

ASIAN LEASING CORPORATION LTD.

Annual Report 1997

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COMPANY INFORMATION

Board of Directors:

Mr. Mohammad Aslam Khan	Chairman
Mr. Mohammad Zafarullah Khan	Director
Dr. ftekhkar A. Khan	Director
Mr, Shahid Hassan	Nominee Director - NDFC
Syed Ghulam Abbas	Nominee Director - NDFC
Mrs. Roohi Raees Khan	Nominee Director - NDFC
Mr. Muhammad Bashir Chaudhry	Nominee Director - NDFC
Syed Manzar Alam	Nominee Director - NIT
Mr. Muhammad Aslam	Chief Executive Officer/Director

Company Secretary:

Mr. Waqar Asghar

Bankers to the Company:

Bank of Punjab
Crescent Investment Bank Limited
Faysal Bank Limited
Muslim Commercial Bank Limited
National Bank of Pakistan
National Development Finance Corporation

Auditors:

Ford, Rhodes, Robson, Morrow
Chartered Accountants

Legal Advisor:

Khawaja M. Azeem
Advocate High Court

Registrars and Share Transfer Office:

Noble Computer Services (Private) Ltd.
6tb Floor, Hirani Centre, I. 1. Chundrigar Road,
Karachi

Registered Office & Head Office:

12-Ahmed Block, New Garden Town, Lahore
Tel: 5882806-9
Fax: (042)5882669

Branch Office:

204-Clifton Centre, Khayaban-e-Roomi, Clifton
Karachi.
Tel: 5835936, 5866095
Fax: 5873573

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the ELEVENTH ANNUAL GENERAL MEETING of ASIAN LEASING CORPORATION **LIMITED** will be held on Tuesday, 30th December, 1997 at the registered office of the Company at 12-Ahmed Block, New Garden Town, Lahore at 9.00 a.m. to transact the following business:

1. To confirm the minutes of loth Annual General Meeting of the Company held on 26th December, 1996.

2. To receive, consider and adopt the audited accounts for the year ended June 30, 1997 together with the Directors' and Auditors' reports thereon.

3. To appoint Auditors and fix their remuneration. The present Auditors, Messrs. Ford, Rhodes, Robson, Morrow, Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

4. To transact any other business with the permission of the Chair.

Lahore:

6th December, 1997

NOTES:

1. The Register of Members of the Company will remain closed from 24th December, 1997 to 30th December, 1997 (both days inclusive) and no transfer of shares will be made during the period the register is closed.

2. A member entitled to attend and vote at the General Meeting is entitled to appoint one person as his proxy to attend and vote on his behalf.

3. Instrument appointing proxy and the power of attorney or other authority under which it is signed or a notarially certified copy of the power or authority must be deposited at the registered office of the Company atleast 48 hours before the time of the meeting.

4. Shareholders are requested to notify any change in address immediately.

DIRECTORS' REPORT TO THE MEMBERS

The Board of Directors have pleasure in presenting to the members 11th Annual Report together with Audited Accounts and the Auditors' Report thereon for the year ended June 30, 1997.

FINANCIAL RESULTS

The financial results of the company for the year under review are summarised as follows:

	(Rupees)
Revenue	81,609,860
Expenditure	(69,878,686)
Profit before tax	11,731,174
Taxation	(19,500,000)
Loss after tax	(7,768,826)

CHAIRMAN'S REVIEW

The accompanying Chairman's review deals with the performance of the company during the year and future outlook.

PATTERN OF SHAREHOLDING

The Pattern of share holding of the Company is annexed

AUDITORS

The present Auditors M/s. Ford, Rhodes, Robson, Morrow, Chartered Accountants retire and being eligible offer themselves for re-appointment.

CHAIRMAN'S REVIEW

The year under review was full of crisis for the financial sector. It was characterized by both despair and hope. Political uncertainty during the year affected the economy and business environments. The economic activity, more or less, remained stand still and the financial institutions were forced to re-evaluate the credit policies, increase monetary activities and focus on provisioning policies. Frequent currency devaluation's, tight monetary policy, high cost of borrowings combined with depressed econolnic activity has adversely affected business activity all around.

The availability of Credit lines from the local institutions was affected because of the liquidity crunch caused by deficit financing to support the economy. The management had therefore two options before it; use the funds from the recovery to write new leases and consequently maintain lease portfolio at the same level and to default with the lenders or to meet commitments with tile lenders. The management chopped to follow the sound financial management policies in meeting commitments with all tile lenders and depositors. The corporation recovered Rs. 211 million during the year under review as compared to Rs. 204 million during the last year. The corporation also raised Rs. 70 million from the local institutions and Rs. 6.7 million from the public deposits. The management met all financial obligations and other commitments.

Income Tax in tile Leasing industry has peculiar phenomena. Leasing companies are taxed on the basis of gross rentals receivable, whilst they recognize only mark up income in the accounts. This results in the disparity

between accounting income and tax provision. This aspect of the income tax is a threat on very survival of the industry. Leasing Association of Pakistan has taken up the matter with the Government. This is one of the major factors which has affected the profitability of your company.

In view of the above position your company has been able to invest Rs. 87.96 million in leases and generated revenue of Rs. 81.61 million. Profit before tax is Rs. 11.73 million after providing for Rs. 9.8 million as provision for doubtful receivables. Profit & Loss account is showing an after tax loss of Rs. 7.77 million for reasons noted above and reduction in spread available between average return on lease financing and rate of mark-up on loans. Management has been exercising strict control over expenditure of the corporation. However, as a result of increase in salaries & benefits to the staff and high inflationary pressure, administration expenses have increased by Rs. 2.2 million. Financial expenses have however decreased as the corporation repaid all loans which fell during the year.

Diversification of our lease portfolio remains focal point in our risk management strategy. Your company has build up diversified quality lease portfolio. The sector wise and asset wise disbursement of lease portfolio is as under.

SECTOR-WISE PORTFOLIO

Sector	Percentage
Sugar & Allied	2.04%
Cement	16.71%
Energy, Oil and Gas	4.21%
Steel, Engineering, Automobiles	8.02%
Electrical & Electrical Goods	10.49%
Chemical/Fertilizers/Pharmaceutical	9.99%
Textile	25.81%
Paper and Board	0.14%
Construction	1.03%
Leather, Footwear, Tanneries	0.75%
Food, Tobacco, Beverages	0.88%
Glass and Ceramics	0.64%
Health care	0.75%
Dairy and Poultry	8.30%
Miscellaneous	10.24%

Total	100.00%
	=====

CATEGORY-WISE PORTFOLIO

Type of Assets	Percentage
Machinery	77.79%
Equipment	2.39%
Vehicle	19.37%
Computer	0.45%

Total	100.00%
	=====

RESOURCE MOBILIZATION

Your company has made new initiative in this field. We have made a number of applications to the Multilateral Financial Institutions and are pursuing the same. The local financial institutions are now taking short term positions and the funds needed for lease financing are made available on a highly selective basis. This has checked the growth of your company.

The Corporation is grateful to the banks and financial institutions, in particular those mentioned below, for providing timely financial assistance and guidance.

- Al Faces Investment Bank Limited
- AI-Twofer Investment Bank Limited.
- Asian Development Bank
- Asian Finance & Investment Corporation
- Crescent Investment Bank
- Faces Bank Limited
- Fidelity, Investment Bank Limited
- Muslim Commercial Bank Limited
- National Development Finance Corporation
- Saudi Pak Agricultural and Investment Co. (Pvt) Ltd.

FUTURE PROSPECTS

The economy of the country is showing signs of improvement due to steps taken by the Government to reinvigorate the business sector and improve investment climate in tile country. Reduction in tax rates and Government borrowings from the Banking sector will infuse new vitality in trade and industry. Moreover reduction in liquidity requirements from 19% to 14% will have positive effect on the cost of funds. Abolition of central excise duty on lease financing coupled with Government efforts to reduce mark-up rates will be helpful for the industrial activity..

There are good prospects of growth for 1997-98 and we are confident to negotiate credit lines from local & foreign financial our.

ACKNOWLEDGMENT

Tile company is thankful to the authorities of the State Bank of Pakistan, Corporate Law Authority, our valuable clients, financial institutions and shareholders for their continued support and co-operation. Appreciation is also placed on record for the dedicated llard work put in by tile staff of the Corporation.

I also thank all tile concerned agencies once again who helped, patronized and assisted in our efforts and hope that they will continue to support us in future.

Lahore:

December 6, 1997

PATTERN OF SHARE HOLDING

AS AT JUNE 30, 1997

Number of Shareholde	Shareholding From	To	Total Shares Held
308	1	100	14,725
361	101	500	88,190
149	501	1,000	109,436
330	1,001	5,000	625,855
49	5,001	10,000	339,333
5	10,001	15,000	56,603
2	15,001	20,000	35,738
3	20,001	25,000	64,852
1	25,001	30,000	26,136
1	40,001	45,000	41,817
1	45,001	50,000	48,944
1	50,001	55,000	52,272
1	55,001	60,000	55,806
2	65,001	70,000	134,489
1	70,001	75,000	72,600
1	75,001	80,000	79,514
1	100,001	105,000	104,544
1	120,001	125,000	121,000
1	145,001	150,000	145,300
3	260,001	265,000	784,904
2	520,001	525,000	1,045,440
1	525,001	530,000	527,720
1	565,001	570,000	569,329
1	610,001	2,615,000	2,613,600
1	2,695,001	2,700,000	2,696,253
-----	-----	-----	-----
1,228	TOTAL		10,454,400
=====	=====	=====	=====

CATEGORIES OF SHAREHOLDERS AS AT JUNE 30, 1997

Categories of Shareholder	Number	Shares Held	Percentage
INDIVIDUAL	1,203	3,615,624	34.584
INVESTMENT COMPANIES	4	264,973	2.535
INSURANCE COMPANIES	2	611,146	5.846
JOINT STOCK COMPANIES	9	368,199	3.522
FINANCIAL INVESTORS	3	5,382,453	51.485
MODARABA	4	96,136	0.920
CO-OPERATIVE SOCIETIES	2	112,733	1.078
CHARITABLE TRUSTS	1	3,136	0.030
OTHER	--	--	--
-----	-----	-----	-----
TOTAL	1,228	10,454,400	100.000
=====	=====	=====	=====

AUDITORS' REPORT TO THE MEMBERS

we have audited the annexed balance sheet of Asian Leasing Corporation Limited as at June 30, 1997 and the related profit and loss account and statement of sources and application of funds, 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 and, after due verification thereof, we report that:

(a) in our opinion, proper boom 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 boom 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 and the statement of sources and application of funds, together with the notes forming part thereof, 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 June 30, 1997 and of the profit and the changes in sources and application of funds for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that ordinance.

Without qualifying our opinion, we draw attention to the corresponding figures used for profit and loss account together with the notes thereon which are not of the audited accounts for the period ended from January 01, 1995 to June 30, 1996 as explained in Note: 29.

Lahore:
December 6, 1997

FORD, RHODES, ROBSON, MORROW
CHARTERED ACCOUNTANTS

BALANCE SHEET AS AT JUNE 30, 1997

	Notes	1997 Rupees	1996 Rupees
CAPITAL AND RESERVES			
Authorised capital 25,000,000 (1996: 25,000,000) ordinary shares of Rs. 10/- each		250,000,000 =====	250,000,000 =====
Issued, subscribed and paid-up capital	4	104,544,000	104,544,000
Special Reserves	5	7,104,821	7,104,821
General Reserves		31,336,477	31,336,477
Unappropriated (loss)/profit		(7,768,826) 30,672,472 -----	-- 38,441,298 -----
		135,216,472	142,985,298
LONG TERM AND DEFERRED LIABILITIES			
Long term loans- secured	7	78,459,557	150,204,299
Marginal deposits on lease arrangements		68,446,572	77,710,965
Customers' deposits - COIs	8	1,725,000	3,600,000
Provision for gratuity		55,085 148,686,214	55,085 231,570,349
CURRENT LIABILITIES			
Current maturity of long term loans		93,865,603	111,972,050
Short term loans - secured	9	15,000,000	7,500,000
Short term customers' deposits - COIs	10	2,702,400	16,250,000
Accrued liabilities		322,078	338,942
Mark-up accrued on secured loans		2,912,469	4,643,292
Mark-up accrued on Certificates of Investment		86,678	399,215
Provision for taxation		32,967,541	13,467,542
Central Excise duty payable		65,286	11,714
Others		469,223	1,395
Dividends	11	246,846	10,474,750
		----- 148,638,124	----- 165,058,900
CONTINGENCIES AND COMMITMENTS	12	--	--

		-----	-----
		432,540,810	539,614,547
		=====	=====
TANGIBLE FIXED ASSETS	13	5,209,982	4,495,434
NET INVESTMENT IN LEASE FINANCE			
Lease payments receivable		387,327,080	501,660,101
Residual value		67,791,891	77,223,219
Gross lease payment receivable		455,118,971	578,883,320
Less : ' Unearned mark-up		(82,087,583)	(112,768,230)
		373,031,388	466,115,090
Bad debts written off		--	(4,191,735)
Set investment in lease finance		373,031,388	461,923,355
Less: Current maturity		(154,790,934)	(191,375,952)
Provision for doubtful receivables		(7,293,921)	(2,569,681)
		210,946,533	267,977,722
LONG TERM INVESTMENTS	14	8,888,000	5,888,000
LONG TERM FINANCES - SECURED	15	--	5,489,243
DEFERRED COST	16	1,733,787	2,183,864
CURRENT ASSETS			
Current portion of net investment			
In lease finance		154,790,934	191,375,952
Short term finances - secured	17	17,326,540	16,954,204
Mvances, deposits, prepayments			
and other receivables	18	14,347,939	18,169,876
Cash and bank balances	19	19,297,095	27,080,252
		-----	-----
		205,762,508	253,580,284
		-----	-----
		432,540,810	539,614,547
		=====	=====

The annexed notes form an integral part of these accounts.

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 1997

	Notes	1996 Rupees	1997 Rupees
REVENUE			
Income from lease operations		72,018,354	76,974,176
Mark-up income		8,703,596	12,675,195
Other income		887,910	817,130
		-----	-----
		81,609,860	90,466,501
EXPENDITURE			
Direct cost of leases	23	79,552	115,454
Financial charges	24	45,296,571	52,668,065
Administrative and o perati ng expenses	25	12,395,475	10,194, 731
Depreciation	13	1,225,502	1,037,935
Deferred costs - Amortised	16	998,405	1,099,271
Bad debts written off		--	9,663,938
Provision for doubtful receivables		9,883,181	(3,874,822)
		-----	-----
		69,878,686	70,904,572
Profit before tax		11,731,174	19,561,929
Taxation	26	19,500,000	9,400,000
		-----	-----
(Loss) / profit after tax		(7,768,826)	10,161,929
Unappropriated profit brought forward		--	2,170,334
Transfer from general reserve		--	154,523
		-----	-----
Profit available for appropriation		(7,768,826)	12,486,786
Appropriations:			

Transfer to Special reserve	--	2,032,386
Proposed dividend	--	10,454,400
	--	12,486,786
	-----	-----
Unappropriated (loss) / profit carried forward	(7,768,826)	--
	=====	=====

The annexed notes form an integral part of these accounts.

**STATEMENT OF SOURCES AND APPLICATION OF FUNDS
FOR THE YEAR ENDED JUNE 30, 1997**

	1997	1996
	Rupees	Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit after taxation	(7,768,826)	10,161,929
Adjustment for:		
Depreciation	1,225,502	1,037,935
amortization of deferred costs	998,405	1,099,271
(Profit) on sale of fixed assets	(259,852)	(159,468)
Bad debts written off	--	9,663,938
Provision for doubtful receivables	9,883,181	(3,874,822)
	-----	-----
	11,847,236	7,766,854
	-----	-----
Operating profit before working capital changes	4,078,410	17,928,783
(Increase)/decrease in:		
Short term finances (other than provision for doubtful and current portion)	802,313	10,461,865
Advances, deposits, prepayments and other receivables (other than provision for doubtful)	(1,471,973)	7,945,268
	-----	-----
	(669,660)	18,407,133
Increase/(Decrease) in:		
Current liabilities (other than current maturity of long term loans, COI's and dividends)	13,013,575	1,898,093
	-----	-----
NET CASH FROM OPERATING ACTIVITIES	16,422,325	38,234,009
	1997	1996
	Rupees	Rupees
Brought forward	16,422,325	38,234,009
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	(1,991,580)	(1,688,902)
Sale proceeds of fixed assets	311,382	729,950
Deferred costs	(548,328)	(1,225,020)
Net investment in lease finance recovered	176,854,714	140,900,234
Net investment in lease finance provided	(87,962,748)	(176,320,958)
Marginal deposits on lease arrangements received	11,235,642	24,550,943
Marginal deposits on lease arrangements repaid	(20,500,035)	(11,949,310)
Long term investments	(3,000,000)	(747,500)
Long term finances	4,449,563	2,206,184
	-----	-----
Net cash used in Investing Activities	78,848,610	(23,544,379)
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends	(10,227,904)	--
Long term loans	37,000,000	79,069,520
Customers' deposits - COIs	(2,975,000)	13,497,000
Repayment of long term loans	(126,851,188)	(107,143,131)
	-----	-----
Set cash used in financing activities	(103,054,092)	(14,576,611)
	-----	-----
Set (decrease)/increase in cash and cash equivalents	(7,783,157)	113,019
Cash and bank balances at the beginning of the period	27,080,252	26,967,233
	-----	-----
Cash and bank balances at the end of the period	19,297,095	27,080,252
	=====	=====

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 1997

1. THE COMPANY AND ITS OPERATION

The company is a public limited company and is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The company is engaged in the business of lease financing.

2. COMPLIANCE WITH I A S

These accounts comply with International Accounting Standards in all material respects.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting convention

The financial statements are prepared under the historical cost convention.

3.2 Tangible fixed assets and depreciation

Fixed assets for own use are stated at cost less accumulated depreciation. Depreciation on these assets is calculated applying the straight line method whereby the cost of assets is written off over estimated useful lives,

A full one year depreciation is charged in the year of addition and no depreciation is charged in the year of deletion,

Repairs and maintenance costs are expensed out as and when incurred, however, major betterments are capitalised.

3.3 Deferred costs

These costs are to be written off over a period of five years from the year of incurrence.

3.4 Taxation

Current tax provision is based on profits as adjusted for tax purposes after taking into account all available allowances and credits.

The company determines deferred tax on all major timing differences using the liability method (Note: 26).

3.5 Revenue recognition

The company recognises all "sale and lease back" and "direct leases" as finance leases. Accordingly, the excess of aggregate lease rentals over the net investments in the cost of leased assets is deferred and amortised to income over the term of the lease according to the annuity method. Mark-up income on morabaha finances is recognised on receivable basis as stated in their respective agreements. Front end fees (project examination fees) are taken to income on receipt basis while commitment fees are recorded on accrual basis. Other income is accounted for when it becomes receivable.

3.6 Foreign currency translation

Transactions in foreign currencies are accounted for at the rates prevailing on the date of transaction. Assets and liabilities in foreign currencies are translated at the rate of exchange prevailing on the balance sheet date except for foreign currency loans registered under the Exchange Risk Cover Scheme of the Government of Pakistan which are, if any, recorded at the rate prevailing on the date of disbursement. Exchange difference, if any, arising from translation at year end rates is taken to profit and loss account.

3.7 Staff retirement benefits

The company had established an unfunded gratuity scheme for all permanent employees until March, 1992 whereafter the scheme of Recognized Provident Fund has been introduced in place of gratuity scheme under a trust established for this purpose.

3.8 Provision for doubtful receivables

The company makes a provision for doubtful receivables equivalent to 2% (1996: 2%) of net lease receivables, including advances against leases and long/short term finances, in pursuance to loan conditions of Asian Development Bank (Note: 7.1).

Provision for doubtful receivables is made at the higher of SBP's Rules of Business (Prudential Regulations) or 2% as specified by Asian Development Bank on an aggregate basis.

3.9 Long term investments

These are stated at cost.

	1997	1996
	Rupees	Rupees
4. ISSUED, SUBSCRIBED AND PMD-UP CAPITAL		
5,000,000 (1996: 5,000,000) ordinary shares of Rs. 10/- each fully paid in cash	50,000,000	50,000,000
5,454,400 (1996: 5,454,400) ordinary shares of Rs.10 each issued as fully paid bonus shares	54,544,000	54,544,000
	-----	-----
	104,544,000	104,544,000
	=====	=====

5. SPECIAL RESERVES

Opening balance	7,104,821	5,072,435
Transfer from Profit & Loss Account	--	2,032,386
	-----	-----
	7,104,821	7,104,821
	=====	=====

This represents special reserve created under Rule-3 of SBP's Rules of Business (Prudential Regulations) for Non-Banking Financial Institutions.

	1997	1996
	Rupees	Rupees
6. GENERAL RESERVES		
Opening balance	31,336,477	31,491,000
Transfer to Profit and Loss Account	--	(154,523)
	-----	-----
	31,336,477	31,336,477
	=====	=====

7. LONG TERM LOANS - SECURED

Foreign Currency Loans

Asian Development Bank

Loan No. 1 (US \$ 250,000) (Note: 7.1)	5,598,755	16,796,261
Loan No. 2 (US \$ 2,916,669) (Note: 7.2)	80,922,529	113,291,327
Loan No. 3 (US \$ 333,340) (Note: 7.3)	7,754,364	15,508,550

Local Currency Loans

National Development Finance Corporation

Loan No. 4 (Note: 7.4)	5,000,000	10,000,000
Loan No. 5 (Note: 7.5)	7,272,726	16,363,636
Loan No. 6 (Note: 7.6)	16,666,666	25,000,000

Crescent Investment Bank Ltd.

Loan No. 1 (Note 7.7)	--	4,999,997
Loan No. 2 (Note 7.8)	5,000,002	8,333,334
Loan No. 3 (Note 7.9)	5,833,335	9,166,667
Loan No. 4 (Note: 7.10)	10,000,000	

Al-Faysal Investment Bank Limited (Note: 7.11)

	7,500,000	9,534,761
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Allied Bank of Pakistan Ltd. (Note 7.12)

	--	15,000,000
--	----	------------

Muslim Commercial Bank Ltd.

Loan No. 1 (Note: 7.13)	4,545,453	8,181,818
Loan No. 2 (Note: 7.14)	7,273,000	--
Fidelity Investment Bank Ltd. (Note: 7.15)	3,333,330	9,999,998
Prudential Commercial Bank Ltd. (Note: 7.16)	5,625,000	--

	-----	-----
	172,325,160	262,176,349
Less: Current Maturity	93,865,603	111,972,050
	-----	-----
	78,459,557	150,204,299
	=====	=====

7.1 A.D.B. Loan No. 1

This represents the balance of a loan of US \$ 3,000,000 sanctioned by Asian Development Bank for financing of lease operations.

The loan carries interest at the rate of 10.8% p.a. payable semi-annually on 15th June and 15th December in each year.

The loan is repayable in 12 equal semi-annual instalments of US \$ 250,000 each commencing on June 15, 1992.

The loan is secured by (i) a pari-passu floating charge on the leased assets purchased out of the proceeds of the loan, (ii) hypothecation of moveable assets and receivables of the company and (iii) demand promissory note.

The conditions of the loan agreement requires the company to, inter alia, maintain (i) a debt equity ratio not exceeding 10:1, (ii) a debt service coverage ratio equaling or exceeding 1.25:1, (iii) a provision for doubtful accounts equivalent to 2% of the total risk assets as defined in the agreement and (iv) not to distribute more than 60% of the unrestricted after tax profits of any year.

7.2 A.D.B. Loan No. 2

This represents the balance of a loan of US \$ 7,000,000 sanctioned by Asian Development Bank for financing of lease operations.

The loan carries interest at the rate of 9.4% per annum, payable semi-annually on 15th June and 15th December in each year.

The loan is repayable in 11 equal semi-annual instalments of US \$ 583,333 each commencing on June 15, 1994 and one final instalment of Rs \$ 583,337.

Other conditions of security and financial restrictions are the same as in Loan No. 1 except financial restrictions as extended by (v) to maintain, at all times, a current ratio equal to at least 1.25:1 and (vi) to maintain, at all times, in cash or Government Securities an amount equivalent in value at least 10% of the principal amount of outstanding Certificates of Investment.

7.3 A.D.B. Loan No. 3

This represents the balance of a loan of US \$ 2,000,000 sanctioned by Asian Development Bank for financing lease operations.

The loan carries interest at the rate of 1.5% p.a. above LIBOR, payable semi-annually on 15th June and 15th December in each year.

The loan is repayable in 11 equal semi-annual instalments of US \$166,666 each commencing on December 15, 1992 and one final instalment of US \$166,674.

Other conditions of security and financial restriction are the same as of loan No. 1.

7.4 N.D.F.C. Loan No. 4

The loan has been obtained under a sale and repurchase agreement for financing the leasing operations of tile company.

The sale price of Rs. 20,000,000 has a repurchase price of Rs. 31,509,608/- which is repayable in 8 equal half-yearly instalments commencing from August 08, 1994.

The payment of the repurchase price is secured by an agreement to (a) mortgage of immovable properties including building, plant, machinery and equipment and replacements thereof and additions thereto plus other properties as N.D.F.C. may determine, (b) create a floating charge on the business, under taking and all properties and assets of the company, (c) pledge / hypothecation of all fixed assets, book debts and benefits of contracts for supply of goods for the purposes of business, (d) hypothecation of assets acquired by the company from the finance provided by N.D.F.C. and (e) demand promissory note.

7.5 N.D.F.C. Loan No. 5

The loan has been obtained under a sale and repurchase agreement for financing the leasing operations of the company.

The sale price of Rs.20,000,000 has a repurchase price of Rs.27,380,540 which is repayable in 11 equal quarterly instalments commencing from January, 02,1996.

The payment of the repurchase price is secured by way of (a) hypothecation charge on the entire assets and undertakings of the company, (b) mortgage charge on all the present and future fixed assets of the company and (c) demand promissory note. The charge so created shall rank pari passu with all other existing loan creditors.

7.6 N.D.F.C. Loan No. 6

This loan has been obtained under a sale and repurchase agreement for financing the leasing operations of tile company.

The sale price of Rs. 25,000,000 has a repurchase price of Rs. 33,937,900 which is repayable in 6 equal half-yearly installments commencing from November 26, 1996.

The payment of tile repurchase price is secured by way of (a) hypothecation charge on the entire assets and undertakings of the company, (b) mortgage charge on all the present and future Fixed assets of the company and (c) demand promissory note.

7.7 Crescent Investment Bank Ltd. - 1

The loan of Rs. 20,000,000 has been obtained under a sale and repurchase agreement for financing the leasing operations of the company. The repurchase price is Rs.26,163,289 which is repayable in 12 equal quarterly instalments commencing from May 12,1994.

The payment of the repurchase price is secured by an agreement to (a) create first charge over fixed assets of the company (b) an undertaking by the company to maintain a minimum credit balance of Rs.5.00 million with Cres Bank during the currency of the facility (c) undertaking that if the promissory note is not paid upon maturity, company shall become liable to pay liquidated damages @ 20% per annum for each day the payment is delayed, (d) demand promissory note.

7.8 Crescent Investment Bank Ltd. - 2

This facility of Rs.10.00 million has been obtained for financing the leasing operations of the company. The facility carries mark-up @ 19% p.a. This facility is repayable in 12 equal quarterly instalments commencing from January 09, 1996. The loan is secured against (a) first charge on fixed assets of the company. (b) undertaking that if the promissory note is not paid upon maturity, company shall become liable to pay liquidated damages @ 20% p.a. for each day the payment is delayed. (c) demand promissory note.

7.9 Crescent Investment Bank Ltd. - 3

This facility of Rs. 10.00 million has been obtained for financing the leasing operations of the company. The facility carries mark-up @ 18.5% p.a. This facility is repayable in 12 equal quarterly instalments commencing from May 27, 1996.

The loan is secured against (a) first charge on fixed assets of the company. (b) undertaking that if the promissory note is not paid upon maturity, company shall become liable to pay liquidated damages @ 19.5% p.a. for each day the payment is delayed.

7.10 Crescent Investment Bank Ltd. - 4

This facility of Rs. 10.00 million has been obtained for the financing the leasing operations of the company. The facility carries mark-up @ 21% p.a. This facility is repayable in 12 equal quarterly instalments commencing from August 26, 1997.

The loan is secured against (a) first charge on fixed assets of the company. (b) undertaking that if the promissory note is not paid upon maturity, company shall become liable to pay liquidated damages @ 22% p.a. each day payment is delayed.

7.11 Al-Faysal Investment Bank Ltd.

The morabaha finance facility has been obtained for financing the leasing operations of the company.

The sale price of Rs. 9,500,000 has a repurchase price of Rs.11,647,671 which is repayable in 8 equal quarterly installments commencing from February 16, 1997. The loan is secured against hypothecation of already existing fixed assets worth Rs. 22.375 million.

7.12 Allied Bank of Pakistan Limited

This loan has been obtained under a sale and repurchase agreement for financing the leasing operations of the company.

The sale price of Rs. 30,000,000 has a repurchase price of Rs. 39,200,000 which is repayable in 6 equal half-yearly instalments commencing from December 25, 1995.

The payment of the repurchase price is secured by an agreement to (a) registration of first charge on present and future assets of the company ranking pari passu with the senior creditors, (b) registered hypothecation charge on the leased assets of the company.

7.13 Muslim Commercial Bank Ltd. - 1

The demand finance facility of Rs. 10.00 million has been obtained for financing the leasing operations of the company. The facility carries mark-up @ 18.25% p.a. The facility is repayable in 11 equal quarterly installments commencing from March 31, 1996. The loan is secured against first pari passu charge on the current/fixed including leased assets of the company to the extent of Rs. 12.00 (M).

7.14 Muslim Commercial Bank Ltd. - 2

The demand finance facility of RS. 10.00 million has been obtained for financing the leasing operations of the company. The facility carries mark-up @ 18.98% p.a. This facility is repayable in 11 equal quarterly instalments commencing from September 30, 1996. The loan is secured against first pari passu charge on current/fixed assets of the company.

7.15 Fidelity Investment Bank Ltd.

The placement line of RS.20.00 million has been obtained for financing the leasing operations of the company. The facility carries mark-up @ 19% per annum. This facility is repayable in 12 equal quarterly instalments commencing from March 26, 1995. The facility is secured against charge on leased assets of the company.

7.16 Prudential Commercial Bank Ltd.

The demand finance facility of RS. 7.500 million has been obtained for the working capital requirement. The facility carries mark-up @ 20% per annum. This facility is repayable in 8 equal quarterly instalments commencing from March 01, 1997. The facility is secured against registered hypothecation charge on assets and receivables/book debts of the company for Rs. 10.00 million.

8. CUSTOMERS' DEPOSITS - COLS	1997	1996
	Rupees	Rupees
Certificates of investment (Note: 8.1)	2,725,000	5,700,000
Less: Current maturity (Note: 10)	(1,000,000)	(2,100,000)
	-----	-----
	1,725,000	3,600,000
	=====	=====

8.1 These represent deposits accepted by the company from other companies and individuals in accordance with the permission to issue registered certificates of deposit granted by the Corporate Law Authority.

The terms and conditions of these deposits are the same as stated in Note: 10.1 except these are for the period ranging from two years to three years and the return on these deposits range from 17% to 18% p.a.

	1997	1996
	Rupees	Rupees
9. SHORT TERM LOANS - Secured		
Al-Towfeek Investment Bank Ltd. (Note: 9.1)	--	7,500,000
Saudi Pak Industrial & Agricultural Investment Co. (Pvt.) Ltd.		
Loan No. 1 (Note: 9.2)	10,000,000	--
Loan No. 2 (Note: 9.3)	5,000,000	--
	-----	-----
	15,000,000	7,500,000
	=====	=====

9.1 Short term loan has been obtained from AI-Towfeek Investment Bank Limited under a Morabaha agreement. The sale price of Rs.7,500,000 has a repurchase price of Rs.8,406,550 which is repayable in four quarterly instalments starting from August 08, 1996. The loan is secured against pari passu charge on assets of the company to the extent of Rs. 8.407 million and assignment of rentals receivable by the company.

9.2 Short term facility of Rs. 10.00 million has been obtained from Saudi Pak Industrial & Agricultural Investment Company (Pvt.) Ltd. The facility carries mark-up (~ 20% p.a. payable quarterly commencing from March 31, 1997. Principal shall be repayable at expiry of 12 months from December 31, 1996.

The loan is secured against (a) leased assets of an aggregate value not less than Rs. 20.00 million. (b) assignment of lease rentals receivables by the company.

9.3 Short term facility of Rs. 5.00 million has been obtained from Saudi Pak Industrial & Agricultural Investment Company (Pvt.) Ltd. The facility carries mark-up (ct) 21% p.a. payable biannually commencing from December 12, 1997. Principal shall be repayable at expiry of 12 months from June 13, 1997.

The loan is secured against (a) first charge on all leased assets of the company of an aggregate value not less than RS. 10.00 million. (b) assignment of lease rentals receivable by the company.

10. SHORT TERM CUSTOMER DEPOSITS -COLS

Local currency (Note: 10.1)	900,000	14,150,000
Foreign currency (US \$ 20,000) (Note: 10.2)	802,400	--
	-----	-----
	1,702,400	14,150,000

Current portion of long term certificate of investment (Note: 8)	1,000,000	2,100,000
	-----	-----
	2,702,400	16,250,000
	=====	=====

10.1 These represents short term deposits ranges between three months to one year accepted by the company from other companies and individuals in accordance with the permission to issue registered certificates of deposits granted by the Corporate Law Authority. The return is paid on predetermined rates as negotiated with respective customers and range from 14% to 16% p.a.

10.2 These represents foreign currency deposits received from an individual accepted for a term of one year under tile permission granted by C.L.A. and these are also approved by S.B.P. The company has a foreign exchange risk covered from S.B.P. @ 40.12. The return is paid on predetermined rate 6.5625% per annum.

	1997	1996
	Rupees	Rupees
Unclaimed dividend	246,846	20,350
Proposed dividend	--	10,454,400
	-----	-----
	246,846	10,474,750
	=====	=====

12. CONTINGENCIES AND COMMITMENTS

Nil (1996: Nil)

13. TANGIBLE FIXED ASSETS

These are for company's own use:

	C O S T			Accumulated Depreciation June 30, 1997	Book Value As at June 30, 1997	D E P E R E C I A T I O N	
	To July 01, 1996	Additions/ (Deletions)	To June 30, 1997			Charge for the year	Rate
	-----			(R u p e e s)	-----		
Building- freehold	2,430,520	--	2,430,520	668,393	1,762,127	121,526	5
leasehold improvements	689,651	--	689,651	571,696	117,955	54,436	15
Air-conditioning plant							
And electric installat	815,330	12,000	827,330	703,502	123,828	54,236	15
Furniture and fixtures	773,113	51,431	779,344	512,159	283,003	60,999	10
		(45,200)		(15,818)			
Office machine and equipment	1,861,080	295,893	2,156,973	1,116,655	1,040,318	274,723	15
Vehicles	3,042,214	1,632,256	4,268,135	2,769,571	1,882,751	659,582	20
		(406,335)		(384,187)			
1997	9,611,908	1,991,580	11,151,953	6,341,976	5,209,982	1,225,502	
		(451,535)		(400,005)			
	=====	=====	=====	=====	=====	=====	
1996	9,084,229	1,688,902	9,611,908	5,708,431	4,495,434	1,037,935	
		(1,161,223)		(591,957)			
	=====	=====	=====	=====	=====	=====	

13.1 Detail of fixed assets sold during tile year

Particulars	Cost	Accumulated Depreciation	Value	Sale Proceeds	Profit/ (Loss)	Mode of sale	Particulars of purchaser
Motor Vehicle							
Suzuki Mehran	184,157	162,010	22,147	182,000	159,853	Negotiation	Mr. Amjad Aslam 506-G Gulshan-e-Ravi, Lahore.
Suzuki Khyber	222,178	222,177	1	100,000	99,999	Negotiation	Mr. Javed Majeed Khan 514-Z, L.C.C.H.S., Lahore Cantt.
Furniture & Fixture							
Residential furniture	45,200	15,818	29,382	29,382	--	Negotiation	-do-
	-----	-----	-----	-----	-----		
	451,535	400,005	51,530	311,382	259,852		
	=====	=====	=====	=====	=====		

	1997	1996
	Rupees	Rupees
14. LONG TERM INVESTMENTS		
Government securities		

Federal Investment Bonds (Note: 14.1)	7,800,000	4,800,000
Listed companies		
Muslim Commercial Bank Ltd. (Note: 14.2)	588,000	588,000
Lease Pak Limited (Note: 14.3)	500,000	500,000
	-----	-----
	8,888,000	5,888,000
	=====	=====

14.1 These investments have been made to comply with SBP's Rules of Business (Prudential Regulations) for Non-Banking Financial Institutions. FIBs have face value of Rs. 7,800,000 (1996: Rs. 4,800,000) and their maturity period is ten years. The mark-up receivable is 15% per annum.

14.2 This consists of 14,160 (1996:11,800) shares of Rs.10/- each in Muslim Commercial Bank Limited including 2,360 bonus shares of Rs. 10/- each. The market value of these shares as on balance sheet date was Rs. 463,740. No provision for diminution in value of investment has been made in view of holding it on long term basis.

14.3 This consists of 50,000 (1996:50,000) shares of Rs. 10/- each in Lease Pak Limited. The market value of these shares as on balance sheet date was Rs. 257,500. No provision for diminution in value of investment has been made in view of holding it on long term basis.

15. LONG TERM FINANCES - SECURED

Morabaha finances	14,503,217	18,952,780
Less: Current portion (Note: 17)	(14,503,217)	-13,463,537
	-----	-----
	--	5,489,243
	=====	=====

These have been rescheduled. Rescheduled resale price has been fixed at Rs. 22,897,752 (1996: RS. 34,033,705) repayable within one year. These are secured by demand promissory notes and personal guarantees of the directors of the respective Ioanee companies. Particulars are as follows:

Borrowers

Bilal Fibres Ltd.	9,775,516	12,556,753
Sohail Textiles Mills Ltd.	4,727,701	6,396,027
	-----	-----
	14,503,217	18,952,780
	=====	=====

16. DEFERRED COSTS

	Loan negotiation expenses Rupees	Share issue expenses Rupees	Total 1997 Rupees	Total 1996 Rupees
Opening balance	1,939,547	244,317	2,183,864	2,058,115
Add: Incurred during the year	548,328	--	548,328	1,225,020
Less: amortized during the year	(905,409)	(92,996)	(998,405)	(1,099,271)
	-----	-----	-----	-----
	1,582,466	151,321	1,733,787	2,183,864
	=====	=====	=====	=====
			1997 Rupees	1996 Rupees

17. SHORT TERM FINANCE - SECURED

Short term morabaha finances	918,763	6,345,470
Less: Bad debts written off	--	2,500,000
	-----	-----
Add: Current portion of long term morabaha finances (Note: 15)	918,763	3,845,470
	14,503,217	13,463,537
	-----	-----
	15,421,980	17,309,007
Less: Provision for doubtful finance	219,834	354,803
	-----	-----
	15,202,146	16,954,204
	2,124,394	--
	-----	-----
	17,326,540	16,954,204
	=====	=====

These have been provided under morabaha agreements with aggregate resale price of Rs.2,442,335 (1996: Rs.18,437,600) repayable within one year. These are secured by demand promissory notes and personal guarantees of the directors of the respective loanee companies.

**18. ADVANCES, DEPOSITS, PREPAYMENTS
AND OTHER RECEIVABLES**

Advances to employees	510,158	687,221
Advance to Chief Executive (Note: 18.1)	--	349,061
Exchange rate difference recoverable from State Bank of Pakistan	273,909	273,909
Deposits	14,675	30,125
Prepayments	158,920	278,023
Accrued income (Note: 18.2)	2,990,692	7,604,565
advance tax paid	6,700,446	3,508,616
Other receivables	3,699,139	5,438,356
	-----	-----
	14,347,939	18,169,876
	=====	=====

18.1 This included the unpaid mark-up of Rs. 118,241 and the balance of loan of Rs.230,820 due from tile Ex-Chief Executive which was interest free.

The loan was secured against equitable mortgage of property and was approved by the CLA.

	1997 Rupees	1996 Rupees
18.2 Accrued income		
Long term investment	456,530	196,981
Bank deposits	496,049	2,211,967
On lease operation	11,876,387	10,510,305
On morabaha finances and advances	264,161	2,985,037
	-----	-----
	13,093,127	15,904,290
Less: Bad debts-income		
Lease operations	--	2,345,940
Morabaha finances	--	1,145,260
		--
		3,491,200
Provision in against doubtful income		
Lease operations	10,102,435	3,226,325
Morabaha finance	--	1,582,200
	10,102,435	8,299,725
	-----	-----
	2,990,692	7,604,565
	=====	=====

19. CASH AND BANK BALANCES

On deposit accounts	15,834,705	17,001,827
On current accounts (Note: 19.1)	3,409,060	10,020,786
Cash in hand	53,330	57,639
	-----	-----
	19,297,095	27,080,252
	=====	=====

19.1 It includes an interest free deposit of Rs, 509,950 maintained with State Bank of Pakistan under Rule 6 of SBP's Rules of Business (Prudential Regulations) for Non-Banking Financial Institutions.

20. INCOME FROM LEASE OPERATIONS

Mark-up on lease operations	71,030,724	75,456,998
Front end fee	833,887	1,325,763
Commitment fee	153,743	191,415
	-----	-----
	72,018,354	76,974,176
	=====	=====

21. MARK-UP INCOME

Federal Investment Bonds	953,506	471,093
Banks deposits	3,783,734	4,224,374
Morabaha finance	3,909,544	6,911,215
Advance against leases	56,812	1,068,513
	-----	-----
	8,703,596	12,675,195
	=====	=====

22. OTHER INCOME

Miscellaneous and Documentation charges recovered	628,058	657,662
Profit on sale of fixed assets (Note 13.1)	259,852	159,468
	-----	-----
	887,910	817,130
	=====	=====

23. DIRECT COST OF LEASES

Lease executory expenses	54,397	60,671
Insurance expenses - Leased vehicles	25,155	54,783
	-----	-----
	79,552	115,454
	=====	=====

24. FINANCIAL CHARGES

Mark-up on long term secured loans	32,772,553	49,235,163
Mark-up on short term secured loans	1,879,250	1,823,896
Mark-up on certificates of investment	2,731,159	1,609,006
Foreign exchange risk coverage fee	7,845,575	--
Excise duty on loan	68,034	--
	-----	-----
	45,296,571	52,668,065
	=====	=====

25. ADMINISTRATIVE AND OPERATING EXPENSES

Salaries and benefits	6,982,483	5,347,013
Rent	359,890	302,689
Utilities	364,928	307,938
Stationery and supplies	474,577	365,479
Repairs and maintenance	740,400	481,966
Insurance	257,832	238,858
Telephone, telex and postage	815,502	674,110
Travelling	219,032	150,835
Boarding and lodging	133,795	378,837
Legal and professional charges	370,988	386,570
Advertisement	158,000	222,640
Auditors' remuneration (Note: 25.1)	146,000	126,611
Donations (Note: 25.2)	18,800	12,700
Corporate expenses	199,451	170,990
Zakat	1,778	3,699
Other expenses	1,016,452	893,296
Credit rating fee	134,417	130,500
Penalty, levied by State Bank of Pakistan	1,150	--
	-----	-----
	12,395,475	10,194,731
	=====	=====

25.1 Auditors' Remuneration

Audit fee	60,500	55,000
Tax consultancy	--	20,000
Special audits	71,500	35,000
Expenses reimbursed	14,000	16,611
	-----	-----
	146,000	126,611
	=====	=====

25.2 None of the directors or their spouses had ally interest in any of the donees.

26. TAXATION

Provision for the year		
- Normal	19,500,000	9,400,000
	=====	=====

26.1 Tax provision is based on taxable profits as adjusted for tax purposes after taking into account available rebates and credits.

26.2 Deferred taxation arising due to timing differences computed under the liability method is estimated at Rs. 31.55 million out of which Rs. 14.47 million debit is in respect of the current year (1996: Rs.46 million for the period 5.6 million debi0.

27. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Chief Executive		Executives	
1997	1996	1997	1996
Rupees	Rupees	Rupees	Rupees
-----	-----	-----	-----

Managerial remuneration	623,053	540,000	453,700	180,000
Bonus	45,000	90,000	37,600	30,000
Accommodation	246,043	216,000	317,590	126,000
Utilities	160,935	60,000	93,588	17,400
Medical expenses	31,714	34,737	71,667	21,855
Club subscription	7,002	12,143	5,416	5,015
Conveyance provided	271,277	183,974	135,590	93,894
Residential telephone Bills reimbursed	30,250	29,938	20,258	6,925
	-----	-----	-----	-----
	1,415,274	1,166,792	1,135,409	481,089
	=====	=====	=====	=====
Number of persons	1	1	3	2
	=====	=====	=====	=====

Fees paid to 5 non-executive Directors for attending meetings during the year Rs. 40,500 (1996:5 Directors; fee paid Rs. 40,000).

28. LEASES AND ADVANCES IN EXCESS OF 20% OF PAID-UP CAPITAL AND FREE RESERVES

Following are the parties to whom net investment in lease finance exceeded 20% (i.e. Rs. 25,622,330) of the paid-up capital and free reserves of the company:

Group name	1997	1996
	Rupees	Rupees
Nishat group	--	28,266,726
Chakwal group	29,451,242	--

29. GENERAL

- Previous year's figures have been re-arranged wherever necessary for the purposes of comparison.

- Whilst the immediately preceding audited accounts were for the eighteen months ended June 30, 1996, un-audited figures for the 12 months ended on that date have been used for the purposes of more appropriate comparison.