

## **Pak-Gulf Leasing Company Limited**

### **Annual Report 1998**

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#### **Company Information**

##### **Board of Directors**

Mr. Inam Ellahi Shaikh  
Chairman

Mr. M. Salim Malik  
Vice Chairman

Mr. Farouq H. Rahimtoola  
Director

Mr. Fawad S. Malik  
Director

Mr. M. Ikhtiar Baig  
Director

Mr. Muhammad Rafiq  
Director

Mr. Parvez Rais Siddiqui  
Director

Mr. Sheikh Mohammad Javed  
Director

Mr. Sohail Inam Ellahi  
Director

Mr. Yousuf Jan Mohammad  
Director

Mr. Akbar M. Bilgrami  
Managing Director &  
Chief Executive

##### **Senior Management**

Akbar M. Bilgrami  
Managing Director & Chief Executive

Humayun Zafar  
Sr. Manager Credit & Marketing/  
Company Secretary

S. Azfar All Baqvi  
Manager Accounts & Administration

##### **Auditors**

Taseer Hadi Khalid & Co.,  
Chartered Accountants,  
Sheikh Sultan Trust Building No. 2,  
Beaumont Road,  
Karachi.  
Tel # : 5685847  
Fax # : 5685095

##### **Legal Advisors**

M/s. Mohsin Tayebally & Company  
2rid Floor, Dime Centre,  
BC-4, Block # 9, Kehkashan,  
Clifton,  
Karachi.  
Tel # ' 538077, 571653, 5872690  
Fax # : 5870240, 5870468

##### **Bankers**

ABN AMRO Bank N.V.  
Askari Commercial Bank Limited.  
Gulf Commercial Bank Ltd.  
Muslim Commercial Bank Limited.  
National Bank of Pakistan.  
Oman International Bank S.A.O.G.  
Prime Commercial Bank Limited.  
Standard Chartered Bank.  
Societe Generale - The French & Int'l Bank.  
Union Bank Limited.

##### **Registered/Share Transfer Office**

Unibro House 114,  
9th East Street, Phase-I,  
P.O. Box # 12215,  
Defence Housing Authority,  
Karachi-75500.  
Tel # : 5887571-3, 5899770  
Fax # : 5887574'  
E-mail: pgl@cyber.net. pk

Mirza Owais Omar  
Manager Credit & Marketing

### **Notice of Annual General Meeting**

Notice is hereby given that the 5th Annual General Meeting of Pak-Gulf Leasing Company Limited, will be held at the company's registered office at 114, Unibro House, 9th East Street, Phase-I, Defence Housing Authority, Karachi on Monday, October 19, 1998, at 10.30 a.m. to transact the following business:

#### **ORDINARY BUSINESS**

- 1) To read and approve the minutes of the extraordinary General Meeting of the company held on March 25, 1998.
- 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, as recommended by the Directors in their meeting held on Monday the September 07, 1998 the payment of cash dividend @ 10% i.e. Rs. 1 per share for the year ended June 30, 1998.
- 4) To appoint Auditors of the company for the year July 01, 1998 to June 30, 1999 and fix their remuneration. The present Auditors M/s. Taseer Hadi Khalid & Company, Chartered Accountants retire and being eligible offer themselves for reappointment.
- 5) To transact any other business with the permission of the Chair.

#### **BOOK CLOSURE**

The Register of Members of the company will be closed from October 13, 1998 till October 19, 1998 (both days inclusive) and no transfer of shares will be made during the period the register is closed.

#### **Registered Office:**

114, Unibro House, 9th East Street,  
Phase-I, Defence Housing Authority,  
Karachi.  
Tel: 5887571-3, 5899770  
Fax #: 5887574

#### **NOTES:**

1. A member entitled to attend, speak and vote at the General Meeting is entitled to appoint a proxy to attend, speak and vote for him/her. A proxy must be a member of the company. Proxy form can be obtained from the registered office of the company.
2. An instrument of proxy and the power of attorney or other authority (if any) under which it is signed, or notorially certified copy of the power of attorney in order to be valid must be deposited at the registered office of the company not less than 48 hours before the time of the meeting.
3. Shareholders are advised to lodge shares for transfer at the Company's Registered / Share Transfer Office till October 12, 1998, during office hours at 114, Unibro House, 9th East Street, Phase-I, Defence Housing Authority, Karachi-75500.
4. The Members are requested to notify the change in their address, if any, to the Share Transfer Office of the company at 114, Unibro House, 9th East Street, Phase-I, Defence Housing Authority, Karachi-75500.

### **Directors' Report**

The Directors are pleased to present the first full year of operation review together with the audited accounts for the year ended June 30, 1998.

The Financial Results are as follows:

**June                      June 1997 for**

	<b>1998</b>	<b>9 1/2 months</b>
	<b>Rs. (000)</b>	<b>Rs. (000)</b>
Revenue	19,180	13,038
Expenditure	8,474	7,008
	-----	-----
Profit before Tax	10,706	6,030
Provision for Taxation	2,500	96
	-----	-----
Profit after Tax	8,206	5,934
Unappropriated Profit brought forward	4,747	--
	-----	-----
Profit available for appropriation	12,953	5,934
Appropriations		
Transfer to Statutory Reserve	1,641	1,187
Proposed Dividend @ 10%	10,000	--
	-----	-----
	11,641	1,187
	-----	-----
Unappropriated Profit Carried Forward	1,312	4,747
	=====	=====

### **Operational Results for the year ended June 30, 1998**

During the year, the company transacted business worth Rs. 48.325 million. The Leasing within the company took a new turn, which was a result of the country's recession and sluggish economic growth, that left a profound imprint on the business of the company. This has also led the company to offer financing at slim margins, in order to stabilize its pulse rate. The portfolio of the company includes clients from local corporate, multi-nationals and individuals. The leases were handled with due diligence, utmost care and risk appraisal.

The Net Investment in Leases during the year ended June 30, 1998 was Rs. 90.618 million as compared to Rs. 67.773 million as on June 30, 1997. The income generated from business stood at Rs. 19.180 million for the same period as compared to Rs. 13.038 million.

### **Cash Dividend**

Your company acknowledges the rights of shareholders to a constant stream of cash flows arising from their investment. In this regard the Board has recommended a cash dividend of 10% for the year ended June 30, 1998.

Earning per share of company was Rs. 0.82 as on June 30, 1998.

The net Profit has shown an increase of 38.3 percent as on June 30, 1998 compared with (9 1/2 month's) profit for the corresponding period of 1997. The company has made a steady progress inspite of difficult economic conditions during this period.

### **The Economy:**

During the year under review the political and economic developments have been quite swift. The overall economy witnessed a significant deceleration in growth and a severe strain on all major macro-economic indicators.

Poor economic performance during the 1997-98 period has put the macro economic targets beyond reach and it now seems a strenuous task and needs arduous efforts to put the economy back on track.

The current economic situation demands both an improved diagnosis of key problem areas as well as articulating a set of policies designed to achieve the short and medium term objectives for growth which would enable survival in an environment of highly constrained financial resources,

The current economic reform package of the present government aims at boosting the industrial activities. Nevertheless the government will have to give proper attention on removing infra-structure inadequacies and encourage privatization.

### **The Leasing Sector:**

Presently there are 33 leasing companies and 8 modarabas with the leasing business of around Rs. 36 billion. it is worth mentioning that the lease financing is low, with substantially

a very low market penetration,

**The two basic reasons for this are:**

\* Non-Availability of Funds:- Long Term fundings have been a fundamental enigma for the leasing sector. Large sized companies with strong financial base remained comfortable compared with small companies which starved for such fundings. The risk of mismatching has never been absolutely defused, however, it abated, when long term funds were obtained through multilateral agencies. This attractive mode for acquiring the funds hereto availed by the leasing sector gradually dissipated as the effective cost of utilization and repayment turned uneconomical specially sourcing of loans from the World Bank, International Finance Corporation, Asian Development Bank and other foreign institutions.

\*Rising Risk of Defaults: The recovery ratio for the leased assets has gone down that has surged the defaults in line with the delinquent loans of banks and other financial institutions touching a high level. Thus, the rollover of rentals to support the cash flows for further lease financing remains inadequate.

Apart from the above, the frequent untimely changes in government policies and stiff competition amongst lessors has drastically affected the leasing sector.

**Board of Directors:**

The Board wishes to record its appreciation of the valuable contribution made by the retiring directors, Messrs. Jan Mohammad, M. Ishtiaq Baig, Akbar M. Bilgrami and Jehangir Shah, during their term, The Board has been reconstituted after elections and we would like to welcome the new directors Messrs. Fawad S. Malik, Farouq H. Rahimtoola, Parvez Rais Siddiqui, Sheikh Mohammad Javed and Yousuf Jan Mohammad.

Mr. Akbar M. Bilgrami has been re-appointed as Managing Director and Chief Executive for the next three years.

Effective January 01, 1998, Mr. Humayun Zafar, Senior Manager, Credit & Marketing is holding the post of Company Secretary.

**Future Outlook:**

The Corporate Strategy for the coming years shall be to further understand the complex needs of various industrial and business sectors of the economy and respond accordingly by providing customized financial products.

Pak-Gulf has sensed the changing moods of the economy and is determined to diversify its financial services in order to become a major contributor within the leasing industry.

Pak-Gulf is poised to attain new heights as we are hopeful that the coming months will see a significant improvement in key macro economic indicators.

Pak-Gulf has promising opportunities for mobilizing funds as we are in constant touch with local and multi-lateral agencies for obtaining long term funds.

With effect from July 22, 1998 your company has been registered with Central Depository Company (CDC) for the purpose of automated listing of securities, as this has become a mandatory practice.

**As a part of the future strategy the company will also focus on:**

- \*Long-term stability.
- \*Sustainable growth.
- \*Sound business strategy.
- \*Development and utilization of resources.
- \*Resource Mobilization at competitive rates.
- \*Floatation of Certificate of Investments (C.O.Is.)

**Acknowledgment:**

In the end, we take this opportunity to thank the valued Shareholders, Auditors, Financial Institutions, Corporate Law Authority, Joint Registrar of Companies, State Bank of Pakistan, all the three Stock Exchanges and Leasing Association of Pakistan for their continued support and guidance in resolving issues affecting the leasing sector in general and the company in particular.

We would like to express our deep appreciation to the staff, for their continuous efforts and dedication which enabled the company to conduct its operations efficiently during the year, inspire of difficult economic situation.

**Auditors:**

The auditors, Taseer Hadi Khalid & Company, Chartered Accountants retire and being eligible, offer themselves for re-appointment.

**Pattern of Shareholding:**

Pattern of Shareholding as on June 30, 1998 is annexed to this report.

**Auditors' Report to the Members**

We have audited the annexed balance sheet of Pak Gulf Leasing Company. Limited as at 30 June :1998 and the related profit and loss account and the 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 30 June 1998 and of the profit and the cash flow statement for the year then ended; and

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

Karachi: 14 Sept, 1998

**Taseer Hadi Khalid & Co.**  
Chartered Accountants

**Balance Sheet**  
**As at June 30, 1998**

	Note	1998 Rupees	1997 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital			
20,000,000 ordinary shares of Rs, 10 each		200,000,000	200,000,000
Issued, subscribed and paid up capital			
10,000,000 (1997: 10,000,000) ordinary shares			
of Rs. 10 each fully paid in cash		100,000,000	100,000,000
<b>STATUTORY RESERVE</b>	11	2,828,063	1,186,853
<b>UNAPPROPRIATED PROFIT</b>		1,312,248	4,747,410
		-----	-----

		104,140,311	105,934,263
<b>DEFERRED TAXATION</b>		2,295,000	--
<b>LONG TERM DEPOSITS</b>	12	9,608,427	4,974,173
<b>CURRENT LIABILITIES</b>			
Accrued expenses and other liabilities	13	595,085	89,904
Proposed dividend		10,000,000	--
		-----	-----
		10,595,085	89,904
<b>COMMITMENTS</b>	14		
		-----	-----
		126,638,823	110,998,340
		=====	=====
<b>TANGIBLE FIXED ASSETS</b>	3	3,073,060	3,511,185
<b>LONG TERM INVESTMENTS</b>	4	1,195,910	1,195,910
<b>NET INVESTMENT IN LEASES</b>			
		-----	-----
Minimum lease rentals receivable	5	105,714,390	84,021,667
Add: Residual value		12,284,128	7,289,705
		-----	-----
Lease contracts receivable		117,998,518	91,311,372
Less: Unearned income		27,380,322	23,538,480
		-----	-----
Net investment in leases		90,618,196	67,772,892
Less: Current portion of net investment in leases		30,492,622	17,235,294
		-----	-----
		60,125,574	50,537,598
<b>DEFERRED COSTS</b>	6	4,022,812	5,293,172
<b>LONG TERM LOANS &amp; DEPOSITS</b>	7	90,669	29,500
<b>CURRENT ASSETS</b>			
Current portion of net investment in leases		30,492,622	17,235,294
Short term investments	8	19,689,863	5,000,000
Advances, prepayments and other receivables	9	6,085,620	2,362,595
Cash and bank balances	10	1,862,693	25,833,086
		-----	-----
		58,130,798	50,430,975
		-----	-----
		126,638,823	110,998,340
		=====	=====

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

### Profit and Loss Accounts For the year ended June 30, 1998

			<b>From Sept. 16 1996 to 30 June 1997</b>
	<b>Note</b>	<b>1998 Rupees</b>	<b>1997 Rupees</b>
Income from leasing operations	15	15,655,387	4,644,545
Other income	16	3,524,860	8,393,084
		-----	-----
Administrative and operating expenses	17	19,180,247	13,037,629
		8,474,199	7,003,376
		-----	-----
Profit before provisions		10,706,048	6,034,253
Provision for diminution in the value of investment		--	4,290
		-----	-----
Profit before tax		10,706,048	6,029,963
Provision for taxation	18	-----	-----

-- current	205,000	95,700
-- deferred	2,295,000	--
	-----	-----
	2,500,000	95,700
	-----	-----
Net profit after taxation	8,206,048	5,934,263
Unappropriated profit brought forward	4,747,410	--
	-----	-----
	12,953,458	5,934,263
	=====	=====
Appropriations:		
Proposed dividend 10% (1997: Nil)	10,000,000	--
Transfer to statutory reserve	1,641,210	1,186,853
	-----	-----
	11,641,210	1,186,853
	-----	-----
Unappropriated profit carried forward	1,312,248	4,747,410
	=====	=====

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

### Cash Flow Statement For the year ended June 30, 1998

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>Cash flows from operating activities</b>		
Net profit before taxation	10,706,048	6,029,963
Adjustments for items not involving movement of funds:		
Depreciation	692,599	998,068
Amortization of deferred costs	1,270,360	1,058,629
Gain on disposal of listed securities	--	(260,108)
Profit on disposal of fixed assets	(19,724)	--
	-----	-----
Operating profit before working capital changes	12,649,283	7,826,552
(Increase)/Decrease in advances, prepayments and other receivables excluding advance income tax (net of provision)	(1,720,509)	226,900
Increase/(Decrease) in accrued expenses and other liabilities	505,181	(123,065)
Net investment in leases	(22,845,304)	(67,772,892)
Deposits from lessees	4,634,254	4,974,173
Payment of tax	(2,207,516)	(1,240,984)
(Increase) in Long term loans and deposits	(61,169)	(19,500)
	-----	-----
	(21,695,063)	(63,955,368)
	-----	-----
Net cash used in operating activities	(9,045,780)	(56,128,816)
<b>Cash flows from investing activities</b>		
Capital expenditure	(514,750)	(1,699,393)
Long term investments	--	(11,200,700)
Proceeds from disposal of listed securities	--	10,260,608
Proceeds from disposal of fixed assets	280,000	--
Deferred costs	--	(407,734)
	-----	-----
Net cash used in investing activities	(234,750)	(3,047,219)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of share capital	--	50,000,000
	-----	-----
Net cash generated from financing activities	--	50,000,000
	-----	-----
Net (decrease) in cash and cash equivalents	(9,280,530)	(9,176,035)
Cash and cash equivalents at beginning of the year	30,833,086	40,009,121

Cash and cash equivalents at end of the year (Note 19)	----- 21,552,556 =====	----- 30,833,086 =====
--	------------------------------	------------------------------

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

## Notes to the Accounts

### For the year ended June 30, 1998

#### 1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated on December 27, 1992 and commenced its operations on September 16, 1996. The Company is principally engaged in the business of leasing and is listed on all the Stock Exchanges of Pakistan.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### 2. Accounting convention

These financial statements 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 estimated residual value over the cost of leased assets is deferred and taken to income over the term of the lease, so as to produce a systematic return on net investment in leases.

Unrealised income is suspended where necessary in accordance with the requirements of Non Bank Financial Institution Regulations.

Front end fee is taken to income on receipt basis.

Dividend income and profit on other Investment are accounted for on accrual basis.

##### 2.3 Deferred costs and amortization

Deferred costs are being written off over a period of five years from the date of commencement of commercial operations.

##### 2.4 Investments

Long term investments are stated at cost net off provision made for decline, other than temporary, in value of investment, if any.

Short term investments are valued at the lower of cost and market value on an aggregate portfolio basis.

The charges or credits, if any, arising from adjustments in carrying amounts are taken to profit and loss account currently.

##### 2.5 Tangible fixed assets and depreciation

These are stated at cost less accumulated depreciation. Depreciation is charged applying the straight line method at the rates specified in note 3. In respect of additions during the year, depreciation is charged from the month of acquisition while no depreciation is charged in the year of disposal.

Normal repairs and maintenance are charged to income as and when incurred.

##### 2.6 Net investment in lease finance

Net investment in lease finances are stated at cost less specific and general provisions. Specific provisions are made in accordance with the requirements of Non Bank Financial Institution Regulations. The company maintains a general provision for potential lease losses at a level that can be reasonably anticipated, keeping in view the nature of its overall business activities and consider it to be adequate to meet potential losses.

##### 2.7 Employees' retirement benefits

The Company operates a contributory provident fund for all its regular permanent employees and contributions are made monthly to the fund equally by the Company and the employees in accordance with the fund rules to cover the



obligations.

## 2.8 Taxation

### Current

The charge for current taxation is based on higher of taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any and minimum tax liability @ 0.5% of turnover.

### Deferred

Deferred taxation is accounted for using the liability method on all major timing differences excluding the effects of those timing differences which are not likely to reverse in the foreseeable future.

## 3. TANGIBLE FIXED ASSETS

Description	COST			DEPRECIATION			Written down value as at June 30, 1998	Depreciation Rate %
	As at July 1, 1997	Additions/deletions during the year	As at June 30, 1998	As at July 1, 1997	Charge for the year (adjustments)	As at June 30, 1998		
<b>OWNED</b>								
Lease hold improvement	256,410	--	256,410	71,220	85,462	156,682	99,728	33.33
Furniture and fixtures	847,491	43,900	891,391	141,798	77,893	219,691	671,700	10
Equipment	1,278,702	176,700	1,455,402	279,576	215,585	495,161	960,241	20
Vehicles	2,126,650	294,150 (310,777)	2,110,023	505,474	313,659 (50,501)	768,632	1,341,391	20
June 30, 1998	Rupees	4,509,253	514,750 (310,777)	4,713,226	998,068	692,599 (50,501)	1,640,166	3,073,060
June 30, 1997	Rupees	2,809,860	1,699,393	4,509,253	--	998,068	998,068	3,511,185

### 3.1 Details of fixed assets disposed off during the year

Particulars	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Mode of Disposal	Sold to
Vehicles	Rupees	310,777	50,501	260,276	280,000	Insurance claim
						M/s. Eastern Federal Union Insurance Clifton Branch, Karachi.
1997	Rupees	--	--	--	--	

	1998 Rupees	1997 Rupees
<b>LONG TERM INVESTMENTS</b>		
Federal Investment Bonds-10 years	1,000,000	1,000,000
National Investment Trust Units	200,200	200,200
Less: Provision for diminution in value of investment	4,290	4,290
National Investment Trust Units	195,910	195,910
	1,195,910	1,195,910

These represent investment made as required under the relevant provisions of the State Bank of Pakistan's Prudential Regulations for Non Bank Financial Institutions to maintain liquidity. These bonds maturing in the year 2007 carrying a mark-up rate of 15% per annum payable half yearly from the date of issue. The aggregate market value of the investments as on June 30, 1998 was Rs. 1,195,910 (1997: Rs. 1,195,910).

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>5. MINIMUM LEASE RENTALS RECEIVABLE</b>		
Due within one year	46,452,980	29,412,108
Due after one year	59,261,410	54,609,559
	-----	-----
	<u>105,714,390</u>	<u>84,021,667</u>

This amount represents contracts entered into with customers carrying mark-up at a weighted average rate of 22.36% per annum and are generally secured against leased assets, personal guarantees and promissory notes by lessees.

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>6. DEFERRED COSTS</b>		
Preliminary expenses	358,877	358,877
Underwriting commission	1,400,000	1,400,000
Pre-operating expenses-net	4,592,924	4,592,924
	-----	-----
	6,351,801	6,351,801
Less: Amortization to-date	(2,328,989)	(1,058,629)
	-----	-----
	<u>4,022,812</u>	<u>5,293,172</u>

#### **7. LONG TERM LOANS & DEPOSITS**

Deposits	32,300	29,500
Loans to employees	58,369	--
	-----	-----
	<u>90,669</u>	<u>29,500</u>

#### **8. SHORT TERM INVESTMENT**

These represent Certificates of Investment (COI) issued by different leasing companies carrying a mark-up ranging from 18.5 to 20% (1997: 20.5%) per annum.

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>9. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES</b>		
Advance income tax (net of provision)	3,237,016	1,234,500
Prepayments	216,513	206,757
Accrued return on investments	752,652	838,743
Other receivables	1,879,439	82,595
	-----	-----
	<u>6,085,620</u>	<u>2,362,595</u>

#### **10. CASH AND BANK BALANCES**

Cash in hand	5,000	17,650
Balances with banks on:		
- Current accounts	1,775,327	11,751,883
- Deposit accounts	82,366	14,063,553
	-----	-----
	1,857,693	25,815,436
	-----	-----
	<u>1,862,693</u>	<u>25,833,086</u>

**11. STATUTORY RESERVE**

Balance as at July 01	1,186,853	--
Transferred during the year	1,641,210	1,186,853
	-----	-----
Balance as at June 30	2,828,063	1,186,853

This represents transfer of after tax profits as required under the relevant rule of Business for Non Bank Financial Institutions.

**12. LONG TERM DEPOSITS**

These represent interest free security deposits received against lease contracts and are refundable/adjustable at the expiry/termination of the respective leases.

	<b>1998</b> Rupees	<b>1997</b> Rupees
<b>13. ACCRUED EXPENSES AND OTHER LIABILITIES</b>		
Accrued expenses	78,436	78,700
Advance rentals	93,111	--
Other liabilities	423,538	11,204
	-----	-----
	595,085	89,904

**14. COMMITMENTS**

Commitments for lease finance	--	15,000,000
-------------------------------	----	------------

**15. INCOME FROM LEASING OPERATIONS**

Income on lease contracts	15,133,234	3,910,273
Front end fee	284,216	545,852
Documentation income	112,450	147,100
Gain on lease termination	122,732	41,320
Late payment charges	2,755	--
	-----	-----
	15,655,387	4,644,545

**16. OTHER INCOME**

Profit on Deposit account	2,043,682	6,875,024
Return on Certificates of Investment	1,287,624	1,173,788
Return on other investments	164,300	84,164
Gain on disposal of listed securities	--	260,108
Profit on disposal of fixed assets	19,724	--
Miscellaneous income	9,530	--
	-----	-----
	3,524,860	8,393,084

	<b>1998</b> Rupees	<b>1997</b> Rupees
<b>17. ADMINISTRATIVE AND OPERATING EXPENSES</b>		
Directors' fee	23,000	24,500
Salaries, allowances and benefits	3,302,711	2,733,247
Office maintenance	47,791	70,159
Insurance expenses	86,421	67,708

Office Rent & Utilities		961,657	621,342
Vehicle running expenses		498,137	365,047
Traveling and conveyance		98,462	30,295
Advertisement expenses		169,580	90,713
Subscriptions, printing and stationery		357,033	274,680
Entertainment Expenses		24,589	65,060
Legal and professional charges		406,229	438,764
Auditors' remuneration	17.2	55,628	55,000
Depreciation		692,599	998,068
Amortization of deferred costs		1,270,360	1,058,629
Commission & Brokerage		5,078	3,546
Computerization Expenses		124,718	10,500
General meeting expense		103,203	72,446
Security vault fee		9,504	4,960
Bank charges		66,808	13,210
Miscellaneous		10,000	5,502
Kitchen & canteen expenses		47,712	--
Zakat		7,153	--
Repair and maintenance		105,826	--
		8,474,199	7,003,376

### 17.1 Remuneration of Chief Executive and Executives

	Director		Managing Director		Executive		Total	
	1998	1997	1998	1997	1998	1997	1998	1997
Managerial remuneration	--	--	545,808	454,840	394,842	520,493	940,650	975,333
Housing & Utilities	--	--	300,192	250,160	217,158	287,008	517,350	537,168
Leave Fare Assistance	--	--	70,458	25,742	--	--	70,458	25,742
Provident fund contribution	--	--	45,480	37,903	21,612	26,344	67,092	64,247
Meeting fee	23,000	24,500	--	--	--	--	23,000	24,500
Rupees	23,000	24,500	961,938	768,645	633,612	833,845	1,618,550	1,626,990
No of persons	10	8	1	1	3	3	14	12

In addition, the Managing Director and certain executives were also provided with free use of company cars in accordance with their terms of employment. All executives were also provided with medical insurance cover.

**September 16,  
1996 to  
June 30,  
1997**

**1998  
Rupees**      **1997  
Rupees**

### 17.2 Auditors' Remuneration

Annual audit fee	50,000	50,000
Out-of-pocket expenses	5,628	5,000
	55,628	55,000

### 18. PROVISION OF TAX

In view of tax loss for the year, minimum tax @ 0.5% of total turnover has been provided in these accounts.

Deferred tax arising due to timing differences computed under the liability method is estimated at Rs.4.850 million (1997: Rs. 2 million). The company considers that the liability for deferred tax is not likely to reverse in the foreseeable future.

As per International Accounting Standards (IAS) No. 12 "Accounting for taxes on income (revised)" full liability against deferred tax should be provided in the year to which it relates. The said IAS is applicable for financial statements covering period beginning on and after January 01,2001. However Institute of Chartered Accountants of Pakistan vide circular No.3/98 dated July 27, 1998 has advised the companies to provide deferred tax liability by that date. In this respect management has decided to progressively provide the liability to meet the shortfall notwithstanding the fact that the actual liability will not reverse in foreseeable future.

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>19. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	1,862,693	25,833,086
Short term investment	19,689,863	50,130,000
	-----	-----
	<u>21,552,556</u>	<u>30,833,086</u>

## **20. CREDIT RISK AND CONCENTRATIONS OF CREDIT RISK**

The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continuously assessing the credit worthiness of counterparties.

Pak Gulf Leasing Company Limited (PGL) follows two sets of guidelines. Internally, it has its own operating policy duly approved by the Board of Directors, whereas, externally it adheres to the regulations issued by the State Bank of Pakistan. The operating policy defines the extent of fund and non-fund based exposure with reference to a particular sector or group of leases. The Management also classifies a particular lease on the basis of Rules of business for Non Bank Financial Institutions.

Details of the industry sector analysis of lease portfolio is given below.

<b>Industry Sector:</b>	<b>1998</b>	<b>%</b>
	<b>Rupees</b>	
Cement	4,618,241	5.10
Steel, Engineering and Auto	1,009,556	1.11
Electrical goods	1,521,957	1.68
Transport & Communications	8,979,160	9.91
Chemical Fertilizer & Pharmaceuticals	11,518,093	1,271
Textile	10,993,099	12.13
Leather & Footwear	1,096,000	1.21
Food, Tobacco & Beverages	2,336,757	2.58
Health Care	3,621,260	4.00
Banks & Financial Institutions	28,339,236	31.27
Others	16,584,837	18.30
	-----	-----
	<u>90,618,196</u>	<u>100.00</u>

In addition the Company has placed certain funds with various leasing companies and has invested certain funds in Federal Investment Bonds. For details refer note 4 and 8.

## **21. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The estimated fair values of on and off balance sheet financial instruments are not significantly different from their book values.

**22. INTEREST RATE RISK MANAGEMENT**

The company manages this risk by matching the repricing of assets and liabilities.

The company's interest rate sensitivity position, based on the earlier of contractual repricing or maturity dates, is as follows:

		1998				
		Less than one month	One month to one year	Over one year	Not exposed to interest/mark- up rate risk	Total
<b>FINANCIAL ASSETS</b>						
Long term investments		--	--	1,000,000	195,910	1,195,910
Net investment in lease finance		3,041,052	27,951,570	50,017,147	9,608,427	90,618,196
Long term loans and deposits		--	58,369	--	32,300	90,669
Short term investments		--	19,689,863	--	--	19,689,863
Cash and bank balances		1,782,693	--	--	80,000	1,862,693
		-----	-----	-----	-----	-----
		4,823,745	47,699,802	51,017,147	9,916,637	113,457,331
<b>FINANCIAL LIABILITIES</b>						
Lease key money		--	--	--	9,608,427	9,608,427
Other liabilities		--	--	--	423,538	423,538
		-----	-----	-----	-----	-----
		--	--	--	10,031,965	10,031,965
<b>Net financial assets (liabilities)</b>	Rupees	4,823,745	47,699,802	51,017,147	(115,328)	103,425,366

The effective interest rate for each of the monetary financial instrument is as follows:

		1998 Effective interest/Markup rate %
<b>FINANCIAL ASSETS</b>		
Net investment in lease finance		22.36
Long term investments		15.00
Short term investment		19.25
Cash and bank balance		11.71

**23. GENERAL**

23.1 Amount are rounded off to nearest rupee.

23.2 Previous period's figures have been rearranged, wherever necessary, to facilitate comparison.

**Pattern of Shareholding**

As at June 30, 1998

No. of Share Holders	Having shares		Shares Held	Percentage %
	From	To		
135	101	500	67500	.6750
3	501	1000	3000	.0300
8	5001	1000	78000	.7800
7	15001	20000	127325	1.2732
2	20001	25000	43575	.4357
2	25001	30000	60000	.6000
22	35001	40000	876000	8.7600
1	40001	45000	43000	.4300
3	45001	50000	150000	1.5000
3	50001	55000	163000	1.6300
1	65001	70000	67200	.6720
1	90001	95000	95000	.9500

4	95001	100000	391575	3.9157
1	115001	120000	115100	1.1510
1	165001	170000	168850	1.6885
2	195001	200000	400000	4.0000
1	330001	335000	331175	3.3117
1	360001	365000	361000	3.6100
1	470001	475000	470350	4.7037
5	495001	500000	2500000	25.0000
1	515001	520000	519000	5.1900
1	615001	620000	617600	6.1760
1	2350001	2355000	2351750	23.5175

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207		10,000,000	100.0000
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## CATEGORIES OF SHAREHOLDERS

As at June 30, 1998

Particulars	Shareholders	Shareholding	Percentage (%)
Individuals	202	6,693,800	66.9380
Joint-Stock Companies	3	946,450	9.4645
Financial Institutions	1	8,000	0.0800
Foreign Companies	1	2,351,750	23.5175
Company Total	207	10,000,000	100.0000