

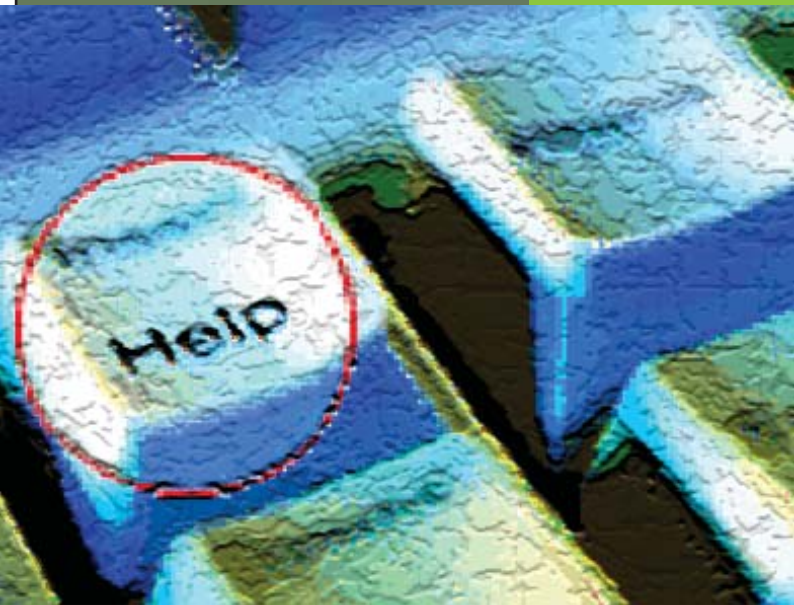


BUSINESS @ SPEED
OF THOUGHT





VISION
MISSION



Vision

*“Connecting people, ideas and capital, we will be our clients’ **First Choice** for achieving their financial aspirations”.*

“We will put interest of our stakeholders above our own; and measure our success by how much we help them in achieving theirs”.

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The Sense

Highlights

First National Equities Limited has formed an internal group dedicated to promote corporate social responsibility within the company and the member companies of the group. This group has been named as *The Sense*. The purpose of *The Sense*, as its commitment to corporate social responsibility, is to contribute towards social and welfare development in society through active participation and support of fora engaged in poverty alleviation, education and health initiatives.



The Sense, committed to corporate social responsibility, participated directly and indirectly to the cause of earthquake victims. Our relief endeavors were joined by all, the sponsors, the staff and other group companies.



The Sense, as a part of its corporate social responsibility, also contributed to the relief efforts and the rehabilitation process in earthquake affected areas by joining hands with Non Government Organizations such as 'Regional Institute of Policy Research & Training (RIPORT)'.

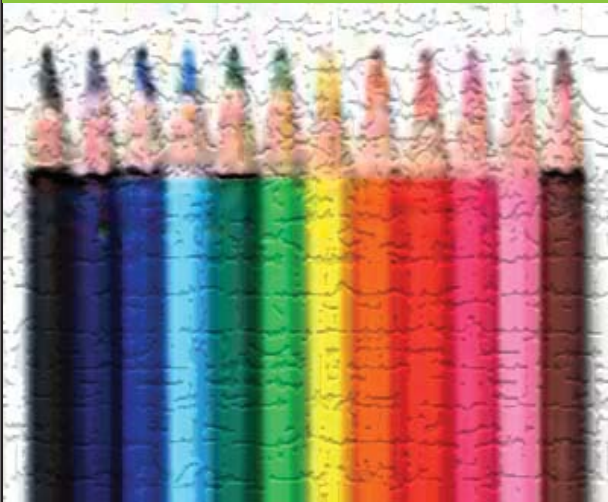


The Sense, as a part of its corporate social responsibility towards its employees also sends each year, one family of FNEL employees for Hajj, such selection is made on the basis of balloting. Since FNEL is an equal opportunity employer, non-Muslim employees, if successful in ballot are sent to their respective holy pilgrimage places.



The Sense, regularly arranges to educate the common investor about the equity market operations and behaviors. As our commitment to cater to remote areas, a 'Workshop on Equity Market' was recently organized in Mingora, Swat.

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COMPANY INFORMATION

Board of Directors

Mr. Ali A. Malik	Chairman
Mr. Amjad Pervez	Director / Chief Executive
Mr. Muhammad Iqbal Khan	Director
Sheikh Khalid Tawab	Director
Malik Atiq ur Rehman	Director
Mr. Shahzad Akbar	Director
Mr. Ejaz Akhter Ansari	Director
Mr. Muzaffar S. Khan	Director

Audit Committee

Mr. Ali A. Malik	Chairman
Shaikh Khalid Tawab	Member
Mr. Ejaz Akhter Ansari	Member
Mr. Muhammad Iqbal Khan	Member

CFO & Company Secretary

Mr. M. Ahsan Hashmi

Auditors

A. F. Ferguson & Co
Chartered Accountants

Legal Advisor

Minto & Mirza, Advocates

Registrar

Technology Trade (Pvt) Limited
241-C, Block-2, P.E.C.H.S,
Off: Main Shahrah-e-Quaideen, Karachi.
Tel: 0092-021-4391316-7

Bankers

Bank Al Falah Limited
PICIC Commercial Bank Limited
MCB Bank Limited
Allied Bank of Pakistan Limited
The Bank of Punjab
Metropolitan Bank Limited
KASB Bank Limited
Bank Al-Habib Limited
Saudi Pak Commercial Bank Limited
The Bank of Khyber
Prime Commercial Bank Limited

KSE Office

135-136, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Ph: 0092-021-2421396, 2472758, 2472119
Fax: 0092-021-2472332

Registered & Head Office

19-C, Sunset Lane 6,
South Park Avenue,
Phase II Extension,
D.H.A, Karachi.
UAN: 0092-021-111-000-363
PABX: 0092-021-5395903-08
Fax: 0092-021-5395945
Website: www.fnetrade.com

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the members of the First National Equities Limited will be held at Hotel Mehran, Karachi on Saturday, the September 16, 2006 at 11:00 a.m. to transact the following business:-

ORDINARY BUSINESS

1. To confirm the minutes of the last Annual General Meeting held on October 25, 2005.
2. To receive, consider and adopt the Audited Annual Accounts of the Company together with the Directors' and Auditor's Reports for the year ended June 30, 2006.
3. To approve the final cash dividend @ 40 % (i.e. Rs. 4.00 per share) together with interim cash dividend of 20% (i.e. Rs. 2.00 per share) already paid, making in all 60% (i.e. Rs. 6.00 per share) for the year ended June 30, 2006 as recommended by the Board of Directors.
4. To appoint auditors and fix their remuneration for the year to be ended June 30, 2007. The present auditors M/s. A. F. Ferguson & Co., Chartered Accountants retire and being eligible, offer themselves for reappointment.
5. To transact any other ordinary business of the Company that may be placed before the meeting with the permission of the Chair.

By Order of the Board

M Ahsan Hashmi
Company Secretary

Karachi: 19 August, 2006

Notes:

1. The Register of the Members of the Company will remain closed from September 11, 2006 to September 18, 2006 (both days inclusive) to determine entitlement of 40% final cash dividend and this exercise will also enable the Company to determine the right to attend the above meeting by the members whose names appear in the Register of Members on September 10, 2006.
2. 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 attested copy of the power of attorney must be received at the Registered Office of the Company duly stamped, signed and witnessed not later than 48 hours before the meeting.
3. Central Depository Company account holders will further have to follow the under mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan.
 - A. **For Attending the Meeting**
 - i. In case of individual, the account holder or sub-account holder are uploaded as per the Regulations, shall, authenticate his identity by showing his original Computerized National Identity Card (NIC) or original Passport at the time of attending the Meeting.
 - ii. In case of corporate entity, the Board of Director's resolution/ power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.
 - B. **For Appointing Proxies**
 - i. In case of individuals, the account holder or sub-account holder are uploaded as per the Regulations, shall submit the proxy form as per the above requirements.
 - ii. The proxy shall be witnessed by two persons whose name, addresses and CNIC numbers shall be mentioned on the form.
 - iii. Attested copy of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
 - iv. The proxy shall produce his original CNIC or original passport at the time of the Meeting.
4. Members are requested to notify immediately changes, if any, in their registered address.

DIRECTORS' REPORT

On behalf of the Board of Directors, I take great pride in presenting the Directors' Report along with the Audited Financial Statements of your Company for the financial year 2005-06.

Market Review

FY06 was a very volatile year for the Karachi Stock Exchange. On the whole, the index rose by 34% to close at 9989 as against 7451 at the end of last year. During the first half of FY06, the market maintained a positive trend and improved by 28% (2,106 points) with lower volumes though (297mn shares). The second half of the year was extremely volatile and the index managed to post a gain of only 4.5% (433 points). Market capitalization during the year touched a record PKR 3,460bn (US\$57.6bn) as against a high of PKR 2,813billion (US\$47bn) last year. Despite the healthy run-up witnessed on the bourse, total turnover during the year fell by 9.4% to 78.6bn shares translating into an average daily volume of 321m shares as against 344.3m shares last year. On the other hand average daily value traded of the KSE-100 index rose by 30% to PKR 35.5billion as compared to PKR 27.35billion previously.

The contributing factors behind the rise in the first half were healthy corporate results announcements, sky high international oil prices, triple-digit growth in banking sector profits, developments in the oil and gas sector including new discoveries and production enhancements, privatization expectations, GDR issue by OGDC, reduction in anti dumping duty by EU on bed linen, construction of dams, buying from Foreign Institutional Investors, higher consumption of cars, fertilizers, cement etc. Below expected March results announcements, import of cement, delays in privatization, profit-taking by Foreign Institutional Investors, regional markets slide, interest rates hike and pre-budget FY07 expectations including increase in CVT fuelled the negative sentiments in the second half of the recently concluded financial year.

	2006	2005
	(Rupees in million)	
Financial Results		
Gross Revenue	982.19	456.74
Operating Revenue	974.63	440.54
Profit before Taxation	452.62	234.34
Less: Taxation	41.00	32.10
Profit after tax	411.62	202.25
Less: Accumulated profit (loss) brought forward	129.84	(22.41)
Profit Available for Appropriation	541.46	179.84
Interim cash dividend	100.00	50.00
Final cash dividend	200.00	75.00
Total cash dividend	300.00	125.00
Earning Per Share	Rs. 8.23	Rs.4.41

Dividend

The Board of Directors had declared an interim dividend of 20% for the FY 2005-06 on the basis of 06-months earning for the period ended Dec. 31, 2005. The Board is pleased to announce final dividend @ 40% (i.e. Rs. 4/- per share) for the FY 2005-06 making total payout at Rs. 6/- per share.

Review of Operations

Although the market has been extremely volatile in the FY 2005-06 yet the performance of your company remained consistent as ever before. Gross revenue, PKR 982.190 million, exhibited an impressive increase of 115% as compared to the last financial year. Administrative expenses stood at PKR 141.614 million and operating profit at PKR 840.576 million representing an increase of 79% in the expenses to fuel an increase of 122 % in the operating profit. Efficient and effective internal control systems, strong check on expenses, prudent risk management and the guidance of the management helped your company to achieve this milestone. Funds were availed from various financial institutions to fuel the growth plans of your company thus financial charges increased from PKR 97.088 million to PKR 254.919 million. We take pride in informing all our shareholders that your company earned a Net Profit of PKR 411.622million representing an increase of 103% as compared to the last year. This resulted in an Earning per Share of PKR 8.23 for the year. The stellar performance of your company is attributed to the depth of our client relationship, implementation of a well calculated growth plan and team work of a highly motivated team under the guidance of a visionary management.

The FY 2005-06 experienced yet another Stock Market Crash in May-June 2006 - the worst ever in the history of Pakistan but effective and prudent risk management procedures and strict adherence to the top notch quality service standards helped your company to achieve this landmark even in the turbulent days.

Future Outlook

The increase in CVT & Withholding Tax will not have any long term effect and the market is expected to achieve new highs later this year. Despite the current volatile behaviour of the stock exchange, corporate fundamentals are very strong and attractive. On the other hand, the overall sentiments needs to be improved which took a shock after the steep fall in the market from its all time high level. The CFS Mk II is expected to replace CFS. It will address the biases inherent in the existing finance models, namely CFS and the un-official Badla Finance System which promotes undue systemic risks and precludes the formation of a level playing field for all market participants. It is also expected to eliminate these risks and inequalities and facilitate a transparent and efficient financing product for the market.

Our Vision Statement "Connecting people, ideas and capital, we will be our clients first choice for achieving their financial aspirations" remains the guiding star for the company. We are pleased to inform you that we have inaugurated five more branches in Peshawar, Abbottabad, Mingora and Islamabad whilst inauguration of the sixth branch in Rawalpindi is in the offing. Rest assure that the process of "Connecting People" will gear pace in the coming days with ever expanding branch network.

To generate long-term funds, the process of issuance of Term Finance Certificates worth PKR 400M. is in final stages. Karachi Stock Exchange has accorded clearance to the Prospectus of the proposed issue while the application has been filed with SECP for final approval. Your company will be investing these funds to fuel the growth plan and further extend its reach to the masses.

You will be pleased to know that JCR-VIS Credit Rating Company Ltd. has assigned a medium to long - term rating of "A-" to the proposed secured and listed Term Finance Certificates (TFC), after reviewing the legal documents. A- Rating denotes a low expectation of credit risk and capacity for timely payment of financial commitments is considered strong.

The Money Market Division of your company will start its operations by September this year and all necessary measures have been taken in this regard. You would be pleased to know that our associated company, namely National Asset Management Company (NAMCO) is coming up with its maiden mutual fund, NAMCO Balanced Fund. NBF is a closed-end balanced fund constituted under NBFC Rules 2003. The fund has a Pre-IPO placement of PKR 750,000,000 and an IPO of PKR 250,000,000. Your company is also examining other avenues of domestic and foreign business opportunities to create synergies in alignment with its growth plan.

Compliance with the Code of Corporate Governance

The Directors are pleased to confirm that:

- The financial statements prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and the accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and there has been no departure from them.
- The system of internal control is sound and has been effectively implemented and monitored.
- There are no significant doubts upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in listing regulations.
- Key historical data is summarized and printed on page No. 17.
- The company operates an approved contributory provident fund. The fund was established in the year 2004-05 and has made an investment in TFCs of Prime Commercial Bank Ltd. Based on un-audited financial statements of the fund the bank balance amounted to Rs. 703,804 and value of investment amounted to Rs. 1,508,737 as on June 30, 2006.
- There is no material statutory payment outstanding on account of taxes, duties, levies and charges. A total of four board meetings were held during the year details of which together with attendance by each director are as follows:

Name of the Director	Total Number of Board meetings*	Number of Meeting(s) attended
Mr. Ali Aslam Malik	4	4
Mr. Saeed Ahmed Bajwa	3	2
Mr. Amjad Pervez	4	4
Malik Atiq-ur-Rehman	4	4
Mr. Shahzad Akbar	4	3
Mr. Ejaz Akhtar Ansari	4	3
Saiyid Najam Rizvi	2	0
Sheikh Khalid Tawab	4	4
Mr. Muhammad Iqbal khan	1	1
Mr. Muzaffar S. Khan	2	1

*Held during the period the concerned director was on the board.

Mr. Saeed Ahmed Bajwa and Mr. Saiyid Najam Rizvi resigned during the year and Mr. Muzaffar S. Khan and Mr. Muhammad Iqbal Khan were co-opted for the remainder period on the board of directors of the company. I would like to thank the outgoing directors for the guidance and vision they provided to the board during their stay and welcome the new directors & look forward to their valuable suggestions. Six meetings of the Audit Committee were held during the year, details of which together with attendance by each member are as follows:

Name of Director	Total No. of Audit Committee Meeting*	Number of Meeting(s) attended
Mr. Ali Aslam Malik	6	6
Mr. Ejaz Akhtar Ansari	6	5
Sheikh Khalid Tawab	6	6
Muhamamd Iqbal Khan	3	3

*Held during the period the concerned director was on the Committee.

The statement showing pattern of shareholding in the company, as on June 30, 2006 is given on page No. 48.

Directors' trading pattern are attached in Annexure I. It includes trades in the shares of the company carried out by its directors, CEO, CFO, Company Secretary, and their spouses and minor children

Auditors

The Auditors Messrs. A.F. Ferguson & Co., Chartered Accountants retire and being eligible, offer themselves for reappointment. The Audit Committee of the board recommends the (re)appointment of Messrs. A.F. Ferguson & Co., Chartered Accountants as auditors for the financial year 2006-07.

Acknowledgement

We would like to thank our valued clients and bankers to the company for their patronage, Securities & Exchange Commission of Pakistan and Karachi Stock Exchange for their continuing guidance, and shareholders for their trust and confidence in us.

Finally the Directors also record their appreciation for all employees of the Company for their commitment and hard work that continued in to excellent financial results for the year.

Karachi
July 28, 2006

Chairman

FINANCIAL STATISTICAL SUMMARY (2001 - 2006)

PARTICULARS	June 30, (Rupees '000)					
	2006	2005	2004	2003	2002	2001
OPERATING RESULTS						
Operating Revenues	306,079	241,409	4,850	-	-	-
Gain from transaction in marketable securities -Net	668,553	199,135	6,500	-	-	-
Other Operating income	7,558	16,197	198	632	250	-
Gross Revenue	982,190	456,741	11,548	632	250	-
Administrative Expenses	(141,614)	(78,756)	(6,261)	(396)	(12,569)	(446)
Finance Cost	(254,919)	(97,088)	(65)	-	(13)	-
Other Operating Expenses	(27,926)	(11,008)	(638)	-	-	(1,550)
Share of profit of associates-net of tax	135	-	-	-	-	-
Fair value loss on remeasurement of held for trading investment - net	(106,241)	(35,551)	-	-	-	-
Unrealised gain on mark to market of derivative financial instruments	993	-	-	-	-	-
Profit / (Loss) before Tax	452,618	234,338	4,584	(396)	(11,950)	(1,746)
Taxation	(40,996)	(32,090)	(14)	-	-	-
Profit / (Loss) after Tax	411,622	202,248	4,570	(396)	(11,950)	(1,746)
Payout Ratio	60%	25%	-	-	-	-
BALANCE SHEET SUMMARY						
Non-Current Asset						
Fixed assets	145,151	114,810	83,080	31,220	31,220	33,579
Long term Investment	40,135	-	-	-	-	-
Deferred cost	-	-	2,635	-	-	-
Long term loans & advances	10,849	18,712	-	-	-	-
Long Term deposits	1,889	2,229	756	-	-	-
	198,024	135,751	86,471	31,220	31,220	33,579
Current assets						
Short term investments	1,598,176	531,505	52,037	-	-	-
Other investments	-	1,292,972	-	-	-	-
Receivable against CFS/cary over transaction	402,485	517,945	-	-	-	-
Trade debts	89,774	452,008	244,399	-	-	6,081
Loans & advances	5,686	1,696	1,377	-	-	-
Trade deposits & short term prepayments	28,018	45,752	189	-	-	-
Other Receivables	9,866	5,059	1,645	-	-	2,024
Taxation Recoverable - net	20,980	2,122	421	195	319	-
Cash and bank balance	111,949	158,120	350	1	1	13
	2,266,934	3,007,179	300,418	196	320	8,118
CURRENT LIABILITIES						
Trade & other payables	316,299	1,558,803	162,003	11,838	11,567	9,354
Interest and mark-up accrued on borrowings	30,801	19,711	-	-	-	-
Short term borrowings	678,823	938,269	38,451	-	-	-
Current portion of liabilities against assets subject to finance lease	-	1,697	-	-	-	20
	1,025,923	2,518,480	200,454	11,838	11,567	9,374
Net Current Assets	1,241,011	488,699	99,964	(11,642)	(11,247)	(1,256)
Non-current liabilities						
Pre-IPO subscription towards proposed issue of term finance certificates	235,127	-	-	-	-	-
Liabilities against asset subject to finance lease	-	3,968	-	-	-	400
Deferred tax liabilities - net	1,997	3,185	-	-	-	-
	237,124	7,153	-	-	-	400
Net Assets	1,201,911	617,297	186,435	19,578	19,973	31,923
REPRESENTED BY						
Issued, subscribed and paid-up capital	500,000	500,000	125,000	46,558	46,558	46,558
Share application money	-	-	83,845	-	-	-
Unappropriated profit / (Accumulated losses)	366,460	129,838	(22,410)	(26,980)	(26,585)	(14,635)
Surplus/(deficit) on revaluation of investment-available for sale	335,451	(12,541)	-	-	-	-
Total Equity and Liabilities	1,201,911	617,297	186,435	19,578	19,973	31,923

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 Chapter XIII and XI of listing regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors on its Board. At present the Board includes two independent non-executive directors, whereas total number of directors is eight.
2. The directors of the Company have confirmed that none of them is serving as a director in more than ten listed companies, including the Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. The directors filled up casual vacancies occurring in the Board within thirty days thereof.
5. The Company has prepared a 'Statement of Ethics & Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision/ mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meeting, along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meeting were appropriately recorded and circulated.
9. The Board arranged an orientation course for the directors during the year to apprise them of their duties and responsibilities.
10. The Board has approved the appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises four members all of whom are non-executive directors including the Chairman of the Committee.
16. After listing of the Company, the meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board has set-up an effective internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services, except in accordance with the listing regulations and the auditors have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been duly complied with.

Amjad Pervez
Chief Executive

Karachi
Dated: August 16, 2006

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of First National Equities Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited where the company is listed.

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

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

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2006.

Chartered Accountants
Karachi
Dated: August 16, 2006

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of First National Equities Limited as at June 30, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required, and respectively give a true and fair view of the state of the company's affairs as at June 30, 2006 and of the profit, its cash flows and changes in equity 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.

Chartered Accountants
Karachi
Date: August 08, 2006

Lahore Office: 505-509, 5th Floor, Alfalah Building, P.O. Box 39, Shahrah-e-Quaid-e-Azam, Lahore, Pakistan Tel: (92-42) 6301796-7/ 6307127-30 Fax: (92-42) 6361954
Islamabad Office: PIA Building, 49 Blue Area, P.O.Box 3021, Islamabad, Pakistan Tel: (92-21) 2273457-60 Fax: (92-51) 2277924

BALANCE SHEET

AS AT JUNE 30, 2006

	Note	2006 (Rupees '000)	2005 (Rupees '000)
Non-current assets			
Fixed assets			
- Property, plant and equipment	5	78,331	61,590
- Intangible assets	6	66,820	53,220
		145,151	114,810
Long-term investments	7	40,135	-
Long-term loans and advances	8	10,849	18,712
Long-term deposits	9	1,889	2,229
		198,024	135,751
Current assets			
Short-term investments	10	1,598,176	531,505
Other investments	11	-	1,292,972
Receivable against Continuous funding system transactions / Carry over transactions	12	402,485	517,945
Trade debts	13	89,774	452,008
Loans and advances	14	5,686	1,696
Trade deposits and short-term prepayments	15	28,018	45,752
Other receivables	16	9,866	5,059
Taxation recoverable - net		20,980	2,122
Cash and bank balances	17	111,949	158,120
		2,266,934	3,007,179
Current liabilities			
Trade and other payables	18	316,299	1,558,803
Interest and mark-up accrued on borrowings	19	30,801	19,711
Short-term borrowings	20	678,823	938,269
Current portion of liabilities against assets subject to finance lease	21	-	1,697
		1,025,923	2,518,480
Net current assets		1,241,011	488,699
Non-current liabilities			
Pre-IPO subscription towards proposed issue of term finance certificates	22	235,127	-
Liabilities against assets subject to finance lease	21	-	3,968
Deferred tax liabilities - net	23	1,997	3,185
Net assets		1,201,911	617,297
Represented by			
Issued, subscribed and paid-up capital	24	500,000	500,000
Unappropriated profit		366,460	129,838
Surplus/(deficit) on revaluation of investments - available for sale	10.1	335,451	(12,541)
		1,201,911	617,297
Commitments			
	25		

The annexed notes 1 to 42 form an integral part of these financial statements.

Chief Executive

Director

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2006

	Note	2006 (Rupees '000)	2005 (Rupees '000)
Operating revenue	27	974,632	440,544
Other operating income	28	7,558	16,197
		<hr/>	<hr/>
Administrative expenses	29	982,190 141,614	456,741 78,756
		<hr/>	<hr/>
Operating profit		840,576	377,985
Share of profit of associate - net of tax	7	135	-
Finance costs	31	254,919	97,088
Other operating expenses	32	27,926	11,008
		<hr/>	<hr/>
		557,866	269,889
Fair value loss on re-measurement of financial assets at fair value through profit or loss account	10.2	(106,241)	(35,551)
Unrealised gain on mark to market of derivative financial instruments		993	-
Profit before taxation		<hr/> 452,618	<hr/> 234,338
Taxation	33	40,996	32,090
Profit after taxation		<hr/> <hr/> 411,622	<hr/> <hr/> 202,248
			(Rupees)
Earnings per share - basic and diluted	34	<hr/> 8.23	<hr/> 4.41

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 42 form an integral part of these financial statements.

Chief Executive

Director

2006

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2006

	Note	2006	2005
		(Rupees '000)	
Cash flows from operating activities			
Profit before taxation		452,618	234,338
Adjustments for:			
Depreciation		7,739	5,543
Gain on sale of investments		(359,698)	(66,824)
Share of profit from associate - net of tax		(135)	-
Unrealised loss on re-measurement of financial asset carried at fair value through profit or loss account - net		106,241	35,551
Provision for gratuity		2,160	1,271
Provision for doubtful debts		1,291	5,000
Provision for leave fare		1,734	1,247
Deferred cost		-	2,635
Financial charges		254,919	97,088
Dividend income		(29,660)	(96,362)
Unrealised gain on mark to market of derivative financial instrument		(993)	-
Mark-up income on investments		(5,782)	(16,094)
		<u>(22,184)</u>	<u>(30,945)</u>
		430,434	203,393
Changes in working capital			
Decrease / (increase) in current assets			
Receivable against continuous funding system transactions / carry over transactions		115,460	(517,945)
Trade debts		360,943	(212,609)
Loans and advances		3,873	(19,031)
Trade deposits and short-term prepayments		17,734	(45,563)
Other receivables		(3,201)	(35)
		<u>494,809</u>	<u>(795,183)</u>
Increase in current liabilities			
Trade and other payables		47,729	99,319
		<u>972,972</u>	<u>(492,471)</u>
Mark-up paid		(243,829)	(77,377)
LFA paid		(1,255)	-
Gratuity paid		(505)	-
Income tax paid		(61,042)	(30,606)
Long-term deposits paid		340	(1,473)
Net cash generated / (used in) from operating activities		<u>666,681</u>	<u>(601,927)</u>
Cash flows from investing activities			
Investment in associate		(40,000)	-
Investment in available-for-sale financial assets - net		58,629	(362,984)
Investment in marketable securities		(523,852)	(97,752)
Purchases of operating fixed assets		(24,480)	(35,038)
Proceeds on sale of operating fixed assets		-	4,276
Purchase of Intangibles		(13,600)	-
Mark-up received on investments		3,892	16,094
Dividend received		30,939	92,983
Net cash (used in) investing activities		<u>(508,472)</u>	<u>(382,421)</u>
Cash flows from financing activities			
Repayment of loan to director		-	(15,000)
Repayments of liabilities against assets subject to finance lease		(5,665)	(846)
Borrowings under repurchase agreements		(546,286)	696,286
Pre-IPO subscription towards proposed issue of term finance certificates		240,000	-
Transactions cost incurred on proposed issue of term finance certificates		(4,873)	-
Proceeds from issuance of ordinary shares		-	291,155
Dividends paid to shareholders		(174,396)	(48,009)
Net cash (used in) / generated from financing activities		<u>(491,220)</u>	<u>923,586</u>
Net decrease in cash and cash equivalents		<u>(333,011)</u>	<u>(60,762)</u>
Cash equivalents at the beginning of the year	37	(83,863)	(23,101)
Cash and cash equivalents at the end of the year	37	<u>(416,874)</u>	<u>(83,863)</u>

The annexed notes 1 to 42 form an integral part of these financial statements.

Chief Executive

Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2006

	Issued, subscribed and paid-up capital	Share application money	(Accumulated loss) / Unappropriated profit	Surplus / (deficit) on revaluation of investments	Total
----- (Rupees '000) -----					
Balance as at July 01, 2004	125,000	83,845	(22,410)	-	186,435
Issued during the year	291,155	-	-	-	291,155
Shares issued against application money	83,845	(83,845)	-	-	-
Profit after taxation for the year	-	-	202,248	-	202,248
Interim cash dividend	-	-	(50,000)	-	(50,000)
Deficit on revaluation of available- for-sale investments (note 10.1)	-	-	-	(12,541)	(12,541)
Balance as at June 30, 2005	500,000	-	129,838	(12,541)	617,297
Final cash dividend @ Rs 1.50 per share for the year ended June 30, 2005 declared subsequent to year end	-	-	(75,000)	-	(75,000)
Deficit realised on disposal of investments	-	-	-	2,069	2,069
Interim cash dividend @ Rs 2 per share declared for the year ended June 30, 2006	-	-	(100,000)	-	(100,000)
Profit after taxation for the year	-	-	411,622	-	411,622
Excess on revaluation of available for sale investments	-	-	-	345,923	345,923
Balance as at June 30, 2006	<u>500,000</u>	<u>-</u>	<u>366,460</u>	<u>335,451</u>	<u>1,201,911</u>

The annexed notes 1 to 42 form an integral part of these financial statements.

Chief Executive

Director

2006

Annual Report

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

1 STATUS AND NATURE OF BUSINESS

The company is a limited liability company incorporated in Pakistan and is listed on the Karachi Stock Exchange (Guarantee) Limited. The registered office of the company is situated at 19-C, Sunset Lane-6, South Park Avenue, Phase-II Extension, DHA, Karachi.

The principal activities of the company include shares brokerage, financing for continuous funding system, consultancy services and underwriting.

2 STATEMENT OF COMPLIANCE

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

Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following IAS, which have been published, have been revised and the amendments are applicable to the financial statements of the company covering accounting periods beginning on or after January 1, 2006 or later periods:

IAS 1 Presentation of Financial Statements - Capital Disclosures	effective from January 1, 2007
IAS 19 (Amendments) – Employee Benefits	effective from January 1, 2006
IAS 39 Financial Instruments: Recognition and Measurements - Fair Value Option	effective from January 1, 2006

Adoption of the above amendments would result in an impact on the extent of disclosures presented in the future financial statements of the company.

3 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except that certain investments have been marked to market and carried at fair value to comply with the requirements of IAS-39; "Financial Instruments : Recognition and Measurement" and staff retirement benefits are carried at present value.

The preparation of financial statements in conformity with International Accounting Standards requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 39 to the financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently, unless otherwise stated.

4.1 Staff retirement benefits

The company operates:

- (a) an unapproved unfunded gratuity scheme covering all employees. The liability recognised in the balance sheet in respect of defined benefit gratuity scheme is the present value of the defined benefit obligation at the balance sheet date together with the adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated by independent actuaries using the Projected Unit Credit Method. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income in the following year.
- (b) an approved contributory provident fund for all employees. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

4.2 Taxation

Current

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

Deferred

Deferred tax is recognised, using the balance sheet liability method, on all major temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4.3 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.4 Trade and other payables

Liabilities for trade and other amounts payable are carried at amortised cost.

4.5 Fixed assets

4.5.1 Property, Plant & Equipment

These are stated at historical cost less accumulated depreciation or impairment, if any, except for capital work-in-progress which is stated at cost less impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All expenditures connected to the specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when assets are available for use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation on all property, plant and equipment is calculated using the straight-line method in accordance with the rates specified in note 5.1 to these financial statements and after taking into account residual value, if any. The residual value, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on additions is charged from the month the property, plant and equipment is available for use while no depreciation is charged in the month of disposal.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the profit and loss account.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

4.5.2 Intangible assets

Intangible assets with indefinite useful life are stated at cost less accumulated impairment losses, if any. The carrying amount of intangible assets are ascertained at each balance sheet date and any impairment loss identified is taken to the profit and loss account.

4.6 Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Any impairment loss arising is recognised as an expense in the profit and loss account.

4.7 Borrowing cost

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalised as part of the cost of the relevant asset.

4.8 Investments in associates

Investments in associates are initially recognised at cost and the carrying amount is increased or decreased to recognise the post acquisition change in the company's share of net assets of the associate. Share of profit and loss of associate is recognised in the profit and loss account.

4.9 Investments (other than in associates)

The management determines the appropriate classification of its investments in accordance with the requirements of International Accounting Standard 39 (IAS 39) Financial Instruments: Recognition and measurement at the time of the purchase and classifies these investments as fair value through profit or loss account, held to maturity or available for sale.

a) Financial assets at fair value through profit or loss account

Investments that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as 'fair value through profit or loss account'. These investments are initially recognised at cost and the transaction cost associated with the investment are taken directly to the profit and loss account. Subsequent to initial measurement, investments at fair value through profit or loss are marked to market, using the closing market rates at the end of each day and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair values of these investments, based on the quoted market rates ruling at the day-end, are taken to the profit and loss account.

b) Held to maturity

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. During the year the company did not hold any investments in this category.

c) Available for sale

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'available for sale'. These investments are initially recognised at cost which includes transaction costs associated with the investment. Subsequent to initial measurement, 'available for sale' investments are revalued and are remeasured at fair value. Net gains and losses arising on changes in fair values of these investments are taken to shareholder's equity.

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the company commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement occurs.

Investments are derecognised when the right to receive cash flows from the investments have expired, have been realised or transferred and the company has transferred substantially all risks and rewards of ownership.

Impairment of investments is recognised when there is a permanent diminution in their values.

4.10 Sale and repurchase agreements and lending of securities

Securities sold subject to a linked repurchase agreement ('repos') are retained in the financial statements and the counterparty liability is included in borrowings under repurchase agreements. Securities purchased under agreements to resell ('reverse repos') are shown as receivable against continuous funding system or lendings to financial institutions as appropriate. The difference between sale and repurchase price is treated as interest income / expense and accrued over the life of the agreements using the effective yield method.

4.11 Fiduciary assets

Assets held in trust or in a fiduciary capacity by the company are not treated as assets of the company and accordingly are not included in these financial statements.

4.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

4.13 Revenue recognition

- Brokerage income is recognised as and when such services are rendered.
- Dividend income is recognised when the right to receive dividend is established.
- Commission is recognised on an accrual basis
- Return on deposits are recognised on an accrual basis.
- Income on fixed term investments is recognised using the effective yield method.

4.14 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified.

4.15 Foreign currency transactions

Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the date of the transactions. Assets and liabilities in foreign currencies are translated into Pakistan Rupees at the rates approximating those prevailing on the balance sheet date. Exchange differences are taken to income currently.

4.16 Dividend distribution

Dividend distribution (including stock dividend) to the company's shareholders is accounted for as a liability in the period in which the dividends are declared.

4.17 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates. The financial statements are presented in Pakistani Rupees, which is the company's functional and presentation currency.

4.18 Financial instruments

4.18.1 Financial assets and liabilities

Financial instruments carried on the balance sheet include loans and advances, deposits, investments, trade debts, receivables, cash and bank balances, trade and other payables and accrued mark-up on borrowings. At the time of initial recognition, all the financial assets and liabilities are measured at cost, which is the fair value of consideration given or received for it. Investment held as 'financial assets through profit or loss' and 'available for sale' are subsequently measured to fair value as disclosed in note 4.9

4.18.2 Derivative financial instruments

Derivative financial instruments are recognised at their fair value on the date on which a derivative contract is entered into. Subsequently, any changes in fair values arising on marking to market these instruments are taken to the profit and loss account. Fair values are obtained from quoted market prices in active markets.

4.18.3 Off setting

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when the company has a legally enforceable right to offset the recognised amounts and the company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

5 PROPERTY, PLANT AND EQUIPMENT

	Note	2006 (Rupees '000)	2005
Capital work-in-progress		-	19,483
Operating fixed assets	5.1	<u>78,331</u>	<u>42,107</u>
		<u>78,331</u>	<u>61,590</u>

5.1 Operating fixed assets

	Building on freehold land	Furniture and fittings	Office equipment	Computers and accessories	Motor vehicles		Total
					Owned	Held under finance lease	
As at July 1, 2005							
Cost	29,644	2,233	2,367	5,736	3,216	6,681	49,877
Accumulated depreciation	(2,844)	(256)	(293)	(2,262)	(643)	(1,472)	(7,770)
Net book value	<u>26,800</u>	<u>1,977</u>	<u>2,074</u>	<u>3,474</u>	<u>2,573</u>	<u>5,209</u>	<u>42,107</u>
Additions (at cost), note 5.2	14,382	11,508	8,282	5,506	1,880	2,405	43,963
Depreciation charge for the year	(1,101)	(762)	(830)	(2,832)	(722)	(1,492)	(7,739)
Transfers (at NBV)	-	-	-	-	6,122*	(6,122)*	-
Closing net book value (NBV)	<u>40,081</u>	<u>12,723</u>	<u>9,526</u>	<u>6,148</u>	<u>9,853</u>	<u>-</u>	<u>78,331</u>
As at June 30, 2006							
Cost	44,026	13,741	10,649	11,242	14,182	-	93,840
Accumulated depreciation	(3,945)	(1,018)	(1,123)	(5,094)	(4,329)	-	(15,509)
Net book value	<u>40,081</u>	<u>12,723</u>	<u>9,526</u>	<u>6,148</u>	<u>9,853</u>	<u>-</u>	<u>78,331</u>
Depreciation rate % per annum	2.5	10	10	33.33	20	20	
As at July 1, 2004							
Cost	28,683	363	617	1,573	851	-	32,087
Accumulated depreciation	(1,434)	(36)	(62)	(525)	(170)	-	(2,227)
Net book value	<u>27,249</u>	<u>327</u>	<u>555</u>	<u>1,048</u>	<u>681</u>	<u>-</u>	<u>29,860</u>
Additions (at cost)	961	1,870	1,750	4,163	6,811	2,235	17,790
Depreciation charge for the year	(1,410)	(220)	(231)	(1,737)	(643)	(1,302)	(5,543)
Transfers (at NBV)	-	-	-	-	(4,276)	4,276	-
Closing net book value (NBV)	<u>26,800</u>	<u>1,977</u>	<u>2,074</u>	<u>3,474</u>	<u>2,573</u>	<u>5,209</u>	<u>42,107</u>
As at June 30, 2005							
Cost	29,644	2,233	2,367	5,736	3,216	6,681	49,877
Accumulated depreciation	(2,844)	(256)	(293)	(2,262)	(643)	(1,472)	(7,770)
Net book value	<u>26,800</u>	<u>1,977</u>	<u>2,074</u>	<u>3,474</u>	<u>2,573</u>	<u>5,209</u>	<u>42,107</u>
Depreciation rate % per annum	5	10	10	33.33	20	20	

* These represent transfer of vehicles from assets held under finance lease to owned assets due to early termination on lease agreements.

5.2 Additions to property, plant and equipment from related parties are as follows:

	2006	2005
	(Rupees '000)	
Furniture and fittings	590	-
Office equipment	63	-
Computers and accessories	256	-
Motor vehicles, owned	941	-
Motor vehicles, leased	-	4,276
	<u>1,850</u>	<u>4,276</u>

5.3 Revised International Accounting Standard (IAS) 16, "Property, Plant and Equipment (revised 2003)" is applicable to financial statements covering annual periods beginning on or after January 1, 2005 and requires a review of residual value of assets, useful lives and depreciation method at each financial year end. Accordingly, based on a review of the above, the management has revised the following:

- rate of depreciation on building on freehold land has been reduced from 5 percent to 2.5 percent;
- estimate in respect of residual value of vehicles has been revised to 15% of the cost of vehicles. Previously, residual value was considered as nil for vehicles.

In addition to the above, the management has also decided to revise the depreciation method used to allocate the depreciable amount of property, plant and equipment from the reducing balance method to straight-line method. The management believes that the depreciation charge computed on the straight-line method reflects a more systematic allocation of the depreciable amount of these assets over their estimated useful lives.

The above revisions have been accounted for as change in accounting estimates in accordance with the requirements of International Accounting Standard (IAS) 8, "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly, the effect of these changes in accounting estimates has been recognised prospectively in the profit and loss account of the current year. Had there been no change in these accounting estimates, the profit before taxation for the year would have been lower by Rs 117 thousand.

6 INTANGIBLE ASSETS

Description	Note	Cost / Net book value			Total
		Membership card of KSE	Rooms at KSE	Tenancy rights	
----- (Rupees in '000) -----					
As at July 1, 2005		31,220	22,000	-	53,220
Additions during the year	6.1	-	-	13,600	13,600
Disposals during the year		-	-	-	-
As at June 30, 2006		<u>31,220</u>	<u>22,000</u>	<u>13,600</u>	<u>66,820</u>

Description	Cost / Net book value			Total
	Membership card of KSE	Rooms at KSE		
----- (Rupees in '000) -----				
As at July 1, 2004		31,220	22,000	53,220
Additions during the year		-	-	-
Disposals during the year		-	-	-
As at June 30, 2005		<u>31,220</u>	<u>22,000</u>	<u>53,220</u>

- 6.1** This represents the consideration paid by the company in connection with the transfer of tenancy rights in favour of the company against property situated on Bank Square, Peshawar. The ownership of this property continues to vest with the original owner.

2006 **2005**
(Rupees '000)

7 LONG-TERM INVESTMENTS

Associated Company - National Asset Management Company Limited - Holding 40%

Opening balance	-	-
Investment made during the year	40,000	-
Share of profit for the year - net of tax	135	-
	<u>40,135</u>	<u>-</u>

- 7.1** National Asset Management Company Limited commenced operations during the year. The share of profit has been determined based on the unaudited financial statements of the company for the year ended June 30, 2006.

8 LONG-TERM LOANS AND ADVANCES - Considered good

		2006 (Rupees '000)	2005 (Rupees '000)
Due from related party - director		11,209	19,072
Less: Receivable within one year	14	<u>(360)</u>	<u>(360)</u>
		<u>10,849</u>	<u>18,712</u>

8.1 Reconciliation of carrying amount of loans and advances to directors and executives is as follows:

	2006 Chief Executive/ Director	2006 Executive	2005 Director	2005 Executive
	----- (Rupees in '000) -----			
As at July 1	19,072	-	-	-
Disbursements	-	-	-	19,350
Appointment of executive as director	-	-	19,260	(19,260)
Repayments	(7,863)	-	(188)	(90)
As at June 30	<u>11,209</u>	<u>-</u>	<u>19,072</u>	<u>-</u>

8.2 This represents an interest free house loan given to Mr. Amjad Pervez when he was the Chief Operating Officer of the company. Subsequently, Mr. Amjad Pervez became an executive director and then the Chief Executive Officer of the company. The loan is repayable by June 2007 and is secured against the property by way of power of attorney executed in favour of the company.

8.3 The maximum aggregate amount due from the director at the end of any month during the year was Rs 19.042 million (2005: Rs 19.230 million).

	2006 (Rupees '000)	2005 (Rupees '000)
9 LONG-TERM DEPOSITS		
Deposits with:		
Leasing companies	138	1,088
Central Depository Company of Pakistan Limited	150	150
Karachi Stock Exchange	250	350
National Clearing Company of Pakistan Limited	300	300
Others	1,051	341
	<u>1,889</u>	<u>2,229</u>

10 SHORT-TERM INVESTMENTS

Available for sale	10.1	714,154	353,821
Financial assets at fair value through profit or loss account	10.2	884,022	177,684
		<u>1,598,176</u>	<u>531,505</u>

10.1 Available for sale

Details of investments in shares / certificates / units of listed companies / mutual funds:

Number of shares / certificate		Name of investee	2006		2005	
2006	2005		Average cost	Fair value	Average cost	Fair value
----- (Rupees '000) -----						
Closed end mutual funds						
1,830,281	1,812,160	First Dawood Mutual Fund	18,122	17,022	18,122	18,122
474,000	500,000	Meezan Balanced Fund Limited	4,740	4,764	5,000	4,100
2,834,000	3,000,000	Pakistan Strategic Allocation Fund	28,340	30,182	30,000	28,950
500,000	-	PICIC Energy Fund	5,000	4,100	-	-
Open end mutual funds						
200,000	-	Pakistan International Element Islamic Fund	10,000	9,504	-	-
284,897	-	Meezan Islamic Fund	20,001	21,686	-	-
200,000	-	UTP Fund of Funds	10,000	10,806	-	-
Investment Company						
-	400,000	International Housing Finance Limited	-	-	5,000	3,600
Cement						
13,299,500	14,169,000	Pioneer Cement Limited	273,532	607,122	306,740	297,549
Term Finance Certificates - unlisted						
1,194	-	Askari Commercial Bank TFCs - note 10.1.1	5,969	5,969	-	-
600	-	Bank Al-Falah TFCs - note 10.1.1	2,999	2,999	-	-
-	300	Prime Commercial Bank Limited (Rs. 5,000 per certificate)	-	-	1,500	1,500
			378,703	714,154	366,362	353,821
Surplus / (deficit) on revaluation			335,451	-	(12,541)	-
Carrying value			<u>714,154</u>	<u>714,154</u>	<u>353,821</u>	<u>353,821</u>

10.1.1 These Term Finance Certificates carry profit payable semi-annually at six months KIBOR (ask side) plus 1.50% (with no floor and cap).

10.1.2 Securities having average cost of Rs 242.726 million (2005: Rs 328.889 million) and fair value of Rs 538.670 million (2005: Rs 317.633 million) have been pledged with various commercial banks for obtaining short term running finance facility under mark-up arrangements as specified in note 20.2.

10.1.3 Securities having average cost of Rs 146.707 million (2005: Rs Nil) and fair value of Rs 256.927million (2005: Nil) have been pledged with the Trustee/Guarantor of the company's Term Finance Certificates.

10.1.4 Securities having average cost of Rs Nil (2005: Rs 11.993 million) and fair value of Rs Nil (2005: Rs 11.634 million) have been pledged with the Karachi Stock Exchange as exposure deposit against trading of securities.

10.2 Financial assets at fair value through profit or loss account

Details of investments in bonds / shares / certificates / units of listed companies / mutual funds / government securities:

Number of shares / certificate		Name of investee	2006		2005	
2006	2005		Average cost	Fair value	Average cost	Fair value
----- (Rupees '000) -----						
Pakistan Investment Bonds						
250,000	-	5 Years PIBs 9.3%	24,664	24,665	-	-
2,070,000	-	3 Years PIBs 9.1%	205,730	205,993	-	-
Mutual Funds						
604,839	-	National Investment Trust	30,000	29,244	-	-
Investment Banks						
70,500	-	Crescent Standard Investment Bank Limited	378	293	-	-
Commercial Banks						
122,090	-	Allied Bank Limited	9,950	10,744	-	-
60,430	-	Askari Commercial Bank Limited	5,298	4,686	-	-
-	3,521,700	Bank Al-falah Limited	-	-	172,476	143,509
325	-	Faysal Bank Limited	24	20	-	-
416,300	82,500	Muslim Commercial Bank Limited	97,560	87,548	3,918	6,542
337,000	60,000	National Bank Limited	86,086	72,624	7,799	6,477
97,000	-	The Bank of Khyber Limited	2,057	1,639	-	-
888,722	-	The Bank of Punjab Limited	60,458	73,497	-	-
113,200	-	United Bank Limited	16,949	15,593	-	-
Insurance						
189,280	-	Adamjee Insurance Company Ltd	32,487	23,187	-	-
Textile Composite						
245,000	-	Nishat Mills Limited	32,354	25,676	-	-
Cement						
250,500	-	D.G. Khan Cement Company Limited	37,958	22,545	-	-
5,000	-	D.G. Khan Cement Company Limited (R)	307	260	-	-
320,000	-	Lucky Cement Limited	36,360	33,136	-	-
Power Generation & Distribution						
50,000	-	Japan Power Generation Limited	335	250	-	-
259,000	-	The Hub Power Company Limited	6,455	5,957	-	-
Oil & Gas Marketing Companies						
52,200	-	Attock Petroleum Limited	19,394	16,861	-	-
147,100	-	Pakistan State Oil Company Limited	59,375	45,454	-	-
Oil & Gas Exploration Companies						
345,500	-	Oil & Gas Development Company Limited	53,548	47,247	-	-
160,750	-	Pakistan Oilfields Limited	73,409	53,819	-	-
96,900	-	Pakistan Petroleum Limited	26,058	20,528	-	-
Technology & Communication						
355,200	-	Pakistan Telecommunications Limited	18,748	14,421	-	-
Fertilizers						
12,800	-	Engro Chemicals Pakistan Limited	1,893	2,168	-	-
110,500	667,500	Fauji Fertilizer Bin Qasim Limited	3,420	3,232	23,478	17,956
271,578	-	Fauji Fertilizer Company Limited	33,219	32,861	-	-
Chemicals						
90,500	-	I.C.I. Pakistan Limited	15,789	9,874	-	-
-	400,000	Pakistan PTA Limited	-	-	5,564	3,200
			990,263	884,022	213,235	177,684
Fair value loss on remeasurement - net			(106,241)	-	(35,551)	-
Carrying value			884,022	884,022	177,684	177,684

2006

- 10.2.1** Securities having average cost of Rs 149.105 million (2005 : Rs Nil) and fair value of Rs 149.270 million (2005: Rs Nil) have been given under repurchase agreement as disclosed in note 20.1.
- 10.2.2** Securities having average cost of Rs 404.052 million (2005: Rs 167.236 million) and fair value of Rs 330.764 million (2005: Rs 137.486 million) have been pledged with various commercial banks for obtaining short term running finance facility under mark-up arrangements as specified in note 20.2.
- 10.2.3** Securities having average cost of Rs 298.709 million (2005: Rs Nil) and fair value of Rs 268.872 million (2005: Rs Nil) have been pledged with the Trustee/Guarantor of company's Term Finance Certificate for obtaining a term finance.
- 10.2.4** Securities having average cost of Rs Nil (2005: Rs 22.934 million) and fair value of Rs Nil (2005: Rs 17.738 million) have been pledged with the Karachi Stock Exchange as exposure deposit against trading of securities.

	Note	2006 (Rupees '000)	2005
11 OTHER INVESTMENTS			
Other investments	11.1	-	1,292,972

- 11.1** The company has an arrangement under which securities are lent to the company by a lender. The lender remains entitled to the coupon income on these securities together with mark-up at rates ranging from 1% to 1.35%. These securities are utilised by the company to obtain finance under repurchase agreements. During the year maximum amount of securities transferred in the company's name amounted to Rs 1,549.827 million (2005: Rs 1,549.942 million). These securities were transferred back in the lender's name on various dates in June 2006. As at June 30, 2005, securities amounting to Rs 1,292.972 million were held in the company's name which were shown as investment in the company's financial statements with the corresponding amount appearing in Trade and Other Payables.

	Note	2006 (Rupees '000)	2005
12 RECEIVABLE AGAINST CONTINUOUS FUNDING SYSTEM TRANSACTIONS / CARRY OVER TRANSACTIONS			

Receivable against continuous funding system transactions / carry over transactions	12.1	<u>402,485</u>	<u>517,945</u>
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- 12.1** The fair value of securities held as collateral against these receivables amounted to Rs. 402.485 million (2005: Rs 517.945 million). Out of these, securities having fair value of Rs. Nil (2005: Rs 98.048 million) and Rs. 231.502 million (2005: Rs 419.897 million) have been pledged with Karachi Stock Exchange as exposure deposit against trading of securities and various commercial banks for obtaining short-term running finance under mark-up arrangements as disclosed in note 20.2 respectively.
- 12.2** These receivables carry mark-up at rates ranging from 8.00% to 30.00% per annum (2005: 10.00% to 27.58% per annum).

	Note	2006 (Rupees '000)	2005
13 TRADE DEBTS			
Secured			
Considered good	13.1 & 13.2	89,774	272,752
Unsecured			
Considered good		-	179,256
Considered doubtful		5,000	5,000
		<u>5,000</u>	<u>184,256</u>
		<u>94,774</u>	<u>457,008</u>
Less: Provision for doubtful debts		<u>(5,000)</u>	<u>(5,000)</u>
		<u>89,774</u>	<u>452,008</u>

13.1 This includes an amount of Rs 36.292 million (2005: Rs 159.654 million) receivable from Karachi Stock Exchange in respect of trading in securities which was settled subsequent to the year end.

13.2 Amounts due from an associated undertaking at the year end amounted to Rs Nil (2005: Rs 27 thousand).

	Note	2006	2005
(Rupees '000)			
14 LOANS AND ADVANCES - CONSIDERED GOOD			
- Director	8	360	360
- Executives	14.1	-	354
- Employees	14.1	349	182
- Suppliers & others		<u>4,977</u>	<u>800</u>
		<u>5,686</u>	<u>1,696</u>

14.1 The loans and advances to executives and employees are given to meet personal expenses and for the purchase of motorcycles. These are granted to the employees of the company in accordance with their terms of employment and are recovered through deductions from salaries over various periods upto a maximum period of 40 months.

	Note	2006	2005
(Rupees '000)			
15 TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS			
Exposure deposit with Karachi Stock Exchange	15.1	26,312	45,376
Prepayments		<u>1,706</u>	<u>376</u>
		<u>28,018</u>	<u>45,752</u>

15.1 This represents amount of deposit held at the year end against exposure arising out of trading in securities in accordance with the regulations of the Karachi Stock Exchange.

	Note	2006	2005
(Rupees '000)			
16 OTHER RECEIVABLES			
Dividend receivable		3,675	4,954
Derivative financial asset		993	-
Mark-up receivable in respect of investment securities		1,892	-
Receivable from dealers		1,680	-
Others		<u>1,626</u>	<u>105</u>
		<u>9,866</u>	<u>5,059</u>

17 CASH AND BANK BALANCES

Cash at bank - in current accounts		111,904	158,053
Stamps on hand		<u>45</u>	<u>67</u>
		<u>111,949</u>	<u>158,120</u>

18 TRADE AND OTHER PAYABLES

Trade creditors	18.1 & 18.2	281,284	252,728
Accrued expenses		14,071	3,156
Provision for gratuity	30	2,926	1,271
Provision for leave fare		1,660	1,180
Rent payable	18.3	3,233	3,233
Payable in respect of borrowed securities	11.1	-	1,292,972
Unclaimed dividends		2,595	1,991
Payable in respect of capital expenditure		-	634
Retention money		-	300
Payable in respect of loan syndication		3,881	-
Others		<u>6,649</u>	<u>1,338</u>
		<u>316,299</u>	<u>1,558,803</u>

18.1 This includes payable to Karachi Stock Exchange amounting to Rs 8.457 million (2005: Rs 0.147 million) in respect of trading in securities settled subsequent to year end.

2006 **2005**
(Rupees '000)

18.2 Amounts due to associated undertakings at the year end are as under:

First Pakistan Securities Limited	18,078	58,616
Switch Securities (Private) Limited	5,752	46,702
National Asset Management Company Limited	1,226	-
	<u>25,056</u>	<u>105,318</u>

18.3 Cotton Export Corporation of Pakistan Limited has filed a civil suit in the High Court of Sindh for recovery of rent of Rs 1.918 million along with mark-up of Rs 1.315 million and the case is pending in the Court. The company has provided an amount of Rs 3.233 million being the principal and interest thereon.

Note **2006** **2005**
(Rupees '000)

19 INTEREST AND MARK-UP ACCRUED ON BORROWINGS

Mark-up accrued on:

- Short-term running finances	22,293	9,421
- Repurchase agreement borrowings	572	8,354
- Term finance certificates	19.1 7,849	-
Mark-up payable in respect of borrowed securities	11.1 87	1,906
Accrued finance charge on leases	-	30
	<u>30,801</u>	<u>19,711</u>

19.1 This represents mark-up payable to pre-IPO investors on account of their investment from the date of receipt of pre-IPO amount till June 30, 2006 on the rates applicable on profit on TFCs.

Note **2006** **2005**
(Rupees '000)

20 SHORT-TERM BORROWINGS

Secured

Repurchase agreement borrowings	20.1 150,000	696,286
Short-term running finances utilised under mark-up arrangements	20.2 528,823	241,983
	<u>678,823</u>	<u>938,269</u>

20.1 This represents short-term borrowings from banking companies and financial institutions under repurchase agreements. The effective interest rates on these repurchase agreement borrowings ranges from 8.70 % to 14.50% (2005: 10.5% to 11%).

20.2 The facilities for short-term running finances available from various banks amount to Rs 1,850 million (2005: Rs 700 million). These facilities carry mark-up at rates ranging from Re 0.2808 to Re 0.3682 (2005: Re 0.2219 to Re 0.2466) per Rs 1,000 per day and are repayable by March 31, 2007. The arrangements are secured by the pledge of listed shares held by the company.

21 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The company had entered into lease agreements in prior years for lease of motor vehicles. All the lease agreements matured / terminated during the year.

	2006	2005
	(Rupees '000)	
22 PRE-IPO SUBSCRIPTION TOWARDS PROPOSED ISSUE OF TERM FINANCE CERTIFICATES		
Liability in respect of term finance certificate to be issued by the company	240,000	-
Less: Transaction cost	<u>(4,873)</u>	<u>-</u>
	<u>235,127</u>	<u>-</u>

22.1 Transaction cost incurred on issue of Term Finance Certificates has been adjusted from the related liability in accordance with the criteria for initial recognition of financial liabilities specified in International Accounting Standard 39, 'Financial Instruments: Recognition and Measurement'.

22.2 This represents the pre IPO (private placement) amount received by the company in respect of the proposed issue of Term Finance Certificates (TFCs). The total issue amounts to Rs 400 million out of which Rs 240 million has been received from institutional investors under pre-IPO. The remaining amount of Rs 160 million will be raised through the Initial Public Offer (IPO). The company has applied to the Securities and Exchange Commission of Pakistan (SECP) for approval for issue of the TFCs which is currently awaited and is expected to be received shortly. The proposed TFCs will be secured against pledge of shares of listed companies and Mutual Fund units, first charge on all the present and future assets of the company and bank guarantee of First Dawood Investment Bank Limited. The rate of mark-up on these TFCs would be six months average KIBOR + 250 Basis Points (2.5%) with no floor & cap of 15% p.a. and will be payable semi-annually with a grace period of six months. These TFCs will be redeemable within a period of 5 years from the date of issue.

	2006	2005
	(Rupees '000)	
23 DEFERRED TAX LIABILITIES - NET		
Taxable temporary differences on:		
Accelerated tax depreciation	3,652	5,345
Deductible temporary differences on:		
Finance leases	-	(170)
Provisions	<u>(1,655)</u>	<u>(1,990)</u>
	<u>1,997</u>	<u>3,185</u>

24 SHARE CAPITAL

24.1 Authorised Capital

2006	2005		2006	2005
Number of shares			(Rupees '000)	
<u>50,000,000</u>	<u>50,000,000</u>	Ordinary shares of Rs 10 each	<u>500,000</u>	<u>500,000</u>

24.2 Issued, subscribed and paid-up share capital

<u>50,000,000</u>	<u>50,000,000</u>	Ordinary shares of Rs10 each fully paid in cash	<u>500,000</u>	<u>500,000</u>
<u>50,000,000</u>	<u>50,000,000</u>		<u>500,000</u>	<u>500,000</u>

2006

	2006	2005
	(Rupees '000)	
25 COMMITMENTS		
In respect of :		
Forward purchase of listed equity securities	<u>79,550</u>	<u>-</u>
Forward sale of listed equity securities	<u>80,632</u>	<u>-</u>
Capital expenditure contracted for but not incurred	<u>31,000</u>	<u>1,469</u>

26 FIDUCIARY ASSETS

The details of assets held on behalf of customers as funds under management in fiduciary capacity are as follows:

	Note	2006	2005
		(Rupees '000)	
Amount received from customers	26.1	922,696	553,155
Amount invested in carry over transactions		<u>(922,696)</u>	<u>(553,155)</u>
Balance as at June 30		<u>-</u>	<u>-</u>

26.1 Includes Rs 2.409 million (2005: Rs Nil) received from National Asset Management Company Limited, a related party.

26.2 This represents amounts received from various customers in fiduciary capacity for onward placement in CFS transactions. The arrangement entitles the company to receive commission at specified rates on premium earned on these transactions (note 27.1).

	Note	2006	2005
		(Rupees '000)	
27 OPERATING REVENUE			
Brokerage		224,499	124,614
Dividend income		29,660	96,362
Commission earned	27.1	51,920	20,433
Income from continuous funding system / carry over transactions		308,855	132,311
Gain on sale of investments - net		<u>359,698</u>	<u>66,824</u>
		<u>974,632</u>	<u>440,544</u>

27.1 This includes commission earned in fiduciary capacity amounting to Rs 44.254 million (2005: Rs 19.408 million).

	2006	2005
	(Rupees '000)	
28 OTHER OPERATING INCOME		
Income from financial assets		
Mark-up on:		
Fixed income securities	1,700	130
Lendings to financial institutions	<u>4,082</u>	<u>15,964</u>
	5,782	16,094
Income from non-financial assets		
Miscellaneous	<u>1,776</u>	<u>103</u>
	<u>7,558</u>	<u>16,197</u>

28.1 Includes an amount of Rs 0.15 million received as rent from National Asset Management Company Limited, a related party.

	Note	2006 (Rupees '000)	2005
29 ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits	29.1	67,855	20,151
Rent, rates and taxes		2,575	820
Repairs and maintenance		7,384	2,004
Utilities		7,823	4,405
Fees & subscription		2,488	2,686
KSE, clearing house and CDC charges, etc.		33,273	19,964
Corporate expenses		117	104
Floatation expenses		-	7,409
Deferred cost		-	2,635
Insurance charges		850	430
Travelling and conveyance		1,262	1,734
Depreciation	5.1	7,739	5,543
Provision for doubtful debts		1,291	5,000
Communication, printing and stationery		3,436	1,566
Legal and professional charges		1,923	1,162
Entertainment		1,016	468
Others		2,582	2,675
		<u>141,614</u>	<u>78,756</u>

29.1 Salaries, allowances and benefits include Rs 3.216 million (2005: Rs 1.667 million) in respect of staff retirement benefits.

30 EMPLOYEE BENEFITS

Unfunded gratuity scheme

As mentioned in note 4.1, the company operates an unapproved unfunded gratuity scheme. The actuarial valuation of the scheme was carried out as at June 30, 2006.

Projected Unit Credit method using the following significant assumptions, was used for the valuation of the scheme:

	2006	2005
Discount rate	9%	9%
Expected rate of increase in salary	20%	20%

	2006 (Rupees '000)	2005
Cost		
Current service cost	1,958	1,258
Interest cost	122	13
Recognition of actuarial loss	80	-
Expense	<u>2,160</u>	<u>1,271</u>

	2006 (Rupees '000)	2005
Liability		
Present value of defined benefit obligation	2,881	1,351
Add: Unrecognized actuarial gains / (losses)	45	(80)
Liability recognized as at June 30	<u>2,926</u>	<u>1,271</u>

Reconciliation of present value of defined benefit obligation:

	2006	2005
Present value of defined benefit obligation as at July 1	1,351	-
Current service cost	1,958	1,258
Interest cost	122	13
Actuarial (gains) / losses	(45)	80
Benefits paid	(505)	-
Present value of defined benefit obligation as at June 30	<u>2,881</u>	<u>1,351</u>

	Note	2006	2005
		(Rupees '000)	
Movement of liability			
Liability as at July 1		1,271	-
Add: Current year expense		2,160	1,271
Less: Payments made during the year		(505)	-
Liability as at June 30		<u>2,926</u>	<u>1,271</u>

31 FINANCE COSTS

Mark-up on:			
- Short term running finances		107,943	27,226
- Repurchase agreement borrowings		118,435	59,170
- Term Finance Certificates		7,849	-
Mark-up in respect of borrowed securities		18,684	8,748
Bank charges		825	468
Finance charge on leases	31.1	1,183	311
Others		-	1,165
		<u>254,919</u>	<u>97,088</u>

31.1 This includes Rs. 0.456 million (2005: Rs 0.196 million) paid to Trust Leasing and Investment Bank Limited, a related party of the company.

	Note	2006	2005
		(Rupees '000)	
32 OTHER OPERATING EXPENSES			
Auditors' remuneration	32.1	706	247
Donations	32.2	617	905
Commission to trading agents		<u>26,603</u>	<u>9,856</u>
		<u>27,926</u>	<u>11,008</u>

32.1 Auditors' remuneration

Statutory audit fee		350	175
Half yearly review fee		100	55
Special reports and certifications		208	10
Out of pocket expenses		48	7
		<u>706</u>	<u>247</u>

32.2 No director or any of his spouse had any interest with respect to any donation made.

33 TAXATION

Current			
- for the year		43,277	28,905
- for prior year		(1,093)	-
Deferred		<u>(1,188)</u>	<u>3,185</u>
		<u>40,996</u>	<u>32,090</u>

33.1 Relationship between tax expenses and accounting profit

Profit for the year from ordinary activities before taxation		<u>452,618</u>	<u>234,338</u>
Tax at the applicable rate of 35% (2004: 35%)		158,416	82,018
Tax effect of items that are not included in determining taxable profit		(57,114)	(4,032)
Tax effect of income taxed under Final Tax Regime		(53,145)	(43,279)
Tax impact of opening deferred tax asset recognised in current year		-	(3,722)
Deferred tax impact arising on account of exempt income and income taxed under final tax regime		(6,469)	-
Prior year reversal		(1,093)	-
Others		401	1,105
Tax expense for the year		<u>40,996</u>	<u>32,090</u>

	2006 (Rupees '000)	2005 (Rupees '000)
34 EARNINGS PER SHARE - BASIC AND DILUTED		
Profit after taxation attributable to ordinary shareholders	<u>411,622</u>	<u>202,248</u>
	Number of shares	
Weighted average ordinary shares in issue during the year	<u>50,000,000</u>	<u>45,821,918</u>
	(Rupees)	
Earnings per share - basic and diluted	<u>8.23</u>	<u>4.41</u>

35 REMUNERATION OF DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the financial statements for the year for remuneration, including all benefits, to the chief executive, directors and executives of the company are as follows:

	2006			2005		
	Chief Executive	Directors	Executive	Chief Executive	Directors	Executive
	----- (Rupees '000) -----					
Managerial remuneration	1,718	573	1,618	-	382	3,118
Bonus	10,820	10,100	1,175	-	240	953
Reimbursable expenses	-	-	-	3	8	185
Retirement benefits	143	48	139	-	32	183
Housing	270	90	294	-	60	90
Utilities	172	57	-	-	38	312
Leave passage	240	-	238	-	254	222
Conveyance and travelling	267	92	-	58	70	510
	<u>13,630</u>	<u>10,960</u>	<u>3,464</u>	<u>61</u>	<u>1,084</u>	<u>5,573</u>
Number of persons	<u>2</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>2</u>	<u>2</u>

35.1 During the year Mr. Saeed A. Bajwa resigned as Chief Executive with effect from September 22, 2005. He was succeeded by Mr. Amjad Pervez.

35.2 The chief executive and executives are provided with the free use of company's owned and maintained cars.

35.3 Remuneration to other Directors

Aggregate amount charged in the financial statements for fee to directors was Rs 0.050 million (2005: Rs 0.048 million). In addition, the company also bears the travelling expenses of the directors relating to travel for official purposes.

36 RELATED PARTY TRANSACTIONS

The company has related party relationship with its associated undertakings, Employee Contribution Plans and its directors and key management personnel.

The following transactions were carried out with related parties during the year.

Relationship with the company	Nature of transactions	2006 (Rupees '000)	2005 (Rupees '000)
i. Associated undertakings	Purchase of marketable securities for and on behalf of associated undertakings	156,665,389	61,170,089
	Sale of marketable securities for and on behalf of associated undertakings	156,760,279	61,016,162
	Brokerage income	19,269	13,617
	Purchase of assets	1,850	-
	Rent received	150	-
	Long term investments made	40,000	-
	Share of profit for the year - net of tax	135	-
	Motor vehicles leased	-	4,276
	Repurchase agreement borrowing	-	15,000
	Mark-up on repurchase agreement borrowings	-	207
ii. Key management personnel	Purchase of marketable securities for and on behalf of key management personnel	241,860	18,253,188
	Sale of marketable securities for and on behalf of key management personnel	245,678	18,433,368
	Brokerage income earned	45	2,448
iii. Other related parties	Charge in respect of employee contribution plan	966	396
	Sale of investments to employee contribution plan	1,509	-
	Capital gain from sale of investments to employee contribution plan	9	-

Particulars relating to remuneration of Chief Executive Officer and Directors who are key management personnel are disclosed in note 35.

The related party status of outstanding balances at June 30, 2006 is included in the respective notes to the financial statements.

37 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise of the following balance sheet amounts:

		2006 (Rupees '000)	2005 (Rupees '000)
Cash and bank balances	17	111,949	158,120
Short-term running finances	20	(528,823)	(241,983)
		<u>(416,874)</u>	<u>(83,863)</u>

38 FINANCIAL ASSETS AND LIABILITIES

June 30, 2006

	Interest/mark-up bearing			Non interest/mark up bearing			Total
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	
----- (Rupees '000) -----							
Financial Assets							
Long-term loans and advances	-	-	-	-	10,849	10,849	10,849
Long-term deposits	-	-	-	-	1,889	1,889	1,889
Available for sale investments	-	8,968	8,968	705,186	-	705,186	714,154
Financial assets at fair value through profit or loss account	230,658	-	230,658	653,364	-	653,364	884,022
Receivable against continuous funding system / carry over transactions	402,485	-	402,485	-	-	-	402,485
Trade debts	-	-	-	89,774	-	89,774	89,774
Loans and advances	-	-	-	709	-	709	709
Trade deposits	-	-	-	26,312	-	26,312	26,312
Other receivables	-	-	-	9,866	-	9,866	9,866
Cash and bank balances	-	-	-	111,949	-	111,949	111,949
	<u>633,143</u>	<u>8,968</u>	<u>642,111</u>	<u>1,597,160</u>	<u>12,738</u>	<u>1,609,898</u>	<u>2,252,009</u>
Financial Liabilities							
Trade and other payables	-	-	-	311,713	-	311,713	311,713
Interest and mark-up accrued on borrowings	-	-	-	30,801	-	30,801	30,801
Short-term borrowings	678,823	-	678,823	-	-	-	678,823
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-
Pre-IPO subscription towards proposed issue of term finance certificate	-	235,127	235,127	-	-	-	235,127
	<u>678,823</u>	<u>235,127</u>	<u>913,950</u>	<u>342,514</u>	<u>-</u>	<u>342,514</u>	<u>1,256,464</u>

June 30, 2005

	Interest/mark-up bearing			Non interest/mark up bearing			Total
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	
----- (Rupees '000) -----							
Financial Assets							
Long-term loans and advances	-	-	-	-	18,712	18,712	18,712
Long-term deposits	-	-	-	-	2,229	2,229	2,229
Available for sale investments	-	1,500	1,500	352,321	-	352,321	353,821
Financial assets at fair value through profit or loss account	-	-	-	177,684	-	177,684	177,684
Receivable against carry over transactions	517,945	-	517,945	-	-	-	517,945
Trade debts	-	-	-	452,008	-	452,008	452,008
Loans and advances	-	-	-	896	-	896	896
Trade deposits	-	-	-	45,376	-	45,376	45,376
Other receivables	-	-	-	5,059	-	5,059	5,059
Cash and bank balances	-	-	-	158,120	-	158,120	158,120
	<u>517,945</u>	<u>1,500</u>	<u>519,445</u>	<u>1,191,464</u>	<u>20,941</u>	<u>1,212,405</u>	<u>1,731,850</u>
Financial Liabilities							
Trade and other payables	-	-	-	263,380	-	263,380	263,380
Interest and mark-up accrued on borrowings	-	-	-	19,711	-	19,711	19,711
Short term borrowings	938,269	-	938,269	-	-	-	938,269
Liabilities against assets subject to finance lease	1,697	3,968	5,665	-	-	-	5,665
	<u>939,966</u>	<u>3,968</u>	<u>943,934</u>	<u>283,091</u>	<u>-</u>	<u>283,091</u>	<u>1,227,025</u>

38.1 The interest rate profile of interest / mark-up bearing assets and liabilities is given in notes relating to the respective assets / liabilities.

38.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed to perform as contracted. All the financial assets of the company except Rs 0.045 million are exposed to credit risk. To manage the exposure to credit risk, the company applies credit limits to its customers and obtains margins and deposits in the form of cash and marketable securities.

38.3 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments. The company believes that it is not exposed to any significant level of liquidity risk.

38.4 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The company has adopted appropriate policies to minimise its exposure to this risk.

38.5 Fair value of financial assets and liabilities

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

39 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the company's financial statements or where judgment was exercised in application of accounting policies are as follows:

- i) Classification and valuations of investments
- ii) Income taxes
- iii) Staff retirement benefits

40 NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in their meeting held on July 28, 2006 have proposed a final cash dividend in respect of the year ended June 30, 2006 at Rs 4 (2005: Rs 1.50) per share. This is in addition to the interim cash dividend of Rs 2 (2005: Re 1) per share resulting in a total cash dividend for the year of Rs 6 (2005: Rs 2.50) per share. The proposed final dividend will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended June 30, 2006 do not include the effect of this final dividend of Rs 4 per share which will be accounted for in the financial statements for the year ending June 30, 2007.

41 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. Significant reclassifications include:

- Mark-up in respect of borrowed securities has been reclassified from mark-up on repurchase agreement borrowing and disclosed separately.
- Income from continuous funding system / carry over transactions and gain on sale of investments - net was shown as part of gain from transactions in marketable securities - net in the comparative period. It has been shown as part of operating revenue in the current year.
- Mark-up on lendings to financial institutions has been reclassified from gain from transactions in marketable securities - net and shown as part of other operating income.

42 DATE OF AUTHORISATION

These financial statements were authorised for issue on July 28, 2006 by the Board of Directors of the company.

Chief Executive

Director

PATTERN OF SHAREHOLDING AS AT JUNE 30, 2006

NUMBER OF SHAREHOLDERS	SHARE HOLDING		TOTAL SHARES HELD
	FROM	TO	
3	1	100	22
201	101	500	100,500
194	501	1,000	193,440
251	1,001	5,000	748,500
76	5,001	10,000	628,200
31	10,001	15,000	403,100
31	15,001	20,000	588,500
19	20,001	25,000	457,400
11	25,001	30,000	307,800
5	30,001	35,000	169,300
4	35,001	40,000	152,000
5	40,001	45,000	213,500
9	45,001	50,000	441,100
3	50,001	55,000	158,500
2	55,001	60,000	115,500
3	60,001	65,000	190,500
2	65,001	70,000	138,500
1	70,001	75,000	75,000
1	75,001	80,000	78,000
3	80,001	85,000	253,500
3	85,001	90,000	264,600
2	90,001	95,000	186,000
6	95,001	100,000	597,500
2	100,001	105,000	208,478
1	105,001	110,000	109,900
1	110,001	115,000	114,100
1	115,001	120,000	120,000
1	135,001	140,000	136,000
1	150,001	155,000	155,000
3	170,001	175,000	523,300
1	180,001	185,000	185,000
2	195,001	200,000	400,000
1	215,001	220,000	218,500
1	220,001	225,000	223,000
1	225,001	230,000	228,000
1	265,001	270,000	269,500
1	345,001	350,000	350,000
1	360,001	365,000	364,500
1	450,001	455,000	455,000
1	495,001	500,000	500,000
1	500,001	505,000	502,000
1	545,001	550,000	545,500
1	620,001	625,000	625,000
1	695,001	700,000	700,000
2	795,001	800,000	1,596,000
1	995,001	1,000,000	1,000,000
1	1,115,001	1,120,000	1,120,000
1	1,260,001	1,265,000	1,261,500
1	1,395,001	1,400,000	1,400,000
1	1,470,001	1,475,000	1,471,500
1	1,530,001	1,535,000	1,531,000
1	1,635,001	1,640,000	1,637,000
1	1,725,001	1,730,000	1,729,500
1	1,745,001	1,750,000	1,750,000
1	2,390,001	2,395,000	2,391,260
1	2,660,001	2,665,000	2,664,000
1	3,180,001	3,185,000	3,181,500
1	4,170,001	4,175,000	4,173,000
1	9,695,001	9,700,000	9,700,000
907			50,000,000

CATEGORIES OF SHAREHOLDERS AS AT JUNE 30, 2006

Categories		Number Shares Held	Percentage
Related Parties			
First Florance Developers (Pvt.) Limited	1	4,911,000	9.82
F. Rabbi Steel (Pvt.) Limited	1	2,410,000	4.82
Yarmouk Paper & Board Industry (Pvt.) Limited	1	1,700,000	3.40
MCD Pakistan Limited	1	4,173,000	8.35
First Pakistan Securities Limited	1	9,830,900	19.66
Switch Securities (Pvt.) Limited	1	2,614,260	5.23
Trust Leasing & Investment Bank Limited	1	104,500	0.21
Directors, Chief Executive and their Spouse and Minor Children			
Ali Aslam Malik	1	2,664,500	5.33
Amjad Pervez	1	500	0.00
Malik Atiq-ur-Rehman	1	500	0.00
Muhammad Iqbal Khan	1	1,000	0.00
Shahzad Akbar	1	5,500	0.01
Sheikh Khalid Tawab	1	40,500	0.08
Mrs. Adeela Ali	1	1,000,500	2.00
Banks/DFIs/NBFIs	15	5,482,000	10.96
Insurance Companies	3	600,000	1.20
Modarabas/ Mutual Funds & Foreign Investors	9	343,000	0.69
Joint Stock Companies	41	5,212,618	10.43
Individual	825	8,905,722	17.81
	907	50,000,000	100

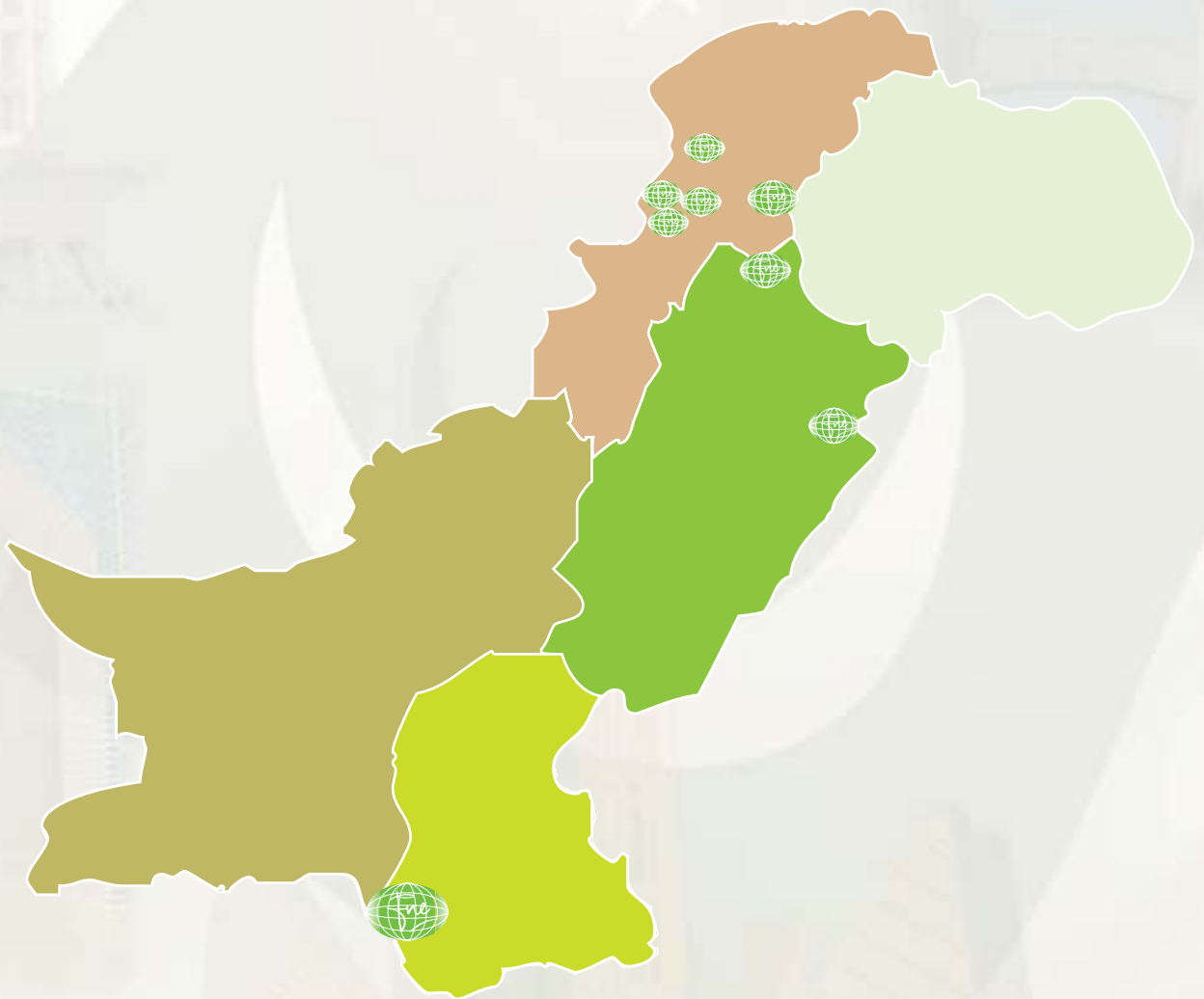
Detail of Shareholding 10% & more

First Pakistan Securities Limited	1	9,830,900	19.66
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BRANCH NETWORK OF FIRST NATIONAL EQUITIES LIMITED

- 1) Peshawar Main Branch**
State Life Building
2nd Floor, 34-The Mall
Peshawar
Tel: 091-111-000-363
Fax: 091-5260977
- 2) Peshawar City Branch**
Bank Square, Chowk Yadgar
Near Askari Bank
Peshawar City
Tel : 091-2580746-49
Fax: 091-2580750
- 3) Peshawar Sadar (Jasmine Arcade) Branch**
Room No. 508, Fifth Floor, Jasmine Arcade
Sadar Peshawar
Tel: 091-5275661/5275055
Fax: 091-5275632
- 4) Abbottabad Branch**
1st Floor, Gohar Sons Arcade,
Mansehra Road, Supply Bazar
Abbottabad
Tel: 0992-341305, 341104
Fax: 0992-341203
- 5) Mingora (Swat) Branch:**
1st Floor, Shahzad Plaza, Makan Bagh
Saidu Road, Mingora Swat
Tel: 0946-712523 / 712975
Fax: 0946/711070
- 6) Islamabad Branch:**
13-P Mezanine Floor, Empire Centre
F/7 Markaz
Islamabad
Tel: 051-111-000-363
Fax: 051-2653528
- 7) DHA Lahore Branch:**
1st Floor, L-5, Commercial Area,
DHA Phase-I, Lahore
Tel: 042-5723940/5724039
Fax: 042-5721992

**BRANCH NETWORK OF
FIRST NATIONAL EQUITIES LIMITED**





Let's keep the candles burning
Let's look towards the sky
For shadows always fall behind
When facing towards the light

FORM OF PROXY

I/ We _____ of _____ being a member of First National Equities Limited and holder of _____ Ordinary Shares as per Share Register Folio No. _____.

Beneficial Owners As per CDC

CDC Participant I.D. No. _____ Sub-Account No. _____
 N I C No. or Passport No. _____

Hereby appoint _____ of _____ or failing him/ her _____ of _____ as my/ our proxy to vote and act for me/ our behalf at the Annual General Meeting of the Company to be held on the 16 September, 2006 at _____ and at any adjournment thereof.

Please affix rupees five revenue stamp

(Signatures should agree with the specimen signature)

Dated this _____ day of _____, 2006
 Signature of Shareholder _____
 Signature of Proxy _____

For beneficial owners as per CDC list

1. WITNESS

Signature: _____
 Name: _____
 Address: _____
 NIC No. or Passport No. _____

2. WITNESS

Signature: _____
 Name: _____
 Address: _____
 NIC No. or Passport No. _____

Important:

- 1 This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company at 19-C Sunset Lane 6, South Park Avenue, Phase II, Ext DHA. Karachi, not less than 48 hours before the time of holding the meeting.
- 2 No person shall act as proxy unless he/she himself/ herself is a member of the Company, except that a corporation may appoint a person who is not a member.
- 3 If a member appoint more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

For CDC Account Holders/ Corporate Entities:

In addition to the above the following have to be met:

- i) The proxy form shall be witnessed by the two persons whose names, addresses and NIC numbers shall be mentioned on the form.
- ii) Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iii) The proxy shall produce his/ her original NIC or passport at the time of the Meeting.
- iv) In case of corporate entity, the Board of Directors' resolution/ power of attorney with specimen signature shall be submitted (unless it has provided earlier) alongwith proxy form of the Company.



FIRST NATIONAL EQUITIES LIMITED
19-C, Sunset Lane 6, South Park Avenue,
Phase II Extension, D.H.A. Karachi.