

Security Leasing Corporation Limited

(Annual Report 1997)

CONTENTS

COMPANY INFORMATION
NOTICE OF MEETING
REPORT OF THE DIRECTORS
PATTERN OF SHAREHOLDING
AUDITORS' REPORT TO THE MEMBERS
BALANCE SHEET
PROFIT AND LOSS ACCOUNT
STATEMENT OF CHANGES IN FINANCIAL POSITION
NOTES TO THE FINANCIAL STATEMENTS

COMPANY INFORMATION

BOARD OF DIRECTORS

| | |
|---------------------|-----------------------------------------------------|
| M. R. Khan | Chairman & Chief Executive |
| Mohammed Khalid Ali | Managing Director & Chief Operating Officer |
| Stephen Potter | Nominee of Commonwealth Development Corporation, UK |

S.M. Nadim Shafiqullah
Ariff Ali Rashid
Arshad Abdulla
Ebrahim Qassim
Iskandar Sultan Khwaja
Javed Shakoor
Parvez Hussain Sufi
Zahid Rashid Khwaja

EXECUTIVE COMMITTEE

| | |
|-------------------------|---------------------------------------------|
| M. R. Khan | Chairman & Chief Executive |
| Mohammed Khalid Ali | Managing Director & Chief Operating Officer |
| S. M. Nadim Shafiqullah | Director |
| Ariff Ali Rashid | Director |
| Ebrahim Qassim | Director |

CREDIT COMMITTEE

| | |
|----------------------|---------------------------------------------|
| M. R. Khan | Chairman & Chief Executive |
| Mohammed Khalid Ali | Managing Director & Chief Operating Officer |
| Mohammed Rahmatullah | General Manager - Finance |
| Ghulam Qadir Khan | Head of Marketing |

COMPANY SECRETARY

Mohammed Rahmatullah

AUDITORS

Khalid Majid Husain Rahman
Chartered Accountants

LEGAL ADVISORS

Khalid Anwar & Co.
Advocates

REGISTERED OFFICE & SHARE TRANSFER OFFICE

B-901-902, 9th Floor, Lakson Square Building No. 3
Satwar Sarwar Road, Karachi-74200, Pakistan.

NOTICE OF MEETING

Notice is hereby given that the Fourth Annual General Meeting of the Members of Security Leasing Corporation Limited will be held on Monday, November 17, 1997 at 3:00 p.m. at Rafia Chaudhri Memorial Hall, Sidco Avenue Centre, 264 R. A. Lines, Karachi-74200, to transact the following business:

Ordinary Business:

1. To confirm the minutes of the Extra-ordinary General Meeting of the Company scheduled to be held on Wednesday, September 17, 1997.
2. To receive, consider and adopt the audited accounts for the year ended June 30, 1997 and the reports of the Directors and the auditors thereon.
3. To declare the dividend @10% for the year ended June 30, 1997 as recommended by the directors.
4. To appoint auditors and fix their remuneration. The present auditors Messrs. Khalid Majid Husain Rahman, Chartered Accountants retire and being eligible, offer themselves for reappointment.
5. To transact any other business with the permission of the Chair.

Karachi: August 6, 1997

Notes:

1. The Share transfer books of the Company shall remain closed from November 6 to 17, 1997 (both days inclusive).
2. A member entitled to attend, speak and vote at these meetings may appoint a proxy to attend, and vote on his/her behalf. A proxy need not be a member.
3. An instrument of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or other authority, in order to be valid must be deposited at the registered office of the Company, not less than 48 hours before the time of the meeting.
4. Members are requested to notify any change in their address.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED JUNE 30, 1997**

The Board of Directors has pleasure in presenting the Annual Report together with the audited financial statements for the year ended June 30, 1997.

Review

The year under review, in which your Company completed its second year of operations, has been a very difficult period due to unstable political and economic conditions prevailing in the country. As a result, even very strong business groups have been experiencing adverse cash flows. Despite these difficulties, your directors are pleased to report that your Company continued to achieve steady growth. During the year, the lease disbursements amounted to Rupees 124.3 million and the net investment in leases amounted to Rupees 254.0 million at the year end. Your Company also continued to maintain a very diversified exposure as would be seen from the following table.

| Sector | Net Investment in Leases % of total exposure |
|----------------------------|----------------------------------------------------|
| Textile | 18 |
| Cement | 12 |
| Energy | 12 |
| Auto & allied | 7 |
| Entertainment | 7 |
| Publications | 7 |
| Health care | 4 |
| Sugar | 4 |
| Transport & communications | 4 |
| Others | 25 |
| | ----- |
| Total | 100 |
| | ===== |

The diversity of the lease portfolio has substantially reduced the risk of potential losses. There were no rental over-dues at the year end.

However, the profitability of the leasing companies was severely affected during the year due to adverse investment climate, substantial increase in the borrowing costs, imposition of central excise duty and increase in the operating costs arising from high inflation.

The Company has arranged further lines of credit amounting to Rupees 260 million, including fStg. Three million loan from Commonwealth Development Corporation, U.K. and is also pursuing additional lines of credit from local as well as foreign lending institutions.

Financial Results

During the year, the lease disbursements amounted to Rupees 124.3 million and income from the leasing business was Rupees 49.9 million. Net profit after tax was Rupees 10.2 million.

The profit and appropriations for the year ended June 30, 1997 were as follows.

| | Rs. in Million |
|---------------------------------------|----------------|
| Net profit after tax | 10.21 |
| Unappropriated profit brought forwa | 6.136 |
| | ----- |
| Profit available for appropriation | 16.347 |
| Appropriations: | |
| Transfers to / (from): | |
| Statutory reserve | 2.042 |
| Reserve for contingencies | (1.666) |
| | 0.376 |
| Cash dividend @ 10% | 10.000 |
| | 10.376 |
| Unappropriated profit carried forward | 5.971 |
| | ===== |

Dividend

Your directors arc pleased to recommend each dividend of 10% for the year ended June 30, 1997.

Future Business Prospects

The leasing business in the country continues to offer substantial growth potential. Recent changes in the economic climate, lowering of discount rate by the State Bank and dc-regulation of the economy arc likely to boost the industrial investment. Financing costs have started dropping and arc expected to drop further in the coming months. Your Company aims to take full advantage of opportunities offered by the improved investment climate. Long term financing facilities already obtained by your Company will help in achieving further growth and higher profitability in the coming period.

Your Company will continue its efforts to consolidate its position and to tap opportunities for its sustained growth. Further, to ensure efficient and profitable utilization of the available resources, the Company will continue to spread its exposure over a broad spectrum of clients and industries taking exposure on such borrowers only who have a proven track record of timely repayments, good profitability and strong cash flows from their existing operations. Its emphasis being on quality, your Company will strive to write quality leases for quality clients.

Human Resources

The directors express their deep appreciation of the efforts and dedication of all personnel of the Company which enabled it to conduct its operations efficiently and to achieve steady growth during the year.

Auditors

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

Pattern of Shareholding

The pattern of shareholdings as at June 30, 1997 is annexed to this report.

For and on behalf of the Board of Directors

M.R. Khan

Chairman & Chief Executive

Karachi: August 6, 1997

PATTERN OF SHAREHOLDING AS AT JUNE 30, 1997

| Shareholding | Number of Shareholders | Total Shares Held | Percentage | |
|--------------|------------------------|-------------------|------------|------|
| From | To | | | |
| 1 | 100 | 3 | 300 | 0.00 |
| 101 | 500 | 767 | 383,200 | 3.83 |
| 501 | 1000 | 5 | 5,000 | 0.05 |

| | | | | |
|---------|---------|-------|------------|--------|
| 1001 | 5000 | 19 | 55,000 | 0.55 |
| 5001 | 10000 | 5 | 49,600 | 0.50 |
| 15001 | 20000 | 1 | 19,300 | 0.19 |
| 20001 | 25000 | 2 | 50,000 | 0.50 |
| 45001 | 50000 | 3 | 146,200 | 1.46 |
| 65001 | 70000 | 1 | 70,000 | 0.70 |
| 95001 | 100000 | 1 | 96,200 | 0.96 |
| 125001 | 130000 | 1 | 125,500 | 1.26 |
| 145001 | 150000 | 1 | 150,000 | 1.50 |
| 150001 | 155000 | 1 | 151,000 | 1.51 |
| 190001 | 195000 | 1 | 192,400 | 1.92 |
| 245001 | 250000 | 1 | 250,000 | 2.50 |
| 295001 | 300000 | 1 | 1,200,000 | 12.00 |
| 375001 | 380000 | 1 | 376,300 | 3.76 |
| 445001 | 450000 | 1 | 449,000 | 4.49 |
| 480001 | 485000 | 1 | 481,000 | 4.81 |
| 1495001 | 1500000 | 1 | 1,500,000 | 15.00 |
| 4245001 | 4250000 | 1 | 4,250,000 | 42.50 |
| ----- | | ----- | ----- | ----- |
| | | 821 | 10,000,000 | 100.00 |
| ===== | | ===== | ===== | ===== |

CATEGORIES OF SHAREHOLDERS

| Categories of Shareholders | Number | Shares Held | Percentage | |
|----------------------------|--------|-------------|------------|--------|
| Individuals | 812 | 2,279,600 | 22.80 | |
| Investment Companies | 2 | 731,000 | 7.31 | |
| Investment Banks | 2 | 641,400 | 6.41 | |
| Modarabas | 2 | 472,500 | 4.73 | |
| Insurance Company | 1 | 125,500 | 1.25 | |
| Foreign Investors | 2 | 5,750,000 | 57.50 | |
| ----- | | ----- | ----- | |
| | | 821 | 10,000,000 | 100.00 |
| ===== | | ===== | ===== | ===== |

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Security Leasing Corporation Limited as at June 30, 1997 and the related profit and loss account and statement of changes in financial position, 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 changes as stated in notes 2.2 and 2.3 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, 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, 1997 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.

Khalid Majid Husain Rahman

Chartered Accountants

Karachi: August 6, 1997

BALANCE SHEET AS AT JUNE 30, 1997

| | Note | 1997 Rupees | 1996 Rupees |
|------------------------------------------------------------------------------------|------|----------------|----------------|
| EQUITY AND LIABILITIES | | | |
| SHARE CAPITAL AND RESERVES | | | |
| Authorised capital | | | |
| 25,000,000 ordinary shares of Rs. 10 each | | 250,000,000 | 250,000,000 |
| Issued, subscribed and paid up capital | | ===== | ===== |
| 10,000,000 (1996: 10,000,000) ordinary shares of Rs. 10 each fully paid in cash | | 100,000,000 | 100,000,000 |
| Reserves | 3 | 9,964,227 | 9,753,514 |
| | | ----- | ----- |
| | | 109,964,227 | 109,753,514 |
| LONG TERM LOANS | 4 | 58,611,109 | 39,000,000 |
| LONG TERM DEPOSITS | 5 | 26,198,418 | 15,439,745 |
| CURRENT LIABILITIES | 6 | 80,907,786 | 26,164,371 |
| CONTINGENCIES AND COMMITMENTS | 7 | -- | -- |
| | | ----- | ----- |
| | | 275,681,540 | 190,357,630 |
| | | ===== | ===== |
| ASSETS | | | |
| TANGIBLE FIXED ASSETS | 8 | 10,902,776 | 12,172,983 |
| CAPITAL WORK-IN-PROGRESS | | -- | 280,587 |
| LONG TERM INVESTMENTS | 9 | 3,923,837 | 4,360,824 |
| NET INVESTMENT IN LEASES | | | |
| Minimum lease rentals receivable | 10 | 291,974,639 | 207,681,544 |
| Residual value | | 31,254,086 | 18,409,568 |
| Lease contracts receivable | | 323,228,725 | 226,091,112 |
| Less: Unearned income | | 69,203,434 | 59,480,259 |
| Net investment in leases | | 254,025,291 | 166,610,853 |
| Less: Current portion of net investment in leases | | 765,886,251 | 35,152,3871 |
| Provision for potential lease losses | | 6,250,970 | -- |
| | | 82,839,595 | 35,152,387 |
| | | 171,185,696 | 131,458,466 |
| DEFERRED COSTS | 11 | 1,245,620 | 1,868,420 |
| LONG TERM ADVANCE AND DEPOSITS | 12 | 790,882 | 1,001,847 |
| CURRENT ASSETS | 13 | 87,632,729 | 39,214,503 |
| | | ----- | ----- |
| | | 275,681,540 | 190,357,630 |
| | | ===== | ===== |

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

| | |
|------------------|----------------------------|
| M.R. Khan | Mohammed Khalid All |
| Chairman & | Managing Director & |
| Chief Executive | Chief Operating Officer |

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 1997

| | Note | 1997 Rupees | 1996 Rupees |
|---------------------------------------|------|----------------|----------------|
| Income from leasing operations | 14 | 49,926,117 | 25,926,267 |
| Other income | 15 | 2,144,297 | 2,255,179 |
| | | ----- | ----- |
| | | 52,070,414 | 28,181,446 |
| Financial charges | 16 | 19,460,555 | 6,811,563 |
| Administrative and operating expenses | 17 | 15,729,289 | 12,043,627 |
| Provision for potential lease losses | | 6,250,970 | |
| | | 41,440,814 | 18,855,190 |
| | | ----- | ----- |
| Operating profit for the year | | 10,629,600 | 9,326,256 |
| Provision for taxation | 18 | 418,887 | 223,554 |
| | | ----- | ----- |
| | | 10,210,713 | 9,102,702 |

| | | |
|-----------------------------------------|-------------|-----------|
| Unappropriated profit brought forward | 6,136,812 | 520,650 |
| | ----- | ----- |
| | 16,347,525 | 9,623,352 |
| Appropriations: | | |
| Transfers to/(from): | | |
| Statutory reserve | 2,042,143 | 1,820,540 |
| Reserve for contingencies | (1,666,000) | 1,666,000 |
| | ----- | ----- |
| | 376,143 | 3,486,540 |
| Proposed cash dividend @10% (1996: Nil) | 10,000,000 | - |
| | ----- | ----- |
| | 10,376,143 | 3,486,540 |
| | ----- | ----- |
| | 5,971,582 | 6,136,812 |
| | ===== | ===== |

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

| | |
|------------------|----------------------------|
| M.R. Khan | Mohammed Khalid Ali |
| Chairman & | Managing Director & |
| Chief Executive | Chief Operating Officer |

STATEMENT OF CHANGES IN FINANCIAL POSITION (CASH FLOW STATEMENT)

FOR THE YEAR ENDED JUNE 30, 1997

| | 1997 | 1996 |
|--------------------------------------------------------|--------------|---------------|
| | Rupees | Rupees |
| Cash flows from operating activities | | |
| Net profit before taxation | 10,629,600 | 9,326,256 |
| Adjustments for items not involving movement of funds: | | |
| Depreciation | 1,715,079 | 1,583,368 |
| Amortization of deferred costs | 622,800 | 622,806 |
| Gain on disposal of fixed assets | -- | (970) |
| Gain on disposal of listed securities | (916,878) | (704,223) |
| Provision for potential lease losses | 6,250,970 | -- |
| | ----- | ----- |
| Operating profit before working capital changes | 18,301,571 | 10,827,237 |
| Advances, prepayments and other receivables | (1,642,139) | (902,805) |
| Deposits from lessees | 10,758,673 | 9,811,417 |
| Short term/running finances | 15,620,150 | 19,719,152 |
| Accrued and other current liabilities | 2,300,868 | 1,599,000 |
| Payment of tax | (263,158) | (25,561) |
| | ----- | ----- |
| Net cash flow from operating activities | 45,075,965 | 41,028,440 |
| Cash flows from investing activities | | |
| Net investment in leases | (87,414,438) | (111,957,873) |
| Capital expenditure | (164,285) | 1,334,297 |
| Proceeds from disposal of fixed assets | -- | 48,500 |
| Long term investments | (58,455) | 5,419,641 |
| Short term investments in listed securities | (1,479,669) | -- |
| Proceeds from disposal of listed securities | 1,412,320 | 4,769,850 |
| Deferred costs | -- | (95,239) |
| Recovery of long term advance | 301,694 | 496,869 |
| Long term deposits | (2,000) | (163,427) |
| Net cash used in investing activities | (87,404,833) | 113,655,258 |
| Cash flows from financing activities | | |
| Proceeds from long term loans | 60,000,000 | 45,000,000 |
| Repayment of long term loans | (13,722,223) | (2,000,000) |
| Net cash flow from financing activities | 46,277,777 | 43,000,000 |
| | ----- | ----- |
| Net increase / (decrease) in cash and cash equivalents | 3,948,909 | (29,626,818) |
| Cash and cash equivalents at beginning of the period | 2,508,351 | 32,135,169 |
| | ----- | ----- |
| Cash and cash equivalents at end of the year (Note A) | 6,457,260 | 2,508,351 |
| | ===== | ===== |
| Note A: Cash and cash equivalents at end of the year | | |
| Cash and bank balances | 858,020 | 608,351 |
| Short term investments | | |
| - Term Finance Certificates | 1,899,240 | 1,900,000 |
| - Federal Investment Bonds | 3,700,000 | -- |
| | 5,599,240 | 1,900,000 |

| | |
|-----------|-----------|
| ----- | ----- |
| 6,457,260 | 2,508,351 |
| ===== | ===== |

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

M.R. Khan
Chairman &
Chief Executive

Mohammed Khalid Ali
Managing Director &
Chief Operating Officer

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED JUNE 30, 1997

1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated on December 6, 1993 and commenced its operations on May 21, 1995. The Company is principally engaged in the business of leasing and is listed on the Karachi Stock Exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

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

2.2 Revenue recognition

The Company follows the financing method in accounting for recognition of lease income. At the commencement of lease, a portion of the unearned lease income (i.e. the aggregate of lease contract receivables over cost of the leased asset) which approximates the provision for potential lease losses and the direct initial cost of writing the lease, is taken into income. The remainder of the unearned lease income is taken to income over the term of the lease contract so as to produce a systematic return on the net investment in leases.

Front end fee and profit on bank deposits and Federal Investment Bonds are accrued when due. Dividend income and profit on term finance certificates are taken into account on accrual basis.

2.3 Provision for potential lease losses

The provision for potential lease losses is maintained at a level which, in the judgement of the Company, is sufficient to provide for any potential losses. Any change in the provision is set off against the income of the current period.

2.4 Effect of change in accounting policy

The Company adopted its policy for recognition of lease income (note 2.2) from the current year where-as until last year, the unearned lease income was being taken to income over the term of the lease. Further from the current year, the provision of potential lease losses (note 2.3) is also being charged against income rather than as appropriation of profits. These changes were made to more accurately match cost and revenue. The net effect is an increase in profits of the current period by Rupees 1.884 million (increase in lease income by Rupees 8.135 million and increase in provision for potential lease losses by Rupees 6.251 million).

2.5 Deferred costs and amortization

Deferred costs are written off during the period not exceeding five years commencing from the year of incurrence.

2.6 Investments

Long term investments are stated at cost. Provision is made for other than temporary diminution in value of investments.

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

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

2.7 Tangible fixed assets and depreciation

These are stated at cost less accumulated depreciation. Depreciation is charged applying the straight line method at the rates specified in note 8. [In respect of additions during the year, depreciation is charged from the month of acquisition. No depreciation is charged in the month of disposal.

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

2.8 Employees retirements benefits

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

3. Taxation

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

Deferred

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

| | Note | 1997 Rupees | 1996 Rupees |
|--------------------------------------------|------|----------------|----------------|
| 3. RESERVES | | | |
| Statutory reserve | 3.10 | -- | -- |
| Balance at beginning of the year | | 1,950,702 | 130,162 |
| Transfer from profit and loss account | | 2,042,143 | 1,820,540 |
| | | 3,992,845 | 1,950,702 |
| General reserve | | | |
| - Reserve for contingencies | | | |
| Balance at beginning of the year | | 1,666,000 | -- |
| Transfer from/(to) profit and loss account | | (1,666,000) | 1,666,000 |
| | | -- | 1,666,000 |
| Unappropriated profit | | 5,971,382 | 6,136,812 |
| | | ----- | ----- |
| | | 9,964,227 | 9,753,514 |
| | | ===== | ===== |

3.1 This represents transfer of after tax profits as required under the relevant provision of the State Bank of Pakistan's prudential regulations for Non-Banking Financial Institutions.

4. LONG TERM LOANS

Secured-

| | | | |
|-----------------------------------|------|------------|------------|
| From commercial banks | 4.10 | 59,277,777 | 23,000,000 |
| From other financial institutions | 4.20 | 20,000,000 | 20,000,000 |

Unsecured-

| | | | |
|-----------------------------------|------|------------|------------|
| From other financial institutions | 4.30 | 10,000,000 | -- |
| | | ----- | ----- |
| | | 89,277,777 | 43,000,000 |
| Less: Current maturity | 6 | 30,666,668 | 4,000,000 |
| | | ----- | ----- |
| | | 58,611,109 | 39,000,000 |
| | | ===== | ===== |

4.1 This represents loans obtained for lease financing and carry mark-up at the average rate of Rupee 0.5137 per Rupees 1,000 per day. Out of these loans, Rupees 15 million are repayable on July 31, 1998 and are secured by pari passu charge over present and future movable assets and lease rental receivable whereas the remaining amount is repayable between July 5, 1997 to November 5, 1999 and is secured by a first charge on certain specific leased assets and related lease rentals receivable.

4.2 This represents finances obtained under mark-up and pro-note discounting facilities and of these, Rupees 10 million are repayable in full between July 5, 1997 and November 5, 1997 whereas the remaining amount is repayable in full on September 13, 1998. These arrangements carry mark-up at the average rate of 18.5% per annum and are secured by pari passu charge over present and future movable assets and lease rentals receivable.

4.3 This represents finance obtained under mark-up arrangement and is repayable in full on July 6, 1998. This facility carries mark-up at the rate of 20.5% per annum.

5. LONG TERM DEPOSITS

These represent interest contracts and are refundable/adjustable at the expiry/termination of the respective leases.

6. CURRENT LIABILITIES

| Note | 1997 Rupees | 1996 Rupees |
|------|----------------|----------------|
|------|----------------|----------------|

| | | | |
|-------------------------------------|------|------------|------------|
| Current maturity of long term loans | 4 | 30,666,668 | 4,000,000 |
| Short term finances - secured | | | |
| -from financial institution | | -- | 10,000,000 |
| Short term finances - unsecured | | | |
| -from financial institutions | | | |
| - associated | | 10,000,000 | -- |
| - others | | 15,000,000 | -- |
| | 6.10 | 25,000,000 | -- |
| - from others | 6.20 | 400,000 | -- |
| Running finance under mark-up | | | |
| arrangements - secured | 6.30 | 9,939,302 | 9,719,152 |
| Accrued and other liabilities | 6.40 | 4,901,816 | 2,445,219 |
| Proposed dividend | | 10,000,000 | -- |
| | | ----- | ----- |
| | | 80,907,786 | 26,164,371 |
| | | ===== | ===== |

6.1 This represents finance obtained under mark-up arrangements from financial institutions and carry mark-up at the average rate of 20% per annum. These finances are repayable between September 9, 1997 and March 31, 1998.

6.2 This represents finance obtained under musharika arrangement and carry expected rate of return of 18% per annum. This facility will mature on October 2,3, 1997.

6.3 This represents running finance utilized against aggregate facility of Rupees 10 million from a bank. It carries mark-up at a rate of Rupee 0.52 per Rupees 1,000 per day and is secured by a pari passu charge on movable assets and lease rentals receivable.

| | Note | 1997 Rupees | 1996 Rupees |
|------------------------------------------|------|----------------|----------------|
| 6.4 Accrued and other liabilities | | | |
| Accrued liabilities | | 103,390 | 74,170 |
| Accrued mark-up on secured loans | | 2,203,234 | 1,127,672 |
| Accrued mark-up on unsecured loans | | 1,456,165 | - |
| Advance against leases | | 317,430 | 996,238 |
| Taxation | | 355,722 | 199,993 |
| Other liabilities | | 465,875 | 47,146 |
| | | ----- | ----- |
| | | 4,901,816 | 2,445,219 |
| | | ===== | ===== |

7. CONTINGENCIES & COMMITMENTS

7.1 Lease rentals payable under various lease agreements for motor vehicles are as detailed below:

| Payable in the year ending June 30 | | |
|-----------------------------------------|---------|------------|
| -1997 | -- | 2,256,984 |
| -1998 | 667,880 | 754,130 |
| -1999 | 114,735 | 114,735 |
| | | ----- |
| | | 782,615 |
| | | 3,125,849 |
| | | ===== |
| 7.2 Commitments for lease finance | | 24,890,000 |
| | | 10,900,000 |
| | | ===== |
| 7.3 Guarantees issued | | 1,195,000 |
| | | 1,800,000 |
| | | ===== |
| 7.4 Commitments for capital expenditure | -- | 48,000 |
| | | ===== |

8. TANGIBLE FIXED ASSETS

| Description | COST | | DEPRECIATION | | | Written down value as at June 30, 1997 | Depreciation rate | |
|---------------------------|--------------------|--------------------------------------|---------------------|--------------------|----------------------------------|----------------------------------------|-------------------|---------------------|
| | As at July 1, 1996 | Additions (deletion) during the year | As at June 30, 1997 | As at July 1, 1996 | Charge for the year/ adjustments | | | As at June 30, 1997 |
| Rupees | | | | | | | | |
| OWNED | | | | | | | | |
| Office premises-Leasehold | 7,306,560 | -- | 7,306,560 | 395,772 | 365,328 | 761,100 | 6,545,460 | 5 |
| Leasehold improvements | 1,637,707 | 329,172 | 1,966,879 | 266,123 | 290,917 | 557,040 | 1,409,839 | 15 |
| Furniture and fixtures | 2,083,654 | 107400.00 | 2,191,054 | 420,050 | 437,682 | 857,732 | 1,333,322 | 20 |
| Office equipment | 752,012 | -- | 752,012 | 168,913 | 150,408 | 319,321 | 432,691 | 20 |

| | | | | | | | | |
|-------------------------------|------------|-----------|------------|-----------|-----------|-----------|------------|----|
| Computer equipment | 895,440 | 8,300 | 903,740 | 222,999 | 224,552 | 447,551 | 456,189 | 25 |
| Generator and airconditioners | 1,173,279 | -- | 1,173,279 | 252,715 | 234,660 | 487,375 | 685,904 | 20 |
| Vehicles | 57,630 | -- | 57,630 | 6,727 | 11,532 | 18,259 | 39,371 | 20 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | |
| 30-June-97 | 13,906,282 | 444,872 | 14,351,154 | 1,733,299 | 1,715,079 | 3,448,378 | 10,902,776 | |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | |
| 30-June-96 | 12,870,382 | 1,088,710 | 13,906,282 | 155,211 | 1,583,368 | 1,733,299 | 12,172,983 | |
| | | (52,810) | | | (5,280) | | | |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | |

9. LONG TERM INVESTMENTS

| Listed Securities | Number of ordinary shares/ certificates | |
|-------------------------------------------|--------------------------------------------------|-----------|
| | of Rs. | 1997 |
| | 10 each | Rupees |
| Al-Ghazi Tractors Limited (of Rs. 5 each) | 18,200 | 602,250 |
| First Equity Modaraba | 34,500 | 224,316 |
| First Ibrahim Modaraba | 32,700 | 280,406 |
| First UDL Modaraba | 33,000 | 225,340 |
| Genertech Pakistan Limited | 10,000 | 245,950 |
| Ibrahim Energy Limited | 12,500 | 345,500 |
| KASB Mutual Fund Limited | 50,000 | 335,500 |
| Kohinoor Power Company Limited | 5,000 | 84,400 |
| Nishat Tek Limited | 10,000 | 258,000 |
| Sitara Energy Limited | 20,000 | 632,925 |
| Sui Northern Gas Pipelines Limited | 13,800 | 389,250 |
| | | ----- |
| | | 3,623,837 |
| Federal Investment Bonds (Note 9.1) | | 300,000 |
| | | ----- |
| | | 3,923,837 |
| | | ===== |
| As on Jun, 30,1996 | | 4,360,824 |
| | | ===== |

Aggregate market value of the above investments is Rs. 2,723,775 (1996: Rs. 3,058,080).

9.1 This represents investment made as required under the relevant provision of the State Bank of Pakistan's Prudential Regulations for Non-Banking Financial Institutions under REPO arrangement with an investment bank.

| Note | 1997 Rupees | 1996 Rupees |
|------|----------------|----------------|
|------|----------------|----------------|

10. MINIMUM LEASE RENTALS RECEIVABLE

| | | |
|---------------------|-------------|-------------|
| Due within one year | 118,277,519 | 63,525,593 |
| Due after one year | 173,697,120 | 144,155,951 |
| | ----- | ----- |
| | 291,974,639 | 207,681,544 |
| | ===== | ===== |

11. DEFERRED COSTS

| | | |
|----------------------------|-----------|-----------|
| Registration fees | 382,500 | 382,500 |
| Formation expenses | 505,500 | 505,500 |
| Underwriting commission | 250,000 | 250,000 |
| Brokerage | 252,170 | 252,170 |
| Listing fee | 155,774 | 155,774 |
| Share issue expenses | 870,394 | 870,394 |
| Pre-operating expenses | 124,804 | 124,804 |
| | ----- | ----- |
| | 2,541,142 | 2,541,142 |
| Less: Amortization to-date | 1,295,522 | 672,722 |
| | ----- | ----- |
| | 1,245,620 | 1,868,420 |
| | ===== | ===== |

12. LONG TERM ADVANCE AND DEPOSITS

| | | | |
|---------------------------|-------|---------|-----------|
| Advance | 12.10 | -- | 212,965 |
| Deposits - against leases | | 611,382 | 611,382 |
| - others | | 179,500 | 177,500 |
| | | ----- | ----- |
| | | 790,882 | 1,001,847 |

12.1 Advance

| | | | |
|----------------------------------|-------|-------|---------|
| Advance to an executive/director | | | |
| -considered good | | -- | 301,694 |
| Less: Current maturity | 13.20 | -- | 88,729 |
| | | ----- | |
| | | -- | 212,965 |
| | | ===== | |

This represented outstanding amount of advance due to former employer of an executive/director, settled by the Company in accordance with the terms of employment.

Maximum aggregate amount due from the executive/director at the end of any month during the year was Rupees 251,694 '(1996: Rupees 788,563).

| | | | |
|--|------|--------|--------|
| | | 1997 | 1996 |
| | Note | Rupees | Rupees |

13. CURRENT ASSETS

| | | | |
|---------------------------------------------|-------|------------|------------|
| Current portion of net investment in leases | | 76,588,625 | 35,152,387 |
| Short term investments | 13.10 | 7,078,909 | 1,900,000 |
| Advances, prepayments and other receivables | 13.20 | 3,107,175 | 1,553,765 |
| Cash and bank balances | 13.30 | 858,020 | 608,351 |
| | | ----- | ----- |
| | | 87,632,729 | 39,214,503 |

13.1 Short term investments

| | | | |
|---------------------------------|--------|-----------|-----------|
| Term Finance Certificates | 13.1.1 | 1,899,240 | 1,900,000 |
| Federal Investment Bonds | 13.1.2 | 3,700,000 | -- |
| Investment in listed securities | 13.1.3 | 1,479,669 | -- |
| | | ----- | ----- |
| | | 7,078,909 | 1,900,000 |
| | | ===== | ===== |

13.1.1 This represents term finance certificates issued by Nishat Tek Limited of Rupees 1.9 million, of the face value of Rupees 100,000 each, less value redeemed till year end and carry mark-up rate of 18% per annum. These certificates are redeemable in semi-annual instalments until January 16, 1999.

13.1.2 This represents investment in Federal Investment Bonds of Rupees 3.7 million under REPO arrangement with an investment bank and carry expected return of 19% per annum.

13.1.3 This represents investment in following listed securities.

| | | | |
|------------------------|--------|------------------------------------------------|----|
| | | Number of ordinary shares of Rs. 10 each | |
| ICI Pakistan Limited | 32,900 | 697,019 | -- |
| FFC-Jordan Fertilizer | 5,000 | 66,400 | -- |
| Pakistan Telecommunica | 25,000 | 716,250 | -- |
| | | ----- | |
| | | 1,479,699 | -- |
| | | ===== | |
| | | 1,607,325 | -- |
| | | ===== | |

Aggregate market value

| | | | |
|---------------------------------------------|--|-----------|-----------|
| Advances, prepayments and other receivables | | | |
| Current maturity of long term advance | | -- | 88,729 |
| Advances - considered good | | 60,911 | 779,870 |
| Prepayments | | 1,647,682 | 527,721 |
| Accrued return on investments | | 155,477 | 156,477 |
| Other receivables | | 1,243,105 | 968 |
| | | ----- | ----- |
| | | 3,107,175 | 1,553,765 |

13.3 Cash and bank balances

| | | | |
|-----------------------------------------|--|---------|---------|
| Cash in hand | | -- | 3,879 |
| Balances with banks on current accounts | | 858,020 | 604,472 |
| | | ----- | ----- |
| | | 858,020 | 608,351 |
| | | ===== | ===== |

| | 1997 | 1996 |
|-------------------------------------------|------------|------------|
| Note | Rupees | Rupees |
| 14. INCOME FROM LEASING OPERATIONS | | |
| Income on lease contracts | 48,553,353 | 24,029,186 |
| Front end fee & additional lease rentals | 1,275,556 | 1,873,641 |
| Lease termination charges | 97,208 | 23,440 |
| | 49,926,117 | 25,926,267 |

| | | |
|------------------------------------------------|-----------|-----------|
| 15. OTHER INCOME | | |
| Profit from banks under cash management scheme | 91,320 | 402,533 |
| Mark-up on Term Finance Certificates | 340,966 | 163,845 |
| Profit on Musharika finance | 91,510 | 236,000 |
| Profit on modaraba certificates | 69,345 | 28,250 |
| Return on other investments | 287,515 | 393,342 |
| Mark-up on advance to an executive/director | 1,422 | 13,131 |
| Fees, commissions and other charges | 345,341 | 312,885 |
| Gain on disposal of listed securities | 916,878 | 704,223 |
| Gain on disposal of fixed assets | -- | 970 |
| | ----- | ----- |
| | 2,144,297 | 2,225,179 |
| | ===== | ===== |

16. FINANCIAL CHARGES

| | | |
|-------------------------------|------------|-----------|
| Mark-up on long term finance | 12,826,808 | 4,743,508 |
| Mark-up on short term finance | 5,835,370 | 1,719,519 |
| Mark-up on running finance | 749,485 | 259,823 |
| Brokerage fee | 31,919 | -- |
| Documentation charges | 9,000 | 68,850 |
| Excise duty and bank charges | 7,973 | 19,863 |
| | 19,460,555 | 6,811,563 |

ADMINISTRATIVE AND OPERATING EXPENSES

| | | |
|-----------------------------------|---------------|------------|
| Directors' fee | 5,500 | 10,000 |
| Salaries, allowances and benefits | 8,060,732 | 5,067,059 |
| Staff training and development | 99,522 | 3,825 |
| Telephone and fax | 287,805 | 289,316 |
| Postage and courier | 18,170 | 14,937 |
| Electricity | 227,465 | 226,809 |
| Office maintenance | 471,931 | 362,870 |
| Insurance | 69,032 | 42,633 |
| Business promotion expenses | 490,575 | 329,573 |
| Canteen expenses | 53,393 | 53,711 |
| Vehicle running expenses | 795,941 | 716,601 |
| Travelling and conveyance | 87,166 | 54,241 |
| Advertisement expenses | 25,250 | 50,800 |
| Printing and stationery | 132,222 | 162,801 |
| Subscriptions and listing fees | 116,999 | 116,598 |
| Legal and professional charges | 17.10 157,497 | 136,673 |
| Statutory filing fees | 10,530 | 3,505 |
| Depreciation | 1,715,079 | 1,583,368 |
| Amortization of deferred costs | 622,800 | 622,806 |
| Lease rentals | 2,256,984 | 2,144,789 |
| Zakat | 1,313 | 9,671 |
| Miscellaneous | 23,383 | 41,041 |
| | ----- | ----- |
| | 15,729,289 | 12,043,627 |
| | ===== | ===== |

| | 1997 | 1996 |
|---------------------------------------------------|--------|--------|
| Note | Rupees | Rupees |
| 17.1 Legal and professional charges | | |
| These include auditors' remuneration, as follows: | | |
| Annual audit | 25,000 | 25,000 |
| Audit of statutory report | -- | 7,500 |
| Consultancy services | -- | 10,000 |
| Out-of-pocket expenses | 6,053 | 4,667 |
| | ----- | ----- |
| | 31,053 | 47,167 |
| | ===== | ===== |

17.2 Transactions with associated undertakings

| | | |
|--------------------------------------|---------|---------|
| - Mark-up on short term finance paid | 732,204 | -- |
| - Front-end fee received | 150,000 | 400,000 |

17.3 Remuneration of Chief Executive and Executives

| | 1997 | | 1996 | |
|-----------------------------|--------------------|-----------|-----------------|-----------|
| | Chief Executive | Executive | Chief Executive | Executive |
| | Rupees | | | |
| Managerial remuneration | 888,539 | 5,842,943 | 685,163 | 3,104,936 |
| Provident fund contribution | -- | 233,160 | -- | 174,532 |
| | ----- | | | |
| | 888,539 | 6,076,103 | 685,163 | 3,279,468 |
| No. of persons | 1 | 6 | 1 | 5 |

In addition, the chief executive and certain executives were also provided with free use of company cars and certain household items in accordance with their terms of employment.

An executive was inducted in the board of directors on December 31, 1995 to fill a casual vacancy.

18. TAXATION - Current

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

19. GENERAL

Figures have been rounded to the nearest Rupee and previous year's figures have been rearranged wherever necessary to facilitate comparison.

M.R. Khan
Chairman &
Chief Executive

Mohammed Khalid Ali
Managing Director &
Chief Operating Officer