

# **National Asset Leasing Corporation Limited**

Annual Report 1999

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## **COMPANY INFORMATION**

### **Chairman**

Dr. Khalid Iqbal

### **Chief Executive/Managing Director**

Shamim I. Junejo

### **Directors**

Muhammad Ashiq Rehmani  
Azhar Tariq Khan  
Syed Naveed H. Zaidi  
Rana M.Abu Obaida  
Sohail Ali

### **Company Secretary**

Zafar A. Badami

### **Bankers Of The Company**

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

### **Auditors**

Ford, Rhodes, Robson, Morrow  
Chartered Accountant  
Finlay House, I.I. Chundrigar Road, Karachi

### **Share Registrar**

Noble Computer Services (Private) Limited  
2na Floor, Al Manzoor Building,  
Dr. Ziauddin Ahmed .Road, Karachi

**Registered Office**

1-B, 1st Floor, Ali Plaza,  
Khayaban-e-Quaid-e-Azam,  
Blue Area, Islamabad  
Phones: 270626 & 822513  
Fax No. (92-51) 272506

**Head Office**

9th Floor, Lakson Square Building No. 1,  
265 R. A. Lines, Karachi.  
Phones: 5687412, 5687419, 5689580 & 5682027  
Fax No. (92-21) 5684259  
Telex No. 20538 ASSET PK.  
E-mail: n atlease@Khi.fascom.com

**NOTICE OF MEETING**

Notice is hereby given that the Ninth Annual General Meeting of National Asset Leasing Corporation Limited will be held at 1-B, First Floor, All Plaza, Khayaban-e-Quaid-e-Azam, Blue Area, Islamabad on Thursday, December 30, 1999 at 12.00 p.m to transact the following business -

**ORDINARY BUSINESS**

1. To confirm the Minutes of the Eight Annual General Meeting held on December 29, 1998.
2. To received, consider and adopt the Audited Accounts of the company together with Director's report thereon for the year ended June 30, 1999.
3. To appoint Auditors and o fix their remuneration for the year 1999-2000. M/s. Ford, Rhodes, Robson, Morrow, Chartered Accountants, the present Auditors, retire and being eligible, offer themselves for reappointment.
4. To transact any other business with the permission of the chair.

By order of the Board

**Islamabad · December 07, 1999.**

**Zafar A. Badami**  
Company Secretary

**Notes:**

1. The Share Transfer Books of the company will remain dosed from December 24 to December 30, 1999 (both days inclusive).
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. Proxies in order to be effective must be received at the company's Registered office at Islamabad at least 48 hours before the time of holding the meeting.
3. The member are requested to please notify to the company any change in their addresses.

## DIRECTORS' REPORT

The Board of Directors is pleased to present the 9th full year of operational review together with the Audited Annual Report of the Company for the year ended June 30, 1999.

### Financial Results

The operational result of the company during the year ended June 30, 1999 are summarized as follows:

	<b>1999</b>	<b>1998</b>
	<b>Rupees</b>	<b>Rupees</b>
Gross Revenue	32,949,413	43,578,270
Expenditure	21,599,858	38,064,553
	-----	-----
Net Profit before Provisions	11,349,555	6,513,817
Provisions & Write-off	24,575,792	500,000
	-----	-----
Net profit/(Loss)	(13,226,237)	6,013,817
	=====	=====

The financial results of the company show a net loss of 13.23 million for the year ended June 30, 1999. The loss is due to suspension of leasing income against certain leases and making of adequate provision & write-offs to inject total prudence in the financial results of the company. The company has also provided Rs. 5.25 million against the diminution in value of investments in shares as required by Technical Release - 23 issue by the Institute of Chartered Accountants of Pakistan. However, the company has earned a profit of Rs.11.35 million which shows a good sign considering the present economic conditions of the country.

The major part of suspended income and provision made during the year pertains to lease facilities extended to M/s Mohib Textile Mills. Nevertheless, the company has filed a suit in the Court of law against the lessee and very hopeful for the recovery.

### The Economy

The overall economy remained under recession, with the result that availability of quality customers were limited. With the general declining trend in new industrial investment and expansion, creditworthy clients were becoming difficult to identify. However, with the assumption of present Government's determination to complete the job of overall reconstruction politico-economic situation, it is expected that economic revival would lead the country to the greater opportunities for viable investments and the country would be again on its desired track of growth in the years to come.

The highlighted issue is the requirement of Security & Exchange Commission of Pakistan, under which the leasing companies are required to raise their paid-up capital to Rs.200 million by November 1999. Under present circumstances and condition of stock market the company does not have any option but to approach Securities & Exchange Commission of Pakistan, Islamabad with a request to extend the period for increasing paid-up capital.

### Business Prospects

The business prospects of the company depends on availability of funds on competitive rates. Negotiations are under way for procuring credit lines at reasonable mark-up rates. The management of the company is confident that it has the professional capability to manage

profitable business operations by broadening the funding base through various means and enhancing professional techniques to meet the challenges and achieve the desired results.

### **Auditors**

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

### **Pattern of Shareholding**

The pattern of shareholding as on June 30, 1999 is annexed.

### **Acknowledgment**

The board likes to place on record the commitment, dedication and hard work of all 22 staff members at Karachi & Islamabad offices. Sincere thanks to our clients, financial institutions and shareholders. We would also like to thank Security & Exchange Commission of Pakistan, Leasing Association of Pakistan, Stock Exchanges & State Bank of Pakistan for their support and guidance. We trust and pray for Allah's blessings, mercy and guidance for achieving desired results in years to come (Ameen).

### **Y2K Compliance**

The Company has successfully complied with the year 2000 issue, in respect of the millennium bug.

**Dr. Khalid Iqbal**  
Chairman

Islamabad: December 03, 1999

## **AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of NATIONAL ASSET LEASING CORPORATION LIMITED as at June 30, 1999 and the related profit and loss account and 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;

(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 loss and the changes in financial position (cash flows) for the year then ended; and

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

Sd/-

**FORD, RHODES, ROBSON, MORROW**

Chartered Accountants

Karachi: December 03, 1999

**BALANCE SHEET AS AT JUNE 30, 1999**

	Note	1999 Rupees	1998 Rupees
<b>SHARE CAPITAL AND RESERVES</b>			
<b>Share capital</b>			
Authorised			
10,000,000 ordinary shares of Rs.10 each		100,000,000	100,000,000
		=====	=====
Issued, subscribed and paid-up			
9,536,800 (1998: 9,536,800) ordinary shares of			
Rs.10 each fully paid in cash		95,368,000	95,368,000
<b>Reserves</b>			
Reserve fund (capital reserve)	3	9,828,840	9,828,840
Unappropriated (loss)/profit		(3,421,361)	10,104,876
		-----	-----
		6,407,479	19,933,716
		-----	-----
		101,775,479	115,301,716
<b>REDEEMABLE CAPITAL - SECURED</b>			
<b>LONG TERM FINANCE - SECURED</b>	4	16,859,092	41,464,385
<b>OBLIGATIONS UNDER FINANCE LEASE</b>	5	13,333,332	20,000,000
<b>CERTIFICATES OF INVESTMENT</b>	6	1,045,704	585,498
<b>LEASE KEY MONEY</b>	7	200,000	2,100,000
	8	6,448,969	15,989,396
<b>CURRENT LIABILITIES</b>			
Current portion of redeemable capital	4	29,925,882	9,968,949
Current portion of long term finance	5	29,163,536	23,996,868
Current portion of obligations under finance lease	6	907,226	920,772
Certificates of investment	7	6,400,000	9,000,000
Current portion of lease key money		9,337,467	3,907,045
Short term finances	9	19,012,379	17,207,628
Book overdraft with banks/DFI		--	1,517,435
Accrued and Other liabilities	10	33,512,029	31,521,021
		-----	-----
		128,258,519	98,039,718
<b>CONTINGENCIES AND COMMITMENTS</b>			
	11		
		-----	-----

		267,921,095	293,480,713
		=====	=====
<b>TANGIBLE FIXED ASSETS</b>	12	5,375,228	6,245,715
<b>NET INVESTMENT IN LEASE FINANCE</b>	13	134,362,645	150,567,507
<b>LONG TERM INVESTMENTS</b>	14	33,331,046	43,061,046
<b>LONG TERM DEPOSITS AND PREPAYMENTS</b>	15	220,650	477,750
<b>CURRENT ASSETS</b>			
Current portion of net investment in lease finance	13	58,388,112	74,883,050
Short term investment	16	3,500,000	-
Advances, deposits, prepayments and other receivables	17	7,630,170	3,750,980
Cash and bank balances	18	25,113,242	14,454,663
		-----	-----
		94,631,524	93,088,693
		-----	-----
		267,921,095	293,480,713
		=====	=====

The annexed notes form an integral part of these accounts.

DR. KHALID IQBAL  
Chairman

SHAMIM I. JUNEJO  
Chief Executive

M.A. REHMANI  
Director

### PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 1999

	Note	1999 Rupees	1998 Rupees
<b>REVENUE</b>			
Income from leasing operations	19	30,713,354	41,117,507
Income from Government securities		(161,350)	(359,709)
Dividend income		224,775	293,971
Income from bank deposits		2,587,378	2,519,185
(Loss)/Profit on disposal of fixed assets		(414,744)	416
Other income		-	7,000
		-----	-----
		32,949,413	43,578,370
<b>EXPENDITURE</b>			
Return and financial charges	20	20,289,280	25,106,462
Excess mark-up provided, written back	9.3	(8,795,944)	-
Administrative and operating expenses	21	10,106,522	11,958,091
		-----	-----
		21,599,858	37,064,553
<b>PROFIT BEFORE PROVISIONS</b>		11,349,555	6,513,817
<b>PROVISIONS</b>			
Provision for doubtful receivables		10,550,042	--
Write offs of lease receivable		8,775,750	--
Provision for diminution in value of investment		5,250,000	500,000

		24,575,792	500,000
<b>(LOSS)/PROFIT BEFORE TAXATION</b>		(13,226,237.00)	6,013,817
<b>TAXATION</b>			
- current year	22	300,000	500,000
- prior years		-	610,693
		300,000	1,110,693
<b>(LOSS)/PROFIT AFTER TAXATION</b>		(13,526,237)	4,903,124
<b>UNAPPROPRIATED PROFIT BROUGHT FORWARD</b>		10,104,876	6,182,377
		(3,421,361)	11,085,501
<b>APPROPRIATION</b>			
Transfer to reserve fund		-	980,625
<b>UNAPPROPRIATED (LOSS)/PROFIT CARRIED FORWARD</b>		(3,421,361)	10,104,876
<b>BASIC (LOSS)/EARNINGS PER SHARE</b>	28	(1.42)	0.51

The annexed notes form an integral part of these accounts

**DR. KHALID IQBAL**  
Chairman

**SHAMIM I. JUNEJO**  
Chief Executive

**M.A. REHMANI**  
Director

**STATEMENT OF CHANGES IN FINANCIAL POSITION  
(CASH FLOW STATEMENT)  
FOR THE YEAR ENDED JUNE 30, 1999**

	<b>1999</b>	<b>1998</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss)/profit for the year before tax	(13,226,237)	6,013,817
<b>Adjustments for:</b>		
Depreciation on fixed assets	1,481,451	1,467,485
Income from long term investments	161,350	359,709
Gain/(loss) on sale of fixed assets	414,744	(416)
Provision for doubtful receivables	9,120,450	-
Write offs of lease receivables	8,775,750	-
Provision for diminution in value of investment	5,250,000	500,000
Provision against other receivables	1,429,592	-
Return and financial charges on borrowings	18,833,530	21,514,827
	45,466,867	23,841,605
	32,240,630	29,855,422

(Increase)/decrease in advances, prepayments and other

receivables	(4,899,261)	935,282
Increase in accrued and other liabilities	1,991,008	6,304,358
Payment of income tax	(295,257)	(509,877)
(Increase) in long term deposits	(157,200)	(63,450)
(Decrease) in certificate of investments	(4,500,000)	(5,200,000)
(Decrease) in lease key money	(4,110,005)	(4,817,711)

	(11,970,715)	(3,351,398)
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Net cash generated from operating activities	20,269,915	26,504,024
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#### CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	(1,685,500)	(1,491,611)
Sale of fixed assets	659,800	228,750
Investment in lease finance (net of recoveries)	14,823,600	19,114,581
(Increase) in income from government securities	(161,350)	(359,709)

Net cash generated from investing activities	13,636,550	17,492,011
--	------------	------------

Total carried forward	33,906,465	43,996,035
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Total brought forward	33,906,465	43,996,035
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#### CASH FLOWS FROM FINANCING ACTIVITIES

(Decrease)/increase in redeemable capital	(4,648,350)	7,845,754
(Decrease) in long term finance	(1,500,000)	(7,331,150)
Increase/(decrease) in obligation under finance lease	446,660	(7,728)
Increase/(decrease) in short term finance	2,804,770	(7,448,742)
Return and financial charges on borrowings	(18,833,531)	(21 ;514,827)

Net cash (used) in financing activities	(21,730,451)	(28,456,693)
---	--------------	--------------

Net increase in cash and cash equivalents	12,176,014	15,539,342
---	------------	------------

Cash and cash equivalents at July 1, 1998/1997	12,937,228	(2,602,114)
--	------------	-------------

Cash and cash equivalents at June 30, 1999/1998	25,113,242	12,937,228
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**DR. KHALID IQBAL**

Chairman

**SHAMIM I. JUNEJO**

Chief Executive

**M.A. REHMANI**

Director

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 1999

#### 1. LEGAL STATUS AND NATURE OF BUSINESS

The Company is incorporated in Pakistan as a public limited company and is listed on the Karachi, Lahore and Islamabad Stock Exchanges. It essentially carries on the business of leasing.

#### 2. SIGNIFICANT ACCOUNTING POLICIES



### **2.1 Accounting convention**

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

### **2.2 Tangible fixed assets and depreciation thereon**

These are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method whereby the cost of the asset less estimated residual value is written off over its estimated useful life. Depreciation on fixed assets is charged proportionately from the month of acquisition (full month's depreciation being charged in the month of acquisition) upto the month prior to deletion.

Assets obtained under finance leases are included as tangible fixed assets and depreciation thereon is charged over the .useful life of the assets or the lease term whichever is shorter. However, if there is reasonable certainty that the ownership of the assets would transfer to the company at the end of the lease term, the asset is depreciated at the same rates as the Company's own assets.

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

### **2.3 Employees' retirement benefits**

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

### **2.4 Investments**

Long term investments: These are stated at moving average cost of the respective entities' shares/certificates. Provision is made for any diminution in value, if considered permanent.

Short term investments: These are stated at lower of moving average cost of the respective entities' shares/certificates and market value on a portfolio basis.

Profit or loss on sale of investments is accounted for currently.

### **2.5 Government securities repurchase/resale transactions**

The Company enters into transactions of repurchase or resale in registered Government securities at contracted rates for specified periods of time. These are recorded as follows:

(a) in the case of sale under repurchase obligations the securities are deleted from the books at cost (whilst the coupon income continues to be accrued) and the charges arising from the differential in sale and repurchase values are accrued on a pro-rata basis and recorded under income from Government securities. Upon repurchase the securities are reinstated at their respective original cost.

(c) in the case of purchases under resale obligations the securities are booked at the contracted purchase price and the differential of the contracted purchase and resale prices is amortized over the period of the contract and recorded under income from Government securities.

### **2.6 Revenue recognition**

The Company follows the "financing method" in recognizing income on lease contracts. Under this method the unearned income i.e. the excess of aggregate lease rentals and the estimated residual value over the cost of the leased asset is deferred and then amortized over the term of the lease, so

as to produce a constant rate of return on net investment in the lease.

Dividend income from quoted entities is recognized at the time of closure of share transfer books of the company declaring the dividend.

Income on Government securities is recognized by pro-rata accruals of the differential in cost and maturity values and/or the coupon rate applicable.

Project examination, consultancy, commitment and other charges are taken to income when realized.

## 2.7 Taxation

Current:

The charge for current taxation is based on taxable income which is computed as if all leases are accounted for as operating leases.

Deferred:

The Company accounts for deferred taxation expense using the liability method on all significant temporary differences. This is being dealt with as stated in note 22.2.

	<b>1999</b> <b>Rupees</b>	<b>1998</b> <b>Rupees</b>
<b>3. RESERVE FUND (CAPITAL RESERVE)</b>		
At the beginning of the year	9,828,840	8,848,215
Transfer from profit and loss account	-	980,625
	-----	-----
At the end of the year	9,828,840	9,828,840
	=====	=====

The reserve fund is created by transferring 20% of the profit after tax for the year. This reserve is required to be maintained under the provisions of the regulations issued by the State Bank of Pakistan for Non-Banking Financial Institutions.

	<b>Note</b>	<b>1999</b> <b>Rupees</b>	<b>1998</b> <b>Rupees</b>
<b>4. REDEEMABLE CAPITAL - SECURED</b>			
Musharika funds	4.1	19,422,224	21,433,334
Term finance	4.2	27,362,750	30,000,000
		-----	-----
		46,784,974	51,433,334
Less: Current portion		29,925,882	9,968,949
		-----	-----
		16,859,092	41,464,385
		=====	=====

### 4.1 This includes:

Rs.13,000,000 Musharika fund obtained from a Modaraba for a period of three years. The share in the profit between the Company and the Modaraba is in the ratio of their respective contributions. The share of the Modaraba during the year was Rs.2,405,000. The profit is payable in quarterly installments which commenced from September 1997. The facility is secured by charge on leased assets and persona/guarantee of directors.

Rs.6,422,224 Musharika fund obtained from a commercial bank. The balance represents two lines of Rs.6 million and Rs.4 million repayable in 60 and 36 equal installments which commenced from

October 10, 1997 and December 26, 1997 respectively. The expected rate of mark-up is 19.5%. This facility is secured by a mortgage or charge on present and future book debts of the company and hypothecation of plant and machinery.

4.2 This represents credit line obtained from a DFI. The finance is repayable in four half-yearly and eleven quarterly installments. The facility carries mark-up at the rate of 20.5% per annum. The installments commenced from October 1, 1998. The facility is secured by way of assignment of lease rentals and personal guarantees of the directors of the company.

#### 5. LONG TERM FINANCE- SECURED

From -

Commercial bank	5.1	31,143,685	31,143,685
Modaraba	5.2	11,353,183	12,853,183
		-----	-----
		42,496,868	43,996,868
Less: Current portion		29,163,536	23,996,868
		-----	-----
		13,333,332	20,000,000
		=====	=====

5.1 This represents balance of two term finance facilities of Rs.20 million each obtained from a commercial bank. The facilities carry a mark-up rate of Re.0.48 per Rs.1,000 per day. The two lines are repayable in four and twelve quarterly installments. The installments commenced from September 30, 1998 and September 30, 1999 respectively. The facilities are secured by registered deed of assignment of lease rentals of specific leases. Several of the installments were overdue as at June 30, 1999. Presently negotiations are in progress for rescheduling of the same.

5.2 This represents Morabaha finance facility of Rs.20 million obtained from a Modaraba. The facility carries a mark-up rate of Re.0.50 per Rs. 1,000 per day. The finance is repayable in three equal annual installments alongwith mark-up. The installments commenced from August 17, 1996. The facility is secured by deed of assignment of lease rentals of specific leases and personal guarantees of Directors of the company. The entire amount is overdue as at June 30, 1999. Presently negotiations are in progress for rescheduling of the same.

	Note	1999 Rupees	1998 Rupees
<b>6. OBLIGATIONS UNDER FINANCE LEASE</b>			
Liabilities against lease finance	6.1	1,952,930	1,506,270
Less: Current maturity shown under current liabilities		907,226	920,772
		-----	-----
		1,045,704	585,498
		=====	=====
6.1 Year to June 30, 1999		-	1,138,565
Year to June 30, 2000		1,093,177	451,777
Year to June 30, 2001		855,245	213,845
Year to June 30, 2002		342,100	-
		-----	-----
		2,290,522	1,804,187
Less: Finance charges allocated to future periods		337,592	297,917
		-----	-----
		1,952,930	1,506,270
		=====	=====

These obligations represent acquisition of assets under finance lease facility. The average rate of return used as the discounting factor ranges from 17.89% to 20.32% per annum. The lease rentals are payable in monthly installments.

At the end of the lease the ownership of the asset shall be transferred to the company on payment of residual value amounting to Rs.419,750 (1998: Rs.262,550).

#### 7. CERTIFICATES OF INVESTMENT

The certificates of investment are issued for maturity periods of three months to five years. The return on certificates ranges from 14.5% to 18.5%.

#### 8. LEASE KEY MONEY

This represents the security deposits received against lease contracts. The amounts are refundable at the expiry of the respective lease periods.

#### 9. SHORT TERM FINANCES

	Note	1999 Rupees	1998 Rupees
From investment bank	9.1	4,000,000	5,000,000
From a leasing company - unsecured	9.2	2,804,751	-
From commercial banks	9.3	12,207,628	12,207,628
		-----	-----
		19,012,379	17,207,628
		=====	=====

9.1 This represents placement made by an investment bank of Rs. 4,000,000 ( 1998: Rs 5,000,000) repayable on August 11, 1999 carrying markup at the rate of 19.75% per annum. This is secured by pledge of WAPDA bonds (note 14).

9.2 This represents placement received from a leasing company. The rate of mark-up is 20.5% per annum.

9.3 Represents running finance availed out of total sanctioned facility of Rs. 15 million from a commercial bank. The facility is secured by way of registered hypothecation of leased assets. The rate of mark-up charged by the bank is Re. 0.50 per Rs.1,000 per day. This is stated after taking credit of Rs. 8.795 million for settlement with the bank. Documentation in this respect is pending.

	Note	1999 Rupees	1998 Rupees
<b>10. ACCRUED AND OTHER LIABILITIES</b>			
Accrued return/mark-up on secured loans and finance		28,863,504	28,828,993
Accrued return on Certificates of investment		2,647,558	1,999,393
Accrued operating expenses		330,656	352,221
Unclaimed. dividend		148,678	149,778
Other liabilities	10.1	1,521,633	190,636
		-----	-----
		33,512,029	31,521,021
		=====	=====

10.1 This includes Rs.1,500,000 (1998: Rs. Nil) received as advance against sale of short-term investment (note 11.3)

**11. CONTINGENCIES AND COMMITMENTS****Contingencies**

11.1 Guarantees given for repayment of finances amount to Rs. 21,773,300 (1998:Rs. 21,773,300).

**Commitments**

11.2 Repurchase obligations of FIBs [Note 2.5(a)]

5,419,180	4,164,548
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11.3 The Company has executed an agreement to sell its total investment in shares of Safa Rice Mills at a price of Rs.14.6 per share (note 16).

**12. TANGIBLE FIXED ASSETS**

	Cost at the beginning of the year Rupees	Additions/ (disposals)/ adjustments Rupees	Cost at the end of the year Rupees	Accumulated depreciation at the end of the year Rupees	Book value at the end of the year Rupees	Depreciation for the year Rupees	Depreciation rates Rupees
Owned-							
Office premises and car parking	369,000	--	369,000	150,678	218,322	18,450	5
Office equipment	1,770,539	113,500	1,884,039	1,031,125	852,914	131,737	20
Furniture and fixtures	1,117,747	--	1,117,747	522,153	595,594	100,597	10
Office renovation	2,150,641	--	2,150,641	1,901,183	249,458	405,189	3333
Vehicles	4,481,188	--	2,957,061	2,079,070	888,798	280,704	33
		-1,513,320					
Sub-total	9,889,115	113,500 (1,513,320)	8,489,295	5,684,209	2,805.09	936,677	
<b>Under Finance Lease -</b>							
Vehicles	2,659,660	1,572,000 (848,000)	3,383,680	813,518	2,570,142	544,774	20
Sub- total	2,659,660	1,572,000 (848,000)	3,383,660	813,518	2,570,142	544,774	
	12,548,775	1,685,500 (2,361,320)	11,872,955	6,497,727	5,375,228	1,481,451	
1998	11,833,394	1,491,611 (776,230)	12,548,775	6,303,060	6,245,715	1,467,405	

**12.1 Particulars of disposals of fixed assets**

	Original cost	Accumulated depreciation	Written down value	Sale proceeds	Mode of disposal	Particulars of purchaser
Motor vehicle	143,000	107,250	35,750	80,000	Negotiation	Mr. Mukhtar Ahmed, Karachi
Motor vehicle	396,000	297,000	99,000	120,000	Negotiation	Mr. Nasir, Islamabad

Motor vehicle	974,320	511,516	482,804	375,000	Negotiation	Mr. Farukh Shabeer Guari, Islamabad
Motor vehicle	848,000	371,010	476,990	84,800	Negotiation	Mr. Badar-e-Munir Patel, Gulshan-e-Iqbal, Karachi
	-----	-----	-----	-----		
	2,361,320	1,286,776	1,074,544	656,800		
	=====	=====	=====	=====		
1998	776,230	547,896	228,334	226,750		
	=====	=====	=====	=====		

	Note	1999 Rupees	1998 Rupees
<b>13. NET INVESTMENT IN LEASE FINANCE</b>			
Minimum lease payments receivable		249,404,337	245,112,404
Add: Residual value		20,309,727	24,172,441
		-----	-----
		269,714,064	269,284,845
Less: Unearned finance income		58,730,264	39,493,569
		-----	-----
Net investment in lease finance		210,983,800	229,791,276
Less: Current portion of net investment in lease finance	13.1	76,621,155	79,203,769
		-----	-----
		134,362,645	150,587,507
		=====	=====
13.1 Current portion of net investment in lease finance		76,621,155	79,203,769
Less: Provision for doubtful debts		18,233,043	4,320,719
		-----	-----
		58,388,112	74,883,050
		=====	=====

13.2 Included in the above is Rs. 42,844,947 in respect of a lessee company whose management has been taken over by the company along with its associated companies. The management of the company is confident that the borrower will soon be in a position to repay the outstanding balance as per the revised repayment plan approved by the company and thus no provision is required.

#### 14. LONG TERM INVESTMENTS

15% 10 year registered WAPDA Bonds (maturity 2002)		4,500,000	4,500,000
15% 10 year Federal Investment Bonds (maturity 2003)	14.1	-	1,000,000
		-----	-----
		4,500,000	5,500,000

The above investments are made to meet the liquidity requirement as per NBFIs regulations.

#### Investment in -

Associated unlisted undertaking	14.2	2,500,000	2,500,000
Listed companies/modarabas			
[Aggregate market value Rs.19,867,308			
(1998: Rs.21,306,182)]	14.3	32,081,048	32,081,048
Other unlisted company			
Nil (1998: 350,000) ordinary shares		-	3,500,000
		-----	-----
		34,581,048	38,081,048
Less: Provision for diminution in value of shares		5,750,000	500,000
		-----	-----
		33,331,048	43,081,048

=====

14.1 As at June 30, 1999 the company sold Government securities valuing Rs. 5,000,000 (1998: 4,000,000) under repurchase arrangement for a specified period of time.

#### 14.2 Investment in associated unlisted undertaking

	Note	1999 Rupees	1998 Rupees
National Industrial Management Limited 250,000 (1998: 2501000) ordinary shares	14.2.1	2,500,000	2,500,000

=====

14.2.1 Percentage of equity held in the investee company is 25% of its capital. The name of Chief Executive of the associated company is Mr. Rana M. Abu Obaida. As per last available audited accounts for the year ended June 30, 1997, the break-up per share including surplus on revaluation of fixed assets is Rs. 3.66. The break-up value per share excluding surplus on revaluation of fixed assets is Rs. Nil.

#### 14.3 Investment in listed companies/modarabas

##### Associated undertakings

Industrial Capital Modaraba 574,436 (1998: 574,436)-modaraba certificates		5,742,575	5,742,575
Asset Investment Bank Limited 990,000 (1998: 990,000) ordinary shares		9,949,500	9,949,500
		-----	-----
		15,692,075	15,692,075

-----

##### Others

First Hajveri Modaraba 193,286 (1998:193,286) modaraba certificates		1,424,615	1,424,615
Sui Northern Gas Pipeline Limited 26,478 (1998: 26,478) ordinary shares		697,503	697,503
First International Investment Bank Limited 100 (1998:100) ordinary shares		3,328	3,328
Pakistan Industrial Leasing Corporation Limited 6,000 (1998: 5,000) ordinary shares		186,000	186,000
Nayab Spinning & Weaving Mills Limited 750,000 (1998: 750,000) ordinary shares		7,500,000	7,500,000
Caravan East Fabrics Limited 650,000 (1998: 650,000) ordinary shares		6,500,000	6,500,000
Pakistan Telecommunication Corporation Limited 2,000 (1998: 2,000) ordinary shares		77,527	77,527
		-----	-----
		16,388,973	16,388,973
		-----	-----
		32,081,048	32,081,048

=====

14.4 Unless otherwise stated all shares/certificates/vouchers are of Rs.10 each.

Note	1999 Rupees	1998 Rupees
------	----------------	----------------

#### 15. LONG TERM DEPOSITS AND PREPAYMENTS

Deposits on lease contracts		419,750	262,550
Prepaid office rent (to an associated company)		300,000	900,000
		-----	-----
		719,750	1,162,550
Less: Current portion		499,100	684,800
		-----	-----
		220,650	477,750
		=====	=====

**16. SHORT TERM INVESTMENT**

Sara Rice Mills Limited			
350,000 (1998: Nil) ordinary shares	16.1	3,500,000	-
		=====	=====

16.1 Percentage of equity held in the investee company is 12.28% of its capital. The name of the Chief Executive of the investee company is Mr. Parvaiz Aslam. As per last available audited accounts for the year ended August 31, 1998 of the company, the break-up value per share including surplus on revaluation of fixed assets is Rs.31.44. The break-up value per share excluding surplus on revaluation of fixed assets is Rs.3.82 (notes 10.1 and 11.3).

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

Current portion of deposits on lease contracts		199,100	84,800
Current portion of prepaid office rent		300,000	600,000
Prepayments		166,657	110,353
Accrued income	17.1	3,835,452	338,789
Advance income tax paid net of provision for taxation		76,877	81,656
Other advances and receivables	17.2	1,050,532	1,918,896
Other charges recoverable from lessees		337,816	616,486
Late payment charges receivable		1,663,736	-
		-----	-----
		7,630,170	3,750,980
		=====	=====

17.1 Includes accrued income of Rs.2,557,363 (1998: Rs. Nil) receivable from an associated undertaking.

17.2 This is stated net of provision of Rs.1,429,592 (1998: Nil).

**18. CASH AND BANK BALANCES**

Cash in hand		1,704	39
Balance with State Bank of Pakistan		300,000	300,000
Balance with banks/DFIs			
- on current accounts		650,081	58,152
- on deposit accounts	18.1	9,761,457	14,096,472
Certificate of deposits with an investment bank	18.1	14,400,000	-
		-----	-----
		25,113,242	14,454,663
		=====	=====

18.1 This represents amount deposited with an associated investment bank.

**19. INCOME FROM LEASING OPERATIONS**

Return on lease contracts		27,829,942	41,038,687
Commitment and other fees		69,928	74,470



Mark-up on pre-leasing advances	-	4,350
Late payment charges	2,813,484	-
	-----	-----
	30,713,354	41,117,507
	=====	=====

**20. RETURN AND FINANCIAL CHARGES**

Mark-up on long term finance	14,024,844	14,030,114
Mark-up on short term finance	861,801	1,905,145
Musharika profit on long term fund	3,403,110	3,000,734
Musharika profit on short term fund	-	2,150,761
Charges on obligation under finance lease	384,905	290,309
Return on Certificates of investment	1,455,750	3,591,635
Other financial charges	158,870	137,764
	-----	-----
	20,289,280	25,106,462
	=====	=====

**21. ADMINISTRATIVE AND OPERATING EXPENSES**

Salaries, allowances and benefits	4,105,662	5,801,085
Rent	600,000	600,000
Telephone, electricity and utilities	989,216	1,047,243
Printing and stationery	139,002	177,519
Insurance	324,762	354,520
Travelling and conveyance	591,695	479,518
Vehicle running expenses	717,199	836,350
Office maintenance	99,556	180,871
Legal and professional charges	21.1 397,309	261,513
Depreciation on fixed assets	1,481,451	1,467,485
Donation/Zakat	-	1,624
Other operating expenses	660,670	750,363
	-----	-----
	10, 106,522	11,958,091
	=====	=====

21.1 Legal and professional charges includes auditors' remuneration and expenses as follows:

Audit fee	50,000	50,000
Other advisory services (includes Rs. 30,000 relating to the prior year)	60,000	-
Tax service	135,457	75,000
Out-of-pocket expenses	10,000	10,000
	-----	-----
	255,457	135,000'
	=====	=====

**22. TAXATION****22.1 Current**

The assessments of all the years upto and including assessment year 1998-99 have been finalized by the Income Tax Department. However, the company has filed appeals against all the orders passed by the relevant tax authorities in respect of certain disallowances. The appeals have been heard but the decisions are awaited. However, full provision for taxation has been made in these accounts.

**22.2 Deferred**

Deferred taxation arising due to timing differences computed under the liability method is estimated at

Rs.14.82 million (1998:Rs.19.74 million) of which Rs.4.65 million debit is in respect of the current year. The company would have to appropriate Rs.3.95 million in the current financial year (being one-fifth of the opening balance of deferred tax liability) to achieve compliance with Circular 16 of 1999 issued by Securities and Exchange Commission of Pakistan. However, as the deferred tax debit for the year exceeds this amount, no appropriation for deferred tax is required.

### 23. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The remuneration of Chief Executive and whole time working Directors and Executives charged in these accounts is as follows:

	1999			1998		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Managerial remuneration	580,644	-	865,110	580,644	1,064,514	1,016,333
Housing and utilities	319,356	-	475,807	319,356	585,485	519,949
Reimbursement of medical expenses	43,015	55,442	130,699	958	-	126,660
	943,015	55,442	1,471,616	900,958	1,649,999	1,662,942
Number of persons	1	2	2	1	2	2

The Chief Executive, Directors and Executives are also provided with free use of company maintained cars.

	1999 Rupees	1998 Rupees
<b>24. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS/RELATED PARTIES OTHER THAN THOSE STATED HEREINABOVE</b>		
Rent for office premises charged by National Industrial Management Limited	600,000	600,000
Placement of deposit (net) with Asset Investment Bank Limited	14,900,000	3,086,680
Profit on deposit from Asset Investment Bank Limited	2,586,391	2,410,256
Lease rentals paid on behalf of Asset Investment Bank Limited	-	29,192

### 25. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

The company's credit risk exposure is not significantly different from that reflected in the financial statements.

Natlease follows two types of guidelines. Internally, the management monitors credit risk through review and assessment of the clients exposure and credit worthiness. Externally, it adheres to the regulations issued by the State Bank of Pakistan and Securities and Exchange Commission of Pakistan for Non-Banking Financial Institution (NBFIs). The management classifies a particular lease on the basis of rules for conducting the business of NBFIs and also assess them on the basis of internal policies.

Detail of the industry sector analysis of lease portfolio is given below:

	1 999		1 998	
	Rupees	%	Rupees	%
Garments	61,144,007	28.98	61,144,007	26.61
Textile composite	47,454,372	22.49	44,806,000	19.50

Chemicals and pharmaceu	31,007,306	14.70	38,851,000	16.91
Textile spinning	17,707,165	8.39	27,873,000	12.13
Leather and footwear	16,916,464	8.02	28,978,000	12.61
Cement	14,752,744	6.99	5,613,000	2.53
Sugar and allied	5,000,000	2.37	4,774,993	2.08
Banks and financial instit	1,999,000	0.95	2,149,000	0.94
Others	15,002,742	7.11	15,402,276	6.70
	-----	-----	-----	-----
	210,983,800	100.00	229,791,276	100.00
	=====	=====	=====	=====

In addition, the company has made certain investments in shares and Government Securities. For details refer note 14 to these accounts.

## 26. FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below sets out the estimated fair values of balance sheet financial instruments with their respective book values as of June 30, 1999. The fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently differences can arise between book value and the fair value estimates.

	<b>Book value Rupees</b>	<b>Fair value Rupees</b>	<b>Book value over Fair value Rupees</b>
<b>Long term investments</b>			
Equity investments	28,831,048	20,782,306	8,048,742
	=====	=====	=====

The fair value of long term quoted equity investments is based on quoted market prices while unquoted equity investments are stated at the break-up values.

Management intends to hold these investments for a long term period and considers the decline in market value temporary. Therefore no additional provision is considered necessary.

The estimated fair value of all other balance sheet financial instruments are not considered significantly different from their book values.

## 27. INTEREST RATE RISK MANAGEMENT

The company manages this risk by matching the repricing of their assets and liabilities. Interest rate risk and sensitivity of the company. The company's interest rate sensitivity position, based on the earlier of contractual repricing or maturity dates, is as follows:

	1999				
	<b>Less than one year (Rupees)</b>	<b>More than one year and less than five years (Rupees)</b>	<b>More than five years (Rupees)</b>	<b>Not exposed to IRR (Rupees)</b>	<b>Total (Rupees)</b>
<b>ASSETS</b>					
Tangible fixed assets	-	-	-	53,752.28	5,375,228
Net investment in lease fi	49,050,645	88,607,531	-	55,092,581	192,750,757
Long term investments	-	4,500,000	-	28,831,048	33,331,048
Long term deposits and pr	-	-	-	220,650	220,650
Short term investment	3,500,000	-	-	-	3,500,000
Advances, deposits, prepayments and					

other receivables	-	-	-	7,630,170	7,630,170
Cash and bank balances	24,811,538	-	-	301,704	25,113,242
	-----	-----	-----	-----	-----
A	77,362,183	93,107,531	-	97,451,381	267,921,095
	=====	=====	=====	=====	=====
<b>EQUITY AND MATURITIES</b>					
Share capital and reserves				101,775,479	101,775,479
Redeemable capital	29,925,882	16,859,092	-	-	46,784,974
Long term finance	29,163,536	13,333,332	-	-	42,496,868
Obligations under finance	907,226	1,045,704	-	-	1,952,930
Certificates of investment	6,400,000	200,000	-	-	6,600,000
Lease key money	-	-	-	15,786,436	15,786,436
Short term finances	19,012,379	-	-	-	19,012,379
Accrued and other liabilities	-	-	-	33,512,029	33,512,029
	-----	-----	-----	-----	-----
B	85,409,023	31,438,128	-	151,073,944	267,921,095
	=====	=====	=====	=====	=====
IRR Sensitivity gap (A-B)	(8,046,840)	61,669,403	-	(53,622,563)	
Cumulative IRR Sensitivity	(8,046,840)	53,622,563	53,622,563	-	

1998

	Less than one year (Rupees)	More than one year and less than five years (Rupees)	More than five years (Rupees)	Not exposed to IRR (Rupees)	Total (Rupees)
<b>ASSETS</b>					
Tangible fixed assets	-	-	-	6,245,715	6,245,715
Net investment in lease fi	70,976,005	61,546,243	-	92,948,309	225,470,557
Long term investments	-	5,500,000	-	37,581,048	43,081,048
Long term deposits and pr	-	-	-	477,750	477,750
Advance, deposits, prepayments and other receivables	-	-	-	3,750,980	3,750,980
Cash and bank balances	14,096,472	-	-	358,191	14,454,663
	-----	-----	-----	-----	-----
A	85,072,477	67,046,243	-	141,361,993	293,480,713
	=====	=====	=====	=====	=====
<b>EQUITY AND LIABILITIES</b>					
Share capital and reserves	-	-	-	115,301,716	115,301,716
Redeemable capital	9,968,949	41,464,385	-	-	51,433,334
Long term finance	23,996,868	20,000,000	-	-	43,996,868
Obligations under finance	920,772	585,498	-	-	1,506,270
Certificates of investment	9,000,000	2,100,000	-	-	11,100,000
Lease key money	-	-	-	19,896,441	19,896,441
Short term finances	-	17,207,628	-	-	17,207,628
Accrued and other liabilities	1,517,435	-	-	31,521,021	33,038,456
	-----	-----	-----	-----	-----
B	45,404,024	81,357,511	-	166,719,178	293,480,713
	=====	=====	=====	=====	=====
IRR Sensitivity gap (A-B)	39,668,453	(14,311,268)	-	(25,357,185)	-
Cumulative IRR Sensitivity	39,668,453	25,357,185	25,357,185	-	-

The total IRR Sensitivity gap represents the net amounts of on - balance sheet items.

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

	<b>Effective interest rate risk 1999 %</b>	<b>Effective interest rate risk 1998 %</b>
<b>Assets</b>		
Net investment in lease finance (net of provisions)	16.12	18.94
Long term investments (excluding shares)	15.00	15.00
Cash and bank balances	19	17.87
<b>Liabilities</b>		
Redeemable capital	19.75	19.75
Long term finance	17.58	17.58
Obligations under finance lease	21.00	20.00
Certificates of investment	16.45	17.69
Short term finances	20.62	22.87
	<b>1999 Rupees</b>	<b>1998 Rupees</b>

**28. BASIC (Loss)/EARNINGS PER SHARE**

Basic (loss)/earnings per share is calculated by dividing the net profit for the year by the number of shares outstanding during the year as follows :

(Loss)/profit after tax for the year	(13,526,237)	4,903,124
	=====	=====
Weighted average number of shares outstanding during the year	9,536,800	9,536,800
	=====	=====
Basic (loss)/earnings per share	(1.42)	0.51
	=====	=====

28.1 No figure for diluted (loss)/earnings per share has been presented as the company has not issued any instruments which would have an impact on (loss)/earnings per share when exercised.

**29. GENERAL**

29.1 All figures have been rounded off to the nearest rupee.

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

**DR. KHALID IQBASHAMIM I. JUNEJO**

Chairman Chief Executive

**M.A. REHMANI**

Director

**PATTERN OF SHARE HOLDINGS AS AT JUNE 30, 1999**

NUMBER OF SHAREHOLDERS	SHAREHOLDING		TOTAL SHARE HELD	
53	1	--	100	5 300
211	101	--	500	85 200
183	501	--	1000	173600
155	1001	--	5000	435600

35	5001	--	10000	276700
8	10001	--	15000	103800
9	15001	--	20000	178500
3	25001	--	30000	86500
5	30001	--	35000	156,900
2	35001	--	40000	79 900
2	40001	--	45000	84,700
2	45001	--	50000	96,000
1	50001	--	55000	50,400
2	55001	--	60000	118,700
1	65001	--	70000	70,000
2	85001	--	90000	176,700
1	95001	--	100000	100,000
1	105001	--	110000	108 000
1	155001	--	160000	160 000
1	190001	--	195000	191 600
1	195001	--	200000	200 000
2	200001	--	205000	402 500
1	215001	--	220000	220 000
1	230001	--	235000	234 400
2	255001	--	260000	520 000
1	295001	--	300000	300,000
3	345001	--	350000	1,045,300
1	360001	--	365000	361,500
1	395001	--	400000	400,000
1	505001	--	510000	510,000
1	795001	--	800000	800,000
1	850001	--	855000	855,000
1	945001	--	950000	950,000
-----				-----
695				9,536,800
=====	=====	=====	=====	=====

**CATEGORIES OF MEMBER OF SHARES PERCENTAGE  
SHAREHOLDERS SHAREHOLDERS HELD**

INDIVIDUALS	667	4,850,600	50.862
INVESTMENT COMPAN	8	1,349,600	14.151
JOINT STOCK COMPAN	10	1,656,000	17.364
FINANCIAL INSTITUTI	3	811,000	8.504
MODARABAS	6	869,000	9.112
OTHERS	1	600	0.006
-----			
TOTAL	695	9,536,800	100.00
=====	=====	=====	=====