بسم الله الرحمن الرحيم

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**

Being innovative in our **Business Approach**

A Joint Venture

The Company is a Joint Venture between the Governments of **Pakistan** and **Kuwait.**

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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

Istaqbal Mehdi
Managing Director

Executive Committee

Naser Abdul Mohsen Al Marri

Istaqbal Mehdi

Audit Committee

Abdullah Abdulwahab Al-Ramadhan
Chairman

Nawid Ahsan

Istaqbal Mehdi

Wamiq Rizvi
Company Secretary

From Left to Right: Javed Sadiq Malik, Mohammad Saud Al-Abhoul, Istaqbal Mehdi
Naser Abdul Mohsen Al Marri, Nawid Ahsan, Abdullah Abdulwahab Al-Ramadhan

Directors' Report

On behalf of the Board of Directors of Pak-Kuwait, it is my privilege to present the 26th Annual Report alongwith the financial statements for the year ended December 31, 2004.

Financial Highlights

Summary of financials and appropriations is as follows:

	(Rs. in millions) 2004	2003
Profitability		
Net Operating Income	1,926	3,302
Administrative expenses	314	283
Operating profit	**1,612**	**3,019**
(Reversal) of provision for contingencies	(58)	(16)
Profit before taxation	**1,670**	**3,035**
Taxation	85	205
Profit after tax for the year	**1,585**	**2,830**
Appropriations:		
Transfer to statutory reserve	317	566
Transfer to general reserve	52	235
Transfer to contingencies reserve	45	22
Transfer to marketable & government securities reserve	251	1,427
Transfer to reserve for issue of bonus shares	500	-
Cash dividend	420	580

Dividend

The Board of Directors is pleased to recommend a cash dividend of Rs 420 million and stock dividend of Rs 500 million, thus making a total dividend payout for the year to be Rs 920 million, being 61% of the paid up capital of the company. With these declarations, the cumulative dividend payout amounts to Rs. 5,032 million since the inception of the company.

Business Environment & Economic Conditions

The year under review presented yet another spectacular economic performance coupled with positive changes in the Government at the top level that brought the country's economic manager at the top of governmental hierarchy. This important change at the highest level has not only reassured the foreign and local investors alike that the structural reforms agenda would continue unabated but also indicated that economic reforms and performance would be the key test of success of this government. On the strength of better than anticipated performance of both agriculture and industry during the initial months of FY05, laying a strong foundation for the economy to exceed 6.6% real GDP growth target for the year, the economic managers have been successfully performing the most crucial role of controlling the inflation with an excellent blend of monetary and fiscal management. Although core inflation has started rising sharply since May 2003 when it was 1.1% to around 4% during July – September 2004 (FY05), the State Bank of Pakistan (SBP) has been gradually increasing interest rates to curb inflation without choking the GDP growth. Of recent, SBP has started increasing the interest rates more aggressively in response to the inflationary pressure as well as the strain on Pak Rupee. SBP is also facing the challenge of covering the widening gap between imports and exports, which was caused mainly by sharply rising oil bill and import of capital goods and raw material by the industrial sector for meeting the WTO challenges. This gap is expected to be met through assistance from IFIs, bilateral resources (including possibly Japan) and potential tapping of international bond market besides increased remittances during the year.

It is heartening to note that both agriculture and industry performed better than anticipated during the first quarter. Bumper cotton crop yielding historically highest number of bales exceeding 14.1 million have offset the financial impact of shortfall in wheat production caused by shortage of water. However, while the leading indicators suggest the service sector will turn in a strong full year performance, the outlook for industry is clouded with concern over the impact of competition in global textile markets. Yet the growth of 14% YoY recorded by Large Scale Manufacturing during Q1-FY05 is well above the 12% annual target. Other contributing factors continue to include proactive and pro-growth monetary management by the economic managers of the country while managing inflation in a very difficult situation and maintaining M2 growth at the modest rate of 5.7% during July – November FY05.

The continuation of positive trends reflected on the economic front and improving geopolitical environment maintained their positive impact in the financial markets of the country. In spite of rising interest rate scenario with the alarming inflationary trend the three stock exchanges of the country provided unprecedented opportunity for huge capital gains in the wake of soaring stock indices creating new record highs. This bull run was equally supported by the exceptionally high profit numbers churned out by the major stocks coupled with excellent payouts. Interestingly 161 basis point rise in T-bills yields through July – November FY05 has not made an appreciable dent in the demand for credit which has risen by Rs. 163 billion for private sector, substantially higher than Rs. 125 billion recorded in the corresponding period of previous year. This robust credit off-take from banks by the private sector is partly reflected in substantially higher imports of capital goods and raw material for the industrial sector. Looking ahead in FY05 Pakistan's economy seems likely to exceed the growth targets recorded in the previous year depicting signs of prospering economic growth and promising economic outlook.

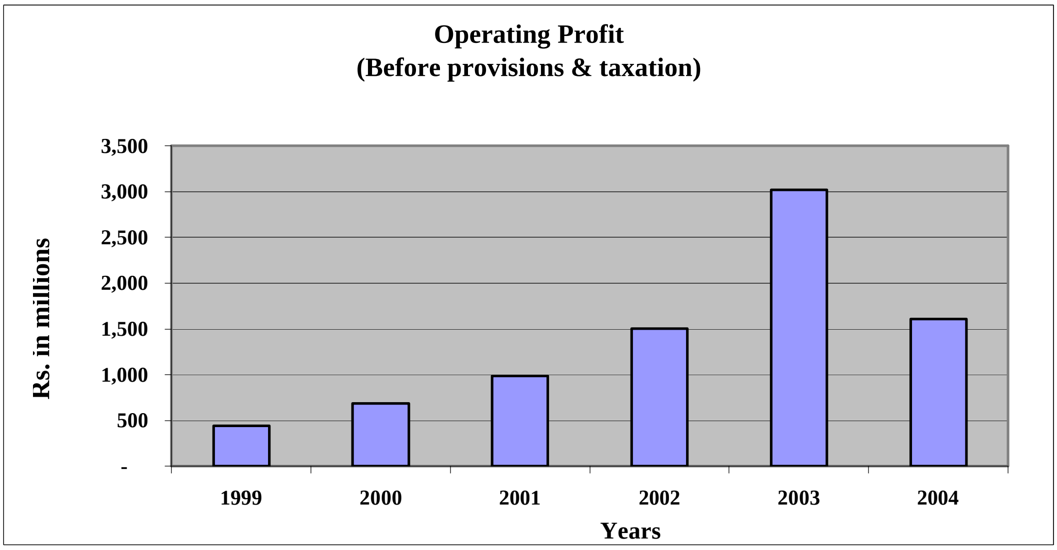
Company Performance

By the Grace of Allah (SWT), it is heartening for me to report that the company has again recorded handsome profitability of Rs. 1,585 million during the year 2004 which is although lower than the year 2003 exceptional profit, yet it is a remarkable return for the share holders of the company. The major contribution towards this sterling performance was largely provided by Capital Markets Department. The contribution from treasury's function under the convoluted situation of rising interest rate scenario is not less important while improving on its operational capability to generate huge volume of business. The Corporate Finance Department had a superb year in terms of volume that was the result of proactive and aggressive marketing approach and reengineering of operational dynamics. There appears to be more good years ahead considering the interest rate direction and the positive economic growth of industrial sector.

Pak-Kuwait being fully cognizant of the limitations emanating from its physical presence alone in Karachi has taken a major step to open a representative office in Lahore in year 2004. Lahore office will help the company to strengthen its relationships with industries located in Punjab & NWFP. Further, this will help Pak Kuwait to generate business in corporate finance from upcountry industrial sector. The management is also very keen to focus primarily on its core business activities i.e. corporate finance and new office will surely help the company to achieve its objectives. During the year 2004, Lahore office was able to disburse Rs. 855 million, which itself is a tremendous achievement, keeping in view the immense competition offered by the banks and Pak Kuwait's presence in the upcountry market just less than a year.

The company's asset base reflected a healthy growth during 2004, ensuring consistency in balance sheet growth, as depicted by the trend over the last four years. The balance sheet stood at Rs. 19,508 million reflecting a robust growth of 18% on Year on Year basis i.e. from Rs. 16,554 million as at December 31, 2003. This growth in asset base was primarily driven by over 118% growth in advances coupled with increase in investments financed out of retained earnings as well as borrowings from financial institutions.

In continuation of the strategy evolved last year to review the liability mix to ensure Pak Kuwait's competitiveness in the current circumstances, the company mobilized additional Rs. 1.00 billion via privately placed corporate bond (TFC) issue. This proactive approach to manage both sides of the balance sheet resulted in not only surpassing the budgeted targets both in terms of earnings as well as balance sheet growth and has put the company in a position to achieve sustainable growth in years to come.



Credit & Corporate Governance Rating

I am pleased 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 five years), and for the highest CGR rating (9 on a scale of 1-10) for a public sector company.

Corporate Finance

The corporate finance department in the year 2004 has performed satisfactorily with increased corporate lending and participation in various debt instruments. This performance is enumerated with the total sanctions during the year amounted to Rs. 5,879 million out of which Rs. 3,875 million were disbursed. This has increased the portfolio upto Rs. 5,123 million from Rs. 2,671 million showing a 91% increase over last year. The total Gross Income earned during the year 2004 amounted to Rs. 254 million comprising of Rs. 17 million as fee based income.

The portfolio of corporate finance department is well diversified and spread over 14 sectors of the economy and includes: Auto & Allied, Food, Sugar, Textile, Energy, Cement, Fertilizer, Electrical, Transport & Communication, Chemical & Pharma, Polyester Fiber, Steel & Engineering.

Going forward, the focus will remain on a realistic marketing strategy for year 2005 and onwards, which envisage realistic targets of booking the assets and developing a balanced portfolio with manageable risk. With the strong performance of the economy, improved Government policies, initiatives for encouraging developmental activities and the business opportunities through financial institutions, the department will continue to perform better. The corporate finance function is continuously concentrating on enhancing its advisory and syndication business to also increase its income base.

Capital Markets

The outstanding performance of the KSE-100 index continued unabated during the year and new peaks were seen in the history of stock exchange index. During 2004, the 100-index surged by 1746 points to close at 6218 points on Friday, December 31, 2004. Average market capitalization during the said year stood at Rs 1.42 trillion, which registers an increase of 86% from 2003 average market capitalization of Rs 764 billion. The ever-high volume was also recorded at the KSE during the year under review, which stood at 1.12 billion as on April 16, 2004. Average volume traded during 2004 was 340 million shares as compared to 2003 average volume of 307 million shares.

The KSE-100 Index managed to make its way in to the top 20 best performing indices in the world which in absolute terms registered an increase of 39% in CY2004.

The market was able to give another stellar performance during CY 2004 on the back of business friendly policies adopted by the government whose focus was to ensure a healthy macro-economic environment by concentrating on improving domestic economic conditions as well as the geopolitical scene vis-à-vis Indo-Pak relations.

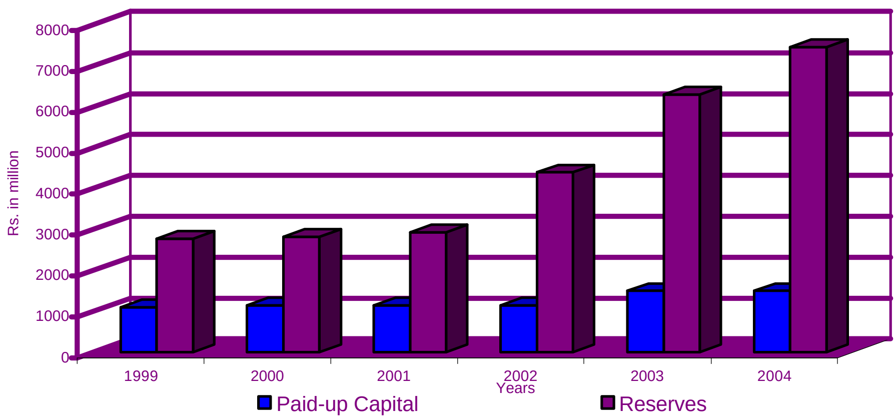
The induction of OGDCL in the index, mushrooming of new IPO’s in the stock market viz. Pakistan Petroleum Ltd (PPL) and Bank Alfalah Ltd, and better than expected corporate results announcement by the Oil and gas, fertilizer, telecom and banking stocks remained the key reason for the upsurge in the market capitalization and volume across the board.

The unparallel performance of Karachi Stock Exchange helped capital markets department to book sizeable capital gains and dividends. Furthermore, Pak Kuwait’s portfolio out performed the KSE-100 index by a margin of over 10%. This was achieved through the guidance of the senior management and vigilance of staff members. The capital gains for the year amounted to Rs. 1,285 million and the dividend income of Rs. 370 million brought a total contribution of Rs. 1,635 million to the company’s income. The stock market portfolio duly marked to market at the year-end 2004 stood at Rs. 8,487 million versus cost of Rs. 6,735 million leaving the highest ever unrealized surplus of Rs. 1,752 million.

Treasury

The year 2004 has been a difficult year for the treasuries in Pakistan. Rise in the interest rates impacted negatively on the financial sector holding long-term bond portfolio. However, Pak-Kuwait proactively repositioned its bond portfolio and immune itself from the rising interest rate scenario. 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 instrument and certificate of investments. The treasury operations of the company generated income of Rs. 129 million for the year under review. Apart from the daily operations, Pak-Kuwait has always remained active in undertaking new activities/products evolving in the financial market. In doing so, Pak-Kuwait during the year participated in commercial papers and also conducted the ***first ever*** Interest Rate Swap **(IRS)** deal in Pakistan between the financial institutions.

Paid-up Capital & Reserves

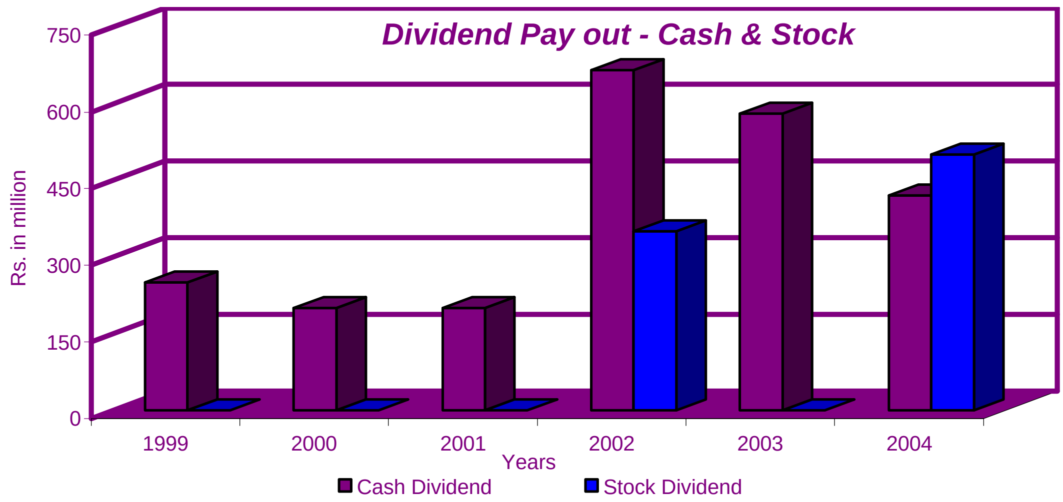


Future Outlook

The positive macro economic outlook with strong political set up 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 investment from the private sector.

With the increasing competition from banks and other financial institutions, new business strategies have been 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 a brokerage house, a wholly owned subsidiary dealing in brokerage business. The company has been set up under SBP guidelines to carry on the brokerage business through a separate subsidiary by transferring the KSE Membership which Pak Kuwait has successfully bid at a cost of Rs. 34.75 million. The Takaful Insurance Company also progressed in terms of setting up a small team to prepare for full-fledged operations once Takaful rules are framed and issued by SECP. Further negotiations to induct a foreign technical partner having a sound standing and experience in Shariah based insurance business have also been successful as company has been able to finalize the model for the role of foreign technical partner. Pak Kuwait’s initiative to launch a Non Bank Finance Company (NBFC) to undertake the asset management business finally succeeded as the incorporation of the company took place after obtaining the permission from SECP. The negotiations with prospective foreign technical partners are underway. On the operational side the ISO 9000:2001 certification has been successfully renewed after the first audit of the system that was carried out in November 2004. The Digital Archiving is progressing at a fast pace and work on business continuity plan and disaster recovery is being actively pursued with two successful trials made in a mock disaster environment.



Risk Management Framework

Adherence to stringent Risk Management guidelines is the key behind Pak Kuwait's sterling achievements over the years. The management has a clear understanding and appreciation of Credit, Market, Liquidity and Operational risk and has synchronized the distinct risks in to the operating parameters, in order to manage them within acceptable limits. The approach used for risk management has taken in to account the nature and size of the organization. The management is fully cognizant to induct any additional required resources and infrastructure, which can further improve the company's risk management capabilities.

Based on State Bank of Pakistan Guidelines on Risk Management, various steps have been taken by the company and these are briefly discussed below:

Credit Risk: A well defined credit policy and procedure is in place approved by the Board for managing credit risk. All credit proposals go through proper analysis and are screened by the Credit Committee and Senior Management Review Committee. The professionally laid down credit criteria and its proper implementation has prevented the company from any NPLs in last five years.

Market Risk: By the nature of the business, the company is prone to market risk, which is contributed mainly by the movements in Interest Rates and Equity Prices. Tools such as GAP Analysis and Sensitivity/Simulation techniques are used to manage interest rate risk. To manage equity price movement risk, a portfolio management approach is being used which is more effective than the traditional trading approach. To address market risk, two purpose driven committees have been established; Asset & Liability Committee (ALCO) and Portfolio Management Committee (PMC). Besides, Middle Office has also been set-up whose function is to monitor and manage market risk.

Operational Risk: During the year 2004 an Operational Risk Management Committee (ORMC) comprised of senior management of the company has been formed, the committee meets on a quarterly basis to discuss operational risk issues and take appropriate action on areas of concern. These issues are also discussed in other meetings to develop enterprise-wide operational risk management culture in the company.

Pak Kuwait has also introduced a ‘Business Continuity Plan’, which is tailored to meet the requirements of the company in case of a disaster situation. Two main constituents of BCP are (1) Digital Archiving (2) Disaster Recovery. The company is currently working on a plan to identify and set up a site for continuing the business in case of a disaster.

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, except as explained in note 4.4 to the enclosed accounts, 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

Four Meetings of the Board of Directors of Pak-Kuwait were held in the year 2004 as per following schedule:

First Meeting of the First Quarter	February 19, 2004
Second Meeting of the Second Quarter	April 12, 2004
Third meeting of the Third Quarter	July 12, 2004
Fourth Meeting of the Fourth Quarter	October 11, 2004

Details of Attendance is as follows:

Name of Directors	Meetings Attended	Remarks
Naser Abdul Mohsen Al-Marri	3	Leave of absence in one meeting
Zaigham Mahmood Rizvi	4	
Abdullah Abdulwahab Al-Ramadhan	4	
Javed Sadiq Malik	4	
Mohammad Saud Al-Abhoul	4	
Nawid Ahsan	4	

Summarized Operating and Financial Data for the last six years

(Rs. in millions)

	2004	2003	2002	2001	2000	1999
Paid up Capital	1,500	1,500	1,150	1,150	1,150	1,100
Reserves	7,459	6,295	4,395	2,932	2,819	2,770
Total Assets	19,508	16,554	14,136	10,787	9,882	11,420
Operating Profit	1,612	3,019	1,504	984	685	442
Net Profit (after tax & provisions)	1,585	2,830	2,127	314	298	800
Cash Dividend	420	580	665	200	200	250
Stock Dividend	500	-	350	-	-	-

Statement of Investments of Provident and Gratuity Funds

Investments of Provident and Gratuity Funds as at December 31, 2004 according to their respective un-audited accounts were Rs 40.785 million and Rs 7.153 million, respectively. Investment of Provident Fund amounted to Rs 37.596 million as at December 31, 2003 according to its audited accounts.

Auditors

Audit Committee had recommended the name of Taseer Hadi Khalid & Co. Chartered Accountants, a member firm of KPMG International to be the auditors for the year ending December 31, 2005. Accordingly, the Board approved the recommendation of the Audit Committee and recommended the name for consideration and approval at the Annual General Meeting.

Acknowledgement

Pak-Kuwait continues to meet 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 to achieve the excellent financial results for the company.

I extend my sincere appreciation to my colleagues on the Board for their consistent support and guidance during the year. On their behalf I would like to express thanks and appreciation to our outgoing Managing Director Mr. Zaigham Mahmood Rizvi for his valuable contribution and support to Pak Kuwait and wish him well for the future. On behalf of the Board of Directors I welcome the incumbent Managing Director Mr. Istaqbal Mehdi and look forward to working with him.

Naser Abdul Mohsen Al-Marri
Chairman

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED DECEMBER 31, 2004

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 NBFI or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.

4. During the year, no 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 along with 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. 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, five 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 program 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.

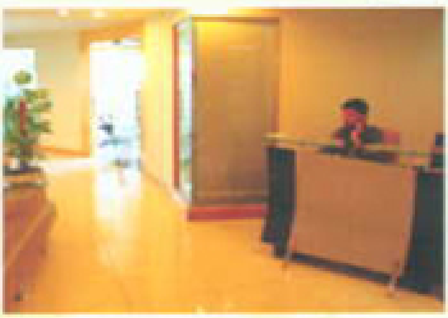
Based on our review nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended December 31, 2004.

Taseer Hadi Khalid & Co.

Taseer Hadi Khalid & Co.
Chartered Accountants
Karachi, March 02, 2005








STATEMENT ON INTERNAL CONTROL

REPORTING ON INTERNAL CONTROL SYSTEM

It is the responsibility of the company's management to establish and maintain an adequate and effective system of internal control that could help in company's endeavor to attain a professional and efficient working environment throughout the company. The Internal Control System comprise of control procedures and control environment.

Management ensures the efficient and effective Internal Control System by identifying control objectives reviewing pertinent policies / procedures and establishing relevant control procedures. All policies and procedures are reviewed and compared with existing practices and necessary amendments made where required on timely basis.

Alongside this appropriate test of transactions, observation of control environment, sharing of findings of Internal Control Systems and ensuring relevant appropriate follow-ups / corrective actions are also being done by the management on regular basis.

Internal Control System in the company is designed to manage, rather than eliminate the risk of failure to achieve the business objectives and can only provide reasonable and not absolute assurance against material mis-statement or loss.

EVALUATION OF EXISTING INTERNAL CONTROL SYSTEMS

The company has made efforts to ensure during the year 2004 that an effective and efficient internal control system is implemented and no compromise is made in implementing the desired control procedures and maintaining suitable control environment in general. However, it is an ongoing process that includes identification, evaluation and management of significant risks faced by the company.

The observations and weaknesses found and identified by the auditors, both internal and external, have been taken care of and necessary steps have been taken by the management in the due time so as to ensure non-repetition of those exceptions and eliminations of such weaknesses to the maximum possible level. The management has also given timely and satisfactory response to the recommendations and suggestions made by its auditors.

We assess that the internal control system, customer services and operations have improved as compared to previous year in all areas / departments of the company. Further, due attention and focus is to enhance competence level and knowledge of the staff.

Syed Mujahid Naqvi Head of Internal Audit	Shahid Usman Chief Financial Officer	Abdullah Abdulwahab Al-Ramadhan Chairman Audit Committee

Istaqbal Mehdi
Managing Director

Auditors' Report to the Members

We have audited the annexed balance sheet of **Pakistan Kuwait Investment Company (Private) Limited** as at December 31, 2004 and the related profit and loss account, cash flow statement and statement of changes in equity 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 except for the changes stated in note 4.4 with which we concur;

    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, cash flow statement and statement of changes in equity 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 31 December 2004 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The financial statements for the year ended December 31, 2003 were audited by another firm of chartered accountants who have expressed an unmodified opinion thereon.

Taseer Hadi Khalid & Co.

Taseer Hadi Khalid & Co.
Chartered Accountants

Pakistan Kuwait Investment Company (Private) Limited

Balance Sheet

As at December 31, 2004

	Note	2004	2003
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	5	**56,529**	34,135
Balances with other banks	6	**1,344,316**	2,036,704
Lendings to financial institutions	7	**2,867,654**	2,908,348
Investments	8	**10,273,331**	8,672,031
Advances	9	**4,198,131**	1,919,507
Other assets	10	**561,099**	805,648
Operating fixed assets	11	**135,170**	73,487
Deferred tax assets	12	**71,878**	104,447
		19,508,108	16,554,307
LIABILITIES			
Borrowings from financial institutions	13	**4,705,662**	2,899,417
Deposits and other accounts	14	**2,490,000**	2,416,000
Other liabilities	15	**1,582,038**	1,920,608
		8,777,700	7,236,025
NET ASSETS		**10,730,408**	9,318,282
REPRESENTED BY			
Share capital	16	**1,500,000**	1,500,000
Capital reserves	16	**2,957,804**	2,140,862
Revenue reserves	16	**4,501,479**	4,153,711
		8,959,283	7,794,573
Surplus on revaluation of investments - net of tax	17	**1,771,125**	1,523,709
		10,730,408	9,318,282
CONTINGENCIES AND COMMITMENTS	18		

The annexed notes 1 to 36 form an integral part of these financial statements.

Chief Executive

Chairman

Pakistan Kuwait Investment Company (Private) Limited
Profit and Loss Account
For the year ended December 31, 2004

	Note	2004	2003
		(Rupees in '000)	
Mark-up/return/interest earned	19	**458,384**	408,905
Mark-up/return/interest expensed	20	**209,388**	214,413
Net mark-up/interest income		**248,996**	194,492
(Reversal) of provision against non-performing loans and advances		**-**	(51,075)
(Reversal) / provision for diminution in the value of investments		**(57,572)**	35,125
		(57,572)	(15,950)
Net mark-up/interest income after provisions		**306,568**	210,442
NON MARK-UP/INTEREST INCOME			
Fee, commission and brokerage income		**17,042**	14,080
Dividend income		**369,926**	471,036
Unrealized surplus on revaluation of 'held for trading' securities		**11,336**	-
Capital gain on sale of investments		**1,270,003**	2,619,671
Other income	21	**9,400**	2,678
Total non-markup/interest income		**1,677,707**	3,107,465
		1,984,275	3,317,907
NON MARK-UP/INTEREST EXPENSES			
Administrative expenses	22	**(314,427)**	(283,133)
PROFIT BEFORE TAXATION		**1,669,848**	3,034,774
Taxation - Current	23	**52,254**	134,786
- Deferred	23	**32,884**	70,078
		85,138	204,864
PROFIT AFTER TAXATION		**1,584,710**	2,829,910
Basic and diluted earnings per share *(Rupees)*	24	**26,412**	47,165

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

The annexed notes 1 to 36 form an integral part of these financial statements.

Chief Executive **Chairman**

Pakistan Kuwait Investment Company (Private) Limited

Cash Flow Statement

For the year ended December 31, 2004

	Note	**2004**	2003
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		**1,669,848**	3,034,774
Less: Dividend income		**(369,926)**	(471,036)
		1,299,922	2,563,738
Adjustments for non-cash charges			
Depreciation		**19,080**	16,483
Amortization		**15,795**	6,794
Provision against non-performing advances		**-**	(51,075)
Provision for diminution in the value of investments/ other assets		**(66,830)**	35,125
(Gain) on sale of fixed assets		**(1,035)**	(49)
Surplus on revaluation of investments		**247,102**	(143,549)
		214,112	(136,271)
		1,514,034	2,427,467
(Increase)/ decrease in operating assets			
Lendings to financial institutions		**40,694**	(1,719,841)
Advances		**(2,278,624)**	1,211,986
Others assets (excluding advance taxation)		**248,536**	269,073
		(1,989,394)	(238,782)
Increase/ (decrease) in operating liabilities			
Borrowings from financial institutions		**1,806,245**	952,681
Deposits		**74,000**	(1,433,407)
Other liabilities (excluding current taxation)		**(206,408)**	749,643
		1,673,837	268,917
		1,198,477	2,457,602
Income tax paid		**(24,416)**	(251,345)
Net cash flow from operating activities		**1,174,061**	2,206,257
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in 'available-for-sale' securities		**(1,548,189)**	(1,669,964)
Dividend income		**363,862**	502,989
Investments in property and equipment		**(81,645)**	(26,545)
Sale proceeds of property and equipment disposed-off		**1,917**	1,819
Net cash flow from investing activities		**(1,264,055)**	(1,191,701)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		**(580,000)**	(500,000)
Net cash flow from financing activities		**(580,000)**	(500,000)
Increase/(Decrease) in cash and cash equivalents		**(669,994)**	514,556
Cash and cash equivalents at beginning of the year	*25*	**2,070,839**	1,556,283
Cash and cash equivalents at end of the year	*25*	**1,400,845**	2,070,839
Cash and cash equivalents at end of the year			

The annexed notes 1 to 36 form an integral part of these financial statements.

Chief Executive **Chairman**

Pakistan Kuwait Investment Company (Private) Limited

Statement of Changes in Equity

For the year ended December 31, 2004

	Share capital	Reserves: Capital	Reserves: Statutory	Reserves: Revenue	Un-appropriated profit	Total
	----	----	----	(Rupees in '000)	----	----
Balance as at January 1, 2003	1,150,000	430,045	1,494,835	2,469,783	-	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 statutory reserve	-	-	565,982	-	(565,982)	-
Transfer to general reserve	-	-	-	235,226	(235,226)	-
Transfer to contingencies reserves	-	-	-	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	80,045	2,060,817	4,153,711	-	7,794,573
Profit for the year ended December 31, 2004	-	-	-	-	1,584,710	1,584,710
Transfer to statutory reserve	-	-	316,942	-	(316,942)	-
Transfer to general reserve	-	-	-	52,251	(52,251)	-
Transfer to contingencies reserves	-	-	-	44,340	(44,340)	-
Transfer to marketable and government securities reserve	-	-	-	251,177	(251,177)	-
Tranfere to reserve for issue of bonus shares	-	500,000	-	-	(500,000)	-
Proposed dividend at a rate of Rs.7,000 per share	-	-	-	-	(420,000)	(420,000)
Balance as at December 31, 2004	**1,500,000**	**580,045**	**2,377,759**	**4,501,479**	**-**	**8,959,283**

The annexed notes 1 to 36 form an integral part of these financial statements.

Chief Executive

Chairman

1. STATUS AND NATURE OF BUSINESS

The company was incorporated in Pakistan as a Private Limited Company on March 17, 1979. The registered office is situated at 4th Floor, Block 'C', Finance and Trade Center, Shahrah–e–Faisal, Karachi. The company is a 50:50 joint venture between the Governments of Pakistan and Kuwait. The objective of the company is to profitably promote industrial investments in Pakistan

2. STATEMENT OF COMPLIANCE

These financial statements are prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 (the Ordinance) and the directives issued by the State Bank of Pakistan (SBP). Approved accounting standards comprise of such International Accounting Standards (IASs) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by Securities and Exchange Commission of Pakistan (SECP) and the SBP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of such directives take precedence.

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-Banking 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.

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention as modified for revaluation of certain investments at market rates in accordance with the requirements of BSD circular 20 dated August 4, 2000 and BSD circular No. 14 dated September 24, 2004.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and cash equivalents

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

4.2 Revenue recognition

(i) Dividend income is recognised when the company's right to receive payment is established.

(ii) Income from loans, term finance certificates, debentures, bank deposits, government securities and reverse repo transactions is recognised on time proportion 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.

(iv) Gain on sale of shares is recognized at the time of sale of relevant securities.

4.3 Advances including net investment in finance leases

Advances are stated net of provision for doubtful debts. Provision for doubtful debts is determined on the basis of 'Prudential Regulations' 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.

Leases where substantially all risks and rewards incidental to ownership of an asset is transferred to the lessee, are classified as finance lease. A receivable is recognized at an amount equal to the present value of the lease payments. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

4.4 Investments

Effective July 1, 2004, investments including investments in associates have been categorized as 'Available for Sale', 'Held for Trading' and 'Held to Maturity' based on the criteria set out in BSD Circular Nos. 10, 11 and 14 dated July 13, 2004, August 04, 2004 and September 24, 2004 respectively. Investments in government securities and quoted investments categorized under 'Held for Trading' and 'Available for Sale' including investments in associates, are valued at rates quoted on PKRV (Reuter Page) and market rates of Karachi Stock Exchange as at the balance sheet date respectively. Any surplus or deficit arising as a result of revaluation of securities categorized as 'Held for Trading' is taken to profit and loss account and that of 'Available for Sale' is taken to the balance sheet, and shown below equity. Furthermore, investments classified as 'Held to Maturity' are stated at their amortized costs.

Effective January 01 and until June 30, 2004, the deficit determined on aggregate portfolio basis for each type of investment if any, on revaluation, was charged to the profit and loss account for that period, which was in line with the then applicable Prudential Regulations and the same has been reversed during the six months ended December 31, 2004 as a result of the implementation of the above mentioned circulars.

Prior to January 01, 2004, the company did not classify its investments into the above categories with reference to the above circulars and all its investments including investments in associates were revalued at market rates and any surplus / deficit was taken to the balance sheet and 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.

The above changes have been made to comply with the requirements of aforementioned circulars issued by the SBP and had there been no such changes, profit for the year would have been lower by Rs. 11.336 million.

4.5 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.

4.6 Operating 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 disposed off 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.

4.7 Staff retirement benefits

Defined Benefit Plan

The company operates a funded gratuity scheme for all its permanent and contract employees. ‘Projected unit credit method’ has been used for actuarial valuation.

Actuarial gains or losses in excess of 10 % of the actuarial liability or plan assets are recognised over the average life of the employees.

Defined Contribution Plan

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.

4.8 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. The actuarial valuation is carried out using 'Projected unit credit method'.

The last actuarial valuation of the employees' compensated absences was conducted as of December 31, 2004.

4.9 Foreign currencies

Foreign currency transactions are recorded at the rates prevailing on the date of transaction. Assets and liabilities in foreign currencies are reported in Pakistan rupees at the rates of exchange prevailing on the balance sheet date. Exchange gains and losses are included in income currently.

4.10 Off-setting of financial assets and financial liabilities

'Financial asset' and 'financial liabilities' are only offset 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.

5. CASH AND BALANCES WITH TREASURY BANKS

		2004	2003
		(Rupees in '000)	
With State Bank of Pakistan in			
- local currency current account	*5.1*	**54,552**	32,982
With National Bank of Pakistan in			
- local currency current account		**1,977**	1,153
		56,529	34,135

5.1 This represents the amount required to be maintained with the SBP in accordance with the requirement of BSD Circular No. 04 dated May 22, 2004.

6. BALANCES WITH OTHER BANKS

In Pakistan			
- on current account		**30,595**	2,430
- on deposit account	*6.1*	**1,251,365**	1,971,281
Outside Pakistan			
- on current account		**893**	934
- on deposit account		**61,463**	62,059
		1,344,316	2,036,704

6.1 This includes placements of Rs. 1,120 million (2003: Rs. 1,300 million). The return on these placements range between 5.1 (2003: 3.25) to 7.6 (2003: 5.5) percent per annum and have maturity periods ranging between 3 days to 3 months (2003: 3 months to 1 year).

7. LENDINGS TO FINANCIAL INSTITUTIONS

		2004	2003
		(Rupees in '000)	
Repurchase agreement lendings (Reverse Repo)	*7.1*	**1,753,582**	1,765,438
Certificates of investments (COIs)	*7.2 & 7.3*	**1,114,072**	1,142,910
		2,867,654	2,908,348

7.1 Repurchase agreement lendings (reverse repos) carry interest at rates ranging between 1.0 (2003: 1.9) to 5.2 (2003: 6) percent per annum and have maturities upto March 12, 2005 (2003: March 18, 2004).

7.2 This includes COIs in local currency amounting to Rs. 980 million (2003: Rs. 1,015 million). The profit rate on these COIs range between 4.6 (2003: 2.25) to 8.9 (2003: 5.45) percent per annum. All COIs are due for maturity within 3 months (2003: 6 months).

7.3 This also includes a COI in foreign currency amounting to US$ 2.255 million (2003: US$ 2.228 million). The expected profit rate on this COI is 2.08 (2003: 1.17) percent per annum and is due for maturity on January 20, 2005 (2003: February 4, 2004).

7.4 Securities held as collateral against lending to financial institutions

	2004			2003		
	Held by the company	**Further given as collateral**	**Total**	Held by the company	Further given as collateral	Total
	-------------------------------(Rupees '000)-------------------------------					
Market Treasury Bills	**-**	**99,019**	**99,019**	395,438	-	395,438
Pakistan Investment Bonds	**450,000**	**1,204,563**	**1,654,563**	470,000	900,000	1,370,000
	450,000	**1,303,582**	**1,753,582**	865,438	900,000	1,765,438

8. INVESTMENTS

8.1 Investments by type

		2004		
		Held by the company	**Given as collateral**	**Total**
		----------------(Rupees '000) ----------------		
Held-for-trading securities				
Shares of listed companies		1,063,493	-	1,063,493
Available-for-sale securities				
Shares of listed companies		7,423,211	-	7,423,211
Shares of unlisted companies		422,849	-	422,849
Listed term finance certificates		460,410	-	460,410
Unlisted term finance certificates		335,000	-	335,000
Held-to-maturity securities				
Pakistan Investment Bonds	*8.1.1*	213,586	417,058	630,644
		9,918,549	417,058	10,335,607
Less: Provision for diminution in value of investments		(62,276)	-	(62,276)
Investments - net of provisions		**9,856,273**	**417,058**	**10,273,331**

8.1.1 Pakistan Investment Bonds (PIBs) are held with the SBP for dealing purposes and are also eligible for rediscounting with the SBP. These PIBs carry returns ranging from 6 (2003: 7) to 11 (2003: 11) percent per annum and have maturity period ranging between 2006 to 2007 (2003: 2005 to 2013). Market value of these PIBs as at December 31, 2004 amounted to Rs 612.898 million (2003: Rs 298.321 million).

8.2 INVESTMENTS BY SEGMENTS

		2004	2003
		(Rupees in '000)	
Federal Government Securities			
- Market Treasury Bills		**-**	298,757
- Pakistan Investment Bonds		**630,644**	75,510
		630,644	374,267
Add: Surplus on revaluation of government securities		**-**	900
		630,644	375,167
Fully paid up Ordinary Shares			
- Listed companies		**4,637,500**	5,223,649
- Unlisted companies		**145,599**	97,349
		4,783,099	5,320,998
Less: Provision for diminution in value of investments	*8.3*	**(55,439)**	(113,011)
		4,727,660	5,207,987
Add: Surplus on revaluation of listed securities		**356,959**	697,894
		5,084,619	5,905,881
Term Finance Certificates			
- Listed TFC's etc.		**429,779**	482,640
- Unlisted TFC's etc.		**335,000**	208,460
		764,779	691,100
Add: Surplus on revaluation of listed term finance certificates		**30,631**	19,410
		795,410	710,510
Investments in Associates			
- Listed companies		**2,097,374**	751,711
- Unlisted companies		**277,250**	105,250
		2,374,624	856,961
Less: Provision for diminution in value of investments	*8.3*	**(6,837)**	(6,837)
		2,367,787	850,124
Add: Surplus on revaluation of listed securities		**1,394,871**	805,820
		3,762,658	1,655,944
Commercial Papers		**-**	24,529
Investments - net of provisions		**10,273,331**	8,672,031

8.3 Particulars of provision for diminution in value of investments

	2004	2003
	(Rupees in '000)	
Opening balance	**119,848**	111,552
Charge for the year	**3,313**	49,150
Reversals	**(60,885)**	(40,854)
Closing balance	**62,276**	119,848

9. ADVANCES

	Note	2004	2003
Loans and advances		**3,146,044**	1,719,962
Net investment in finance leases	*9.6*	**1,240,376**	387,834
		4,386,420	2,107,796
Provision for non-performing advances	*9.3*	**188,289**	188,289
		4,198,131	1,919,507

9.1 Particulars of advances

		2004	2003
9.1.1	In local currency	**4,363,825**	2,085,201
	In foreign currencies	**22,595**	22,595
		4,386,420	2,107,796
9.1.2	Short Term	**1,253,447**	572,834
	Long Term	**3,132,973**	1,534,962
		4,386,420	2,107,796

9.2 Advances include Rs. 348.289 million (2003: Rs 348.289 million) which have been placed under non-performing status as detailed below:

	Note	**Amount outstanding**	**Provision Required**	**Provision held**
		-----------------(Rupees in '000)-------------------		
Other assets especially mentioned		-	-	-
Substandard		-	-	-
Doubtful	*9.2.1*	320,000	160,000	160,000
Loss		28,289	28,289	28,289
		348,289	188,289	188,289

9.2.1 Under a restructuring arrangement endorsed by the Government the loan has been restructured and payment of mark up and principal has recommenced. The provision would be reversed in the year 2005 as per the guidelines provided by the SBP Prudential Regulations and the amount considered doubtful would be removed from this category.

9.3 Particulars of provision against non-performing advances:

	2004	2003
	(Rupees in '000)	
Opening balance	**188,289**	221,401
Reversals	**-**	(17,212)
Amounts written off against provision	**-**	(15,900)
Closing balance	**188,289**	188,289

9.4 Included in total advances are amounts aggregating Rs. 949.000 million (2003: Rs. 153.065 million), which are outstanding for over three years.

9.5 Included in balances considered good and doubtful are amounts aggregating Rs. 1,777.025 million (2003: Rs. 756.900 million) and Rs. 40.080 million (2003: Rs. 51.147 million) respectively which are receivable within one year.

9.6 Net investment in finance leases

	2004				2003			
	Not later than one year	**Later than one and less than five years**	**Over five years**	**Total**	Not later than one year	Later than one and less than five years	Over five years	Total
	(Rupees in '000)							
Lease rentals receivable	400,212	911,295	18,641	1,330,148	173,071	240,084	3,393	416,548
Residual value	10,241	80,813	8,151	99,205	2,777	20,805	929	24,511
Minimum lease payments	410,453	992,108	26,792	1,429,353	175,848	260,889	4,322	441,059
Financial charges for future periods	79,945	108,138	894	188,977	28,589	24,452	184	53,225
Present value of minimum lease payments	330,508	883,970	25,898	1,240,376	147,259	236,437	4,138	387,834

9.6.1 In respect of the aforementioned finance leases the company holds an aggregate sum of Rs. 99.772 million (2003: Rs. 25.540 million) as security deposits on behalf of the lessees which are included under other liabilities.

9.6.2 The principal amount of lease rentals and salvage value due but not received are disclosed in note 10.

9.6.3 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 2009 and are subject to finance income rates ranging between 5.01 (2003: 4.69) to 16.25 (2003: 16.25) percent per annum.

10. OTHER ASSETS

		2004	2003
		(Rupees in '000)	
Income / markup accrued		**144,427**	117,967
Advances, deposits, prepayments and other receivables		**10,437**	7,550
Principal amount of lease rentals and salvage value due but not received	*10.1*	**1,000**	1,823
Receivable on account of sale of marketable securities		**285,607**	658,539
Central excise duty	*10.4*	**2,077**	2,077
Advance against shares subscription		**87,500**	-
Advance for purchase of membership of Karachi Stock Exchange	*10.2*	**34,750**	34,750
Others		**21,455**	7,019
		587,253	829,725
Less: Provision held against other assets	*10.4*	**26,154**	24,077
Other assets net of provision		**561,099**	805,648

10.1 Principal amount of lease rentals and salvage value due but not received

	Note	2004	2003
		(Rupees in '000)	
- Considered good		**1,000**	1,823
- Considered doubtful	*10.3*	**5,791**	5,791
		6,791	7,614
Less: Provision for doubtful receivables		**5,791**	5,791
		1,000	1,823

10.2 The company is in the process of transferring the membership to its wholly owned subsidiary named First Choice Securities Limited.

10.3 Leases include Rs. 5.791 million (2003: Rs. 5.791 million) which have been placed under non-performing status as detailed below:

	Amount outstanding	Provision Required	Provision held
	(Rupees in '000)		
Other assets especially mentioned	-	-	-
Substandard	-	-	-
Doubtful	-	-	-
Loss	5,791	5,791	5,791
	5,791	5,791	5,791

10.4 Provision against other assets

	2004	2003
Opening balance	**24,077**	54,512
Charge for the year – central excise duty	**2,077**	-
(Reversals)	**-**	(950)
Amount Written off	**-**	(29,485)
Closing balance	**26,154**	24,077

11. OPERATING FIXED ASSETS

	Note	2004	2003
Capital work in progress	*11.1*	**2,100**	8,573
Property and equipment	*11.2*	**133,070**	64,914
		135,170	73,487

11.1 Capital work-in-progress

	2004	2003
Advance for building renovation	**2,100**	670
Advance for purchase of office premises	**-**	6,260
Advances for purchase of vehicles	**-**	1,643
	2,100	8,573

11.2 Property and equipment

	COST			DEPRECIATION				
	(Rupees in ' 000)							
	As at January 1, 2004	Additions/ (disposals)	As at December 31, 2004	As at January 1, 2004	Charge/ (on disposals)	As at December 31, 2004	Net book value as at December 31, 2004	Rate of depreciation %
Leasehold land	100	-	100	-	-	-	100	
Building on lease hold land	43,549	68,600	112,149	14,170	2,804	16,974	95,175	*2.5*
Furniture and fixtures	20,811	4,915	25,726	14,838	2,731	17,569	8,157	*20*
Motor vehicles	47,571	11,182 (5,772)	52,981	24,854	8,745 (4,975)	28,624	24,357	*20*
Office equipment	23,376	2,861 (1,153)	25,084	18,943	3,906 (1,109)	21,740	3,344	*33.33*
Electrical appliances	5,823	561 (330)	6,054	3,511	894 (288)	4,117	1,937	*20*
	141,230	**88,119 (7,255)**	**222,094**	**76,316**	**19,080 (6,372)**	**89,024**	**133,070**	
	116,736	28,069 (3,575)	141,230	61,638	16,483 (1,805)	76,316	64,914	

12. DEFERRED TAX ASSETS

	2004	2003
	(Rupees in '000)	
Debit / (credit) balances arising on account of:		
Accelerated tax depreciation allowances	**4,034**	6,040
Provision for staff retirement gratuity and compensated absences	**6,445**	7,960
Other staff benefits	**9,399**	7,049
Finance lease arrangements	**(72,900)**	(41,187)
Exchange difference	**68,900**	68,900
Provision for contingencies	**56,000**	56,000
Surplus on revaluation of government securities	**-**	(315)
	71,878	104,447

13. BORROWINGS FROM FINANCIAL INSTITUTIONS

Secured			
Repurchase agreement borrowings	*13.1*	**1,705,662**	899,417
Unsecured			
Term finance certificates (TFCs)	*13.2*	**3,000,000**	2,000,000
		4,705,662	2,899,417

13.1 Secured

The company has arranged borrowings from various financial institutions against sale and purchase of government securities. The overall facility for these finances under markup arrangements amounts to Rs. 1,705.662 million (2003: 899.417) million for periods ranging from three days (2003: thirty one days) to three months (2003: three months). The markup on these finances ranges between 2.75 (2003: 1.55) percent to 5.1 (2003: 2.55) percent per annum.

13.2 Unsecured (non-participatory)

These represents 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 85 (2003: 85) to 170 (2003: 170) basis points over the cut-off-yield of the last successful auction of six months T-bills. As at December 31, 2004 the effective rates range between 3.49 (2003: 3.16) to 5.34 (2003: 3.36) percent per annum.

14. DEPOSITS AND OTHER ACCOUNTS

		2004	2003
		(Rupees in '000)	
Certificates of investments (COIs)			
Financial Institutions	*14.1*	**1,850,000**	2,000,000
Others	*14.1*	**640,000**	416,000
		2,490,000	2,416,000

14.1 The profit rates on these COIs ranges between 2.9 (2003: 1.6) to 6.00 (2003: 5) percent per annum. The COIs are due for maturity between January 21, 2005 to June 29, 2007 (2003: January 22, 2004 to August 30, 2006). Included in COIs is an amount of Rs. 1,905 million (2003: Rs. 2,200 million) payable within twelve months.

15. OTHER LIABILITIES

Markup / return / interest payable		**44,169**	35,420
Accrued liabilities		**158,935**	131,209
Retention money payable		**125**	508
Taxation		**181,219**	161,567
Proposed dividend		**420,000**	580,000
Staff retirement gratuity	*27*	**19,345**	22,811
Security deposits	*9.6.1*	**99,772**	25,540
Exchange losses incurred on a loan	*15.1*	**248,670**	248,670
Employees' compensation absences		**5,201**	6,063
Payable on account of purchase of marketable securities		**365,537**	683,544
Other liabilities		**39,065**	25,276
		1,582,038	1,920,608

15.1 This represents aggregate exchange losses deemed to be incurred on a foreign currency loan, fully repaid.

16. SHARE CAPITAL

16.1 Authorised capital

2004	2003		2004	2003
(Number of shares)			(Rupees in '000)	
80,000	80,000	Ordinary shares of Rs 25,000 each	**2,000,000**	2,000,000

16.2 Issued, subscribed and paid up

25,950	25,950	Ordinary shares of Rs. 25,000 each issued in cash	**648,750**	648,750
34,050	34,050	Ordinary shares of Rs. 25,000 each issued as bonus shares	**851,250**	851,250
60,000	60,000		**1,500,000**	1,500,000

The State Bank of Pakistan (SBP) on behalf of the Government of Pakistan (GOP) and Kuwait Investment Authority (KIA) on behalf of Government of Kuwait each held 30,000 (2003: 30,000) ordinary shares of the company as at December 31, 2004.

16.3 Capital reserves

		2004	2003
		(Rupees in '000)	
Compulsory reserve – statutory reserve	*16.3.1*		
As at January 1		**2,060,817**	1,494,835
Add: Transfer during the year		**316,942**	565,982
		2,377,759	2,060,817
Reserve for issue of bonus shares			
As at January 1		**-**	350,000
Add: Transfer during the year		**500,000**	(350,000)
		500,000	-
Special reserve	*16.3.2*	**80,045**	80,045
		2,957,804	2,140,862

16.3.1 Compulsory reserve – statutory reserve

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 same reserve exceeds 25% of the paid-up share capital of the company.

According to BPD circular No. 15 dated May 31, 2004 issued by the SBP, an amount not less than 20% of the after tax profits shall be transferred to create a reserve fund till such time the reserve fund equals the amount of the paid up capital. The company has transferred Rs. 316.942 million (2003: Rs. 565.982 million) out of ‘profit after taxation’ for the year to this 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.

16.3.2 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.

16.4 Revenue reserves

		2004	2003
		(Rupees in '000)	
General reserve			
As at January 1		**1,989,924**	1,754,698
Add: Transfer during the year		**52,251**	235,226
		2,042,175	1,989,924
Contingencies reserve	*16.4.1*		
As at January 1		**70,144**	48,500
Add: Transfer during the year		**44,340**	21,644
		114,484	70,144
Marketable and government securities reserve	*16.4.2*		
As at January 1		**2,093,643**	666,585
Add: Transfer during the year		**251,177**	1,427,058
		2,344,820	2,093,643
		4,501,479	4,153,711

16.4.1 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 balance relating to back to back lending and financings against sovereign guarantees, is appropriated from the profit.

16.4.2 Marketable and government securities reserve

The company has set up a separate 'marketable and government securities reserve' at a minimum of 25% of shareholders' funds to provide sufficient cushion against volatility in the value of the stock market portfolio and government securities.

17. SURPLUS ON REVALUATION OF INVESTMENTS

17.1 Surplus on revaluation of securities

Federal and provincial government securities	**-**	585
Quoted shares	**1,740,494**	1,503,714
Other securities	**30,631**	19,410
	1,771,125	1,523,709

18. CONTINGENCIES AND COMMITMENTS

18.1 Other contingencies

18.1.1 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 who had earlier obtained stay order from the courts and 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 filed an appeal with the Appellate Tribunal against the 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 was receivable as at December 31, 2003. The company has fully provided for this amount during the year ended December 31, 2004.

The case 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.

18.1.2 During the year ended December 31, 2002 the Inspecting Additional Commissioner of Income Tax had revised the assessments of the Company for the assessment years 2000-2001 and 2001-2002 under section 66A of the Income Tax Ordinance, 1979 and under section 122 of the Income Tax Ordinance, 2001. Through the revised order 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 result of subject revision in assessment and after considering relief for the related expenditures 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 appeals on this issue would be decided in the company’s favour.

18.2 Other commitments

	2004	2003
	(Rupees in ‘000)	
Undisbursed sanctions for financial assistance in the form of equity participation or loans and leases	**1,988,224**	821,783
Commitments for capital expenditure	**-**	64,030
	1,988,224	885,813

18.3 Interest rate swap

The company has executed an Interest Rate Swap Transaction with a bank on April 2, 2004, for a period of five years, whereby it converted its floating rate liability on Rs. 100 million into a fixed rate liability. Under the arrangement the company will be paying the agreed fixed rate to the bank in exchange for a variable rate of payment.

19. MARK UP / RETURN/INTEREST EARNED

	2004	2003
	(Rupees in '000)	
On loans and advances	**203,246**	193,290
On investments	**147,436**	140,456
On deposits with financial institutions	**58,823**	69,168
On securities purchased under resale agreements	**48,879**	5,991
	458,384	408,905

20. MARK-UP / RETURN / INTEREST EXPENSED

Deposits	**171,711**	182,378
Securities sold under repurchase agreements	**19,592**	10,410
Other short term borrowings	**2,290**	5,158
Long term borrowings	**-**	9,673
Amortization of premium on government securities	**15,795**	6,794
	209,388	214,413

21. OTHER INCOME

Profit on sale of property and equipment	**1,035**	49
Exchange gain	**6,748**	-
Others	**1,617**	2,629
	9,400	2,678

22. ADMINISTRATIVE EXPENSES

	Note	2004	2003
		(Rupees in '000)	
Salaries, allowances and employees' benefits		**120,864**	119,323
Directors' remuneration (including remuneration of chief executive)		**52,977**	44,904
Provision for gratuity	*27.1.4*	**5,331**	5,601
Employer's contribution to the provident fund		**3,364**	3,061
Traveling and conveyance		**10,725**	7,009
Rent and rates		**4,738**	2,303
Utilities		**1,945**	1,685
Communication		**5,349**	3,430
Professional training and staff welfare		**1,843**	659
Advertisements, periodicals and membership dues		**6,962**	6,466
Exchange loss		**-**	4,315
Provision against central excise duty		**2,077**	-
Printing and stationery		**2,622**	2,320
Depreciation	*11.2*	**19,080**	16,483
Audit fee		**550**	550
Legal, consultancy and other professional services		**26,014**	25,157
Repairs and maintenance		**9,456**	4,448
Motor vehicles expenses		**3,112**	2,654
Insurance		**2,318**	2,130
Donations	*22.1*	**22,000**	20,044
Entertainment		**682**	590
Software development expenses		**3,008**	928
Bank charges		**1,175**	356
Miscellaneous		**8,235**	8,717
		314,427	283,133

22.1 Donations in excess of Rs. 100,000 each were charged to profit and loss account during the year ended December 31, 2004 in respect of the The Citizens Foundation, City Government Adopt A Park, City Government Incinerator, Tameer-e-Karachi Package, Pakistan Association of Deaf and Sindh Institute of Urology and Transplantation.

Donations were not made to any donee in which a director or his spouse had any interest at any time during the year.

23. TAXATION

	2004	2003
	(Rupees in '000)	
Current		
For the year	**52,254**	134,786
Deferred tax	**32,884**	70,078
	85,138	204,864

23.1 Relationship between tax expense and accounting profit

	2004	2003
Profit before taxation	**1,669,848**	3,034,774
Tax at the applicable rate of 35% (2003: 35%)	**584,447**	1,062,171
Net tax effect on income taxed at reduced rates	**(110,978)**	(141,311)
Net tax effect of income not subject to tax and expenses that are not allowable in determining taxable income	**(388,331)**	(741,582)
Effect of change in tax rate	**-**	25,586
	85,138	204,864

24. BASIC AND DILUTED EARNINGS PER SHARE

		2004	2003
Profit for the year		**1,584,710**	2,829,910
Weighted average number of ordinary shares (in thousands)		**60**	60
Basic earnings per share	*Rupees*	**26,412**	47,165

25. CASH AND CASH EQUIVALENTS

	2004	2003
Cash and Balance with Treasury Banks	**56,529**	34,135
Balance with other banks	**1,344,316**	2,036,704
	1,400,845	2,070,839

26. STAFF STRENGTH

	2004	2003
Total number of employees at end of the year	**65**	61

27. DEFINED BENEFIT PLAN

27.1 Staff retirement gratuity

27.1.1 Principal actuarial assumptions

	2004	2003
Discount rate	**8 % per annum**	6 % per annum
Expected rate of increase in salaries	**8 % per annum**	6 % per annum
Expected rate of return on investments	**8 % per annum**	6 % per annum
Normal retirement age	**60 years**	60 years

27.1.2 Balance sheet reconciliation

	2004	2003
	(Rupees in '000)	
Present value of defined benefit obligations	**33,354**	30,002
Fair value of plan assets	**(7,153)**	(557)
Unrecognised actuarial losses	**(6,856)**	(6,634)
	19,345	22,811

27.1.3 Movement in liability

	2004	2003
Opening balance	**22,811**	18,339
Expense charged in the current year	**5,331**	5,601
Company's contribution to gratuity fund	**(8,797)**	(1,129)
Closing balance	**19,345**	22,811

27.1.4 Provision for gratuity

	2004	2003
Current service cost	**3,261**	2,593
Interest cost	**1,865**	1,790
Expected return on plan assets	**(98)**	(134)
Settlement cost	**-**	997
Actuarial loss amortized	**303**	355
	5,331	5,601

28. MATURITIES OF ASSETS AND LIABILITIES

	2004				
	Total	**Upto three months**	**Over three months to one year**	**Over one year to five years**	**Over five years**
	--------------------------------------(Rupees in '000)----------------------------------				
Assets					
Cash and balances with treasury banks	56,529	56,529	-	-	-
Balances with other banks	1,344,316	1,344,316	-	-	-
Lendings to financial institutions	2,867,654	2,867,654	-	-	-
Investments	10,273,331	1,081,790	3,805,928	4,806,086	579,527
Advances	4,198,131	295,155	1,481,870	1,904,764	516,342
Other assets	561,099	526,349	-	-	34,750
Operating fixed assets	135,170	-	-	-	135,170
Deferred tax assets	71,878	-	-	71,878	
	19,508,108	6,171,793	5,287,798	6,782,728	1,265,789
Liabilities					
Due to financial institutions	4,705,662	1,705,662	-	3,000,000	-
Deposits and other accounts	2,490,000	1,218,000	687,000	585,000	-
Other liabilities	1,582,038	1,022,129	452,327	56,870	50,712
	8,777,700	3,945,791	1,139,327	3,641,870	50,712
Net assets	10,730,408	2,226,002	4,148,471	3,140,858	1,215,077
Share capital	1,500,000				
Capital reserves	2,957,804				
Revenue reserves	4,501,479				
Surplus on revaluation of investments	1,771,125				
	10,730,408				

29. YIELD RATE RISK

	2004						
	Effective yield / Interest rate %	**Total**	**Exposed to yield/ profit risk**				**Not exposed to yield / profit risk**
			Upto three months	**Over three months to one year**	**Over one year to five years**	**Over five years**	
			--------------------------(Rupees in '000)----------------------------				
On-balance sheet financial instruments							
Financial Assets							
Cash and balances with treasury banks		56,529	-	-	-	--	56,529
Balances with other banks	5.435	1,344,316	1,278,184	-	-	-	66,132
Lendings to financial institutions	4.604	2,867,654	2,867,654	-	-	-	-
Investments	6.139	10,273,331	247,527	547,883	630,644	-	8,847,277
Advances	7.127	4,198,131	2,229,708	1,930,609	-	-	37,814
Other assets		461,327	-	-	-	-	461,327
		19,201,288	6,623,073	2,478,492	630,644	-	9,469,079
Financial Liabilities							
Borrowings from financial institutions	4.188	4,705,662	3,205,662	1,500,000	-	-	-
Deposits and other accounts	4.676	2,490,000	1,218,000	687,000	585,000	-	-
Other liabilities		1,582,038	-	-	-	-	1,582,038
		8,777,700	4,423,662	2,187,000	585,000		1,582,038
On-balance sheet gap		10,423,588	2,199,411	291,492	45,644	-	7,887,041

30. CURRENCY RISK

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

	2004			
	Assets	Liabilities	Off-balance sheet items	Net foreign Currency exposure
	-----------------------------(Rupees in '000)-----------------------------			
Pakistan Rupees	19,002,469	8,777,700	-	10,224,769
United States Dollars	198,819	-	-	198,819
	19,201,288	8,777,700	-	10,423,588

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investments in listed securities is based on market rates of the Karachi Stock Exchange. Fair value of unquoted equity investments is determined on the basis of break-up value of those investments based on the latest available financial statements.

Fair value of fixed term loans and advances, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of advances has been calculated in accordance with the accounting policy as stated in note 4.3 above.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature or in case of advances and deposits are frequently repriced.

32. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk represents the accounting loss that would be recognized 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 make provision against those balances considered doubtful for recovery. Further, the company appropriates an estimated amount in percentage term as ‘contingencies reserve’ each year as referred to in note 16.4.1 to these financial statements.

32.1 Segment by class of business

	2004					
	Advances		Deposits		Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	117,375	2.8	-	-	43,141	2.17
Agribusiness	137,143	3.27	-	-	377,337	18.98
Textile	1,338,612	31.89	-	-	50,000	2.51
Cement	-	-	-	-	403,790	20.31
Financial	10,000	0.24	1,850,000	74.30	-	-
Insurance	-	-	-	-	-	-
Individuals	1,040,829	24.78	-	-	411,815	20.72
Construction	359,551	8.56	-	-	-	-
Communication and entertainment	607,217	14.46	-	-	-	-
Government	-	-	450,000	18.07	-	-
Others	587,404	14.00	190,000	7.63	702,141	35.31
	4,198,131	100.00	2,490,000	100.00	1,988,224	100.00

32.2 Segment by sector

	2004					
	Advances		Deposits		Contingency and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / government	31,111	0.74	640,000	25.70	-	-
Private	4,167,020	99.26	1,850,000	74.30	1,988,224	100.00
	4,198,131	100.00	2,490,000	100.00	1,988,224	100.00

33. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include associated companies with or without common directors, retirement benefit fund, directors and key management personnel.

The company enter into transactions with related parties in the normal course of business. These include loans, dividend income, placements, and investments. These transactions were carried out on commercial terms and at market rates. The expenses incurred on behalf of a related party are actual expenses, which are subsequently reimbursed.

	2004	2003
	(Rupees in '000)	
Expenses charged to related parties	**13,978**	14,036
Expenses charged by related parties	**1,386**	4,553
Dividend income from related parties	**169,962**	97,571
Placements / COIs with a related party		
Balance as at January 1,	**127,910**	128,260
Additions during the year	**401,372**	1,441
Exchange gains / (loss)	**4,790**	(1,791)
Balance as at December 31,	**534,072**	127,910
Mark up earned on placements / COIs with a related party	**1,930**	1,678
Markup receivable on placements / COIs with a related party	**5,750**	921
Bank balances with a related party	**62,465**	125,896
Receivables from related parties	**22,737**	260
Payable to a related party	**-**	105
Investments in related parties		
- quoted, at market values	**3,492,245**	2,055,058
- un - quoted, at cost	**267,128**	105,250
Advance to a related party	**62,500**	-
Commitments for investment in equity / loan of / to related parties	**128,000**	-
Advance against shares subscription	**50,000**	-
Subscription of right issue - quoted	**-**	105,000
- un quoted	**-**	30,830

Transactions with retirement benefit funds – notes 15,22 & 27

34. ASSOCIATES

The investments in associates are valued as stated in note 4.4 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, Falcon Greenwood (Private) Limited, TMT Venture Limited, Fauji Fertilizer Company Limited, Fauji Fertilizer Bin Qasim Limited and TMT Incubation Fund Limited in which the company's direct percentages of holding were 19.00, 30.00, 38.78,28.01,50,25,30,2.73,0.70, and 30 respectively. The company also holds units in Meezan Balanced Fund and Meezan Islamic Fund.

35. CORRESPONDING FIGURES

Corresponding figures have been rearranged / reclassified, wherever necessary for the purpose of comparison, to comply with the requirements of the circulars issued by the SBP.

36. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue in the Board of director meeting held on 3 March, 2005.

Chief Executive **Chairman**