

Atlas Lease Limited

Annual Report 1998

Mission Statement

Lead the Industry by providing quality service to customers, ensure continuous growth in the shareholders' value and contribute towards the economic development of the country through a youthful goal oriented, well rewarded team.

TABLE OF CONTENTS

Notice of Meeting
Corporate Data
Directors' Report
Chairman's Review
Pattern of Shareholding
Financial Highlights
Graphic Presentation
Auditors' Report
Balance Sheet
Profit and Loss Account
Cash Flow Statement
Notes to the Accounts
Atlas Group Companies

NOTICE OF MEETING

Notice is hereby given that the Eleventh Annual General Meeting of the members of ATLAS LEASE LIMITED will be held on Monday the December 14, 1998 at 03.00 p.m. at Registered Office of the Company at Federation House, Shame Firdousi, Clifton, Karachi to transact the following business:

ORDINARY BUSINESS:

1. To confirm the Minutes of the Tenth Annual General Meeting held on November 20, 1997 and Extra Ordinary General Meeting held on December 24, 1997.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 1998 together with the Directors' and Auditors' Report thereon.
3. To approve the payment of Cash Dividend to the shareholders at the rate of Rs. 1.50 per share of Rs. 10/- each for the year ended June 30, 1998 as recommended by the Board of Directors.
4. To appoint Auditors and fix their remuneration for the year ending June 30, 1999. The present Auditors M/s. Ford, Rhodes, Robson, Morrow, Chartered Accountants, retire and being eligible,

offer themselves for reappointment.

SPECIAL BUSINESS:

5. To approve the remuneration of the Chief Executive of the Company as recommended by the Board.

OTHER BUSINESS:

6. To transact any other business as may be placed before the meeting with the permission of the Chair.

A statement under section 160 (1) (b) of the Companies Ordinance, 1984 pertaining to the Special Business referred to above is annexed to this Notice of Meeting.

By Order of the Board
MUHAMMAD RAFIQUE UMBER
Company Secretary

Karachi: October 31, 1998

NOTES:

i) The Register of Members of the Company will remain closed from 07/12/1998 to 14/12/1998 (both days inclusive). Transfers received in order at the Registered Office of the Company at the close of business on December 06, 1998 will be treated in time for the purpose of entitlement of dividend.

ii) A member entitled to attend and vote at this meeting may appoint another member as his / her proxy to attend and vote on his / her behalf. The instrument appointing a Proxy and the power of attorney or other authority under which it is signed or a notarially certified copy of the power of authority must be received at the Registered Office of the Company duly stamped, signed and witnessed not later than 48 hours before the meeting.

iii) Members are requested to notify any change in their addresses immediately.

STATEMENT UNDER SECTION 160 (1) (b) OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts concerning the Special Business to be transacted at the Eleventh Annual General Meeting of Atlas Lease Limited to be held on December 14, 1998.

Approval of the shareholders will be sought for the remuneration payable to the Chief Executive of the Company in accordance with the terms and conditions of his service, as recommended by the Board of Directors of the Company. For this purpose, it is intended to propose the following Resolution to be passed as an Ordinary Resolution.

RESOLVED

"that the Company hereby authorises the holding of office of profit and payment as remuneration (inclusive of allowances) to the Chief Executive, not exceeding in the aggregate Rs. 2.5 million per annum for the year ending June 30, 1999 in addition to perquisites and other benefits to which he is entitled as per Company policy".

Mr. Khaleeq-ur-Rahman Khan, Chief Executive of the Company is interested in the business to the extent of his remuneration.

CORPORATE DATA

BOARD OF DIRECTORS:

CHAIRMAN

Mr. Yusuf H. Shirazi

CHIEF EXECUTIVE

Mr. Khaleeq-ur-Rahman Khan

MEMBERS

Mr. Masanori Okuda

Mr. Muhammad Shafi

Mr. Razi-ur-Rahman Khan

Mr. Sanaullah Qureshi

Mr. Saquib H. Shirazi

Mr. Talat Mahmood

Mr. Toshiki Miyazaki

COMPANY SECRETARY:

Mr. Muhammad Rafique Umer

GROUP EXECUTIVE COMMITTEE:

CHAIRMAN

Mr. Yusuf H. Shirazi

MEMBERS

Mr. Jawaid Iqbal Ahmed

Mr. Frahim Ali Khan

Mr. Iftikhar H. Shirazi

Mr. Aamir H. Shirazi

Mr. Saquib H. Shirazi

SECRETARY

Mr. Amjad Hussain

GROUP PERSONNEL COMMITTEE:

CHAIRMAN

Mr. Yusuf H. Shirazi

GROUP AUDIT COMMITTEE:

CHAIRMAN

Mr. Sanaullah Qureshi

AUDITORS:

Ford, Rhodes, Robson, Morrow

Chartered Accountants

LEGAL ADVISORS:

Mohsin Tayebaly & Co.

BANKERS & LENDING INSTITUTIONS:

BANKERS:

ABN AMRO Bank

Allied Bank of Pakistan Limited

ANZ Grindlays Bank plc

Askari Commercial Bank Limited

Faysal Bank Limited

Habib Bank AG Zurich

Habib Bank Limited

Standard Chartered Bank

The Bank of Tokyo-Mitsubishi, Limited

The Hongkong and Shanghai Banking Corporation

LENDING INSTITUTIONS:

AI-Faysal Investment Bank Ltd.

Asian Development Bank (ADB)

Commonwealth Development Corporation (CDC)

First International investment Bank Ltd.

German investment and Development Company (DEG)

International Finance Corporation (IFC)

National Discounting Services Ltd.

Netherlands Development Finance Company (FMO)

Pakistan Kuwait Investment Company (Pvt.) Ltd.

REGISTERED OFFICE & HEAD OFFICE:

Federation House, Sharae Firdousi,

Clifton, Karachi - 75600

Tel: (92-21) 5866817 - 20, 5866919 - 20 Fax: 5870543

E-mail: all@atlasgroup.pk.com

BRANCH OFFICES:

LAHORE OFFICE:

Ist Floor, Emirates Bank Building,

14- Egerton Road, Lahore

Tel: (92-42) 6366170 - 74,6364941 Fax: 6365058

ISLAMABAD OFFICE:

2nd Floor, Saudi Pak Tower,

Blue Area, Islamabad

Tel: (92-51) 824906, 824909 Fax: 821377

DIRECTORS' REPORT

The Directors have pleasure in submitting Annual Report of the Company together with the Audited Accounts and the Auditors' Report thereon for the year ended June 30, 1998.

	1998	1997
	Rupees	Rupees
Financial Results:		
Net profit for the year after charging all expenses and doubtful debts	19,712,909	17,722,779
Previous profit brought forward	4,213,954	35,731
	-----	-----
Profit available for appropriation	23,926,863	17,758,510
Appropriations:		
Transfer to statutory reserve	3,942,582	3,544,556
Transfer to general reserve	4,000,000	10,000,000
Cash dividend	15,778,590	--
	-----	-----
	23,721,172	13,544,556
	-----	-----
Unappropriated profit carried forward	205,691	4,213,954
	=====	=====

Dividend:

The Directors are pleased to recommend a cash dividend of 15%.

Chairman's Review:

The accompanying Chairman's Review deals with the performance of the Company during the year and future outlook. The Directors of the Company endorse the contents of the review.

Pattern of Shareholding:

The pattern of shareholding of the Company is annexed.

Auditors:

The present Auditors Messrs Ford, Rhodes, Robson, Morrow, Chartered Accountants, retire and being eligible, offer themselves for reappointment.

for and on behalf of
BOARD OF DIRECTORS

SANAULLAH QURESHI
Director

KHALEEQ-UR-RAHMAN KHAN
Chief Executive

YUSUF H. SHIRAZI
Chairman

Karachi: October 31, 1998

CHAIRMAN'S REVIEW

I have the pleasure to present the 11th Annual Report of your Company for the year ended

June30, 1998.

THE ECONOMY

The year under review was full of challenges on both the domestic and international fronts.

On the domestic front, the country faced constitutional issues of extraordinary nature which affected the flow of normal economic activity. On the international front, foreign investment was affected - partly due to the internal situation and mainly due to the economic crisis affecting Latin American, Russian and the South East Asian countries' economies resulting into the shying away of investment from the international capital markets.

On the other hand, Pakistan's economic performance over the last few years has been marked by a deceleration in economic activity, deterioration in budgetary and current account deficits and inflation. In order to reinvigorate economic growth the Government took some measures. It introduced economic reforms based on both supply and demand side economics. To improve revenue collection, general sales tax regime was re-launched at the retail level which partially increased the 'Tax Net'. The effect of these policy measures will however take time to yield the desired results.

Towards the year-end, Pakistan opted for nuclear detonation on May 28, 1998 following India's nuclear tests on May 11, 1998. It led to economic sanctions by the developed countries. The international loan giving agencies put their shutters down. Consequently, foreign currency accounts were frozen, rupee was devalued by 4.4%, making it 14.1% for the full fiscal year and a two-tier foreign exchange regime was introduced.

Despite the worsening situation, the economic indicators for the year were quite satisfactory. The GDP grew by 5.4% as against 1.3% last year. Agricultural sector grew by 5.9% and the manufacturing sector by 7.0%. The large-scale manufacturing sector registered a growth of 6.2%. The transport and

communication sector recorded a growth of 8.8%. Fixed investment increased by 6.5% and national savings increased to 15.0% of GNP from the 11.3% of last year.

MONETARY DEVELOPMENTS

The year under review witnessed important changes in the monetary system too. The State Bank of Pakistan reduced statutory liquidity requirement ratio and cash reserves and re-designed the export refinance scheme which improved liquidity in the money market. The demand however remained low early during the year. The surplus liquidity went into government securities. The excess liquidity brought down Treasury Bill rates to almost 12.0 percent.

The banking system witnessed important structural reforms. The nationalized commercial banks (NCBs) underwent a downsizing exercise and their non-performing loans were prioritized for recovery. The objective was to restructure these banks before privatization. The State Bank of Pakistan tightened the lending criteria. The defaulters could no longer get bank credit. The SBP introduced a more comprehensive set of disclosure laws. A number of regulatory measures were taken by the SBP to improve its regulation and supervision mechanism to ensure availability of adequate credit in the economy.

ATLAS GROUP PERFORMANCE

The Atlas Group of which your company is a constituent member, jealously guards its brand equity which represents good management practices, ethical standards and quality of goods and services provided to its customers. The Group enjoys an excellent image in government, business and social circles, both nationally and internationally.

The Atlas Group is diversified and has operations in engineering, financial services, trading office equipment and information technology. It consists of seven public limited companies quoted on the stock exchanges in Pakistan and eight private limited companies. Atlas shareholders' equity has grown to about Rs. 2.5 billion over the years; assets have

increased to over Rs. 8 billion, and sales revenue crossed the Rs. 8 billion mark. The Group paid taxes of Rs. 2.2 billion being 27.5% of the total turnover of the Group. More than 50% of employees numbering 2,700 pay taxes on their income and wealth.

The total paid up capital of the seven listed companies stood at Rs. 944 million and free reserves and surplus at Rs. 1.11 billion. The total equity of listed companies stood at Rs. 2.05 billion as at June 30, 1998. The net worth value of a Rs. 10 share works out at Rs. 21.77. Out of these seven companies, two companies have been rated 'A+' and three 'A' by the credit rating and other evaluating agencies.

The seven listed companies, set up at different times - the earliest in 1963 with a paid up capital of Rs. 2.0 million and the latest in 1993 with a paid up capital of Rs. 400.00 million- have paid cash dividend of Rs. 287 million and bonus of Rs. 208 million (market value Rs. 435 million). Your Company was set up in 1989 with a paid up capital of Rs. 20.00 million which has grown to Rs. 105.19 million. The total equity at Rs. 217.70 million includes reserves and the un-appropriated profit of Rs. 112.51 million. During this period the Company issued bonus shares of Rs. 16.55 million (market value Rs. 48.82 million at Rs. 29.50 per share) and paid cash dividend of Rs. 54.76 million.

HUMAN RESOURCES

Reliance on Human Resource has been the hall mark of Atlas Group since its inception. Investment on Human Resource Development is considered a prudent investment for all times to come. Education, training and grooming of employees for higher positions is a normal feature with the Group.

To cope up with the growing needs of the Group, a permanent cell has been established at the Corporate Office for Human Resource Development. A full time Director assists the Group Personnel Committee which is headed by the Group President and Chairman. The Committee actively works for improving staff service rules, staff compensation, and career

planning to make them more competitive and attractive for the employees. Compensation based on Job evaluation and performance appraisal is now all the more a determining factor for the performance bonus and the employees motivation.

THE LEASING INDUSTRY

The leasing industry, which started in Pakistan in 1984 has had a growth rate of approximately 35% p.a. over the last five years. It has contributed to the extent of approx. 8% of private fixed capital formation in the country. At present, there are 32 leasing companies with a total equity of Rs. 8.0 billion. Total outstanding lease portfolio amounts to Rs. 36 billion. Market penetration has been low mainly due to non-availability Of long-term funds, high cost of money and the willful default culture. As suggested in earlier reviews, the risk of default can be reduced if post-dated cheques for the entire lease period from the lessees are made mandatory and the law of bouncing of cheques which already exists is implemented in letter and spirit.

On the other hand, it is encouraging that the Government has resolved a number of pending issues favorably. These include treatment of residual value of leased assets as purchase price for lessees, avoiding double tax deduction on sale and lease back transactions and withdrawal of Capital Value Tax on used vehicles. In a package for the engineering sector, the Government had announced increase in the upper limit of the value of cars for claiming depreciation allowance from Rs. 0.6m to Rs. 1.0m which has not yet been implemented: Sooner the implementation, the better!

THE COMPANY'S RESULTS

During the year under review Lease Disbursement of Rs. 544.41m was made, which was 92.74% of the last year. Net Investment in Lease Finance as on June 30, 1998 amounted to Rs. 1,874.10m. The lease portfolio during the year comprised of 52.60% in Machinery, 37.78% in Vehicles and 9.62% in Office Equipment. The sectoral exposure as on June

30, 1998, was fairly diversified and comprised of 14.63% in Textile followed by 13.94% in Chemical & Fertilizer, 9.27% in Services, 9.21% in Electrical & Electronic Goods, 8.53% in Financial Institutions, 8.28% in Steel & Engineering, 6.54% in Cement and 6.50% in Food, Tobacco & Beverages.

Gross Revenue during the year amounted to Rs. 339.35m, up 4.51% from Rs. 324.71m of the last year. Financial charges amounted to Rs. 263.15m, slightly higher than Rs. 262.34m of the last year. Administrative Expenses rose by 14.33% to Rs. 34.55m from Rs. 30.22m. Provision for doubtful debts amounted to Rs. 5.18m compared to Rs. 3.79m last year. The profit before tax for the year amounted to Rs. 34.36m compared to Rs. 24.63m last year.

DEFERRED TAX

The revised International Accounting Standard which is effective from January 2001, requires provision to be made for deferred taxation, irrespective of its being reversible in foreseeable future or not. Although in your Company's case the deferred taxation liability is not likely to reverse in the foreseeable future, yet the Board of Directors has decided to start making a provision. A sum of Rs. 5.5 million has been provided in the year under review.

FUNDING

In the absence of adequate long-term funds through local and international avenues the company managed its resource mobilization through COI portfolio and short-term funds from the local money market. In addition to the resource mobilization through COI and money market operations, the company raised medium term finance facilities of Rs. 73.10 million locally.

The management however believes that local funds should replace the foreign borrowings. During the year under review your Company initiated to raise funds through TFC to the tune of Rs. 200.0m. The instrument has been rated "A" by Pakistan Credit Rating Agency.

CHANGE IN THE BOARD OF DIRECTORS

On completion of 3 years of the term of the

Board of Directors, Extra-ordinary General Meeting of the shareholders was held on December 24, 1997 in order to elect the new Board consisting of eight directors as fixed by the Board. The following directors were elected:

Mr. Yusuf H. Shirazi (Chairman)
Mr. Razi-ur-Rahman Khan
Mr. Kenichi Nakagawa
Mr. Sanaullah Qureshi
Mr. Iftikhar H. Shirazi
Mr. Abdul Waheed Mian
Mr. Talat Mahmood
Mr. Toshiki Miyazaki

Subsequently, Mr. Kenichi Nakagawa, on relinquishing charge as the General Manager of the Bank of Tokyo-Mitsubishi Ltd; Karachi was replaced by Mr. Masanori Okuda on March 27, 1998. Mr. Iftikhar H. Shirazi was also replaced by Mr. Saquib H. Shirazi on April 24, 1998 and Mr. Abdul Waheed Mian was replaced by Mr. Muhammad Shafi on September 02, 1998. May I place on record appreciation for the contribution made by outgoing Directors and welcome incoming Directors on the Board and look forward to their support in managing the affairs of your Company.

THE YEAR 2000 COMPUTER PROBLEM (THE MILLENNIUM BUG)

The year 2000 problem has taken the world by storm. Being in the business of medium to long term nature, your company has already witnessed the problem some time back while executing lease contracts involving the year beyond 1999. A survey was conducted of possible areas, business applications, operating systems, third party software products, machines and equipments, which could be affected by this problem. The problem has been taken care of and the system is now "Year 2000" compliant. The external parties like lenders, customers, suppliers, utilities, etc. are also being contacted regarding their plans to ensure that they are also "Year 2000" compliant.

FUTURE OUTLOOK

Nuclear test of May 28, 1998 has resulted in a

number of events such as imposition of economic sanctions, freezing of foreign currency accounts and continuous depletion of foreign exchange reserves. This has added to the uncertainties prevailing due to low economic activity in the country.

Foreign financial institutions which used to provide long-term funds have withdrawn. Local institutions like PICIC, IDBP and NDFC used to get funds from either State Bank of Pakistan or abroad. Now both the sources are choked if not exhausted. TFC is also an avenue to raise funds, which could develop the secondary market, but due to withdrawal of tax exemption on its profit, this measure too has lost its attraction · it will be costlier !

The default culture unfortunately is spreading fast in the country. The need of the time is that industry should exchange information about the defaulters and the government should impose strict regulations to punish defaulters. Leasing companies and financial institutions should adopt prudent and self-regulatory practices and share information about the defaulters.

Scarcity of long term funds, poor rental recoveries, low economic activity and CLA's requirement of enhancement of paid-up capital to Rs. 200 million by November, 1999 may force leasing companies to go for acquisitions, consolidation and mergers which the CLA must encourage.

I foresee further challenges. However, the Atlas Group has a history of facing such challenges and come out admirably well. We rely on 3 S's, i.e. Smart, Speedy and Stable a company; and 3 E's, i.e. Economy, Efficiency and Effectiveness in meeting the challenges. We place great emphasis on Human Resource Development through education, training and development of intellectual capital - the intellect and integrity. The morale of your company's staff is high and I am confident they have the ability to face unusual challenges and successfully come out of this situation.

(Great are those who do things, impossible)

ACKNOWLEDGEMENT

I would like to thank the members of the Board of Directors for their guidance and valuable contribution. Thanks are also due to the foreign and local lenders and all the clients for their valuable support. I also appreciate the SBP, CLA and CBR for their support.

I also thank the Group Executive Committee, the Chief Executive and his team and all the staff members for their devotion and hard work.

YUSUF H. SHIRAZI**PATTERN OF SHAREHOLDING
AS AT JUNE 30, 1998**

Number of Shareholders	From	Shareholding To	Total Shares Held	
55	1	--	100	3,727
43	101	--	500	13,184
29	501	--	1,000	24,825
63	1,001	--	5,000	149,808
4	5,001	--	10,000	37,915
3	10,001	--	15,000	33,935
2	15,001	--	20,000	36,800
1	20,001	--	25,000	22,959
1	25,001	--	30,000	27,406
1	50,001	--	55,000	55,000
1	90,001	--	95,000	93,749
2	150,001	--	155,000	305,878
1	175,001	--	180,000	175,125
1	220,001	--	225,000	225,000
1	265,001	--	270,000	267,043
1	275,001	--	280,000	280,000
1	295,001	--	300,000	300,000
1	435,001	--	440,000	435,461
1	440,001	--	445,000	442,557
1	510,001	--	515,000	512,825
1	535,001	--	540,000	536,560
4	840,001	--	845,000	3,364,083
1	885,001	--	890,000	888,442
1	2,285,001	--	2,290,000	2,286,778
<hr/>				
220	TOTAL		10,519,060	

The slabs representing NIL holding have been omitted.

Categories of Shareholders	Number of Shareholders	Number of Shares held	Percentage of Shares held
1. Individuals	199	5,327,795	50.65
2. Investment Companies	2	446,801	4.25
3. Insurance Companies	1	93,749	0.89
4. Joint Stock Companies	10	63,494	0.61
5. Financial Institutions	4	2,707,961	25.74
6. Modaraba Companies	1	11,701	0.11
7. Foreign Companies	3	1,867,559	17.75
TOTAL	220	10,519,060	100.00

FINANCIAL HIGHLIGHTS (1990 - 1998)

(Rupees in million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
FINANCIAL POSITION									
Authorised Capital	50.00	100.00	100.00	100.00	100.00	100.00	200.00	200.00	200.00
Paid-up Capital	20.00	50.00	50.00	55.00	60.50	66.55	105.19	105.19	105.19
Reserves & Surplus	1.23	9.82	19.20	26.90	39.58	59.08	90.86	108.58	112.51
Shareholders' Equity	21.23	59.82	69.20	81.90	100.08	125.63	196.05	213.77	217.70
Long Term Loans- Foreign	--	--	131.32	461.17	601.40	815.64	746.46	1,226.45	1,107.14
Long Term Loans - Local	--	20.00	70.00	47.98	43.44	95.33	37.40	10.56	61.10
Certificates of Investment	--	--	--	0.98	10.92	80.81	336.32	275.00	
Operating Fixed Assets	2.83	3.26	5.86	9.73	13.76	13.83	17.51	16.20	14.30
Net Investment in Lease	106.73	305.01	551.89	740.02	973.03	1,269.81	1,659.58	1,849.13	1,874.10
Total Assets	114.44	310.65	569.06	810.08	1,018.56	1,402.64	1,804.66	2,206.17	2,163.76
OPERATING POSITION									
Lease Disbursements	118.97	250.13	376.83	396.69	493.57	610.42	713.69	587.04	544.41
Income from leasing Operations	9.85	36.81	82.03	130.93	159.52	204.14	273.81	317.42	317.76
Total Expenses	9.17	28.54	68.57	111.91	143.54	181.65	242.69	300.07	304.99
Profit Before Taxation	1.85	8.59	14.39	20.78	26.34	33.38	43.18	24.63	34.36
Profit After Taxation	1.85	8.59	14.39	18.20	24.23	32.21	41.73	17.72	19.71
Earning per share (in Rupees)	0.93	1.72	2.88	3.31	4.00	4.84	3.97	1.68	1.87
Return on Equity (in percentage)	8.73	14.35	20.79	22.22	24.21	25.64	21.29	8.29	9.05
Book value per share (in Rupees)	10.61	11.96	13.84	14.89	16.54	18.88	18.64	20.32	20.70
DISTRIBUTION									
Cash Dividend	--	--	10%	10%	10%	10%	15%	--	15%
Stock Dividend	--	--	10%	10%	10%	--	--	--	--

Total	--	--	20%	20%	20%	10%	15%	--	15%
RIGHT ISSUE	15%	--	--	--	--	50%	--	--	--

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of ATLAS LEASE LIMITED as at June 30, 1998 and the related profit and loss account and cash flow statement, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

(a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and the cash flow statement, 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, 1998 and of the profit and of the cash flows 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.

Ford, Rhodes, Robson, Morrow
Chartered Accountants

Karachi: October 31, 1998

BALANCE SHEET AS AT JUNE 30, 1998

Note	1998 Rupees	1997 Rupees
------	----------------	----------------

SHARE CAPITAL AND RESERVES

Share Capital			
Authorised			
20,000,000 ordinary shares			
of Rs. 10 each		200,000,000	200,000,000
		=====	=====
Issued, subscribed and paid-up	3	105,190,600	105,190,600
Reserves	4	112,514,505	108,580,186
		-----	-----
		217,705,105	213,770,786
LONG TERM LOANS	5	881,485,093	1,018,565,188
LONG TERM DEPOSITS	6	164,491,598	163,794,601
CERTIFICATES OF INVESTMENT	7	22,538,191	32,511,654
DEFERRED TAXATION		5,500,000	--
CURRENT LIABILITIES			
Current maturity of long term loans		286,750,724	218,441,221
Current maturity of long term deposits		65,568,216	64,773,920
Certificates of investment	7	252,467,438	242,485,788
Short term finances	8	92,000,000	106,300,000
Finance under mark-up arrangements	9	11,961,167	28,396,762
Accrued and other liabilities	10	147,518,634	115,298,951
Taxation		--	1,831,731
Proposed dividend		15,778,590	--
		-----	-----
		872,044,769	777,528,373
CONTINGENCIES AND COMMITMENTS	11		
		-----	-----
		2,163,764,756	2,206,170,602
		=====	=====
TANGIBLE FIXED ASSETS			
Operating fixed assets	12	14,297,585	16,205,606
NET INVESTMENT IN LEASE FINANCE	13		
Minimum lease payments receivable		2,181,378,711	2,148,361,505
Residual value of leased assets		269,108,263	264,505,577
		-----	-----
		2,450,486,974	2,412,867,082
Unearned finance income		(576,391,394)	(563,740,040)
		-----	-----
Net investment in lease finance		1,874,095,580	1,849,127,042
Current portion of net investment in lease finance		(792,033,092)	(713,194,717)
Provision for doubtful debts		(42,167,151)	(36,982,541)
		-----	-----
		1,039,895,337	1,098,949,784
LONG TERM INVESTMENTS	14	40,875,616	25,875,616

LONG TERM LOANS, DEPOSITS AND

DEFERRED COSTS 15 30,079,522 17,790,922

CURRENT ASSETS

Current portion of net investment

in lease finance 792,033,092 713,194,717

Short term investments 16 10,000,000 25,000,000

Short term finance -- 2,000,000

Advances, prepayments
and other receivables 17 102,701,082 79,116,486

Cash and bank balances 18 133,882,522 228,037,471

1,038,616,696 1,047,348,674

2,163,764,756 2,206,170,602

=====

The annexed notes form an integral part of these accounts.

The auditors' report is annexed hereto.

सानुल्लाह कुरेशी

Director

खालीक-उर-रहमान खान

Chief Executive

युसुफ ह. शिराजी

Chairman

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 1998

	Note	1998 Rupees	1997 Rupees
REVENUE			
Income from leasing operations	19	317,763,732	317,424,744
Other Income	20	21,583,876	7,282,265
		-----	-----
		339,347,608	324,707,009
EXPENDITURE			
Financial charges	21	263,152,137	262,343,953
Administrative and operating expenses	22	34,548,857	30,223,816
Provision for doubtful debts		5,184,610	3,790,923
Amortization of deferred costs		2,101,234	3,713,415
		304,986,838	300,072,107
		-----	-----
PROFIT FOR THE YEAR BEFORE TAXATION		34,360,770	24,634,902
TAXATION			
Current	23	3,745,021	3,361,122
Prior		5,402,840	3,551,001
Deferred		5,500,000	--
		-----	-----

	14,647,861	6,912,123
	-----	-----
PROFIT AFTER TAXATION	19,712,909	17,722,779
Accumulated profit brought forward	4,213,954	35,731
	-----	-----
Profit available for appropriation	23,926,863	17,758,510
APPROPRIATIONS:		
Transfer to statutory reserve	3,942,582	3,544,556
Transfer to general reserve	4,000,000	10,000,000
Proposed dividend @ 15% (1997: Nil)	15,778,590	--
	-----	-----
	23,721,172	13,544,556
	-----	-----
Unappropriated profit carried forward	205,691	4,213,954
	=====	=====

The annexed notes form an integral part of these accounts.

SANAULLAH QURESHI
Director

KHALEEQ-UR-RAHMAN KHAN
Chief Executive

YUSUF H. SHIRAZI
Chairman

**CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 1998**

	1997	1998
	Rupees	Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year before taxation	34,360,770	24,634,902
Adjustments for:		
Depreciation on fixed assets	3,513,745	3,953,350
Amortization of deferred costs	2,101,234	3,713,415
Provision for doubtful debts	5,184,610	3,790,923
Profit on sale of fixed assets	(97,157)	(295,045)
Exchange loss	8,564,050	2,193,425
Interest/mark-up expense (net of interest income on foreign currency deposits)	220,984,064	197,818,905
Investment income	(20,743,911)	(6,245,871)
	-----	-----
	219,506,635	204,929,102
	-----	-----
Operating profit before working capital changes	253,867,405	229,564,004
(Increase)/decrease in current assets		
Short term finances	2,000,000	(2,000,000)
Short term investments	15,000,000	(25,000,000)
Advances, prepayments and other receivables	(16,982,312)	36,442,161
	-----	-----

	17,688	9,442,161
Increase/(decrease) in current liabilities		
Certificates of investment	9,981,650	(81,937,566)
Short term finances	(14,300,000)	19,650,000
Finance under mark-up arrangement	(16,435,595)	(31,113,151)
Accrued and other liabilities	16,566,117	(36,117,172)
	-----	-----
	(4,187,828)	(129,517,889)
	-----	-----
Cash generated from operations	249,697,265	109,488,276
Income taxes paid	(13,494,474)	(5,114,164)
Interest/mark-up paid (net of receipt from interest on foreign currency deposits)	(205,330,498)	(176,883,258)
Investment income received	19,428,956	5,726,169
	-----	-----
Net cash generated from / (used in) operating activities	50,301,249	(66,782,977)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Long term investments	(15,000,000)	(1,000,000)
Capital expenditure	(4,410,994)	(3,232,060)
Long term deposits and deferred costs	(224,700)	47,962
Net investment in lease finance (net of repayments)	(27,591,696)	(194,486,200)
Sale of fixed assets	2,902,427	882,312
Loan to executive	(1,766,366)	(176,000)
Recovery of loan to executive	235,118	196,193
	-----	-----
Net cash (used in) investing activities	(45,856,211)	(197,767,793)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of Certificates of Investment	(9,973,463)	20,614,026
Long term loans	73,105,579	635,487,267
Repayment of long term loans	(141,876,171)	(182,343,446)
Deferred costs	(21,347,225)	(15,999,915)
Dividends paid	--	(15,778,590)
Long term advances and deposits	1,491,293	35,314,183
	-----	-----
Net cash (used in) / generated from financing activities	(98,599,987)	477,293,525
	-----	-----
Net (decrease)/increase in cash activities	(94,154,949)	212,742,755
 Cash and bank balances at the beginning of the year	228,037,471	15,294,716
	-----	-----
Cash and bank balances at the end of the year	133,882,522	228,037,471
	=====	=====

SANAULLAH QURESHI

Director

KHALEEQ-UR-RAHMAN KHAN

Chief Executive

YUSUF H. SHIRAZI

Chairman

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 1998

1. THE COMPANY AND ITS OPERATIONS

The company is incorporated in Pakistan and is listed on the Karachi, Lahore and Islamabad stock exchanges. It essentially carries on the business of leasing.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Revenue recognition

The company follows the "Finance Method" in accounting for recognition of lease income. Under this method the unearned lease income i.e. the excess of aggregate lease rentals and the residual value over the cost of leased asset is deferred and then amortized to income over the term of the lease, applying the annuity method to produce a constant rate of return on the net cash investment in the lease.

Other lease related income is recognised as and when realised.

Return on government investments is recognized on an accrual basis on the assumption that such investments will be held upto the next terminal date.

Dividends from equity securities are recognised when the right to receive such dividends becomes vested.

2.3 Tangible fixed assets

These are stated at cost less accumulated depreciation. Depreciation is charged to income applying the reducing balance method at the rates specified in note 12 to the accounts. In respect of additions during the year, depreciation is charged for the full year, however, no depreciation is charged in the year of disposal.

Profit or loss on disposal of assets is included in income currently.

2.4 Deferred costs

Processing charges of long term loans and other deferred costs are being amortized over a period of three years from the year of incurrence.

2.5 Investments

Long term investments

These are stated at cost. Provision for diminution in value of investments is made, if considered permanent.

Short term investments

These are stated at lower of cost and market value.

2.6 Taxation

Current:

The charge for the current taxation for the year, if required, is based on taxable income, which is computed as if all leases are operating leases.

Deferred:

The company accounts for deferred taxation using the liability method on all significant timing differences, excluding those timing differences which are not likely to reverse in the foreseeable future.

2.7 Foreign currency translations

Assets and liabilities in foreign currencies are translated at the rates of exchange which approximate those prevailing at the balance sheet date except for liabilities covered under an exchange risk coverage scheme which are translated at the rate prevailing on the date of disbursement. Exchange differences arising as a result of obtaining cover under these schemes are being amortized over the period of loan. Net exchange differences arising due to hedging mechanism are accounted for as deferred revenue/deferred costs as the case may be and are credited/amortized to the income over the term of the underlying transactions.

2.8 Off-setting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the company has a legally enforceable right to set-off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses arising from such assets and liabilities are also accordingly offset.

2.9 Employees' retirement benefits

The company operates a contributory provident fund for all its permanent employees and contributions are made monthly in accordance with the fund rules.

2.10 Provision for doubtful debts

Keeping in view the nature of leasing business, the company, as a prudent policy, makes this provision at a reasonable level, which as per management's anticipation is adequate for potential losses on the lease portfolio.

	Note	1998 Rupees	1997 Rupees
3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL			
8,864,060 ordinary shares of Rs.10 each fully paid in cash	3.1	88,640,600	88,640,600
1,655,000 ordinary shares of Rs.10 each issued as fully paid bonus shares		16,550,000	16,550,000
		-----	-----
		105,190,600	105,190,600

3.1 Includes 536,560 ordinary shares of Rs.10 each issued to International Finance Corporation at premium of Rs.10.85 per share upon exercise of their option to convert a portion of its loan into equity based on financial statements as at June 30, 1995 as per the loan agreement (refer to note 5.9).

	Note	1998 Rupees	1997 Rupees
4. RESERVES			
Capital reserves			
Premium on shares	3.1	5,821,676	5,821,676
Statutory reserve	4.1	33,638,043	29,695,461
		-----	-----
		39,459,719	35,517,137
Revenue reserves		-----	-----
General reserve	4.2	72,849,095	68,849,095
Unappropriated profit		205,691	4,213,954
		-----	-----
		73,054,786	73,063,049
		-----	-----
		112,514,505	108,580,186
		=====	=====

4.1 This represents 20% of after tax profit as required under the relevant provision of the State Bank of Pakistan rules for Non Banking Financial Institutions.

4.2 General reserve

Balance as at July 1		68,849,095	85,000,000
Transfer to statutory reserve		--	(26,150,905)
Transfer from profit and loss account		4,000,000	10,000,000
		-----	-----
		72,849,095	68,849,095
		=====	=====

5. LONG TERM LOANS - Secured

Foreign currency loans			
Commonwealth Development Corp. II	5.2	33,515,685	55,920,766
Asian Development Bank I	5.3	21,040,369	42,086,162
Asian Development Bank II	5.4	464,200,000	407,028,000
Netherlands Development Finance Co. I	5.5	61,565,164	85,941,252
Netherlands Development Finance Co. II	5.6	229,305,516	236,956,153
German Investment and Development Co. I	5.7	27,981,079	39,144,043
German Investment and Development Co. II	5.8	41,401,504	53,212,459
International Finance Corporation (Loan A)	5.9	204,961,253	242,225,430
International Finance Corporation (Loan B)	5.10	25,531,000	67,159,620
		-----	-----

		1,109,501,570	1,229,673,885
Less: Exchange differences not yet due		2,364,071	3,223,019
		-----	-----
		1,107,137,499	1,226,450,866
Local currency loans			
From - Investment bank - loan 1	5.11	22,500,000	--
- banking company - loan 2	5.12	26,250,000	8,333,335
- banking company -loan 3	5.13	12,348,318	2,222,208
		-----	-----
		61,098,318	10,555,543
		-----	-----
		1,168,235,817	1,237,006,409
Less: Current maturity		286,750,724	218,441,221
		-----	-----
		881,485,093	1,018,565,188
		=====	=====

5.1 All the loans stated in note 5.2 to 5.12 above are secured by pari-passu floating charge on the present and future leased assets, hypothecation of movable assets and receivables of the company and demand promissory notes. The foreign currency loans are registered with the State Bank of Pakistan.

5.2 This represents balance of a loan facility of Pound Sterling 2,500,000 obtained from Commonwealth Development Corporation (CDC) for financing lease operations. The loan is repayable in 10 equal semi-annual installments which commenced from January 25, 1995.

The liability of this loan has been fixed in Pakistani Rupees under the exchange risk cover scheme of State Bank of Pakistan and the rate of interest and exchange risk cover fee is 10.5% and 6.93% per annum respectively, payable half-yearly. In case the company fails to pay any amount on the due date, it shall be liable to pay liquidated damages at the rate of 1% per annum over and above the interest rate.

5.3 This represents balance of a loan facility of US \$ 5,000,000 obtained from Asian Development Bank (ADB) for financing lease operations. The loan is repayable in 12 equal semi-annual instalments which commenced from December 15, 1993.

The liability of this loan has been fixed in Pakistani Rupees under the exchange risk cover scheme of State Bank of Pakistan. The rate of interest and exchange risk cover fee is 9.4% and 7.08% per annum respectively, payable half-yearly. In case the company fails to pay any amount on the due date, it shall be liable to pay liquidated damages at the rate of 1% per annum over and above the interest rate.

5.4 This represents balance of a second loan facility of US\$ 10,000,000 obtained from Asian Development Bank (ADB) for financing lease operations. The loan is repayable in 10 equal semi-annual installments commencing from March 15, 1999.

The interest rate is LIBOR plus 2.25% per annum payable half-yearly. In case the company fails to pay any amount on the due date, it shall be liable to pay liquidated damages at the rate of 1% per annum over and above the interest rate.

5.5 This represents balance of a loan facility of Netherland Guilders (NLG) 10,000,000 comprising of two equal tranches of NLG 5,000,000 each and was obtained from Netherlands Development Finance Company (FMO) for financing lease operations. The loan is repayable in 14 equal semi-annual installments which commenced from November 1, 1994 for the first tranche and November 1, 1995 for the second tranche.

The liability of this loan has been fixed in Pakistani Rupees under the exchange risk cover scheme of State Bank of Pakistan. The rate of interest and exchange risk cover fee is 10.7% and 5% per annum respectively, payable half-yearly. In case the company fails to pay any amount on the due date, it shall be liable to pay liquidated damages at the rate of 2% per annum over and above the interest rate.

5.6 This represents the balance of a second loan facility of US\$ 5,821,618 equivalent to Netherland Guilders (NLG) 10,000,000 obtained from Netherlands Development Finance Company (FMO) for financing lease operations. The loan has been drawn in two tranches and is repayable in 10 equal semi-annual installments commencing from November 1, 1997 and May 1 1998 respectively.

The interest rate for the first tranche is 10.50% per annum and for the second tranche is 10.25% per annum payable half-yearly. In case the company fails to pay any amount on the due date, it shall be liable to pay liquidated damages at the rate of 2% per annum over and above the interest rate.

5.7 This represents the balance of a loan facility of Deutsche Marks 5,000,000 obtained from German Investment and Development Company (DEG) for financing lease operations. The loan is repayable in 15 equal semi-annual instalments which commenced from October 30, 1993.

The liability of this loan has been fixed in Pakistani Rupees under the exchange risk cover scheme of State Bank of Pakistan. The rate of interest and exchange risk cover fee is 10.5% and 5% per annum respectively, payable half-yearly. In case the company fails to pay any amount on the due date, it shall be liable to pay liquidated damages at the rate of 2% per annum over and above the interest rate.

5.8 This represents the balance of a loan facility of Deutsche Marks 5,000,000 obtained from German Investment and Development Company (DEG) for financing lease operations. The loan is repayable in 15 equal semi-annual installments which commenced from October 30, 1994.

The liability of this loan has been fixed in Pakistani Rupees under the exchange risk cover scheme of State Bank of Pakistan. The rate of interest and exchange risk cover fee is 10.6% and 5.77% per annum respectively, payable half-yearly. In case the company fails to pay any amount on the due date, it shall be liable to pay liquidated damages at the rate of 2% per annum over and above the interest rate.

5.9 This represents the balance of a loan facility (A) of US\$ 10,000,000 obtained from International Finance Corporation (IFC) for financing lease operations. The loan is repayable in 16 equal semi-annual installments which commenced from June 15, 1996.

In accordance with the loan agreement IFC has exercised its conversion option of loan into equity (refer to note 3.1)

The liability of this loan has been fixed in Pakistani Rupees under the exchange risk cover scheme of State Bank of Pakistan. The rate of interest and exchange risk cover fee is 8.5% and 6.66% per annum respectively, payable half-yearly. In case the company fails to pay any amount on the due date, it shall be liable to pay liquidated damages at the rate of 2% per annum over and above the interest rate.

5.10 This represents the balance of a loan facility (B) of US\$ 2,200,000 obtained from International Finance Corporation (IFC) for financing lease operations. The loan is repayable in 4 equal semi annual installments which commenced from June 15, 1997.

The interest rate is LIBOR plus 2.75% per annum payable half yearly. In case the company fails to pay any amount on the due date, it shall be liable to pay liquidated damages at the rate of 2% per annum over and above the interest rate.

5.11 This represents the balance of a loan facility of Rs. 30,000,000 obtained from an investment bank for financing the leasing operations of the company. The loan is repayable in 24 equal monthly installments which commenced from January 27, 1998 and carries mark-up at the rate of 54.79 paisas per thousand Rupees per day.

5.12 This represents the balance of a loan facility of Rs. 30,000,000 obtained from a banking company for financing the leasing operations of the company. The loan is repayable in 24 equal monthly installments which commenced from April 25, 1998 and carries mark-up at the rate of 50.68 paisas per thousand Rupees per day.

5.13 This represents the balance of a loan facility of Rs. 13,105,579 obtained from a banking company for financing the leasing operations of the company. The loan is secured by second charge on leased assets of the company. The loan is repayable in 12 quarterly installments which commenced from April 01, 1998 and carries mark-up at the rate of 50.68 paisas per thousand Rupees per day.

	Note	1998 Rupees	1997 Rupees
6. LONG TERM DEPOSITS			
From lessees			
Security deposits on lease contracts	6.1	229,170,160	227,860,032
From employees	6.2	889,654	708,489
		-----	-----
		230,059,814	228,568,521
Less: Current maturity of security deposits on lease contracts		65,568,216	64,773,920
		-----	-----
		164,491,598	163,794,601
		=====	=====

6.1 These represent security deposits received against lease contracts and are repayable/adjustable at the expiry of respective lease periods.

6.2 These represent deposits from employees under the Company's Car scheme.

7. CERTIFICATES OF INVESTMENT

The company has a scheme of registered Certificates of Investment (COI) for resource mobilization as per permission from the Corporate Law Authority, Government of Pakistan. It is based on the profit and loss sharing principle. Returns are presently being paid at rates negotiated with customers. Terms range from three months to five years.

8. SHORT TERM FINANCES

From a bank-secured	--	20,000,000
From a financial institution-secured	--	5,800,000
From financial institutions-unsecured	57,000,000	80,500,000
From others-unsecured	35,000,000	--
	-----	-----
	92,000,000	106,300,000
	=====	=====

The mark-up rate on the above ranges from 48.63 to 51.37 paisas per thousand Rupees per day.

9. FINANCE UNDER MARK-UP ARRANGEMENTS

Running finances from banks utilized under mark-up arrangements - secured	11,961,167	28,396,762
	=====	=====

The facilities from commercial banks amount to Rs. 68.5 million (1997:Rs.108.50 million) and the mark-up rates range from 50.68 to 54.79 paisas per thousand Rupees per day and are payable currently. The arrangements are secured by pari-passu floating charge on present and future leased assets and hypothecation of rentals receivable.

	Note	1998 Rupees	1997 Rupees
10. ACCRUED AND OTHER LIABILITIES			
Accrued expenses		2,047,809	1,041,983
Mark-up on secured			
-long term loans		21,069,307	19,008,615
- credit facility availed [net of accrued interest on foreign currency deposits Rs.29,804,226 - (1997: Rs. 16,814,826) - refer to note 18.1]		17,176,159	9,520,878
- running finances		504,718	980,978
- short term finances		648,767	602,904
Mark-up on unsecured short term finances		915,938	1,214,863
Exchange risk cover fee payable to SBP		61,897,821	49,057,908

Accrued in respect of late payment of exchange risk cover fee	7,210,239	2,363,810
Guarantee commission, commitment and other charges on long term loans	1,732,239	2,276,235
Profit payable on Certificates of Investment	16,374,544	9,707,629
Other liabilities		
Advance from customers pending lease execution	1,083,660	2,051,607
Advance lease rentals from lessees	5,872,536	7,752,439
Payments from lessees received on account	9,672,635	9,117,359
Unclaimed dividends	18,248	19,482
Others	1,294,014	582,261
	-----	-----
	17,941,093	19,523,148
	-----	-----
	147,518,634	115,298,951
	=====	=====

11. CONTINGENCIES AND COMMITMENTS

11.1 Contingencies

Counter-guarantee issued to an associated undertaking in respect of financing transactions	--	11,875,147
	=====	=====

11.2 Commitments

Letters of comfort against letters of credit	3,881,722	8,000,000
Lease commitments	2,801,461	19,187,273
Capital expenditure for computer software (associated undertaking)	700,000	1,000,000
	-----	-----
	7,383,183	28,187,273
	=====	=====

12. OPERATING FIXED ASSETS

	COST			DEPRECIATION				Written down		Depreciation Rate on WDV %
	As at July 1, 1997 Rupees	Additions Rupees	Disposals Rupees	As at June 30, 1998 Rupees	Accumulated as at July 1, 1997 Rupees	Charge for the year Rupees	On disposals Rupees	Accumulated as at June 30, 1998 Rupees	value as at June 30, 1998 Rupees	
Leasehold improvements	1,637,935	--	--	1,637,935	600,394	103,754	--	704,148	933,787	10
Furniture and fixtures	1,451,587	42,700	5000	1,489,287	499,635	99,199	2,342	596,492	892,795	10
Office equipment	1,611,118	182,000	351679	1,441,439	477,359	106,512	101,043	482,828	958,611	10
Computer equipment	9,038,332	1,443,350	262650	10,219,032	3,558,971	1,687,320	89,218	5,157,073	5,061,959	25
Electrical equipment	1,565,037	99,000	403915	1,260,122	694,700	76,518	199,759	571,459	688,663	10
Motor vehicles	11,131,133	2,643,944	3,480,657	10,294,420	4,398,477	1,440,442	1,306,269	4,532,650	5,761,770	20
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	26,435,142	4,410,994	4,503,901	26,342,235	10,229,536	3,513,745	1,698,631	12,044,650	14,297,585	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
1997	24,621,792	3,232,060	1,418,710	26,435,142	7,107,629	3,953,350	831,443	10,229,536	16,205,606	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

12.1 DISPOSAL OF ASSETS

Description	Cost Rupees	Accumulated depreciation Rupees	Written down value Rupees	Sale proceeds Rupees	Mode of disposal	Sold to
Furniture & fixture	5,000	2,342	2,658	1,630	Tender	Mr. M. Ashfaq R-74, 15N2, Buffer Zone, Karachi.
Office equipment	162,110	55,750	106,360	46,000	Trade-in	Integrated Devices E-9, Muhammad All Society, Ghazi Salah-Uddin Road, Karachi.
Office equipment	40,000	13,756	26,244	26,244	Negotiation	* Atlas Information Technology (Pvt) Ltd. 1001, Park Avenue, Block No. 6, PECHS, Karachi.
Office equipment	57,600	7,470	50,130	50,130	Negotiation	* Atlas Warehousing (Pvt) Ltd. 8th Floor, Adamjee House, I. I. Chundrigar Road, Karachi.
Office equipment	91,969	24,067	67,902	67,902	Negotiation	* Shirazi Investments (Pvt) Ltd. 8th Floor, Adamjee House, I. I. Chundrigar Road, Karachi.
Computer equipment	68,000	26,690	41,310	41,310	Negotiation	* Atlas Warehousing (Pvt) Ltd. 8th Floor, Adamjee House, I. I. Chundrigar Road, Karachi.
Computer equipment	49,000	19,233	29,767	29,767	Negotiation	* Atlas Warehousing (Pvt) Ltd. 8th Floor, Adamjee House, I. I. Chundrigar Road, Karachi.
Computer equipment	87,150	27,151	59,999	59,999	Negotiation	* Shirazi Investments (Pvt) Ltd. 8th Floor, Adamjee House, I. i. Chundrigar Road, Karachi.
Computer equipment	22,500	7,313	15,187	15,187	Negotiation	* Shirazi Investments (Pvt) Ltd. 8th Floor, Adamjee House, I. I. Chundrigar Road, Karachi.
Computer equipment	22,500	8,831	13,669	13,669	Negotiation	* Shirazi Investments (Pvt) Ltd. 8th Floor, Adamjee House, I. I. Chundrigar Road, Karachi.
Computer equipment	13,500	--	13,500	13,500	Negotiation	* Shirazi Investments (Pvt) Ltd. 8th Floor, Adamjee House, I. I. Chundrigar Road, Karachi.
Electrical equipment	299,915	140,527	159,388	30,000	Trade-in	Emba Corporation (Pvt) Ltd. Shaheed-e-Millat Road, Karachi.
Electrical equipment	52,000	29,616	22,384	17,000	Negotiation	General Airconditioners 19, Ground Floor, AI-Burhan Centre, Depot Lines, Saddar, Karachi.
Electrical equipment	52,000	29,616	22,384	6,000	Negotiation	General Airconditioners 19, Ground Floor, AI-Burhan Centre, Depot Lines, Saddar, Karachi.
Motor vehicle	662,000	445,076	216,924	375,000	Tender	Mr. Younus Ismail 66, Khayaban-e-Janbaz, DHA

Motor vehicle	279,000	187,577	91,423	227,000	Tender	Phase V, Karachi. Ms. Rana Muzaffar 55-B, 22nd Street, Off. Khayaban-e-Mujahid, Phase V, DHA, Karachi.
Motor vehicle	308,500	111,060	197,440	213,488	Tender	Mr. Riaz Ebrahim B-7, Shangrilla Apts., Jamshed Road No. 1, Karachi.
Motor vehicle	668,635	240,709	427,926	427,926	Company Policy	Mr. Omar Qureshi Ex-Employee
Motor vehicle	659,522	321,847	337,675	337,675	Negotiation	* Atlas Battery Ltd. D-181, Central Avenue, S.I.T.E., Karachi.
Motor vehicle	903,000	--	903,000	903,000	Negotiation	* Atlas Battery Ltd. D-181, Central Avenue, S.I.T.E., Karachi.
	-----	-----	-----	-----		
	4,503,901	1,698,631	2,805,270	2,902,427		
	=====	=====	=====	=====		

* Associated undertaking

13. NET INVESTMENT IN LEASE FINANCE

Includes Rs. 32,925,656 (1997: Rs. 17,028,548) in respect of associated companies. Maximum amount due at the end of any month during the year was Rs. 49,461,916 (1997: Rs. 17,028,548).

14. LONG TERM INVESTMENTS

Shares in companies:

	No. of ordinary shares 1998	No. of ordinary shares 1997	Market value/ Break up value 1998 Rupees	Average cost per share Rupees	1998 Cost Rupees	1997 Cost Rupees
Quoted:						
J.D.W. Sugar Mills Ltd.	298,800	298,800	896,400	10.00	2,988,000	2,988,000
Engro Chemicals Pak. Ltd.	6,900	6,000	343,275	114.49	790,000	790,000
Muslim Insurance Co. Ltd. (associated undertaking)	37,863	27,438	492,219	14.23	538,790	538,790
Atlas Battery Ltd. (associated undertaking)	86,019	80,018	3,204,208	63.35	5,449,226	5,449,226
			-----		-----	-----
			4,936,102		9,766,016	9,766,016
Less: Provision for diminution in value of quoted investments					(2,390,400)	(2,390,400)
					-----	-----
					7,375,616	7,375,616
Unquoted:						
Arabian Sea Country Club (note 14.1) (Chief Executive: Mr. Zaeem Lutfi)	100,000	100,000	100,000	10.00	1,000,000	1,000,000
			-----		-----	-----

5,936,102	8,375,616	8,375,616

Government Securities:

Federal Investment Bonds (note 14.2)	32,500,000	17,500,000
	-----	-----
	40,875,616	25,875,616

14.1 The break-up value of these shares is as per June 30, 1997 audited financial statements.

14.2 These investments have been made in compliance with the State Bank of Pakistan rules for Non-Banking Financial Institutions to maintain the liquidity requirement against certain liabilities. These investments carry a rate of return of 15% per annum and mature on January 28, 2002, July 15, 2003 and November 22, 2004 respectively.

14.3 The aggregate market / break-up value of investments in shares as at June 30, 1997 was Rs. 6,502,525.

		1998	1997
15. LONG TERM LOANS, D	Note	Rupees	Rupees
DEFERRED COSTS			
Loan to executives - secured, considered good	15.1	3,276,383	1,745,135
Less: Current portion		374,427	225,138
		-----	-----
	15.1.1	2,901,956	1,519,997
Deposits		724,486	499,786
Deferred costs	15.2	26,453,080	15,771,139
		-----	-----
		30,079,522	17,790,922

5.1 This represents house loans to the Chief Executive Officer and an executive which are repayable in 144 and 180 monthly instalments respectively and carry mark-up at the rate of 10% per annum. The loans are secured by registered mortgage of the property and assignment of life insurance policies.

Maximum amount outstanding at the end of any month during the year against loan to Chief Executive Officer was Rs. 1,745,135 (1997: Rs. 1,765,115).

		1998	1997
Note		Rupees	Rupees
15.1.1 Recoverable after three years		2,832,644	1,454,014
Others.		69,312	65,983
		-----	-----
		2,901,956	1,519,997

5.2 Deferred costs

Front-end fee on long term loans	15.2.1	1,357,948	3,459,182
Net exchange difference arising due to hedging mechanism	15.2.2	25,095,132	12,311,957
		-----	-----
		26,453,080	15,771,139
		=====	=====
15.2.1 Front-end fee on long term loans			
Opening balance		19,111,332	19,183,544
Additions/(refunds) during the year		--	(72,212)
		-----	-----
		19,111,332	19,111,332
Amortized to-date		(17,753,384)	(15,652,150)
		-----	-----
		1,357,948	3,459,182
		=====	=====

The above expenditure is carried forward as it confers the benefit of the same to future years.

15.2.2 Net exchange difference arising due to hedging mechanism

Opening balance		14,505,382	(1,793,440)
Debit during the year		19,153,800	16,298,822
		-----	-----
		33,659,182	14,505,382
Amortized to-date		(8,564,050)	(2,193,425)
		-----	-----
		25,095,132	12,311,957
		=====	=====

16. SHORT TERM INVESTMENTS

Short term federal bond		--	25,000,000
Federal investment bond		10,000,000	--
		-----	-----
		10,000,000	25,000,000
		=====	=====

This investment has been made in compliance with the State Bank of Pakistan's Regulations for Non-Banking Financial Institutions to maintain the liquidity requirement against certain liabilities. The investment carries a rate of return of 14% per annum and shall mature on May

	Note	1998 Rupees	1997 Rupees
17. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES			

Advances - considered good

- against assets to be leased out	17.1	8,758,777	17,438,020
- for capital expenditure	17.2	1,300,000	1,000,000
- for expenses		300,000	8,153
- to employees		489,798	480,493
		-----	-----
		10,848,575	18,926,666
Current portion of loan to executives		374,427	225,138
Prepayments		2,561,262	1,877,261
Due from associated undertakings	17.3	--	3,002,384
Accrued lease income	17.4	27,747,237	25,124,079
Accrued profit on long term investments		2,291,917	936,712
Accrued profit on short term investments		--	40,250
Exchange difference refundable from SBP		49,190,061	24,484,568
Advance Income Tax		2,514,882	
Repossessed asset held for sale		--	1,005,376
Other charges recoverable from lessees		6,050,680	2,019,325
Other receivables		1,122,041	1,474,727
		-----	-----
		102,701,082	79,116,486
		=====	=====

17.1 Included in the above are advances against assets to be leased out amounting to Rs. 4,577,721 (1997: Rs. 7,577,721) to an associated undertaking. The maximum outstanding at the end of any month during the year was Rs. 7,577,721 (1997:7,577,721).

17.2 This represents advance for computer software development to an associated undertaking. The maximum outstanding at the end of any month during the year was Rs. 1,300,000 (1997: Rs. 1,000,000).

17.3 The maximum due at the end of any month during the year was Rs. 3,522,461 (1997: Rs. 3,002,384).

17.4 Included in the above is Rs. 1,917,797 (1997:Rs. nil) mark-up charged on an advance against lease to an associated undertaking. The maximum amount due at the end of any month during the year was Rs. 1,917,797 (1997: Rs. nil).

18. CASH AND BANK BALANCES

Cash in hand		22,563	12,019
Stamps in hand		48,251	31,475
Cheques in hand		6,245,180	6,430,803
With banks			
on current accounts		1,764,073	766,852
on foreign currency deposit account		109,310	166,254,400
on foreign currency deposit account	18.1	124,193,145	53,041,922
on special account with SBP		1,500,000	1,500,000
		-----	-----
		133,882,522	228,037,471
		=====	=====

18.1 Foreign currency deposits	18.1.1	712,785,825	556,297,328
Less: Credit facility availed		588,592,680	503,255,406
		-----	-----
		124,193,145	53,041,922
		=====	=====

18.1.1 The foreign currency deposits are under lien with respect to credit facilities availed on a matching facility basis and have been offset in accordance with note 2.8. The rate of interest on the deposits ranges from 6.0% to 7.91% per annum. The rate of mark-up on the credit facility availed ranges from 12.54% to 15.30% per annum. The maturity of credit facilities and foreign currency deposits are upto September 15, 2003.

	Note	1998 Rupees	1997 Rupees
19. INCOME FROM LEASING OPERATIONS		317,763,732	317,424,744
		=====	=====

The above includes all income arising on account of leasing operations.

20. OTHER INCOME

Return on long term investments:			
Government securities		4,818,573	2,643,904
Dividends [including Rs. 100,023 (1997: Rs.273,006) from associated undertakings]		1,367,731	321,005
		4,955,346	2,964,909
Return on short term investments		1,560,053	1,120,545
Income from short term placements		14,365,285	2,338,997
Mark-up on short term finance		62,500	317,500
Mark-up on loan to executives		181,366	176,000
Profit on sale of fixed assets		97,157	295,045
Guarantee commission		291,056	46,690
Miscellaneous		71,113	22,579
		-----	-----
		21,583,876	7,282,265
		=====	=====

21. FINANCIAL CHARGES

Mark-up on secured			
- long term loans		116,067,769	90,249,612
- credit facilities availed [net of interest on foreign currency deposits Rs. 58,849,901 (1997: Rs. 20,844,565) - refer to note 18.1]		33,047,469	15,358,892
- running finances		1,444,064	5,257,622
- short term finances		6,720,385	2,427,562
Mark-up on short term finance - unsecured		10,959,833	17,927,457
Profit on Certificates of Investment		52,744,544	66,597,760
Exchange risk cover fee		27,667,177	37,572,975
Accrued / charged in respect of late payment of			

exchange risk cover fee	4,846,429	19,924,134
Exchange loss	6,367,586	2,492,332
Commitment charges, guarantee commission and other charges on long term loans	1,707,956	3,260,824
Bank charges	1,508,925	1,215,611
Others	70,000	59,172
	-----	-----
	263,152,137	262,343,953
	=====	=====

22. ADMINISTRATIVE AND OPERATING EXPENSES

Salaries, allowances and benefits	16,442,037	11,617,884
Rent, rates and taxes	2,688,652	2,372,404
Gas, electricity and utilities	652,197	558,271
Printing and stationery	1,036,943	1,146,240
Insurance	1,153,944	913,637
Repairs and maintenance	1,294,385	1,270,683
Travelling and conveyance	741,276	851,017
Staff training expenses	160,114	81,128
Membership and subscription	323,854	554,646
Canteen and entertainment expenses	694,199	1,671,132
Postage expenses	150,154	147,858
Telephone expenses	2,503,865	2,295,115
Legal and professional charges	779,033	360,930
Vehicle running expenses	1,416,725	1,623,050
Advertisement	385,480	214,597
Depreciation	3,513,745	3,953,350
Stamps and fees	196,734	252,055
Freight and packing	86,349	400
Auditors' remuneration		
Audit fee	90,000	65,000
Taxation services	32,896	44,092
Special audit fee	--	65,000
Other certifications	20,000	27,625
Out-of-pocket expenses	12,193	15,077
	-----	-----
	155,089	216,794
Donations	22.1	6,000
Professional tax		163,155
Miscellaneous		4,927
	-----	-----
	34,548,857	30,223,816
	=====	=====

22.1 Recipients of donation do not include any donee in whom any director or his spouse had an interest.

23. TAXATION

Assessments have been finalised upto assessment year 1997-98. Provision for current taxation has been made on the basis of minimum tax under section 80D of the Income Tax Ordinance, 1979.

Deferred taxation arising due to timing differences computed under the liability method is estimated at Rs. 73.46 million of which Rs. 14.92 million credit is in respect of the current year (1997: Rs. 58.55 million, credit for the year Rs. 16.61 million). The liability for deferred taxation is not likely to reverse in the foreseeable future and therefore no provision for the same is required. However, in order to comply with the requirements of the revised International Accounting Standard 12, entitled "Income Taxes" which is applicable from accounting periods beginning on or after January 1, 2001, the company has decided to make a provision of Rs. 5.5 million in the current year in order to gradually make full provision in installments by June 30, 2002.

Note	1998 Rupees	1997 Rupees
24. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS		
Insurance premium expense	1,004,717	913,637
Advance for software development	300,000	1,000,000
Services provided by	1,476,098	1,221,055
Services provided to	2,513	6,327
Expenses charged by	--	21,714
Expenses charged to	3,772,776	3,002,384
Lease rentals and advance received	14,353,242	3,333,620
Cost of assets leased	23,036,728	19,816,111
Issue of Certificates of Investment	21,000,000	46,000,000
Purchase of vehicles	1,661,887	370,334
Sale of fixed assets	1,558,383	--
Advance against assets to be leased out	--	7,577,721
Short term finance obtained and repaid	70,000,000	40,000,000
Mark-up on short term finance obtained	3,950,388	1,753,972
Profit on Certificates of Investment paid	320,124	2,123,068
Guarantee commission	291,056	46,690

Transactions with associated undertakings are entered into in the normal course of business at contracted rates and terms determined in accordance with market rates.

25. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

Remuneration in respect of the above charged in these accounts is as follows:

	1998				1997			
	Chief Executive Rupees	Director Rupees	Executives Rupees	Total Rupees	Chief Executive Rupees	Director Rupees	Executives Rupees	Total Rupees
Managerial remuneration	1,021,100	1,018,500	4,368,908	6,408,408	590,000	730,000	3,145,537	4,465,537

Housing and utilities	514,800	502,425	2,107,948	3,125,173	280,500	346,500	1,451,437	2,078,437
Medical, allowances and other expenses	66,243	493,788	484,474	1,044,505	58,873	187,193	327,182	573,248
Provident fund	93,600	91,350	385,053	570,003	51,000	63,000	276,060	390,060
	1,695,643	2,106,063	7,346,383	11,148,089	980,373	1,326,693	5,200,216	7,507,282
Number of persons	1	1	21		1	1	16	

25.1 The Chief Executive and Director are also provided with free use of telephones and company maintained cars.

25.2 Fees totalling Rs. 7,500 (1997: Rs. 7,000) were paid to five directors (1997: three directors) for attending Board Meetings during the year.

26. GENERAL

26.1 Figures have been rounded off to the nearest rupee.

26.2 Previous year's figures have been rearranged wherever necessary for the purpose of comparison.

SANAULLAH QURESHI
Director

KHALEEQ-UR-RAHMAN KHAN
Chief Executive

YUSUF H. SHIRAZI
Chairman

ATLAS GROUP COMPANIES

Year of Establishment Acquisition*

Shirazi Investments (Pvt) Ltd.	1962
Atlas Honda Ltd.	1963
Atlas Battery Ltd.	1966
Shirazi Trading Co.(Pvt) Ltd.	1973
Atlas Warehousing (Pvt) Ltd.	1979
Atlas Office Equipment (Pvt) Ltd.	1979*
Muslim Insurance Co. Ltd.	1980*
Allwin Engineering Industries Ltd.	1981*
Atlas Lease Ltd.	1989
Atlas Investment Bank Ltd.	1990
Honda Atlas Cars (Pakistan) Ltd.	1993
Honda Atlas Services (Pvt) Ltd.	1994
Atlas Information Technology (Pvt) Ltd.	1996
Total Atlas Lubricants Pakistan (Pvt) Ltd.	1997
Honda Atlas Power Products (Pvt) Ltd.	1997