaluation of investments - note 4.5	805,820	426,168
	<u>1,557,531</u>	<u>971,815</u>
Unquoted ordinary shares		
Cost	105,250	58,670
Less: Provision for diminution in value of investments - note 4.9	6,837	2,894
	<u>98,413</u>	<u>55,776</u>
	<u>8,647,502</u>	<u>7,043,986</u>

- 4.1 Treasury bills and PIBs are held with the SBP for dealing purposes and are also eligible for rediscounting with the SBP.
- 4.2 These treasury bills carry returns ranging from 1.15 (2002: 6.65) to 1.88 (2002: 6.97) percent per annum and have maturity periods ranging between February 19, 2004 (2002: May 2, 2003) to April 15, 2004 (2002: August 21, 2003).

- 4.3 These PIBs carry returns ranging from 7 (2002: 9) to 11 (2002: 13) percent per annum and have maturity periods ranging between 2005 to 2013 (2002:2005 to 2012).
- 4.4 Government securities (treasury bills and PIBs) having a cost of Rs. Nil (2002: Rs. 1,046,599 million) are pledged as collateral against borrowings from financial institutions (note 12).

4.5 Surplus on revaluation of investments

	2003	2002
	Rupees '000	
Government securities		
Treasury bills	(435)	7,353
Federal Investment Bond (FIB)	-	132
Pakistan Investment Bonds (PIBs)	1,335	188,416
	900	195,901
Less: Deferred tax on government securities at the rate of 35% (2002: 41%) - note 10	315	80,319
	585	115,582
Quoted securities		
Listed companies, modarabas, TFCs and mutual funds	717,304	1,045,504
Investment in associates		
Quoted ordinary shares	805,820	426,168
As at December 31	1,523,709	1,587,254

- 4.6 Quoted securities include securities having a market value of Rs. 1,660,497 million (2002: Rs. 336,392 million) and a cost of Rs. 1,732,042 million (2002: Rs. 266,522 million) with surplus on revaluation aggregating Rs. 71,545 million (2002: Rs. 69,870 million) which are held as trading securities. Included in net gains on stock exchange operations (note 21) is a net gain of Rs. 348,101 million (2002: net gain of Rs. 44,421 million) arising on trading securities.
- 4.7 Included in unquoted redeemable capital is an amount of Rs. 26,759 million (2002: Rs. 30,814 million) receivable within twelve months against which provision of Rs Nil (2002: Rs.16 million) is made for receivables considered doubtful.
- 4.8 Included in listed companies, modarabas, TFCs and mutual funds is an amount of Rs. 140,000 million (2002: Rs. 134,800 million) representing cost of investment in term finance certificates (TFCs), which were subsequently quoted on the Karachi and Lahore Stock Exchanges.
- 4.9 Provision for diminution in the value of investments

	2003	2002
	Rupees '000	
Opening balance	111,552	936,799
Charge for the year		
- Unquoted redeemable capital	44,885	-
- Unquoted ordinary shares	322	-
- Unquoted ordinary shares - associates	3,943	2,894
	49,150	2,894
Reversals		
- Marketable securities	-	782,683
- Unquoted redeemable capital	10,325	43,058
- Unquoted ordinary shares	3,700	-
- Unquoted ordinary shares - associates	-	-
	14,025	825,741
Write offs against provision		
- Unquoted redeemable capital	19,825	-
- Unquoted ordinary shares	7,004	2,400
- Unquoted ordinary shares - associates	-	-
	26,829	2,400
	119,848	111,552

5. PLACEMENTS WITH AND LENDING TO FINANCIAL INSTITUTIONS

2003 2002

Rupees '000

Reverse repurchase agreements - notes 5.1 and 5.2	1,765,438	51,247
Certificates of investments (COIs) - notes 5.3 and 5.4	1,142,910	1,137,260
Placements - note 5.5	1,300,000	745,000
	<u>4,208,348</u>	<u>1,933,507</u>

- 5.1 Repurchase agreement lendings (reverse repos) carry interest at rates ranging between 1.9 to 6 (2002: 6.9) percent per annum and have maturities upto March 18, 2004 (2002: February 22, 2003).
- 5.2 Securities held as collateral of an aggregate amount of Rs 899.417 million (2002:Rs Nil) are further lodged as collateral.
- 5.3 This includes COIs in local currency amounting to Rs 1,015 million. The profit rates on these COIs range between 2.25 (2002: 4.95) to 5.45 (2002:14.25) percent per annum. All COIs are due for maturity within six months (2002: six months).
- 5.4 This also includes a COI in foreign currency amounting to US \$ 2.228 million (2002: US \$ 2.199 million). The expected profit rate on this COI is 1.17 (2002: 1.47) percent per annum and is due for maturity on February 4, 2004 (2002: June 3, 2003).
- 5.5 The returns on these placements range between 3.25 (2002: 6.5) to 5.5 (2002: 8.5) percent per annum and have maturity periods ranging between 3 months to 1 year (2002: 6 to 7 months).

6. COMMERCIAL PAPER

The commercial paper carries a return of 3.81 percent per annum maturing on April 26, 2004.

7. LOANS AND ADVANCES

2003 2002

Rupees '000

Long term loans and advances	1,104,029	1,997,266
Short term loans and advances	572,834	775,029
Staff loans - note 7.2	43,099	38,981
Total advances - notes 7.3, 7.4 and 7.5	<u>1,719,962</u>	<u>2,811,276</u>

Less: Provision for doubtful advances - note 7.6	188,289	221,401
	<u>1,531,673</u>	<u>2,589,875</u>

- 7.1 Considered good - note 7.4
- Considered doubtful - notes 7.4 and 7.5
- | | | |
|--|------------------|------------------|
| | 1,531,673 | 2,589,875 |
| | 188,289 | 221,401 |
| | <u>1,719,962</u> | <u>2,811,276</u> |

Less: Provision for doubtful advances - notes 7.6 and 7.7	188,289	221,401
	<u>1,531,673</u>	<u>2,589,875</u>

- 7.2 Included in staff loans is an amount of Rs Nil (2002: Rs 5.8 million) which is due from the Chief Executive.
- 7.3 Included in total advances are amounts aggregating Rs 153.065 million (2002: Rs 560.340 million) which are outstanding for over three years.
- 7.4 Included in balances considered good and doubtful are amounts aggregating Rs 756.900 million (2002: Rs 2,271.525 million) and Rs 51.147 million (2002: Rs 199.600 million) respectively which are receivable within one year.

- 7.5 Advances include Rs 348,289 million (2002: Rs 381,401 million) which have been placed under non-performing status as detailed below:

	Amount outstanding	Provision required	Provision held
	Rupees '000		
Other assets especially mentioned	-	-	-
Substandard	-	-	-
Doubtful - note 7.5.1	320,000	160,000	160,000
Loss	28,289	28,289	28,289
	<u>348,289</u>	<u>188,289</u>	<u>188,289</u>

- 7.5.1 Under a restructuring arrangement endorsed by the Government the loan has been restructured and payment of mark up has recommenced.

- 7.6 Particulars of provision against non-performing loans and advances

	2003 Specific	2002 Specific
	Rupees '000	
Opening balance	221,401	226,401
Charge for the year	-	-
Reversals	(17,212)	(2,800)
	(17,212)	(2,800)
Amounts written off - note 7.7	(15,900)	(2,200)
Closing balance	<u>188,289</u>	<u>221,401</u>

- 7.7 Particulars of write off

Against provisions	15,900	2,200
Directly charged to the profit and loss account	-	-
	<u>15,900</u>	<u>2,200</u>

8. AMOUNTS RECOVERABLE UNDER FINANCE LEASES

	2003			2002		
Net investment in leases	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	Rupees '000					
Lease rentals receivable	173,071	243,477	416,548	197,331	446,024	643,355
Residual value	2,777	21,734	24,511	16,344	25,633	42,177
Minimum lease payments	175,848	265,211	441,059	213,893	471,637	685,532
Financial charges for future periods	28,389	24,636	53,225	109,216	85,793	195,009
Present value of minimum lease payments	<u>147,199</u>	<u>240,575</u>	<u>387,814</u>	<u>104,679</u>	<u>385,864</u>	<u>490,543</u>

- 8.1 In respect of the aforementioned finance leases the company holds an aggregate sum of Rs. 25,540 million (2002: Rs 38,164 million) as security deposits on behalf of the lessees which are included under 'creditors, accrued expenses and other liabilities' (note 14).
- 8.2 The principal amount of lease rentals and salvage value due but not received are disclosed in note 9.2.
- 8.3 The company has entered into lease agreements with various companies for lease of vehicles and plant and machinery. The amount recoverable under these arrangements are receivable by the year 2008 and are subject to finance income at rates ranging between 4.69 (2002: 12) to 16.25 (2002: 19.75) percent per annum.

9. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

2003 2002

Rupees '000

Advances		
Unsecured, considered good		
- to employees	20	20
- to suppliers	2,575	26
	2,595	46
Security deposits	457	311
Prepayments		
- forward exchange risk cover fee paid to the SBP	-	29,465
- others	4,498	1,615
	4,498	31,080
Other receivables - note 9.1	798,098	1,075,237
	805,648	1,106,674
9.1 Other receivables		
Income and mark-up receivable on advances, term finance certificates, finance leases and others - secured		
- Considered good	46,343	142,739
- Considered doubtful	24,077	54,512
	70,420	197,251
Less: Provision for doubtful income receivable	24,077	54,512
	46,343	142,739
Income receivable on financings, government securities and guarantees - secured	5,465	49,413
Income receivable on commercial paper	168	-
Income receivable on certificates of investment	6,452	14,766
Income receivable on reverse repurchase agreements	2,641	-
Dividends	32,821	64,774
Receivable on account of sale of marketable securities	658,539	772,937
Central excise duty - note 20.1.1	2,077	2,077
Principal amount of lease rentals and salvage value due but not received - note 9.2	1,823	6,813
Advance for purchase of membership of Karachi Stock Exchange (Guarantee) Limited (KSE) - note 9.1.1	34,750	-
Others	7,019	21,718
	798,098	1,075,237

9.1.1 The company's bid for membership in KSE was accepted during the year, however, approval of membership is under process with the KSE.

2003 2002
Rupees '000

9.2 Principal amount of lease rentals and salvage value due but not received		
- Considered good	1,823	6,813
- Considered doubtful - note 9.2.1	5,791	56,654
	7,614	63,467
Less: Provision for doubtful receivables - note 9.2.2	5,791	56,654
	1,823	6,813

9.2.1 Leases include Rs 5,791 million (2002: Rs 56,654 million) which have been placed under non-performing status as detailed below:

	Amount outstanding	Provision required	Provision held
	Rupees '000		
Other assets especially mentioned	-	-	-
Substandard	-	-	-
Doubtful	-	-	-
Loss	5,791	5,791	5,791
	<u>5,791</u>	<u>5,791</u>	<u>5,791</u>

9.2.2 Particulars of provision against non-performing leases

	2003 Specific	2002 Specific
	Rupees '000	
Opening balance	56,654	57,045
Charge for the year	-	1,363
Reversals	(33,863)	(1,754)
	<u>(33,863)</u>	<u>(391)</u>
Amounts written off	(17,000)	-
Closing balance	<u>5,791</u>	<u>56,654</u>

10. DEFERRED TAXATION

	2003	2002
	Rupees '000	
Debit/(credit) balances arising on account of:		
Accelerated tax depreciation allowances	6,040	7,562
Provision for staff retirement gratuity and compensated absences	7,960	6,947
Other staff benefits	7,049	6,333
Finance lease arrangements	(41,187)	(8,864)
Exchange difference	68,900	78,791
Provision for contingencies	56,000	84,071
Surplus on revaluation of government securities - note 4.5	(315)	(80,319)
	<u>104,447</u>	<u>94,521</u>

11. TANGIBLE FIXED ASSETS

Operating assets - note 11.1	64,914	55,098
Capital work in progress - note 11.2	8,573	10,097
	<u>73,487</u>	<u>65,195</u>

11.1 Operating assets

Following is a statement of operating assets:

	Cost as at January 1, 2003	Additions/ (deletions)	Cost as at December 31, 2003	Accumulated depreciation as at January 1, 2003	Depreciation for the year/ (on disposals)	Accumulated depreciation as at December 31, 2003	Net book value as at December 31, 2003	Rate (%) of depreciation for the year
-----Rupees '000-----								
Leasehold lands	100	-	100	-	-	-	100	-
Buildings on leasehold lands	43,549	-	43,549	13,081	1,089	14,170	29,379	2.5
Furniture and fixtures	14,535	6,276	20,811	11,525	3,313	14,838	5,973	20
Motor vehicles	34,028	16,193	47,571	18,527	7,359	24,854	22,717	20
Office equipment	19,254	(2,630)	16,624	15,760	(1,082)	15,578	1,046	33.33
Electrical appliances	3,270	(4,852)	(1,582)	2,745	(640)	2,105	1,475	20
		(195)			(133)			
2003	116,736	26,069	141,230	61,638	16,483	76,316	64,914	
2002	107,994	(3,575)	116,736	55,120	(1,805)	53,315	63,421	
		(14,762)			(7,039)			

11.2 Capital work in progress

	2003	2002
Rupees '000		
Advance for purchases of vehicles	1,643	9,342
Advance for purchase of office premises	6,260	-
Advance for building renovation	670	755
	<u>8,573</u>	<u>10,097</u>

12. BORROWINGS FROM FINANCIAL INSTITUTIONS

Secured

The company has arranged borrowings from various financial institutions against sale and repurchase of government securities as stated in notes 4.4 and 5.2. The overall facility for these finances under markup arrangements amounts to Rs 899,417 million (2002: Rs 1,138,351 million) for periods ranging from thirty-one days (2002: two days) to three months (2002: six months). The markup on these finances ranges between 1.55 (2002: 3.5) percent to 2.55 (2002: 7.5) percent per annum.

13. CERTIFICATES OF INVESTMENT

The profit rates on these certificates of investment (COIs) range between 1.6 (2002: 5.15) to 5 (2002: 14) percent per annum. The COIs are due for maturity between January 22, 2004 to August 30, 2006 (2002: January 2, 2003 to August 30, 2006). Included in COIs is an amount of Rs 2,200 million (2002: Rs 2,100 million) payable within twelve months.

14. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES

	2003	2002
	Rupees '000	
Accrued liabilities	68,930	33,445
Return accrued on term deposits	-	57,710
Interest accrued on loan	-	56,815
Return accrued on certificates of investment	18,721	52,211
Return accrued on borrowings from financial institution	1,879	-
Return on borrowing against term finance certificates	14,519	-
Arrangement fee and commitment charges payable to financial institutions	301	27,593
Security deposits - note 8.1	25,540	38,164
Retention money payable	508	104
Provision for loss on foreign currency deposits under arrangements with SBP	-	22,255
Payable on account of purchase of marketable securities	683,544	71,379
Proposed dividend	580,000	500,000
Exchange losses incurred on a loan - note 14.2	248,670	-
Employees' compensated absences	6,063	4,739
Other liabilities	25,276	12,937
	<u>1,673,951</u>	<u>877,352</u>

- 14.1 Included in the balance of creditors, accrued expenses and other liabilities is an amount of Rs. 21,236 million (2002: Rs 25,710 million) which is payable after one year.
- 14.2 This represents aggregate exchange losses deemed to be incurred on a foreign currency loan, now fully repaid.

15. LOAN AND FINANCE

	2003	2002
	Rupees '000	
Loan		
Asian Development Bank (ADB) - note 15.1	-	789,317
Unsecured finance SBP - note 15.2	-	19,068
	<u>-</u>	<u>808,385</u>

- 15.1 As an approved Participating Financial Institution (PFI), the company had utilised amounts aggregating US \$ 14.852 million (2002: US \$ 14.852 million), out of a US \$ 100 million credit line available from ADB. Interest on the loan was payable at the rate of 6.69% per annum (2002: 6.69% and 6.34% per annum) during the year, which is based on the Ordinary Capital Resources rate of the ADB. The company has prepaid this loan.
- 15.2 This local currency finance was acquired from the SBP under lines of credit for refinancing purchases of locally manufactured machinery (LMM). The company has prepaid this loan.

16. TERM FINANCE CERTIFICATES

Unsecured (non-participatory)

These represent finances obtained through issue of privately placed term finance certificates of five years maturity. The markup is payable semi-annually. The rate of profit ranges from 150 to 170 basis points over the cut-off yield of the last successful auction of six months T-bills. As at December 31, 2003 the effective rates ranging between 3.16 to 3.36 percent per annum.

17. STAFF RETIREMENT GRATUITY**2003****2002**

Rupees '000

17.1 Movement in liability

Opening balance	18,339	12,155
Expense charged in the current year - note 23.1	5,601	12,727
Company's contribution to the gratuity fund	(1,129)	(6,543)
Closing balance	<u>22,811</u>	<u>18,339</u>

17.2 Balance sheet reconciliation

Obligation	30,002	26,649
Plan assets	(557)	(1,032)
Unrecognised actuarial losses	(6,634)	(7,278)
	<u>22,811</u>	<u>18,339</u>

18. ISSUED, SUBSCRIBED AND PAID - UP CAPITAL**18.1 Authorised capital**

80,000 ordinary shares of Rs 25,000/-each	<u>2,000,000</u>	<u>2,000,000</u>
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18.2 Issued, subscribed and paid - up capital

2003	2002			
25,950	25,950	ordinary shares of Rs 25,000 each issued for cash	648,750	648,750
34,050	20,050	ordinary shares of Rs 25,000 each issued as bonus shares	851,250	501,250
<u>60,000</u>	<u>46,000</u>		<u>1,500,000</u>	<u>1,150,000</u>

The State Bank of Pakistan (SBP) on behalf of the Government of Pakistan (GoP) and the Kuwait Investment Authority (KIA) on behalf of the Government of Kuwait each held 30,000 (2002: 23,000) ordinary shares of the company as at December 31, 2003.

19. RESERVES**2003****2002**

Rupees '000

Capital reserves - note 19.1	2,140,862	1,924,880
Revenue reserves - note 19.2	4,153,711	2,469,783
	<u>6,294,573</u>	<u>4,394,663</u>

19.1 Capital reserves

Compulsory reserve (reserve fund) - note 19.1.1		
As at January 1	1,494,835	1,069,380
Add: Appropriation of profit	565,982	425,455
	<u>2,060,817</u>	<u>1,494,835</u>
Reserve for issue of bonus shares		
As at January 1	350,000	-
Bonus shares issued / transfer of profit	(350,000)	350,000
	<u>-</u>	<u>350,000</u>
Special reserve - note 19.1.2	80,045	80,045
	<u>2,140,862</u>	<u>1,924,880</u>

19.1.1 Compulsory reserve (reserve fund)

In terms of article 67(1) of the Articles of Association of the company, an amount equal to 10% of the net profit for the year shall be made and set aside for the formation of a compulsory reserve. Such percentage ceases to be compulsory when the said reserve exceeds 25% of the paid-up share capital of the company.

According to NBFIs' circular No. 1 dated December 5, 1991 issued by the SBP, an amount not less than 20% of the profit shall be transferred to create a reserve fund till such time the reserve fund equals the amount of the paid-up capital. The company has transferred Rs 565.982 million (2002: Rs 425.455 million) out of its 'profit after taxation' for the year to the compulsory reserve.

Although the reserve fund is now in excess of the paid-up capital, the company shall continue to appropriate 20 % of its profit after taxation towards the compulsory reserve.

19.1.2 Special reserve

This 'special reserve' was created during the year 1999 under section 23 (1) (ix) of the Income Tax Ordinance, 1979 (now repealed) by transferring Rs 80.045 million out of the 'profit after taxation' for that year to the special reserve. However, as the said subsection has been omitted by the Finance Ordinance, 2000 therefore similar amounts are no longer being transferred to this account.

19.2 Revenue reserves

2003

2002

Rupees '000

General reserve

As at January 1

1,754,698

1,754,698

Add: Appropriation of profit

235,226

-

1,989,924

1,754,698

Contingencies reserve – note 19.2.1

As at January 1

48,500

28,263

Add: Appropriation of profit

21,644

20,237

70,144

48,500

Marketable and government securities reserve – note 19.2.2

As at January 1

666,585

-

Add: Appropriation of profit

1,427,058

666,585

2,093,643

666,585

4,153,711

2,469,783

19.2.1 Contingencies reserve

Effective December 31, 2000 the company has set up a separate 'contingencies reserve' to which an amount equal to 1% of the outstanding balance as at the year end, of loans and advances, leases and TFCs considered good, excluding balances relating to back to back lending and financings against sovereign guarantees, is appropriated from the profit.

19.2.2 Marketable and government securities reserve

The company had set up a separate 'stock market fluctuation reserve' to which an amount of Rs. 666.585 million had been transferred out of the profit for the year ended December 31, 2002. The company shall now keep this reserve at a minimum of 25 percent of shareholders' funds to provide sufficient cushion against volatility in the value of the stock market portfolio and government securities and accordingly the reserve has now been titled as 'marketable and government securities reserve'.

20. CONTINGENCIES AND COMMITMENT

20.1 Contingent liabilities

20.1.1 In terms of the joint venture agreement between the governments of Pakistan and Kuwait, the company was granted exemption from payment of central excise duty (CED) in respect of loans and advances made to any person vide SRO No. 1064 (I)/91 dated October 6, 1991. The said exemption was withdrawn by the Central Board of Revenue (CBR) vide SRO dated June 28, 1995. The CED on loans and advances made by the banking companies / financial institutions was subsequently withdrawn by the Government of Pakistan (GoP) through SRO No. 418 (I)/97 and SRO No. 419 (I) / 97 dated June 13, 1997.

The company had made a representation to the GoP requesting it to restore the specific exemption earlier available to the company for the period for which the exemption was withdrawn. The GoP vide its letter No. 2291-J5 (IF) / 09 dated June 26, 1998 turned down the representation and advised the company to deposit the CED with the Collector Excise, Karachi as it maintained that the CED was payable by the borrowers and it was not an incidence of tax on the company. An amount of Rs. 200.802 million was accordingly deposited under protest.

The Additional Collector, Excise has through his letter dated November 16, 1999 lodged a claim of Rs. 24.885 million (comprising CED due from leasing companies and from such other companies which had earlier obtained stay orders from the courts) and levied a penalty of Rs. 0.200 million. The company had filed an appeal with the Collector Appeals, Customs, Central Excise and Sales Tax to set aside the above claim, which was decided against it. The company had therefore filed an appeal with the Appellate Tribunal against that decision. The Appellate Tribunal had stayed the payment of Rs. 15 million out of the above and the company deposited the balance amount of Rs. 10.085 million under protest on December 13, 1999 until the case is decided. Out of the foregoing amount, a sum of Rs. 2.077 million (2002: Rs. 2.077 million) is shown as CED receivable under note 9.1. The company has not made any provision for the amounts claimed as the matter is still pending with the Appellate Tribunal and based on the appeal filed, on its behalf, by the legal counsel, the company is confident that eventually no liability will be attached to it.

- 20.1.2** During the year ended December 31, 2002 the Inspecting Additional Commissioner of Income Tax had revised the assessments of the company for the assessments years 2000-2001 and 2001-2002 under section 66A of the Income Tax Ordinance, 1979, and section 122 of the Income Tax Ordinance, 2001. Through the revised orders the income from foreign currency deposits with the SBP has been subjected to tax. This income was treated as exempt in the original assessment orders framed under section 62 of the Income Tax Ordinance, 1979. The amount of tax levied by the assessing authorities on such income aggregated Rs 253 million. The net tax liability for the aforesaid assessment year and other relevant assessment years which could arise as a result of subject revision in assessment and after considering relief for the related expenditure would amount to approximately Rs 295 million. The company had filed an appeal against the orders of the IAC with the Commissioner of Income Tax (Appeals) which was decided against the company. An appeal is now pending with the Appellate Tribunal. The management is of the view that the orders of the IAC and the CIT Appeals do not represent the correct status as this income is exempt under the Protection of Economic Reforms Act, 1992. However, the company had paid Rs 150 million after considering the impact of the relief of the related expenditure in order to avoid the exposure of any additional tax. No provision has been recognized in these accounts as the management is confident that the ultimate outcome of the appeal on this issue would be decided in the company's favour.

	2003	2002
	Rupees '000	
20.1.3 Direct credit substitute - Guarantee issued	-	205,267

The company had issued a counter guarantee in favour of a bank. During the year ended December 31, 2002 the Government of Pakistan had communicated to the bank that it (that bank) has been absolved of its guarantee.

	2003	2002
	Rupees '000	
20.2 Commitments		
Undisbursed sanctions for financial assistance in the form of loans, equity, lease and underwriting	821,783	206,994
Commitments for capital expenditure	64,030	-

21. FINANCIAL AND OTHER INCOME - GROSS**2003****2002**

Rupees '000

Income on loans and advances	105,264	471,290
Income from term finance certificates	52,138	25,736
Income from bank deposits	69,169	70,930
Income from short term financings, government securities and guarantees	89,933	238,114
Income on finance leases	51,630	61,543
Income on certificates of investment and commercial paper	40,771	46,296
Income on marketable bonds in foreign currency	-	10,825
Dividends	471,036	389,647
Commission and fees	14,080	14,856
Gain on sale of marketable bonds in foreign currency	-	51,551
Gain on sale of government securities	164,835	-
Gain on sale of TFCs / unquoted ordinary shares	-	38,220
Net gains on stock exchange operations - note 4.6	2,454,836	803,050
Exchange (loss)/gain - net - note 21.1	(4,315)	9,935
Profit on sale of fixed assets	49	5,695
Other income	2,629	3,844
	<u>3,512,055</u>	<u>2,241,532</u>

- 21.1 Included in exchange (loss)/gain - net is income on foreign currency deposits amounting to Rs 11.455 million (2002: Rs 10.741 million) which is similar to income on foreign currency deposits which are exempt from income tax under the Protection of Economic Reforms Act, 1992.

22. FINANCIAL CHARGES - GROSS**2003****2002**

Rupees '000

Profit on LMM refinance facility	1,009	2,549
Return on term deposits	17,781	114,182
Interest on long term loan	9,671	53,319
Mark-up on TFCs issued	40,040	-
Return on COIs and short term borrowings	92,871	139,616
Forward exchange risk cover fee	26,370	189,108
Amortisation of premium on government securities	6,794	1,945
Return on borrowing from financial institutions	10,410	13,648
Brokerage and commission	2,850	1,184
Arrangement fee and commitment charges to financial institutions	9,467	27,243
	<u>217,263</u>	<u>542,794</u>

23. ADMINISTRATIVE AND GENERAL EXPENSES**2003****2002**

Rupees '000

Salaries, allowances and employees' benefits	119,323	88,319
Directors' remuneration (including remuneration of chief executive)	44,904	20,761
Provision for gratuity – note 23.1	5,601	12,727
Employer's contribution to the provident fund	3,061	2,710
Travelling and conveyance	7,009	7,464
Rent and rates	2,303	702
Utilities	1,685	1,203
Communication	3,430	2,460
Professional training and staff welfare	659	271
Advertisements, periodicals and membership dues	6,466	6,509
Printing and stationery	2,320	2,535
Depreciation	16,483	13,557
Audit fee	550	550
Legal, consultancy and other professional services	25,157	9,954
Central excise duty receivable written off	-	142
Repairs and maintenance	4,448	2,328
Motor vehicle expenses	2,654	2,150
Insurance	2,130	1,552
Donations – note 23.2	20,044	10,998
Entertainment	590	915
Software development expenses	928	2,089
Bank charges	356	751
Miscellaneous	5,867	4,129
	<u>275,968</u>	<u>194,776</u>
23.1 Provision for gratuity		
Current service cost	2,593	2,620
Interest cost	1,790	2,181
Expected return on plan assets	(134)	(633)
Actuarial loss amortised	355	115
Settlement cost	997	8,444
	<u>5,601</u>	<u>12,727</u>

- 23.2** Donations in excess of Rs 100,000 each were charged to profit and loss account during the year ended December 31, 2003 in respect of Citizen Foundation, Taluka Hospital Tando Mohd Khan, Al Umeed Rehabilitation, Institute of Cost and Management Accountants of Pakistan, Child Aid Association, Sindh Government Qatar Hospital, Manghopir Maternity Home, Musafirkhana Tando Adam and Tando Mohd Khan, Islamic University, Shaukat Khanum Memorial Hospital, Sir Syed Deaf Association, Pakistan Association of the Deaf, Sindh Institute of Urology and Transplantation, City District Government Karachi for Anti Beggary and Masjid-e-faran. Donations were not made to any donee in whom a director or his spouse had any interest at any time during the year.

24. REVERSAL OF PROVISION FOR CONTINGENCIES**2003****2002**

Rupees '000

Reversal of provision for diminution in the value of marketable securities	-	(782,683)
Provision/(reversal) for diminution in the value of investments in redeemable capital and unquoted ordinary shares	35,125	(40,164)
Reversal of provision against non-performing loans and advances	(17,212)	(2,800)
Reversal of provision for doubtful finance lease receivables	(33,863)	(391)
Credit for the year	<u>(15,950)</u>	<u>(826,038)</u>

25. TAXATION**2003** **2002**

Rupees '000

Current		
- For the year	134,786	199,112
- For prior years	-	(48,263)
	134,786	150,849
Deferred tax	70,078	51,874
	204,864	202,723

25.1 Reconciliation between tax expense and accounting profit

Profit before taxation	3,034,774	2,330,000
Tax at the applicable rate of 35% (2002: 43%)	1,062,171	1,001,900
Tax effect on income taxed at different rates	(141,311)	(131,184)
Net tax effect of income not subject to tax and expenses that are not allowable in determining taxable income	(741,582)	(611,201)
Effect of change in tax rate	25,586	-
Effect of difference in tax rate considered for deferred and current taxation purposes	-	(8,529)
	204,864	250,986
Tax charge for the year		
- current	134,786	199,112
- deferred	70,078	51,874
	204,864	250,986

26. BASIC EARNINGS PER SHARE

Profit after taxation (Rupees in thousand) (a)	2,829,910	2,127,277
Number of ordinary shares (b) - note 26.1	60,000	60,000
Basic earnings per share (a ÷ b)	Rs. 47,165	Rs. 35,455

26.1 Number of ordinary shares as at December 31, 2002 have been adjusted for issue of bonus shares.

27. DIVIDEND PER SHARE**2003** **2002**

Rupees '000

Dividend – cash		
- interim	-	165,000
- final – proposed	580,000	500,000
Total (Rupees in thousand) (a)	580,000	665,000
Number of ordinary shares (b)	60,000	46,000
Dividend per share (a ÷ b) of Rs 25,000 each	Rs. 9,667	Rs. 14,456

28. CASH GENERATED FROM / (USED IN) OPERATIONS

Profit before taxation	3,034,774	2,330,000
Adjustments for:		
Depreciation	16,483	13,557
Surplus on revaluation of investments	(143,549)	1,667,573
Other staff benefits	28,572	11,900
Profit on sale of fixed assets	(49)	(5,695)
Forward exchange risk cover fee	26,370	189,108
Dividends	(471,036)	(389,647)
Financial and other income	(408,905)	(928,578)
Financial charges	171,782	323,314
Working capital changes - note 28.1	(108,012)	(3,030,464)
	2,146,430	181,068

	2003	2002
	Rupees '000	
28.1 Working capital changes		
(Increases) / decreases in current assets		
Investments	(409,482)	(3,009,363)
Placements with and lending to financial institutions	(2,274,841)	(1,758,507)
Commercial paper	(24,529)	-
Loans and advances	1,366,172	(57,461)
Amounts recoverable under finance leases	(42,580)	(67,229)
Advances, deposits, prepayments and other receivables	93,759	(206,747)
	(1,291,501)	(5,099,307)
Increases / (decreases) in current liabilities		
Borrowings from financial institutions	(238,934)	1,138,351
Certificates of investment	100,000	1,545,000
Creditors, accrued expenses and other liabilities	651,358	(718,598)
Term finance certificates	2,000,000	-
Foreign currency deposits	(1,333,407)	97,906
Staff retirement gratuity	4,472	6,184
	1,183,489	2,068,843
	(108,012)	(3,030,464)

29. FINANCIAL ASSETS AND LIABILITIES

	Effective yield/ interest rate %	Interest bearing			Non interest bearing			Total 2003	Total 2002
		Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total		
Rupees '000									
Financial assets									
Cash and bank balances	1.95	733,340	-	733,340	37,499	-	37,499	770,839	811,283
Investments	7.31	290,321	654,355	952,676	5,927,432	1,767,194	7,694,826	8,647,502	7,043,986
Placements with and lending to financial institutions	2.63	4,208,348	-	4,208,348	-	-	-	4,208,348	1,933,507
Lending against commercial paper	3.81	24,529	-	24,529	-	-	-	24,529	-
Loans and advances	5.61	699,589	787,819	1,487,408	6,204	38,081	44,285	1,531,673	2,589,875
Amounts recoverable under finance leases	8.81	147,239	340,575	387,814	-	-	-	387,814	452,379
Advances, deposits, prepayments and other receivables	10.96	315,966	-	315,966	489,682	-	489,682	805,648	1,075,217
		6,427,312	1,682,789	8,110,101	6,460,817	1,805,435	8,266,272	16,376,373	13,906,267
Financial liabilities									
Borrowings from financial institutions	2.17	899,417	-	899,417	-	-	-	899,417	1,138,351
Certificates of investment	2.79	2,200,000	216,000	2,416,000	-	-	-	2,416,000	2,516,000
Creditors, accrued expenses and other liabilities	-	-	-	-	1,642,348	-	1,642,348	1,642,348	839,188
Loan and finance	-	-	-	-	-	-	-	-	808,185
Term finance certificates	3.26	-	2,000,000	2,000,000	-	-	-	2,000,000	-
Foreign currency deposits	-	-	-	-	-	-	-	-	1,333,407
		3,099,417	2,216,000	5,315,417	1,642,348	-	1,642,348	6,957,765	6,635,131

29.1 Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair values.

29.2 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. However, the company does not believe that it is exposed to major concentration of credit risk. The company reduces such exposure to credit risk by portfolio diversification and adequate collateral, wherever applicable. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. Further, the company appropriates an estimated amount in percentage term as 'contingencies reserve' each year as referred to in note 19.2.1 to these financial statements.

29.3 Currency risk exposure

Currency risk is the risk that the value of a financial instrument will fluctuate due to change in foreign currency rates.

29.3.1 The assets and liabilities of the company exposed to currency risk are as follows:

	2003		2002	
	Assets	Liabilities	Assets	Liabilities
	Rupees '000			
US dollars	192,472	-	195,657	789,317
Euro	179	-	158	-
Pound Sterling	71	-	91	-
	192,722	-	195,906	789,317

29.4 Maturities of assets and liabilities as on December 31, 2003

	Total	Upto one year	One year to five years
	Rupees '000		
Assets			
Cash and bank balances	770,839	770,839	-
Investments	8,647,502	6,225,753	2,421,749
Placements with and lending to financial institutions	4,208,348	4,208,348	-
Commercial paper	24,529	24,529	-
Loans and advances	1,531,673	705,753	825,920
Amounts recoverable under finance leases	187,834	147,259	240,575
Advances, deposits, prepayments and other receivables	805,648	805,648	-
Deferred taxation	104,447	-	104,447
Tangible fixed assets	73,487	-	73,487
	16,554,307	12,888,129	3,666,178
Liabilities			
Borrowings from financial institutions	899,417	899,417	-
Certificates of investment	2,416,000	2,200,000	216,000
Creditors, accrued expenses and other liabilities	1,673,951	1,652,715	21,236
Term Finance Certificates	2,000,000	-	2,000,000
Taxation	161,567	161,567	-
Other staff benefits	62,279	9,619	52,660
Staff retirement gratuity	22,811	-	22,811
	7,236,025	4,923,310	2,312,707
	9,318,282	7,964,811	1,353,471
Shareholders' equity	7,794,573		
Surplus on revaluation of investments	1,523,709		
	9,318,282		

29.5 Maturities of assets and liabilities as on December 31, 2002

	Total	Upto one year	One year to five years
	Rupees '000		
Assets			
Cash and bank balances	811,283	811,283	-
Investments	7,043,986	5,816,271	1,227,715
Placements with and lending to financial institutions	1,933,507	1,933,507	-
Loans and advances	2,589,875	2,071,925	517,950
Amounts recoverable under finance leases	490,543	104,679	385,864
Advances, deposits, prepayments and other receivables	1,106,674	1,106,674	-
Deferred taxation	94,521	-	94,521
Tangible fixed assets	65,195	-	65,195
	14,135,584	11,844,339	2,291,245
Liabilities			
Borrowings from financial institutions	1,138,351	1,138,351	-
Certificates of investment	2,516,000	2,100,000	416,000
Creditors, accrued expenses and other liabilities	877,352	851,642	25,710
Loan and finance	808,385	108,961	699,424
Foreign currency deposits	1,333,407	1,333,407	-
Taxation	278,126	278,126	-
Other staff benefits	33,707	6,590	27,117
Staff retirement gratuity	18,339	18,339	-
	7,003,667	5,835,416	1,168,251
	7,131,917	6,008,923	1,122,994
Shareholders' equity	5,544,663		
Surplus on revaluation of investments	1,587,254		
	7,131,917		

30. SEGMENT ANALYSIS

30.1 Investments in quoted ordinary shares

- Segment by class of business

	2003		2002	
	Rupees '000	Percentage	Rupees '000	Percentage
Cement	141,415	1.89	12,717	0.25
Chemical and pharmaceuticals	581,158	7.77	691,418	13.72
Financial and insurance	3,059,913	40.91	1,493,691	29.64
Food and allied	-	-	52,958	1.05
Fuel and energy	2,063,340	27.59	1,729,157	34.31
Textiles	148,226	1.98	14,200	0.28
Transport and communication	1,380,870	18.47	995,974	19.76
Other	104,152	1.39	49,889	0.99
	<u>7,479,074</u>	<u>100.00</u>	<u>5,040,004</u>	<u>100.00</u>

30.2 Investments in quoted term finance certificates (TFCs)

- Segment by class of business

	2003		2002	
	Rupees '000	Percentage	Rupees '000	Percentage
Chemical and pharmaceuticals	119,195	23.74	79,445	39.46
Financial and insurance	284,200	56.61	25,620	12.73
Fuel and energy	53,670	10.69	52,000	25.83
Textiles	34,250	6.82	34,250	17.01
Transport and communication	10,736	2.14	10,000	4.97
	<u>502,051</u>	<u>100.00</u>	<u>201,315</u>	<u>100.00</u>

30.3 Loans and advances and amounts recoverable under finance leases

- Segment by class of business

	2003		2002	
	Rupees '000	Percentage	Rupees '000	Percentage
Agro business	320,000	15.13	320,000	9.51
Transport and communication	186,127	8.80	734,064	21.81
Cement	-	-	6,630	0.20
Chemical and pharmaceuticals	16,364	0.77	597,851	17.77
Electronics and electrical appliances	55,252	2.60	6,792	0.20
Fuel and energy	573	0.03	352,658	10.48
Financial and insurance	598,366	28.29	669,959	19.90
Shoes and leather	5,000	0.24	5,000	0.15
Sugar	-	-	30,000	0.89
Textiles	656,689	31.04	510,488	15.17
Individuals	49,644	2.35	47,335	1.41
Others	227,395	10.75	84,509	2.51
	<u>2,115,410</u>	<u>100.00</u>	<u>3,365,286</u>	<u>100.00</u>

- Segment by sector

Public / government	87,666	4.14	516,139	15.34
Private	2,027,744	95.86	2,849,147	84.66
	<u>2,115,410</u>	<u>100.00</u>	<u>3,365,286</u>	<u>100.00</u>

30.4 Certificates of investment

- Segment by class of business

Financial institutions	1,142,910	100.00	1,137,260	100.00
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- Segment by sector

Public / government	75,000	6.56	300,000	26.38
Private	1,067,910	93.44	837,260	73.62
	<u>1,142,910</u>	<u>100.00</u>	<u>1,137,260</u>	<u>100.00</u>

Segment by geographical location

The operations of the company are in Pakistan only.

31. RELATED PARTY TRANSACTIONS

2003 2002

31.1 Particulars Rupees '000

Related party transactions		
Expenses charged to related parties by the company	14,036	12,776
Expenses incurred by related parties on behalf of the company	4,553	1,424
Receivable from a related party as at December 31	260	4,995
Payable to a related party	105	-
Dividend income from related parties	72,656	31,488
COI with a related party		
Balance as at January 1	128,260	-
Addition during the year	1,441	128,260
Exchange loss	(1,791)	-
Balance as at December 31	127,910	128,260
Profit earned on placement with a related party	1,678	149
Commitments for investment in equity of related parties	-	45,830
Subscription of right issue – quoted	105,000	-
– unquoted	30,830	-

31.2 Associates

The investments in associates are valued as stated in note 2.4 above. The company's significant associates are Al-Meezan Mutual Fund Limited, Al-Meezan Investment Management Limited, Meezan Bank Limited, The General Tyre and Rubber Company of Pakistan Limited, Plexus (Private) Limited [formerly Al-Meezan Education Development (Private) Limited], TMT Ventures Limited and TMT Incubation Fund Limited in which the company's direct percentages of holding were 20.29, 30, 32.02, 27.98, 50, 25 and 30 respectively.

32. NUMBER OF EMPLOYEES

Total number of employees as at December 31, 2003 was 61 (2002: 57).

33. CORRESPONDING FIGURES


Placements with financial institutions are now included in 'placements with and lending to financial institutions' instead of 'cash and bank balances', accordingly, the corresponding figures have also been restated for the purpose of comparison.

Unquoted TFCs included in redeemable capital which were subsequently quoted on the stock exchanges have now been classified under quoted securities, accordingly, the corresponding figures have also been restated for the purpose of comparison (note 4.8).

34. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 19, 2004 by the board of directors of the company.


Chief Executive


Chairman



THE NEWLY ESTABLISHED
LAHORE REPRESENTATIVE OFFICE



PAK KUWAIT
- SETTING STANDARDS OF EXCELLENCE