

Crescent Leasing Corporation Limited

Annual Report 1999

MISSION STATEMENT

CRESLEASE IS COMMITTED TO PURSUING THE IMPROVEMENT IN SHAREHOLDERS VALUE THROUGH DEVELOPMENT OF A DEDICATED HUMAN RESOURCE AND EFFICIENT SYSTEMS BASE CAPABLE OF EFFECTIVELY PARTICIPATING IN A COMPETITIVE BUSINESS ENVIRONMENT. CRESLEASE WOULD ENDEAVOR TO EXTEND THE REACH OF THE CREDIT DELIVERY SYSTEM TO STIMULATE THE ECONOMIC DEVELOPMENT.

Contents

Company Information
Notice of Meeting
Directors' Report
Auditors' Report
Financial Statements of the Company
Pattern of Holding of Shares

Company Information

BOARD OF DIRECTORS

| | |
|----------------------|-----------------|
| Mr. Aftab Ahmed Khan | Chairman |
| Mr. Javed A. Callea | Chief Executive |
| Mr. Altaf M. Saleem | |
| Mr. David V. Johns | |
| Mr. Manzur-ul-Haq | |
| Mr. Nessar Ahmed | |
| Mr. Rashid Ahmed | |

COMPANY SECRETARY

Mr. Zaheer A. Shaikh
Mr. Rashid Sadiq

AUDITORS

| | |
|----------------------------------|-----------------------|
| Khalid Majid Husain Rahman & Co. | Chartered Accountants |
|----------------------------------|-----------------------|

LEGAL ADVISORS

| | |
|------------------------|------------------------|
| Cornelius Lane & Mufti | Advocates & Solicitors |
|------------------------|------------------------|

RATING AGENCY

The Pakistan Credit Rating Agency (Private) Limited

BANKS & LENDING INSTITUTIONS

Commonwealth Development Corporation
Habib Bank Ltd.

Allied Bank Ltd.

Allied Bank of Pakistan

Saudi-Pak Industrial & Agricultural Investment Co. (Pvt) Ltd.

National Discounting Services Ltd.

Orix Investment Bank Ltd.

Pak-Kuwait Investment Co. (Pvt) Ltd.

Bank of America (NT&SA)

REGISTERED AND SHARE TRANSFER OFFICE

83-Babar Block, New Garden Town, Lahore

Phone: (042) 588-1974 & 75 Fax: (042) 588-1976

Email: rashid.sadiq@cressoft.com.pk

BRANCH OFFICE

Suit No. F-7 (B) 1st Floor,

Rehman Business Suites, 32-B-III, Gulberg-III,

Lahore

HEAD OFFICE

B-801 & 802, 8th Floor, Lakson Square, Bldg. #3, Sarwar Shaheed Road, Karachi.

Phone: 021-566-1938, 48 & 58 Fax: 021-566-1988

Email: crescent@super.net.pk

*For a copy of this report write to our Head Office/Registered Office.

Notice of Annual General Meeting

NOTICE is hereby given that the 12th Annual General Meeting of the shareholders of Crescent Leasing Corporation Limited, will be held on Saturday, the December 04, 1999, at 12:00 noon, at Registered Office 83-Babar Block, New Garden Town, Lahore to transact the following business:

1. To receive, consider and adopt the audited accounts of the company for the year ended June 30, 1999 together with Directors' and Auditors' Reports thereon.
2. To declare dividend. The Directors have recommended the payment of Cash Dividend @ Rs. 1.00 per share (i.e. @10%).
3. To appoint Auditors and fix their remuneration.

BOOK CLOSURE

The Register of Member of the company will remain closed from November 30, 1999 to December 06, 1999 (both days inclusive). The members whose names appear on the Register of Members as on November 29, 1999 shall be entitled for cash dividend.

BY ORDER OF THE BOARD

ZAHEER A. SHAIKH
Corporate Secretary

REGISTERED OFFICE:

83-Babar Block New Garden Town

LAHORE.

Telephone No. (042) 5881974-75, 5839631

Fax No. (042) 5881976

Email: rashid.sadiq@cressoft.com.pk

Dated: October 19, 1999.

NOTE:

1. A member eligible to attend and vote at this Meeting may appoint another member as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must be received by the Company at the Registered Office not later than 48 hours before the time for holding the Meeting.

2. Shareholders are requested to immediately notify the change in address, if any.

3. Account holders and sub-account holders holding book entry securities of the company in Central Depository System of Central Depository Company of Pakistan Limited who wish to attend the Annual General Meeting are requested to please bring original I.D. Card alongwith copy thereof duly attested by their Bankers for identification purpose.

Directors' Report

Your Directors have pleasure in presenting the Audited Accounts for the period from July 1, 1998 to June 30, 1999.

FINANCIAL RESULTS

Rupees in Million

| | |
|---|---------|
| Net Profit before tax | 31.271 |
| Provision for taxation | 1.726 |
| Net Profit after taxation | 29.545 |
| Un-appropriated profit brought forward | 0.118 |
| Profit available for appropriation | 29.662 |
| Appropriations | |
| Transfer from general reserve | (8.161) |
| Transfer to reserves under NBF1 Regulations | 5.909 |
| Transfer to reserve for deferred taxation | 14.649 |
| Proposed dividend @ 10% | 17.250 |
| Un-appropriated profit carried forward | 0.015 |

Net profit for the year after charging all expenses, including allowance for potential lease losses amounted to Rs. 29.545 million.

In compliance of the policy for deferred taxation prescribed by the SECP for leasing companies an amount Rs. 14.6 million has been transferred to Reserve for Deferred Taxation.

The performance of your company, in the review period, needs to be seen in the light of economic and policy factors affecting the business environment in general and the long term investment climate in particular.

ECONOMIC SCENARIO

Fiscal 1999 was a difficult and challenging year for Pakistan's economy, with output growth slipping to 3.1% as against 4.3% in 1997-98, drop in total investment to 14.8% of Gross Domestic Product from 17.1% in Fiscal '98 and worsening of the current account of balance of payments due to fall in exports and substantial decline in private transfers and invisible receipts. The nuclear tests of May 1998, the economic sanctions that followed and the related dryings up of most external capital flows led to severe financial stresses and strains. Combination of sensible economic and financial management and international financial assistance has, however, allowed Pakistan to mitigate the effects of the crisis and maintain a positive growth rate of GDP in an ambiance of stability.

Lackluster economic growth and an inhospitable investment milieu had an adverse impact on the demand for leasing, where a contraction, both in volume and quality was observed.

The shareholders would recall that certain factors emanating out of the freezing of foreign currency accounts were identified in the Half-Yearly report. These related to the non-recoverability of premium paid on market purchase of forex for creating hedging deposits and penal interest on overdue installments due to delayed approval of availability of forex by State Bank. In the Interim period, prior to valuation of foreign currency accounts at par with inter-bank-floating rate, an exchange loss was suffered on one remittance. These uncontrollable and unfavourable external factors adversely affected the profitability of the company.

OPERATING RESULTS

In view of, different and uncertain economic and business environment in the review period your company followed the strategy of consolidating its position in the lease market.

New leases executed during the period amounted to Rs. 331.7 million (1998, Rs. 276 million). The net investment in leases in placed at Rs. 704 million (1998, Rs. 634 million). Lease income during the review period increased and amounted to Rs. 119 million (1998, Rs. 106 million). Income from other business activities increased from Rs. 44 million in 1998 to Rs. 53 million in 1999. Factors identified in the preceding paras reduced the pre-tax profit to Rs. 31 million (1998, Rs. 41 million). The post-tax earning per share in placed at Rs. 1.71.

The focus during the year continued to be on market penetration in the small and medium ticket leases, improved client service and development of the consumer leasing activity. The lease portfolio of your company's is prudently diversified over the industrial and services base in Pakistan comprising nearly two dozen leading sectors. The individual exposure in any single sector (textile) does not exceed 13 percent (1998 in Energy Oil & Gas 13.16 percent).

Plant and machinery remained the major lease asset at 71 percent of the portfolio followed by automobiles at 25 percent and office equipment at 4 percent. Lackluster business conditions placed pressures on recovery during the year. However, persistent and vigilant monitoring and follow-up enabled to post a 95 percent recovery during the year.

The entity rating of your company for long-term obligations is maintained at BBB and for short-term at A2, indicating a low expectation of credit risk.

Your company raised Rs. 45 million in long-term credits and Rs. 125 million in short-term credits from premier financial institutions at competitive rates. In addition long and short-term credits of Rs. 125 million were also negotiated.

FUTURE OUTLOOK

The fundamental factors for the revival of the economy and its sustained growth on an increasingly self-reliant basis still need to be tackled effectively. These inter-alia, include, restoration of the overseas and local investors' confidence, adequate resource mobilization, financial sector development, good governance, public sector reforms and improved policy environment characterized by coherence and consistency.

The deflationary pressures operating in the economy are likely to continue well into FY 2000. The public sector infrastructure programs, which are under implementation, are likely to absorb some liquidity in the money market during the year propping up the interest rates and the capacity utilization of the industries linked to such projects. This along with increased agricultural production particularly in cotton and concerted efforts to boost exports may provide the desired impetus for revival of the economy late in the year. The industrial investment in most of FY 2000 is likely to remain depressed and the demand for industrial and consumer durable goods would exhibit weakness. Your company would continue with its risk management policy of extending business in low risk profile sectors and entities.

Year 2000 compliance

All the systems and procedures and software and hardware packages have been adjusted/reprogrammed to be fully Y2K compliant.

Acknowledgement

The Board wishes to record their appreciation of the valuable contribution of Mr. Shabbir Hashmi during his term. The Board welcomes Mr. David V. Johns on the Board.

The Board acknowledges the support of the regulatory authorities, banks and lending institutions. The Board wishes to place on record its appreciation of the hard work and dedication shown by the company personnel.

Auditors

The auditors, Khalid Majid Husain Rahman, Chartered Accountants retire and being eligible, offer themselves for re-appointment.

Pattern of Holding of Shares

The pattern of Holding of Shares as on June 30, 1999, is placed at page No. 32.

on behalf of the Board

Javed A. Callea
Chief Executive

October 19, 1999
Karachi.

Khalid Majid Husain Rahman

Chartered Accountants

1st Floor, Modern Motors House
Beaumont Road, Karachi-75530
Tel: UAN 111 - 404040
Fax: (021) 5688834

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Crescent Leasing Corporation Limited as at June 30, 1999 and the related profit and loss account and the statement of changes in financial position (cash flow statement), together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

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

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as stated in note 2.7 with which we concur;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and the statement of changes in financial position (cash flow statement) together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 1999 and of the profit and the changes in financial position for the year then ended; and

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

Karachi: October 19, 1999

Chartered Accountants

**Deloitte Touche
Tohmatsu
International**

Balance Sheet As At June 30, 1999

| <i>Note</i> | <i>1999 Rupees</i> | <i>1998 Rupees</i> |
|---|------------------------|------------------------|
| SHARE CAPITAL AND RESERVES | | |
| Authorised Capital | | |
| 30,000,000 ordinary shares of Rs. 10/- each | 300,000,000 | 300,000,000 |
| | ===== | ===== |

| | | | |
|--|----|---------------|-------------|
| Issued, subscribed and paid-up capital | 3 | 172,500,000 | 150,000,000 |
| Reserves | | 135,191,390 | 145,396,852 |
| | | ----- | ----- |
| | | 307,691,390 | 295,396,852 |
| DEFERRED INCOME | 4 | 475,977 | -- |
| LONG-TERM FINANCES | 5 | 198,756,310 | 246,303,680 |
| LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES | 6 | 3,974,707 | 813,213 |
| LONG-TERM CERTIFICATES OF INVESTMENT | 7 | 21,100,000 | -- |
| LONG-TERM DEPOSITS | 8 | 92,033,209 | 54,430,049 |
| CURRENT LIABILITIES | | | |
| Current maturity of long-term liabilities | 9 | 103,122,410 | 88,387,266 |
| Current maturity of liabilities against assets subject to finance leases | | 1,662,743 | 304,238 |
| Short-term certificates of investment | 7 | 80,000,000 | 50,000,000 |
| Short-term finances | 10 | 80,000,000 | 35,000,000 |
| Running finances under mark-up arrangement | 11 | 75,972,271 | 28,537,633 |
| Creditors, accrued and other liabilities | 12 | 26,239,049 | 27,897,260 |
| Proposed dividend | | 17,250,000 | -- |
| | | ----- | ----- |
| | | 384,246,473 | 230,126,397 |
| COMMITMENTS | 13 | ----- | ----- |
| | | 1,008,278,066 | 827,070,191 |
| | | ===== | ===== |
| OPERATING FIXED ASSETS | 14 | 17,059,171 | 14,664,836 |
| NET INVESTMENT IN LEASES | | | |
| Minimum lease rental receivables | | 739,150,538 | 707,372,887 |
| Residual value | | 129,577,427 | 91,049,712 |
| | | ----- | ----- |
| | | 868,727,965 | 798,422,599 |
| Less: Unearned finance income | | 164,853,846 | 164,495,719 |
| | | ----- | ----- |
| Net investment in leases | | 703,874,119 | 633,926,880 |
| | | ----- | ----- |
| Less: Current maturity | | 270,162,303 | 223,425,370 |
| Allowance for potential lease losses -General | | 12,849,656 | 6,275,392 |
| - Specific | | 4,592,088 | 2,146,117 |
| | | ----- | ----- |
| | | 416,270,072 | 402,080,001 |
| LONG-TERM INVESTMENTS | 16 | 31,764,507 | 4,125,000 |
| LONG-TERM DEPOSITS AND DEFERRED COSTS | 17 | 13,053,360 | 18,711,558 |
| CURRENT ASSETS | | | |
| Current maturity of net investment in leases | | 270,162,303 | 223,425,370 |
| Short-term loan | 18 | 4,623,036 | -- |
| Advances, prepayments and other receivables | 19 | 42,337,421 | 23,121,491 |
| Short-term investments | 20 | 114,868,191 | 64,252,913 |

| | | | |
|------------------------|----|---------------|-------------|
| Cash and bank balances | 21 | 98,140,005 | 76,689,022 |
| | | ----- | ----- |
| | | 530,130,956 | 387,488,796 |
| | | ----- | ----- |
| | | 1,008,278,066 | 827,070,191 |
| | | ===== | ===== |

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

JAVED A. CALLEA
Chief Executive

AFTAB AHMED KHAN
Chairman

Profit And Loss Account For The Year Ended June 30, 1999

| | <i>Note</i> | <i>1999</i> <i>Rupees</i> | <i>1998</i> <i>Rupees</i> |
|---|-------------|------------------------------|------------------------------|
| Income from lease operations | | 118,758,255 | 106,041,312 |
| Other income | 22 | 53,345,898 | 48,652,867 |
| | | ----- | ----- |
| | | 172,104,153 | 154,694,179 |
| Administrative and operating expenses | 23 | 16,002,124 | 13,391,752 |
| Financial charges | 24 | 114,921,094 | 91,776,524 |
| Amortization of deferred cost | | 889,970 | 488,750 |
| | | ----- | ----- |
| | | 131,813,188 | 105,657,026 |
| | | ----- | ----- |
| | | 40,290,965 | 49,037,153 |
| Allowance for potential lease losses -General | | 6,574,264 | 6,275,392 |
| - Specific | | 2,445,971 | 1,301,881 |
| | | ----- | ----- |
| | | 9,020,235 | 7,577,273 |
| | | ----- | ----- |
| Profit before taxation | | 31,270,730 | 41,459,880 |
| Taxation | 26 | 1,726,192 | 1,267,069 |
| | | ----- | ----- |
| Profit after taxation | | 29,544,538 | 40,192,811 |
| Unappropriated profit brought forward | | 117,538 | 19,924,727 |
| | | ----- | ----- |
| | | 29,662,076 | 60,117,538 |
| Appropriations: | | | |
| Transfer from: | | | |
| - general reserve | | 8,161,438 | -- |
| Transfer to: | | | |
| - reserve under NBFi rules | | (5,908,908) | (8,038,562) |
| - general reserve | | -- | (51,961,438) |
| - reserve for deferred taxation | 26 | (14,649,296) | -- |
| - Proposed dividend @ 10% (1998:Nil) | | (17,250,000) | -- |
| | | ----- | ----- |
| | | (29,646,766) | 60,000,000 |
| | | ----- | ----- |

| | | | | |
|---------------------------------------|------------|----|--------|---------|
| Unappropriated profit carried forward | | | 15,310 | 117,538 |
| | | | ===== | ===== |
| Earnings per share | --Basic | 27 | 1.71 | 2.33 |
| | -- Diluted | | N/A | N/A |

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

JAVED A. CALLEA
Chief Executive

AFTAB AHMED KHAN
Chairman

**Statement Of Changes In Financial Position (Cash Flow Statement)
For The Year Ended June 30, 1999**

| | 1999 | 1998 |
|--|---------------|---------------|
| | Rupees | Rupees |
| Cash flows from operating activities | | |
| Profit before taxation | 31,270,730 | 41,459,880 |
| Adjustments for: | | |
| Amortization of deferred cost | 889,970 | 488,750 |
| Depreciation | 1,511,452 | 2,617,883 |
| Allowance for potential lease losses | 9,020,235 | 7,577,273 |
| (Gain)/Loss on sale of operating fixed assets | (78,529) | 48,322 |
| | ----- | ----- |
| Operating profit before working capital changes | 42,613,858 | 52,192,108 |
| Decrease in creditors, accrued and other liabilities | (1,658,211) | (8,786,668) |
| Increase/(Decrease) in advances, deposits, prepayments and other receivables | (8,703,563) | (2,605,996) |
| | ----- | ----- |
| Cash generated from operations | 32,252,084 | 46,011,436 |
| Income taxes paid | (12,238,559) | (2,699,605) |
| | ----- | ----- |
| Net cash flows from operating activities | 20,013,525 | 43,311,831 |
| Cash flows from investing activities | | |
| Increase in net investment in leases | (69,947,239) | (122,098,764) |
| Purchase of operating fixed assets | (5,847,865) | (1,818,167) |
| Proceeds from sale of operating fixed assets | 2,496,584 | 974,726 |
| Purchase of long-term investments | (27,639,507) | -- |
| Long-term loan - net | -- | 2,499,994 |
| Decrease in long -term deposits and deferred costs | 4,768,228 | 4,217,909 |
| Increase in short- term loan | (4,623,036) | -- |
| | ----- | ----- |
| Net cash used in investing activities | (100,792,835) | (116,224,302) |
| Cash flows from financing activities | | |
| (Decrease)/increase in long-term finances | (33,119,775) | 4,946,208 |
| Increase in long -term deposits | 37,910,709 | 21,336,806 |
| Proceeds from certificates of Investment | 51,100,000 | 40,000,000 |

| | | |
|--|--------------------|--------------------|
| Increase in running finances under mark-up arrangement | 47,434,638 | 25,608,396 |
| Increase in short - term finances | 45,000,000 | 15,000,000 |
| Increase in liabilities against assets subject to finance leases | 4,519,999 | 704,038 |
| Payment of dividend | -- | (22,495,282) |
| Net cash flows from financing activities | 152,845,571 | 85,100,166 |
| Net increase in cash and cash equivalents | 72,066,261 | 12,187,695 |
| Cash and cash equivalents at beginning of the year | 140,941,935 | 128,754,240 |
| Cash and cash equivalents at the end of the year (Note A) | 213,008,196 | 140,941,935 |

Note A. Cash and cash equivalents at the end of the year

| | | |
|------------------------|--------------------|--------------------|
| Cash and bank balances | 98,140,005 | 76,689,022 |
| Short-term Investments | 114,868,191 | 64,252,913 |
| | 213,008,196 | 140,941,935 |

JAVED A. CALLEA
Chief Executive

AFTAB AHMED KHAN
Chairman

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 1999**

| | <i>RESERVE</i> | | | | | | | | | <i>Grand Total</i> |
|---|---|--|--|------------------------------------|---|------------------------|-----------------------------------|-------------------------------|--------------------|--------------------|
| | <i>Issued, Subscribed and Paid-up Capital</i> | <i>Premium on issuance of right shares</i> | <i>Capital Reserve for deferred taxation</i> | <i>Reserve under NBFIT's rules</i> | <i>Reserve for issue of proposed bonus shares</i> | <i>General reserve</i> | <i>Reserve for doubtful debts</i> | <i>Un-appropriated profit</i> | <i>Total</i> | |
| Balance as at June 30, 1997 | 150,000,000 | 56,250,000 | -- | 18,792,752 | -- | -- | 10,236,562 | 19,924,727 | 105,204,041 | 255,204,041 |
| Net profit for the year | -- | -- | -- | -- | -- | -- | -- | 40,192,811 | 40,192,811 | 40,192,811 |
| Premium on issuance of right shares to be utilized for issue of 15% proposed bonus shares | -- | (22,500,000) | -- | -- | 22,500,000 | -- | -- | -- | -- | -- |
| Transfer from profit and loss account | -- | -- | -- | 8,038,562 | -- | 51,961,438 | -- | (60,000,000) | -- | -- |
| Balance as at June 30, 1998 | 150,000,000 | 33,750,000 | -- | 26,831,314 | 22,500,000 | 51,961,438 | 10,236,562 | 117,538 | 145,396,852 | 295,396,852 |
| Net profit | | | | | | | | | | |

| | | | | | | | | | | |
|----------------------|-------------|------------|------------|------------|--------------|-------------|------------|--------------|--------------|--------------|
| for the year | -- | -- | -- | -- | -- | -- | -- | 29,544,538 | 29,544,538 | 29,544,538 |
| Transfer from/(to) | | | | | | | | | | |
| profit and loss | | | | | | | | | | |
| account | -- | -- | 14,649,296 | 5,908,908 | -- | (8,161,438) | -- | (12,396,766) | -- | -- |
| Issue of bonus | | | | | | | | | | |
| shares | 22,500,000 | -- | -- | -- | (22,500,000) | -- | -- | -- | (22,500,000) | -- |
| Proposed dividend | -- | -- | -- | -- | -- | -- | -- | (17,250,000) | (17,250,000) | (17,250,000) |
| Balance as at | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| June30, 1999 | 172,500,000 | 33,750,000 | 14,649,296 | 32,740,222 | -- | 43,800,000 | 10,236,562 | 15,310 | 135,191,390 | 307,691,390 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

JAVED A. CALLEA
Chief Executive

AFTAB AHMED KHAN
Chairman

Notes To The Financial Statements For The Year Ended June 30, 1999

1. LEGAL STATUS AND NATURE OF BUSINESS

The company was incorporated in Pakistan as a public limited company on April 7, 1987. The company commenced commercial operations in August 1989, and is listed on all Stock Exchanges in Pakistan. Its prime business is leasing, and it is classified as a Non-Banking Financial Institution (NBFI) by the State Bank of Pakistan and is regulated by the Securities and Exchange Commission of Pakistan.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These financial statements have been prepared under the historical cost convention.

2.2 Operating fixed assets and depreciation

(a) Owned assets

Fixed assets are stated at cost less depreciation to date. Depreciation is charged to income by applying reducing balance method. Full years depreciation is charged on acquisitions during the year while no depreciation is charged on fixed assets disposed off during the year.

However, the assets given to employees as per the company policy are to be charged to income applying the straight-line method whereby the cost of an asset is written off over four years. Depreciation on such additions is charged from the month in which the asset is put to use and on disposals in the month in which disposal is made.

Normal repairs and maintenance are charged to income as and when incurred. Major renewals and betterment are capitalized.

Gains and losses on disposal of fixed assets, if any, are included in income

currently. However, gains on sale and leaseback transaction that results in a finance lease, is deferred and amortized over the lease term.

(b) Assets subject to finance leases

These are stated at the lower of present value of minimum lease payments and fair value of assets acquired on lease. Assets so acquired are depreciated over the shorter of the lease term or its useful life. Financial charges are allocated to accounting periods in a manner so as to produce a constant periodic rate of charge on the outstanding liability.

2.3 Deferred costs and amortization

Deferred costs are written off during a period not exceeding five years commencing from the year such costs are incurred.

2.4 Investments

(a) Long-term investments

Long-term investments are stated at cost and carrying amount is reduced to recognize any decline other than temporary in the value of investments.

(b) Short-term investments

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

2.5 Taxation

(a) Current

Provision is made on taxable income at the prevailing rates of taxation after taking into account tax credits available, if any.

(b) Deferred

The company accounts for deferred taxation on all major timing differences likely to reverse in the foreseeable future, using the liability method. However, in order to conform with the requirements of circular no. 16 dated September 9, 1999 issued by the Securities and Exchange Commission of Pakistan, appropriation or provision is made each year.

2.6 Foreign exchange transactions

Transactions in foreign currencies are accounted for in rupees at the rate of exchange ruling on the date of transaction. Assets and liabilities in foreign currencies are translated into rupees at the rate of exchange at the balance sheet date. Net exchange differences arising due to hedging mechanism are accounted for as deferred revenue/costs as the case may be and are credited/amortized to income over the term of the underlying transactions or five years whichever is shorter.

2.7 Off-setting

A financial asset and a financial liability is off-set and the net amount reported in the balance sheet if the company has a legal enforceable right to set-off the transactions and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Until last year, corresponding income on the asset and charge on the liability was also netted off.

2.8 Employees' retirement benefits

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

2.9 Revenue recognition

The company follows the financing method in accounting for recognition of lease income. At the time of the execution of a lease, a portion of unearned lease income, which approximates the initial direct costs incurred in writing the leases, is taken to "Income from lease operations". The remainder of the unearned lease income is then allocated over the lease term on a pattern reflecting a constant periodic return on the company's net investment outstanding in respect of the lease.

Front end, commitment and other fees, if any, are taken to income when realized.

2.10 Allowance for potential lease losses

The allowance for potential lease losses is maintained at a level, which in the judgment of the management, is sufficient to provide for any potential lease losses. The recognition of annual charge and income of such amount would be taken through the profit and loss account. The allowance would be increased by the provision charged to income and would be decreased by charge off, net of recoveries.

3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

| | <i>1999</i> <i>Rupees</i> | <i>1998</i> <i>Rupees</i> |
|--|-------------------------------|-------------------------------|
| 15,000,000 (1998: 15,000,000) ordinary snares of Rs. 10 each fully paid in cash | 150,000,000 | 150,000,000 |
| 2,250,000 (1998: Nil) ordinary snares of Rs. 10 each issued as fully paid bonus shares | 22,500,000 | -- |
| | ----- 172,500,000 ===== | ----- 150,000,000 ===== |

4. DEFERRED INCOME

This represents gain on sale and leaseback transaction that resulted in a finance lease.

5. LONG-TERM FINANCES-Secured

| | <i>1999</i> <i>Rupees</i> | <i>1998</i> <i>Rupees</i> |
|------------------|------------------------------|------------------------------|
| Foreign currency | | |

| | | |
|--|-------------|-------------|
| From Commonwealth Development Corporation U.K- an associated undertaking (Note 5.1) | 239,166,667 | 290,937,750 |
| Local currency | | |
| From a commercial bank (Note 5.2) | 23,632,545 | -- |
| From an investment company (Note 5.3) | 20,018,763 | 25,000,000 |
| | ----- | ----- |
| | 43,651,308 | 25,000,000 |
| | ----- | ----- |
| | 282,817,975 | 315,937,750 |
| Less: Current maturity (Note 9) | 84,061,665 | 69,634,070 |
| | ----- | ----- |
| | 198,756,310 | 246,303,680 |
| | ===== | ===== |

5.1 This represents Pounds Sterling 5 million loan obtained from Commonwealth Development Corporation, UK, an associated undertaking. The loan is repayable in twelve equal semi-annual installments commenced from May 1997 and is secured by floating pari-passu charge, through hypothecation, over certain present assets and joint floating charge over certain present and all future assets of the company. The rate of interest is 11.5% per annum.

5.2 This represents Rs. 23.63 million loan obtained under mark-up arrangement and carries mark-up at the rate of Rs. 0.42 per Rs. 1,000 per day, payable in quarterly installments. The principal is repayable in six equal semi annual installments commencing from October 1999. The loan is secured by lien of three years registered special US dollar bonds included in note 16.

5.3 This represents Rs. 25 million loan obtained under mark-up arrangement. The loan is repayable in twelve equal quarterly installments commenced from October 1998. The loan carries mark-up at the rate of Rs. 0.53 per Rs. 1,000 per day and is secured by joint pari-passu charge over all present and future assets of the company.

6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

| | <i>1999</i> <i>Rupees</i> | <i>1998</i> <i>Rupees</i> |
|-----------------------------------|------------------------------|------------------------------|
| Minimum lease payments (Note 6.1) | 7,297,496 | 1,411,822 |
| Less: Finance charges not yet due | 1,660,046 | 294,371 |
| | ----- | ----- |
| | 5,637,450 | 1,117,451 |
| Less: Current maturity | 1,662,743 | 304,238 |
| | ----- | ----- |
| | 3,974,707 | 813,213 |
| | ===== | ===== |

6.1 The company has entered into lease agreements with leasing companies for financing to acquire motor vehicles, furniture and fixture and office equipment. Payments under these agreements include finance charges ranging from 19.17% to 21.03 % per annum, which are used as discounting factors. The future payments due are as follows:

| <i>Year ending</i> | <i>1999 Rupees</i> | <i>1998 Rupees</i> |
|--------------------|------------------------|------------------------|
| June 30, 1999 | -- | 532,402 |
| June 30, 2000 | 2,537,976 | 447,408 |
| June 30, 2001 | 2,451,426 | 360,858 |
| June 30, 2002 | 1,950,609 | 71,154 |
| June 30, 2003 | 357,485 | -- |
| | ----- | ----- |
| | 7,297,496 | 1,411,822 |
| | ===== | ===== |

7. CERTIFICATES OF INVESTMENT

| | <i>1999 Rupees</i> | <i>1998 Rupees</i> |
|------------------------------------|------------------------|------------------------|
| Certificates of investment issued: | | |
| - for one year and more | 21,100,000 | -- |
| - for less than one year | 80,000,000 | 50,000,000 |

The company has a scheme of registered Certificates of Investment (COIs) for resource mobilization as per permission from the Securities and Exchange Commission of Pakistan. The term of these COIs ranges from three months to five years and expected return, ranging from Rs. 0.36 to Rs. 0.51 per Rs. 1,000 per day, is paid on a profit and loss sharing basis.

8. LONG-TERM DEPOSITS

| | <i>1999 Rupees</i> | <i>1998 Rupees</i> |
|---|------------------------|------------------------|
| Security deposits on leases (Note 8.1) | 111,093,954 | 73,183,245 |
| Less: Current maturity (Note 9) | 19,060,745 | 18,753,196 |
| | ----- | ----- |
| | 92,033,209 | 54,430,049 |
| | ===== | ===== |

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

9. CURRENT MATURITY OF LONG-TERM LIABILITIES

| | <i>1999 Rupees</i> | <i>1998 Rupees</i> |
|-----------------------------|------------------------|------------------------|
| Long-term finances (Note 5) | 84,061,665 | 69,634,070 |
| Long-term deposits (Note 8) | 19,060,745 | 18,753,196 |
| | ----- | ----- |
| | 103,122,410 | 88,387,266 |
| | ===== | ===== |

10. SHORT-TERM FINANCE

| <i>1999</i> | <i>1998</i> |
|-------------|-------------|
|-------------|-------------|

Secured

Pro-note discounting facility from a financial institution (Note 10.1)

| <i>Rupees</i> | <i>Rupees</i> |
|---------------|---------------|
| 20,000,000 | 25,000,000 |

Unsecured

From investment banks (Note 10.2)
Others (Note 10.3)

| | |
|------------|------------|
| 35,000,000 | -- |
| 25,000,000 | 10,000,000 |
| ----- | ----- |
| 60,000,000 | 10,000,000 |
| ----- | ----- |
| 80,000,000 | 35,000,000 |
| ===== | ===== |

10.1 This represents a finance facility carrying mark-up at the rate of Rs. 0.50 per Rs. 1,000 per day and is secured by joint pari-passu charge over all present and future assets of the company.

10.2 This represents finance facilities carrying mark-up at the rate ranging from Rs.0.38 to Rs. 0.42 per Rs. 1,000 per day.

10.3 This represents a finance facility obtained from a leasing company carrying mark-up at the rate of Rs.0.47 per Rs. 1,000 per day.

11. RUNNING FINANCES UNDER MARK-UP ARRANGEMENT - Secured

Running finance facilities available to the company aggregating to Rs. 114.40 million (1998: Rs. 50 million) on yearly renewal basis at mark-up ranging between Rs. 0.49 and Rs. 0.50 (1998: Rs. 0.37 and 0.49) per Rs. 1,000 per day. These finances are secured by way of joint pari-passu charge on all present and future assets of the company.

12. CREDITORS, ACCRUED AND OTHER LIABILITIES

| | <i>1999</i> | <i>1998</i> |
|--|---------------|---------------|
| | <i>Rupees</i> | <i>Rupees</i> |
| Advance lease rentals | 2,583,729 | 3,939,080 |
| Accrued liabilities | 1,990,069 | 1,663,866 |
| Mark-up payable on secured finances | 15,961,724 | 19,273,793 |
| Mark-up payable on un-secured finances | 3,768,221 | 200,344 |
| Excise duty | -- | 265,828 |
| Unclaimed dividend | 64,205 | 75,080 |
| Other liabilities | 1,871,101 | 2,479,269 |
| | ----- | ----- |
| | 26,239,049 | 27,897,260 |
| | ===== | ===== |

13. COMMITMENTS

Lease proposals approved Rs. 12 million (1998: Rs. 30.021 million).

14. OPERATING FIXED ASSETS

| | <i>Cost</i> | | | <i>Depreciation</i> | | | | |
|------------------------|---------------------------|-----------------------|-------------------------------|----------------------------|---------------------|----------------------------|---|--------------------------------------|
| | <i>As on July 1, 1998</i> | <i>Inter transfer</i> | <i>Additions/ (deletions)</i> | <i>As at June 30, 1999</i> | <i>For the year</i> | <i>As at June 30, 1999</i> | <i>Written down value as at June 30, 1999</i> | <i>Depreciation rate % per annum</i> |
| Owned | | | | | | | | |
| Office premises | 12,163,446 | -- | 185,565 | 12,021,361 | 507,515 | 9,642,776 | 9,642,776 | 5 |
| Furniture and fixtures | 1,239,628 | 9,430 | 277,440 | 953,893 | 146,872 | 467,449 | 486,444 | 15 & 25 |
| Motor vehicles | 2,767,585 | -- | 3,940 | 2,223,125 | 52,489 | 1,616,749 | 606,376 | 20 & 25 |
| Office equipment | 3,533,119 | 327,650 | 214,425 | 1,217,680 | 113,128 | 576,621 | 641,059 | 15 |
| Computer software | 573,500 | -- | 4,500 | 578,000 | 63,958 | 215,571 | 362,429 | 15 |
| | 20,277,278 | -- | 685,870 | 16,994,059 | 883,962 | 5,254,975 | 11,739,084 | |
| Leased | | | | | | | | |
| Furniture and fixtures | -- | -- | 373,387 | 373,387 | -- | -- | 373,387 | 33.33 |
| Motor vehicles | 544,000 | -- | 2,547,000 | 3,091,000 | 504,498 | 663,582 | 2,427,418 | 25,33.33 & 36.36 |
| Office equipment | 601,000 | -- | 2,241,608 | 2,842,608 | 122,992 | 323,326 | 2,519,282 | 33.33 |
| | 1,145,000 | -- | 5,161,995 | 6,306,995 | 627,490 | 986,908 | 5,320,087 | |
| 1999 | 21,422,278 | -- | 5,847,865 | 23,301,054 | 1,511,452 | 6,241,883 | 17,059,171 | |
| 1998 | 21,215,003 | -- | 1,780,870 | 21,422,278 | 2,617,883 | 6,757,442 | 14,664,836 | |

15. DISPOSAL OF TANGIBLE FIXED ASSETS

| <i>Particulars</i> | <i>Cost</i> | <i>Accumulated depreciation</i> | <i>Written down value</i> | <i>Sale proceeds</i> | <i>Mode of disposal</i> | <i>Buyer</i> |
|------------------------------|-------------|---------------------------------|---------------------------|----------------------|-------------------------|-------------------------------|
| <i>Rupees</i> | | | | | | |
| Furniture and fixture | | | | | | |
| Furniture | 9,000 | 2,498 | 6,502 | 7,000 | By negotiation | Mr. Javed Khan, Karachi |
| Furniture | 563,605 | 197,330 | 366,275 | 373,387 | Sale & lease back | Pacific Leasing Company Ltd. |
| Motor vehicles | | | | | | |
| Suzuki Mehran | 231,000 | 207,900 | 23,100 | 34,650 | Company policy | Mr. S. Shahid Owais, Employee |
| Suzuki Mehran | 262,000 | 262,000 | -- | 39,300 | Company policy | Mr. Mehboob-ur-Rehman, |

| | | | | | Employee | |
|-------------------------|-----------|-----------|-----------|-----------|------------------------|------------------------------|
| Honda CD -70 M-cycle | 55,400 | 30,581 | 24,819 | 52,000 | Insurance Claim | EFU General Insurance Ltd |
| Office equipment | | | | | | |
| Equipment | 2,846,480 | 1,326,702 | 1,519,778 | 1,988,643 | Sale & lease back | Pacific Leasing Company Ltd. |
| Equipment | 1,604 | -- | 1,604 | 1,604 | Claim from courier Co. | TCS (Pvt.) Limited |

16. LONG-TERM INVESTMENTS

| | 1999 | 1998 |
|---|---------------|---------------|
| | Rupees | Rupees |
| In associated undertakings (Note 16.1) | 4,125,000 | 4, 125,000 |
| In special US dollar bonds (Note 16.2) | 27,639,507 | -- |
| | ----- | ----- |
| | 31,764,507 | 4, 125,000 |
| | ===== | ===== |

16.1 IN ASSOCIATED UNDERTAKINGS

| 1999 | 1998 | | |
|--|-------------|------------------------------------|-----------|
| <i>No. of ordinary shares of Rs. 10 each</i> | | | |
| | | *Listed | |
| | | Trust Investment Bank Ltd. | |
| | | (Holding 1 percent | |
| | | (1998: 1 percent) in the | |
| 100,000 | 100,000 | equity of the Bank | 1,000,000 |
| | | | 1,000,000 |
| | | *Unlisted | |
| | | International Housing | |
| | | Finance Ltd. (Holding 2.5) percent | |
| | | (1998: 2.5 percent in the | |
| 312,500 | 312,500 | equity of the company) | 3,125,000 |
| | | | 3,125,000 |
| | | | ----- |
| | | | 4,125,000 |
| | | | ----- |
| | | | ===== |

16.1.1 Market value as at June 30, 1999 for investment in listed associated undertaking was Rs.500,000 (1998: Rs. 900,000)

16.1.2 The above investments are carried at cost. Had the investments been accounted for using the equity method, the value of investment on the basis of latest available audited accounts for the year ended June 30, 1999 of the investees and their effects on the profit and loss account would have been as follows:

| | |
|--------------------|------------------|
| <i>Value of</i> | |
| <i>investments</i> | <i>Effect on</i> |

| | <i>under equity method Rupees</i> | <i>profit Rupees</i> |
|------------------------------------|---|--------------------------|
| Trust Investment Bank Ltd. | 1,346,559 | 346,559 |
| International Housing Finance Ltd. | 3,374,180 | (26,141) |
| | ----- | ----- |
| | 4,720,739 | 320,419 |
| | ===== | ===== |

16.2 It represents investment amounting to US \$538,100 in the special US dollar bonds issued by the Government of Pakistan. These bonds are redeemable on April 01, 2002 and carry interest at the rate of six months LIBOR plus two percent.

17. LONG-TERM DEPOSITS AND DEFERRED COSTS

| | <i>1999 Rupees</i> | <i>1998 Rupees</i> |
|----------------------------|------------------------|------------------------|
| Long-term deposits | 811,305 | 486,035 |
| Deferred costs (Note 17.1) | 12,242,055 | 18,225,523 |
| | ----- | ----- |
| | 13,053,360 | 18,711,558 |
| | ===== | ===== |

17.1 Deferred Costs

| | <i>As on July 01, 1998</i> | <i>Additions/ (Deletion)</i> | <i>As at June 30, 1999</i> | <i>Amortization For the year</i> | <i>As at June 30, 1999</i> | <i>Unamortized Balance as at June 30, 1999</i> |
|---------------------------------|------------------------------------|----------------------------------|------------------------------------|--------------------------------------|------------------------------------|--|
| Fund utilization (Note 17.2) | 26,989,065 | -- | 26,989,065 | 5,397,813 | 15,416,910 | 11,572,155 |
| Others (Note 17.3) | 4,541,879 | 304,315 (1,902,286) | 2,943,908 | 889,970 | 2,274,008 | 669,900 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| 1999 | 31,530,944 | 304,315 (1,902,286) | 30,968,658 | 6,287,783 | 17,690,918 | 12,242,055 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| 1998 | 30,730,944 | 800,000 | 31,530,944 | 5,886,563 | 13,305,421 | 18,225,523 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

17.2 Fund utilization represents expenses incidental to foreign currency finances, which were adjusted against possible recoveries or charged off as part of borrowing cost.

17.3 The balance as on June 30, includes.

| | <i>1999</i> <i>Rupees</i> | <i>1998</i> <i>Rupees</i> |
|-------------------------|------------------------------|------------------------------|
| Right issue expenses | 55,125 | 338,213 |
| Commitment charges | 156,606 | 234,909 |
| Bond floatation expense | -- | 3,264 |
| Others | 458,169 | 679,169 |
| | ----- | ----- |
| | 669,900 | 1,255,555 |
| | ===== | ===== |

18. SHORT TERM LOAN - Considered Good Secured

This represents a short-term loan facility given to a company against first charge by way of hypothecation of stocks and carries a mark-up at the rate of Rs. 0.61 per Rs. 1,000 per day.

19. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

| | <i>1999</i> <i>Rupees</i> | <i>1998</i> <i>Rupees</i> |
|--|------------------------------|------------------------------|
| Advances - Considered good | | |
| - to staff (Note 19.1) | 245,156 | 126,756 |
| - against expenses | 63,932 | 2,500 |
| - against leases | 11,040,653 | 1,971,578 |
| - others | 3,250 | 9,250 |
| Taxation-net of provision | 12,045,617 | 1,533,250 |
| Prepayments | 717,531 | 569,682 |
| Mark-up due on certificates/securities | 14,253,811 | 18,089,132 |
| C.E.D. Receivables | 1,837,789 | -- |
| Other receivables | 2,129,682 | 819,343 |
| | ----- | ----- |
| | 42,337,421 | 23,121,491 |
| | ===== | ===== |

19.1 Aggregate amount due by the executives Rs. 0.182 million (1998: Rs. 0.071 million). Maximum amount due from executives at the end of any month during the year aggregated Rs. 0.285 million (1998: Rs. 0.229 million).

20. SHORT-TERM INVESTMENTS

| | | <i>1999</i> <i>Rupees</i> | <i>1998</i> <i>Rupees</i> |
|---------------------------|-------------|------------------------------|------------------------------|
| Federal Investment Bonds | (Note 20.1) | 925,000 | 20,925,000 |
| Term finance certificates | (Note 20.2) | 7,287,999 | 8,390,413 |
| Placement and deposits | (Note 20.3) | 96,382,192 | 34,937,500 |
| Special US dollar bonds | (Note 20.4) | 10,273,000 | -- |
| | | ----- | ----- |
| | | 114,868,191 | 64,252,913 |
| | | ===== | ===== |

20.1 This includes investments as per NBF1 rules, issued by the State Bank of Pakistan.

20.2 Term Finance Certificates (TFCs)

| | <i>1999</i> <i>Rupees</i> | <i>1998</i> <i>Rupees</i> |
|--|------------------------------|------------------------------|
| Packages Limited | | |
| 10 (1998: 10) Certificates of face value Rs. 5,000 each and | | |
| 12 ((1998: 12) Certificates of face value Rs. 100,000 each | 416,334 | 861,097 |
| Nishat Tek Limited | | |
| Nil (1998: 75) Certificates of face value Rs. 100,000 each | -- | 7,529,316 |
| ICI Pakistan Limited | | |
| 100 (1998: Nil) Certificates of face value Rs. 100,000 each | 8,487,855 | -- |
| Sui Southern Gas Company Limited | | |
| 5800 (1998: Nil) Certificates of face value Rs. 5,000 each and | | |
| 50 (1998: Nil) Certificates of face value Rs. 100,00 each | 26,383,810 | -- |
| | ----- | ----- |
| | 35,287,999 | 8,390,413 |
| Less: Sold under repurchase agreements | | |
| ICI Pakistan Limited | | |
| 100 Certificates of face value Rs. 100,000 each (repurchase price Rs. 8.3 million) | 8,000,000 | -- |
| Sui Southern Gas Company Limited | | |
| 4000 Certificates of face value Rs. 5,000 each (repurchase price Rs. 20.86 million) | 26,000,000 | -- |
| | ----- | ----- |
| | 7,287,999 | 8,390,413 |
| | ===== | ===== |

The aggregate market value of TFCs Rs. 15 million (1998: 8.78 million) and carries expected profit ranging from Rs. 0.51 to Rs. 0.61 per Rs. 1,000 per day and is redeemable in semi annual installments.

20.3 These represent short-term placement and deposits with different NBFIs and carry mark-up ranging from Rs. 0.42 to Rs. 0.52 per Rs. 1,000 per day.

20.4 It represents investment amounting to US \$ 200,000 in the special US dollar bonds issued by the Government of Pakistan. These bonds are redeemable on April 01, 2002 and carry interest rate of six months LIBOR plus two percent.

21. CASH AND BANK BALANCES

| | <i>1999</i> <i>Rupees</i> | <i>1998</i> <i>Rupees</i> |
|--------------|------------------------------|------------------------------|
| Cash in hand | 9,927 | 10,286 |

| | | |
|--------------------------------------|------------|------------|
| Cash with banks on | | |
| - current accounts (Note 21.1) | 29,072,914 | 484,414 |
| - fixed deposit receipts (Note 21.2) | 69,056,626 | 76,193,784 |
| - collection accounts | 538 | 538 |
| | ----- | ----- |
| | 98,140,005 | 76,689,022 |
| | ===== | ===== |

21.1 This includes Rs. 0.050 million (1998: Rs. 0.040 million) in current account maintained with the State Bank of Pakistan under NBF1 rules.

21.2. Fixed Deposit Receipts

| | <i>1999</i> | <i>1998</i> |
|---|---------------|---------------|
| | <i>Rupees</i> | <i>Rupees</i> |
| Foreign currency fixed deposit receipts | 249,207,581 | 349,850,841 |
| Less: Credit facility availed (Note 21.3) | 180,648,077 | 240,845,145 |
| Credit facility availed | -- | 33,037,500 |
| | ----- | ----- |
| | 68,559,504 | 75,968,196 |
| Other foreign currency fixed deposit receipts | 247,122 | 225,588 |
| Local currency fixed deposit receipts | 250,000 | -- |
| | ----- | ----- |
| | 69,056,626 | 76,193,784 |
| | ===== | ===== |

21.3 The total sanctioned amount from a commercial bank and an investment company under mark-up arrangements amounted to Rs. 305 million (1998: Rs. 337 million). These loans carry mark-up ranging from Rs. 0.37 to Rs. 0.39 (1998: Rs. 0.35 to Rs. 0.39) per Rs. 1,000 per day. The commercial bank borrowing is repayable in ten semi-annual equal installments upto November 2002, whereas investment company borrowing is repayable in twelve equal semi-annual installments upto November 2002. The commercial bank and investment company borrowing is secured against foreign currency deposits mentioned above.

22. OTHER INCOME

| | <i>1999</i> | <i>1998</i> |
|---|---------------|---------------|
| | <i>Rupees</i> | <i>Rupees</i> |
| Return on foreign currency deposits | 22,371,498 | 25,704,123 |
| Return on short term placement and deposits | 12,576,894 | 10,737,342 |
| Return on Government securities and term finance certificates | 8,798,440 | 4,728,893 |
| Exchange gain | 8,544,193 | 7,478,887 |
| Gain/(loss) on sale of listed securities | 526,615 | (46,569) |
| Fee, commission and others | 360,729 | 98,513 |
| Dividend income | 89,000 | -- |
| Gain/(loss) on sale of operating fixed assets | 78,529 | (48,322) |
| | ----- | ----- |
| | 53,345,898 | 48,652,867 |

23. ADMINISTRATIVE AND OPERATING EXPENSES

| | 1999 | 1998 |
|--|---------------|---------------|
| | Rupees | Rupees |
| Salaries and allowances including | | |
| Directors remuneration (Note 25) | 9,194,582 | 6,452,765 |
| Staff training | 78,450 | 14,800 |
| Rent, rates and taxes | 122,457 | 105,412 |
| Travelling and conveyance | 374,492 | 505,079 |
| Vehicle running | 679,512 | 474,549 |
| Utilities | 309,526 | 290,860 |
| Telephone and Fax | 371,169 | 304,196 |
| Insurance | 786,103 | 480,793 |
| Fees, subscriptions and periodicals | 375,865 | 241,612 |
| Printing and stationery | 432,287 | 469,047 |
| Postage, stamps and telegrams | 136,565 | 99,879 |
| Legal and professional charges (Note 23.1) | 694,333 | 700,337 |
| Auditors' remuneration (Note 23.2) | 151,000 | 126,100 |
| Repairs and maintenance | 621,897 | 453,937 |
| Depreciation | 1,511,452 | 2,617,883 |
| Advertisement | 115,038 | 52,441 |
| Miscellaneous | 47,396 | 2,062 |
| | ----- | ----- |
| | 16,002,124 | 13,391,752 |
| | ===== | ===== |

23.1 Legal and professional charges

| | | |
|--------------------|---------|---------|
| Corporate services | 473,082 | 380,335 |
| Legal charges | 166,600 | 281,157 |
| Others | 54,651 | 38,845 |
| | ----- | ----- |
| | 694,333 | 700,337 |
| | ===== | ===== |

23.2 Auditors' remuneration

| | | |
|------------------------|---------|---------|
| Statutory audit fee | 55,000 | 55,000 |
| Special audit fee | 20,000 | -- |
| Taxation charges | 75,000 | 62,500 |
| Out-of-pocket expenses | 1,000 | 8,600 |
| | ----- | ----- |
| | 126,100 | 151,000 |
| | ===== | ===== |

24. FINANCIAL CHARGES

| | | |
|---|------------|------------|
| Mark-up on | | |
| - long-term finances | 75,120,265 | 77,042,942 |
| - short-term finances | 20,132,495 | 8,627,688 |
| - discounting facility | 4,894,604 | 151,678 |
| -running finances under mark-up arrangement | 4,580,113 | 3,356,800 |
| -long-term COIs | 1,364,682 | -- |
| -short term COIs | 8,014,614 | 1,918,082 |
| Finance charges on liabilities against assets subject | | |

| | | |
|------------------|-------------|------------|
| to finance lease | 560,572 | 142,427 |
| Bank charges | 253,749 | 536,907 |
| | ----- | ----- |
| | 114,921,094 | 91,776,524 |
| | ===== | ===== |

25. REMUNERATION OF CHIEF EXECUTIVE AND OTHER EXECUTIVES

| | 1999 | | | 1998 | | |
|---|-----------------|------------|-----------|-----------------|------------|-----------|
| | Chief Executive | Executives | Total | Chief Executive | Executives | Total |
| Managerial remuneration | 1,393,333 | 2,059,514 | 3,452,847 | 990,000 | 1,165,812 | 2,155,812 |
| Housing and Utility | 696,667 | 1,029,763 | 1,726,430 | 495,000 | 582,906 | 1,077,906 |
| Bonus | 197,451 | 330,316 | 527,767 | 200,000 | 233,500 | 433,500 |
| Medical & other expenses | 129,394 | 171,695 | 301,089 | 100,789 | 157,151 | 257,940 |
| Company's contribution to provident fund | 132,000 | 198,056 | 330,056 | 99,000 | 116,581 | 215,581 |
| Company's contribution to pension scheme of an associated undertaking | 318,000 | -- | 318,000 | -- | -- | -- |
| Leave fare assistance | 283,805 | 189,575 | 473,380 | 178,875 | 263,875 | 442,750 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | 3,150,650 | 3,978,919 | 7,129,569 | 2,063,664 | 2,519,825 | 4,583,489 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Number of Persons | 1 | 11 | 12 | 1 | 6 | 7 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

The Chief Executive, Chairman and Executives have been provided with free use of company cars. Directors were paid Rupees 9,000 (1998: Rupees 9,000) for attending board meetings during the year.

26. TAXATION

| | 1999 Rupees | 1998 Rupees |
|--------------------------|----------------|----------------|
| Current | | |
| For the year (Note 26.1) | 1,726,192 | 1,267,069 |
| | ===== | ===== |

26.1 This represents the provision for minimum tax under section 80D of the income Tax Ordinance, 1979.

26.2 Deferred taxation arising due to timing differences between accounting and income tax revenue computed under liability method is estimated at Rs. 39.94 million (1998: Rs. 31.26 million).

The liability for deferred taxation is not likely to reverse in the foreseeable future. However, in accordance with the circular no. 16 dated September 9, 1999 issued by the Securities and Exchange Commission of Pakistan, an

amount of Rs. 14.65 million has been transferred to Capital Reserve under "Reserve for deferred taxation"

27. EARNINGS PER SHARE -BASIC AND DILUTED

| | 1999 Rupees | 1998 Rupees |
|--|------------------------------|------------------------------|
| Earnings per share - Basic | | |
| Profit after taxation | 29,544,538 | 40,192,811 |
| | ===== | ===== |
| Weighted average no. of shares. (Note 27.1) | 17,250,000 | 17,250,000 |
| | ===== | ===== |
| | Rupees | Rupees |
| Earnings per share - Diluted | 1.71 | 2.33 |
| | N/A | N/A |
| 27.1 Number of shares at the beginning of the year | 15,000,000 | 15,000,000 |
| Bonus shares issued | 2,250,000 | -- |
| Adjustment for bonus shares issued | -- | 2,250,000 |
| | ----- | ----- |
| Weighted average no. of shares | 17,250,000 | 17,250,000 |
| | ===== | ===== |

28. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause to other party to incur a financial loss. The company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties and continually assessing the credit worthiness of counter-parties.

A sector wise breakdown of lease portfolio is as follows:

| | 1999 Rupees | % |
|---|------------------------------|----------|
| Textiles | 91,559,050 | 13.00 |
| Food, Tobacco and Beverages | 72,732,216 | 10.33 |
| Cement | 65,425,762 | 9.29 |
| Synthetic, Garment and others | 61,889,115 | 9.00 |
| Energy, Oil and Gas | 56,280,410 | 7.99 |
| Chemical, Pharmaceuticals and Fertilizers | 55,924,811 | 7.94 |
| Financial | 49,349,102 | 7.01 |
| Sugar and Allied | 35,311,445 | 5.02 |
| Steel Engineering and Automobiles | 32,709,808 | 4.65 |
| Paper and Board | 30,149,580 | 4.28 |
| Transport and Communication | 22,260,026 | 3.16 |
| Glass and Fabrics | 18,752,881 | 2.66 |
| Healthcare | 15,748,254 | 2.24 |
| *Miscellaneous | 95,781,659 | 13.43 |
| | ----- | ----- |
| | 703,874,119 | 100.00 |

=====

* Six sector below 2 percent clubbed under miscellaneous.

In addition, the company has placed certain funds with other NBFIs and has invested certain funds in special US dollar bonds, federal investment bonds and term finance certificates.

29. FAIR VALUE OF FINANCIAL ASSETS

The estimated fair value of long-term investments and book value as at June 30, 1999 is as follows:

| | <i>Rupees</i> |
|----------------------------|---------------|
| Book value | 4,125,000 |
| Fair value | 3,534,062 |
| | ----- |
| Fair value over book value | (590,938) |
| | ===== |

No provision for decline in market value has been made, as in the opinion of management the decline is temporary.

The fair value of all other financial assets and financial liabilities is estimated to approximate their carrying value.

30. TRANSACTION WITH ASSOCIATED UNDERTAKINGS

| | <i>1999</i> <i>Rupees</i> | <i>1998</i> <i>Rupees</i> |
|---|------------------------------|------------------------------|
| Placement and deposits | 20,000,000 | -- |
| Short-term finance obtained | 55,000,000 | 15,000,000 |
| Lease finance obtained | 1,400,000 | -- |
| Mark-up on short term finances obtained | 491,000 | -- |
| Mark-up on short-term finances given | 369,384 | -- |
| Interest paid | 38,608,990 | 37,050,228 |
| Lease rental received | 7,925,360 | 1,133,050 |
| Lease rental paid | 110,078 | -- |
| Lease finance given | -- | 10,541,075 |

31. INTEREST RATE RISK EXPOSURE

The information about the company's exposure to interest rate risk as at June 30, 1999 based on contractual refinancing or maturity dates which ever is earlier is as follows:

| | <i>Interest Bearing</i> | | <i>Non-interest Bearing</i> | |
|--|--------------------------------------|--|--------------------------------|--------------|
| | <i>Less than</i> <i>one month</i> | <i>One month</i> <i>to one year</i> | <i>Over one</i> <i>year</i> | <i>Total</i> |

Rupees

Financial Assets

| | | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Net investment in leases | 16,368,000 | 253,794,303 | 322,617,862 | 111,093,954 | 703,874,119 |
| Long-term investments | -- | -- | 27,639,507 | 4,125,000 | 31,764,507 |
| Long-term deposits | -- | -- | -- | 811,305 | 811,305 |
| Short-term loan | -- | 4,623,036 | -- | -- | 4,623,036 |
| Advances and other receivables | 11,040,653 | -- | -- | 18,469,688 | 29,510,341 |
| Short-term investments | 87,655,192 | 23,000,000 | 3,177,314 | 1,035,685 | 114,868,191 |
| Cash and bank balances | 247,122 | -- | 68,559,504 | 29,333,379 | 98,140,005 |
| | ----- | ----- | ----- | ----- | ----- |
| | 115,310,967 | 281,417,339 | 421,994,187 | 164,869,011 | 983,591,504 |
| | ----- | ----- | ----- | ----- | ----- |

Financial Liabilities

| | | | | | |
|--|------------|-------------|-------------|-------------|-------------|
| Long-term finances | 1,824,870 | 82,236,795 | 198,756,310 | -- | 282,817,975 |
| Liabilities against assets subject to finance leases | 127,031 | 1,535,712 | 3,488,457 | 486,250 | 5,637,450 |
| Long-term deposits | -- | -- | -- | 111,093,954 | 111,093,954 |
| Certificates of investment | 25,000,000 | 55,000,000 | 21,100,000 | -- | 101,100,000 |
| Short-term finances | 10,000,000 | 70,000,000 | -- | -- | 80,000,000 |
| Running finances under mark-up arrangement | -- | 75,972,271 | -- | -- | 75,972,271 |
| Creditors, accrued and other liabilities | -- | -- | -- | 26,239,049 | 26,239,049 |
| | ----- | ----- | ----- | ----- | ----- |
| | 36,951,901 | 284,744,778 | 223,344,767 | 137,819,253 | 682,860,699 |
| | ----- | ----- | ----- | ----- | ----- |
| On balance sheet gap | 78,359,066 | (3,327,439) | 198,649,420 | 27,049,758 | |
| | ===== | ===== | ===== | ===== | |
| Cumulative interest rate sensitivity gap (a) | | | | | |
| | 78,259,066 | 75,031,627 | 273,681,047 | | |
| | ===== | ===== | ===== | | |

(a) The effective interest rate for financial assets and financial liabilities are as follows.

1999

%

Financial Assets

| | |
|----------------------------------|------------------------|
| Net investment in finance leases | 19.25 to 28.25 |
| Long-term investments | six month LIBOR plus 2 |
| Short-term loan | 2,225 |

| | |
|-----------------------------|----------------|
| Short-term investment | |
| - Federal investment bonds | 15.00 |
| - Term finances certificate | 18.50 to 22.50 |
| - Placement and deposits | 15.25 to 19.00 |
| Cash and bank balances | 6.50 to 9.50 |

Financial Liabilities

| | |
|---|----------------|
| Long-term finances | 11.50 to 19.35 |
| Certificates of investment | 13.25 to 18.88 |
| Liabilities against assets subject to finance lease | 19.17 to 21.03 |
| Short-term finances | 13.75 to 18.25 |
| Running finances under mark-up arrangement | 16.00 to 18.25 |

32. MAN POWER

The total number of employees as at June, 30, 1999 was 20 (1998: 19).

33. CORRESPONDING FIGURES

Corresponding figures have been re-arranged and re-grouped wherever necessary for the purpose of comparison.

JAVED A. CALLEA
Chief Executive

AFTAB AHMED KHAN
Chairman

Pattern of Holding of Shares As At June 30, 1999

| <i>No. of Shareholders</i> | <i>From</i> | <i>To</i> | <i>Total Shares Held</i> |
|----------------------------|-------------|-----------|--------------------------|
| 9 | 1 | 100 | 502 |
| 30 | 101 | 500 | 8278 |
| 49 | 501 | 1000 | 36716 |
| 131 | 1001 | 5000 | 283553 |
| 26 | 5001 | 10000 | 191846 |
| 19 | 10001 | 15000 | 227677 |
| 3 | 15001 | 20000 | 51290 |
| 2 | 20001 | 25000 | 45240 |
| 11 | 25001 | 30000 | 306220 |
| 5 | 30001 | 35000 | 116865 |
| 3 | 35001 | 40000 | 110679 |
| 3 | 40001 | 45000 | 128250 |
| 1 | 45001 | 50000 | 47725 |
| 2 | 55001 | 50000 | 116150 |
| 3 | 65001 | 70000 | 201710 |
| 2 | 70001 | 75000 | 144842 |
| 1 | 105001 | 110000 | 107525 |
| 1 | 110001 | 115000 | 110400 |
| 1 | 125001 | 130000 | 125120 |
| 1 | 185001 | 190000 | 186915 |
| 1 | 330001 | 335000 | 333500 |
| 1 | 340001 | 345000 | 343650 |
| 1 | 615001 | 620000 | 617550 |
| 1 | 635001 | 640000 | 637905 |

| | | | |
|-------|---------|---------|----------|
| 1 | 740001 | 745000 | 741520 |
| 1 | 1005001 | 1010000 | 1005350 |
| 1 | 1245001 | 1250000 | 1246100 |
| 1 | 1960001 | 1965000 | 1963992 |
| 1 | 2020001 | 2025000 | 2021930 |
| 1 | 2290001 | 2295000 | 2291000 |
| 1 | 3445001 | 3450000 | 3450000 |
| ----- | | ----- | |
| 314 | | | 17250000 |
| ===== | | ===== | |

Categories of Shareholders

| | Number | Shares Held | Percentage |
|------------------------|---------------|--------------------|-------------------|
| Individuals | 268 | 1487533 | 8.62 |
| Investment Companies | 4 | 49286 | 0.29 |
| Insurance Companies | 3 | 415380 | 2.40 |
| Joint Stock Companies | 17 | 3565090 | 20.67 |
| Financial Institutions | 9 | 5133620 | 29.76 |
| Modaraba Companies | 2 | 744395 | 4.32 |
| Others | 11 | 5854696 | 33.94 |
| ----- | | ----- | |
| Total | 314 | 17250000 | 100.00 |
| ===== | | ===== | |

Others

| | | | |
|---------------|----|---------|-------|
| Modarabas | 10 | 2404696 | 13.94 |
| Non Residents | 1 | 3450000 | 20.00 |
| ----- | | ----- | |
| Total | 11 | 5854696 | 33.94 |
| ===== | | ===== | |