

## Security Leasing Corporation Limited

Annual Report 1998

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### COMPANY INFORMATION

#### BOARD OF DIRECTORS

M. R. Khan	Chairman & Chief Executive
Mohammed Khalid Ali	Managing Director & Chief Operating Officer
Shabbir Hashmi	Nominee of Commonwealth Development Corporation, United Kingdom

S. M. Nadim Shafiqullah

Parvez Hussain Sufi

Ariff Ali Rashid

Ebrahim Qassim

Iskandar Sultan Khwaja

Javed Shakoor

Zahid Rashid Khwaja

#### EXECUTIVE COMMITTEE

M. R. Khan	Chairman & Chief Executive
Mohammed Khalid Ali	Managing Director & Chief Operating Officer
S. M. Nadim Shafiqullah	Director
Javed Shakoor	Director
Parvez Hussain Sufi	Director

#### CREDIT COMMITTEE

M. R. Khan	Chairman & Chief Executive
Mohammad 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

A. K. Brohi & Co.

#### REGISTERED OFFICE & SHARE TRANSFER OFFICE

B 901-902, 9th Floor, Lakson Square Building No. 3

Sarwar Shaheed Road, Karachi-74200, Pakistan.

Tel: 5672748, 5672779, 5683902 & 5686372 Fax: 5689854

#### NOTICE OF MEETING

Notice is hereby given that the Fifth Annual General Meeting of the Members of Security Leasing Corporation Limited will be held on Thursday, October 29, 1998 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 held on February 26, 1998.
2. To receive, consider and adopt the audited accounts for the year ended June 30, 1998 and the reports of the Directors and the auditors thereon.
3. 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.
4. To transact any other business with the permission of the Chair.

By Order of the Board  
 Mohammed Rahmatullah  
 Company Secretary

Karachi: September 16, 1998

**Notes:**

1. The Share transfer books of the Company shall remain closed from October 21 to 30, 1998 (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, 1998**

The Board of Directors has pleasure in presenting the Annual Report together with the audited financial statements for the year ended June 30, 1998.

**Review**

The year under review which saw the completion of your Company's third year of operations, has been a very difficult period due to unstable political and economic conditions prevailing in the country. As a result, even some very strong business groups have been experiencing adverse cash flows. Despite these difficulties, which were aggravated by the measures adopted by the Government and State Bank of Pakistan in the wake of the nuclear detonations, your directors are pleased to report that your Company has managed to achieve continuous steady growth. During the year, the lease disbursements amounted to Rupees 218 million while the net investment in leases amounted to Rupees 397 million at the year end. Your Company also continued to maintain a very diversified exposure as would be seen from the following table.

**Net Investment in Leases**

Sector	% of total exposure
Textile	21
Cement	10
Energy	10
Food & Beverages	8
Engineering	7
Publications	6
Auto & allied	5
Sugar	4
Chemicals & Fertilizer	3
Entertainment	3

Health care	3
Transport & Communications	3
Others	17
-----	
Total	100
-----	

The diversity of the lease portfolio has substantially reduced the risk of potential losses. However, in view of the current economic climate and as a measure of prudence, the Company has followed a policy of creating provision for potential lease losses.

The Company has arranged a foreign line of credit amounting to £Stg. Three million from the Commonwealth Development Corporation, U.K. and is also negotiating additional lines of credit with local as well as foreign lending institutions. The foreign credit line has remained unutilised due to high cost of forex cover and changes in the foreign exchange rules following the nuclear tests. However, the Company is examining other cost effective measures to enable the utilisation of this facility expeditiously and the first draw down is expected during the next half year.

During the year, the profitability of the leasing companies was severely affected due to adverse investment climate, substantial increase in the borrowing costs and increase in the operating costs arising from high inflation. The general 'wait and see' policy adopted by the businesses combined with substantial devaluation of the Rupee and impact of economic sanctions are factors which are likely to put further pressure on the operations of the leasing companies.

### Financial Results

During the year, the lease disbursements amounted to Rupees 218 million and the income from the leasing business was Rupees 68.4 million. Net profit after tax was Rupees 14.6 million.

The profit and appropriations for the year ended June 30, 1998 were as follows:

	Rs. in million
Net profit after tax	14,646
Unappropriated profit brought forward	5,971
	-----
Profit available for appropriation	20,617
Appropriations:	
Transfers to:	
Statutory reserve	2,929
	-----
Unappropriated profit carried forward	17,688
	=====

### Dividend

Your directors do not recommend payment of dividend for the year ended June 30, 1998.

### Future Business Prospects

The leasing business in the country continues to offer substantial growth potential. However, the recent changes in the economic climate in the aftermath of the nuclear explosions and the post-sanctions scenario, the increase in the borrowing cost and increase in the operating expenses due to devaluation of the Rupee, will pose great challenge to the leasing companies to maintain growth and profitability.

As in the past, 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 continue to 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, 1998 is annexed to this report.

For and on behalf of the Board of Directors

**M. R. Khan**

Chairman & Chief Executive

Karachi: September 1, 1998

**PATTERN OF SHAREHOLDING AS AT JUNE 30, 1998**

Shareholding		Number of Shareholders	Total Shares Held	Percentage
From	To			
1	100	3	300	0.00
101	500	210	104,700	1.05
501	1000	7	7,000	0.07
1001	5000	20	57,700	0.58
5001	10000	10	97,000	0.97
10001	15000	1	15,000	0.15
15001	20000	1	18,900	0.19
20001	25000	3	75,000	0.75
45001	50000	1	50,000	0.50
50001	55000	1	53,100	0.53
65001	70000	2	137,900	1.38
105001	110000	1	109,200	1.09
125001	130000	1	125,500	1.26
145001	150000	1	150,000	1.50
175001	180000	1	177,400	1.77
245001	250000	1	250,000	2.50
295001	300000	4	1,200,000	12.00
345001	350000	2	693,300	6.93
445001	450000	1	449,000	4.49
475001	480000	1	479,000	4.79
1495001	1500000	1	1,500,000	15.00
4245001	4250000	1	4,250,000	42.50
		274	10,000,000	100.00

**CATEGORIES OF SHAREHOLDERS**

Categories of Shareholders	Number	Shares Held	Percentage
Individuals	264	2,310,100	23.12
Investment Companies	3	733,500	7.33
Investment Banks	2	626,400	6.26
Modarabas	2	454,500	4.54
Insurance Company	1	125,500	1.25
Foreign Investors	2	5,750,000	57.50
<b>Total:</b>	274	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, 1998 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;

(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, 1998 and of the profit and the changes in financial position for the year then ended; and

(d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

**Khalid Majid Husain Rahman**  
Chartered Accountants

Karachi: September 8, 1998

## BALANCE SHEET AS AT JUNE 30, 1998

	Note	1998 Rupees	1997 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital			
25,000,000 ordinary shares of Rs. 10 each		250,000,000	250,000,000
Issued, subscribed and paid up capital		=====	=====
10,000,000 (1997: 10,000,000) ordinary shares			
of Rs. 10 each fully paid in cash		100,000,000	100,000,000
Reserves	3	24,610,558	9,964,227
		-----	-----
		124,610,558	109,964,227
LONG TERM LOANS	4	112,394,441	58,614,109
LONG TERM DEPOSITS	5	38,444,060	26,169,543
CURRENT LIABILITIES	6	201,113,451	80,936,661
CONTINGENCIES AND COMMITMENTS	7	--	--
		-----	-----
		476,562,510	275,681,540
		=====	=====
<b>ASSETS</b>			
TANGIBLE FIXED ASSETS	8	9,387,813	10,902,776
LONG TERM INVESTMENTS	9	9,804,662	3,923,837
NET INVESTMENT IN LEASES			
Minimum lease rentals receivable	10	446,597,747	291,974,639
Residual value		52,903,628	31,254,086
		-----	-----
Lease contracts receivable		499,501,375	323,228,725
Less: Unearned income		102,851,824	69,203,434
		-----	-----
Net investment in leases		396,649,551	254,025,291
		-----	-----
Less: Current portion of net investment in leases		134,559,559	76,588,625
Provision for potential lease losses		11,000,000	6,250,970
		-----	-----
		145,559,559	82,839,595

		251,089,992	171,185,696
DEFERRED COSTS	11	622,820	1,245,620
LONG TERM DEPOSITS	12	807,375	337,527
CURRENT ASSETS	13	204,849,848	88,086,084
		476,562,510	275,681,540

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

### PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 1998

	Note	1998 Rupees	1997 Rupees
Income from leasing operations	14	68,370,788	49,926,117
Other income	15	4,295,034	2,144,297
		72,665,823	52,070,414
Financial charges	16	35,915,302	19,460,555
Administrative and operating expenses	17	16,035,577	15,106,489
Amortization of deferred costs		622,800	622,800
Provision for potential lease losses		4,749,050	6,250,970
		57,322,709	41,440,814
Operating profit for the year		15,343,113	10,629,600
Provision for taxation	18	696,782	418,887
		14,646,331	10,210,713
Unappropriated profit brought forward		5,971,382	6,136,812
		20,617,713	16,347,525
Appropriations:			
Transfers to/(from):			
Statutory reserve		2,929,266	2,042,143
Reserve for contingencies		--	(1,666,000)
		2,929,266	376,143
Cash dividend - Nil (1997:10%)		--	10,000,000
		2,929,266	10,376,143
		17,688,447	5,971,382

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

### STATEMENT OF CHANGES IN FINANCIAL POSITION (CASH FLOW STATEMENT) FOR THE YEAR ENDED JUNE 30, 1998

	1998 Rupees	1997 Rupees
Cash flows from operating activities		
Net profit before taxation	15,343,113	10,629,600
Adjustments for items not involving movement of funds:		
Depreciation	1,750,146	1,715,079
Amortization of deferred costs	622,800	622,800
Gain on disposal of listed securities	(2,564,235)	(916,878)
Provision for potential lease losses	4,749,030	6,250,970

Operating profit before working capital changes	19,900,854	18,301,571
Advances, prepayments and other receivables	1,685,584	(1,642,139)
Deposits from lessees	19,356,243	10,758,673
Short term/running finances	132,847,225	15,620,150
Accrued and other current liabilities	3,907,297	2,300,868
Payment of tax	(401,906)	(263,158)
Dividend paid	(9,954,334)	--
	-----	-----
Net cash flow from operating activities	167,340,963	45,075,965
<b>Cash flows from investing activities</b>		
Net investment in leases	(142,624,260)	(87,414,438)
Capital expenditure	(235,183)	(164,285)
Long term investments	(8,084,871)	(58,455)
Short term investments	(18,101,000)	(1,479,669)
Proceeds from disposal of listed securities	18,342,950	1,412,320
Recovery of long term advance	--	301,694
Long term deposits	(174,520)	(2,000)
	-----	-----
Net cash used in investing activities	(150,876,884)	(87,404,833)
<b>Cash flows from financing activities</b>		
Proceeds from long term loans	80,450,000	60,000,000
Repayment of long term loans	(40,666,668)	(13,722,223)
	-----	-----
Net cash flow from financing activities	39,783,332	46,277,777
	-----	-----
Net increase in cash and cash equivalents	56,247,411	3,948,909
Cash and cash equivalents at beginning of the period	6,457,260	2,508,351
	-----	-----
Cash and cash equivalents at end of the year (Note A)	62,704,671	6,457,260
	=====	=====
Note A:		
Cash and cash equivalents at end of the year		
Cash and bank balances	51,106,191	858,020
Short term investments		
- Term Finance Certificates	1,898,480	1,899,240
- Federal Investment Bonds	9,700,000	3,700,000
	-----	-----
	11,598,480	5,599,240
	-----	-----
	62,704,671	6,457,260
	=====	=====

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1998

### 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 Deferred costs and amortization

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

### 2.5 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.

### 2.6 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.

### 2.7 Employees' retirement 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.

### 2.8 Foreign currency financial assets

Foreign currency financial assets, acquired from the open market, are stated at cost or open market value, whichever is lower.

### 2.9 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.

Corresponding income on the asset and charge on the liabilities is also netted off.

### 2.8 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	1998 Rupees	1997 Rupees
<b>3. RESERVES</b>			
Statutory reserve	3.1		
Balance at beginning of the year		3,992,845	1,950,702
Transfer from profit and loss account		2,929,266	2,042,143
		-----	-----
		6,922,111	3,992,845
General reserve			
- Reserve for contingencies			



Balance at beginning of the year	--	1,666,000
Transfer to profit and loss account	--	(1,666,000)
	-----	-----
	--	--
Unappropriated profit	17,688,447	5,971,382
	-----	-----
	24,610,558	9,964,227
	=====	=====

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.

	Note	1998 Rupees	1997 Rupees
<b>4. LONG TERM LOANS</b>			
Secured -			
From commercial banks	4.1	48,611,109	59,277,777
From other financial institutions	4.2	80,000,000	20,000,000
		-----	-----
		128,611,109	79,277,777
Unsecured -			
From other financial institutions		--	10,000,000
From others	4.3	450,000	--
		-----	-----
		450,000	10,000,000
		-----	-----
		129,061,109	89,277,777
Less: Current maturity	6	16,666,668	30,666,668
		-----	-----
		112,394,441	58,611,109
		=====	=====

4.1 This represents loans obtained for lease financing and carry mark-up at the rate of 19% per annum and are secured by a first charge on certain specific assets leased out and related lease rentals receivable. These loans are repayable between July 31, 1999 and November 5, 1999.

4.2 This represents finances obtained under markup and pro-note discounting facilities and are repayable between July 11, 1999 and September 11, 2000. These arrangements carry mark-up at the average rate of 17.34% per annum. Out of these finances, Rupees 30 million are secured by pari passu charge over present and future movable assets and lease rentals receivable and Rupees 50 million are secured by lien over investments in Federal Investment Bonds of Rupees 8 million and deposits of Rupees 42 million until creation of pari passu charge over assets leased out and related rentals receivable.

4.3 This represents finance obtained under musharika arrangement and carry expected rate of return of 18% per annum. This facility will mature on October 23, 1999.

	Note	1998 Rupees	1997 Rupees
<b>5. LONG TERM DEPOSITS</b>			
Security deposits on leases	5.1	45,554,661	26,198,418
Less: Current maturity of long term deposits		7,110,601	28,875
		-----	-----
		38,444,060	26,169,543
		=====	=====

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

Note	1998 Rupees	1997 Rupees
------	----------------	----------------

**6. CURRENT LIABILITIES**

Current maturity of long term loans	4	16,666,668	30,666,668
Current maturity of long term deposits	5	7,110,601	28,875
Short term finances- unsecured			
- from financial institutions			
-associated		10,000,000	10,000,000
- others		121,500,000	15,000,000
		-----	-----
	6.1	131,500,000	25,000,000
- from others	6.2	15,000,000	400,000
Running finance under mark-up			
arrangement - secured	6.3	21,686,527	9,939,302
Accrued and other liabilities	6.4	9,149,655	4,901,816
Proposed dividend		--	10,000,000
		-----	-----
		201,113,451	80,936,661
		=====	=====

6.1 This represents finances obtained under mark-up arrangements from financial institutions and carry mark-up at the average rate of 19.53% per annum. These finances are repayable between July 6, 1998 and November 16, 1998.

6.2 This represents finances obtained under musharika arrangement and carry expected average rate of return of 18.25% per annum. These facilities are repayable between July 15, 1998 and August 25, 1998.

6.3 This represents running finance utilized against aggregate facility of Rupees 20 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.

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>6.4 Accrued and other liabilities</b>		
Accrued liabilities	59,703	103,390
Accrued mark-up on secured loans	3,580,480	2,203,234
Accrued markup on unsecured loans	3,113,748	1,456,165
Advance against leases	1,596,597	317,430
Unclaimed dividend	45,666	--
Taxation	650,598	355,722
Other liabilities	102,863	465,875
	-----	-----
	9,149,655	4,901,816
	=====	=====

**7. CONTINGENCIES & COMMITMENTS**

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

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>
Payable in the year ending June 30		
-1998	--	667,880
-1999	2,289,135	114,735
-2000	2,174,400	--
	-----	-----
	4,463,535	782,615
	=====	=====
7.2 Commitments for lease finance	10,000,000	24,890,000
	=====	=====
7.3 Guarantees issued	600,000	1,195,000
	=====	=====

**8. TANGIBLE FIXED ASSETS**

Description	COST			DEPRECIATION			Written down value as at June 30, 1998	Depreciation rate %
	As at July 1, 1997	Additions during the year	As at June 30, 1998	As at July 1, 1997	Charge for the year	As at June 30, 1998		
----- Rupees -----								
<b>OWNED</b>								
Office premises-Leasehold	7,306,560	--	7,306,560	761,100	365,328	1,126,428	6,180,132	5
Leasehold improvements	1,966,879	--	1,966,879	557,040	295,032	852,072	1,114,807	15
Furniture and fixtures	2,191,054	79,984	2,271,038	857,732	449,752	1,307,484	963,554	20
Office equipment	752,012	36,790	788,811	319,321	154,259	473,580	315,231	20
Computer equipment	903,740	118,400	1,022,140	447,551	239,585	687,136	335,004	25
Generator & airconditioners	1,173,279	--	1,173,279	487,375	234,659	722,034	451,245	20
Vehicles	57,630	--	57,630	18,259	11,531	29,790	27,840	20
1998	14,351,154	235,183	14,586,337	3,448,378	1,750,146	5,198,524	9,387,813	
1997	13,906,282	444,872	14,351,154	1,733,299	1,715,079	3,448,378	10,902,776	

## 9. LONG TERM INVESTMENTS

	Number of ordinary shares/certificates of Rs. 10 each	1998 Rupees
<b>Listed Securities</b>		
A1-Ghazi Tractors Limited (of Rs. 5 each)	1,020	30,730
Fauji Cement Company Limited	50,000	406,100
First Equity Modaraba	34,500	224,316
First Ibrahim Modaraba	32,700	280,406
First UDL Modaraba	33,000	225,340
FFC Jordan Fertilizer Company Limited	60,000	1,234,600
Genertech Pakistan Limited	20,000	339,500
Ibrahim Energy Limited	12,500	345,500
ICP (SEMF)	50,000	1,245,525
Japan Power Generation Limited	70,000	637,700
KASB Mutual Fund Limited	50,000	335,500
Kohinoor Energy Limited	10,000	145,550
Kohinoor Power Company Limited	15,000	132,300
Nishat Mills Limited	66,891	1,119,895
Pakistan International Airlines Corporation Limited	10,000	48,000
Sitara Energy Limited	40,000	1,004,525
Sui Northern Gas Pipelines Limited	46,345	1,208,150
Southern Electric Power Company Limited	35,000	541,025
		9,504,662
Federal Investment Bonds (Note 9.1)		300,000
		9,804,662
As at June 30, 1997		3,923,837

Aggregate market value of the above investments is Rs. 4,504,530 (1997: Rs 2, 723,775).

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.

## 10. MINIMUM LEASE RENTALS RECEIVABLE

Note	1998	1997
------	------	------

	Rupees	Rupees
Due within one year	188,357,714	118,277,519
Due after one year	258,240,033	173,697,120
	-----	-----
	446,597,747	291,974,639
	=====	=====

**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	1,918,322	1,295,522
	-----	-----
	622,820	1,245,620
	=====	=====

**12. LONG TERM DEPOSITS**

Deposits - against leases	785,902	611,382
Less: Current maturity	158,027	453,355
	-----	-----
	627,875	158,027
Deposits - others	179,500	179,500
	-----	-----
	807,375	337,527
	=====	=====

**13. CURRENT ASSETS**

Current portion of net investment in leases		134,559,559	76,588,625
Current portion of long term deposits	12	158,027	453,355
Short term investments	13.1	17,604,480	7,078,909
Advances, prepayments and other receivables	13.2	1,421,591	3,107,175
Cash and bank balances	13.3	51,106,191	858,020
		-----	-----
		204,849,848	88,086,084
		=====	=====

	Note	1998 Rupees	1997 Rupees
<b>13.1 Short term investments</b>			
Term Finance Certificates	13.1.1	1,898,480	1,899,240
Federal Investment Bonds	13.1.2	9,700,000	3,700,000
Investment in listed securities	13.1.3	6,006,000	1,479,669
		-----	-----
		17,604,480	7,078,909
		=====	=====

13.1.1 This represents term finance certificates issued by Nishat Tek Limited (subsequently merged with Nishat Mills Limited) of Rs. 1.9 million, of the face value of Rs. 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 installments until January 16, 1999.

13.1.2 This represents investment in Federal Investment Bonds of Rs. 9.7 million under REPO arrangement with an investment bank and carry expected return of 13.35% per annum.

13.1.3 This represents investment in following listed securities

Number of	1998	1997
-----------	------	------

	ordinary shares of Rs. 10 each		Rupees	Rupees
	1998	1997		
Baluchistan Wheels Limited	330,000	--	6,006,000	--
ICI Pakistan Limited	--	32,900	--	697,019
FFC -Jordan Fertilizer Company Limited	--	5,000	--	66,400
Pakistan Telecommunications Corp. Limited	--	25,000	--	716,250
			-----	-----
			6,006,000	1,479,669
			=====	=====
Aggregate market value			7,260,000	1,607,325
			=====	=====

	Note	1998 Rupees	1997 Rupees
13.2 Advances, prepayments and other receivables			
Advances - considered good		96,342	60,911
Prepayments		931,476	1,647,682
Accrued return on investments		280,415	155,477
Other receivables		113,358	1,243,105
		-----	-----
		1,421,591	3,107,175
		=====	=====

13.3 Cash and bank balances			
Balances with banks on -			
- Current accounts	13.3.1	7,612,751	858,020
- Deposit accounts			
Foreign Currency Account	13.3.2	14,035,150	-
Less: Term finance	13.3.3	(12,541,710)	-
		-----	-----
		1,493,440	-
Local Currency Account		42,000,000	-
		-----	-----
		43,493,440	-
		-----	-----
		51,106,191	858,020
		=====	=====

13.3.1 Includes deposit of Rupees 270,000/- with the State Bank of Pakistan as required under the relevant provision of the State Bank of Pakistan's Prudential Regulations for Non-Banking Financial Institutions to maintain liquidity against certain liabilities.

13.3.2 This represents foreign currency purchased from the open market at cost before May 28, 1998. The conversion value at Rupees 46 per US Dollar as at June 30, 1998 is Rupees 13.8 million. No provision has been made, as in the view of the Company no loss will accrue due to increase in value of US Dollar.

13.3.3 This represents loan from a commercial bank at 7.75% per annum against the lien over foreign currency deposit and second charge over the assets leased out and related rentals receivable. The repayment is due on February 18, 1999.

	Note	1998 Rupees	1997 Rupees
<b>14. INCOME FROM LEASING OPERATIONS</b>			
Income on lease contracts		66,280,362	48,553,353
Additional lease rentals & Front end fee		2,025,773	1,275,556
Lease termination charges		64,653	97,208
		-----	-----
		68,370,788	49,926,117
		=====	=====

Note	1998 Rupees	1997 Rupees
<b>15. OTHER INCOME</b>		
Profit from banks under cash management scheme	86,557	91,320
Mark-up on Term Finance Certificates	341,767	340,966
Profit on Musharika finance	4,853	91,510
Profit on modaraba certificates	74,930	69,345
Return on other investments	555,535	287,515
Mark-up on advance to an executive/director	--	1,422
Fees, commissions and other charges	667,157	345,341
Gain on disposal of listed securities	2,564,235	916,878
	-----	-----
	4,295,034	2,144,297
	=====	=====

#### 16. FINANCIAL CHARGES

Mark-up on long term finance	13,368,872	12,826,808
Mark-up on short term finance	21,496,335	5,835,370
Mark-up on running finance	940,601	749,485
Brokerage fee	59,625	31,919
Documentation charges	38,650	9,000
Excise duty and bank charges	11,219	7,973
	-----	-----
	35,915,302	19,460,555
	=====	=====

Note	1998 Rupees	1997 Rupees
<b>17. ADMINISTRATIVE &amp; OPERATING EXPENSES</b>		
Directors' fee	8,500	5,500
Salaries, allowances and benefits	7,514,540	8,060,732
Staff training and development	117,917	99,522
Telephone and fax	345,411	287,805
Postage and courier	29,833	18,170
Electricity	298,346	227,465
Office maintenance	486,545	471,931
Insurance	39,510	69,032
Business promotion expenses	418,519	317,235
Canteen expenses	60,793	53,393
Vehicle running expenses	500,506	424,646
Vehicle insurance	403,557	371,295
Travelling and conveyance	30,774	87,166
Advertisement expenses	67,500	25,250
Printing and stationery	180,330	132,222
Subscriptions and listing fees	835,247	290,339
Legal and professional charges	17.1 242,780	157,497
Statutory filing fees	15,490	10,530
Depreciation	1,750,146	1,715,079
Lease rentals	2,617,158	2,256,984
Zakat	--	1,313
Miscellaneous	72,175	23,383
	-----	-----
	16,035,577	15,106,489
	=====	=====

#### 17.1 Legal and professional charges

These include auditors' remuneration, as follows:

Annual audit	35,000	25,000
Out-of-pocket expenses	--	6,053
	-----	-----
	35,000	31,053

**17.2 Transactions with associated undertakings**

- Mark-up on short term finance paid	1,639,521	732,204
- Front-end fee received	--	150,000

**17.3 Remuneration of Chief Executive and Executives**

	1998		1997	
	Chief Executive	Executives	Chief Executive	Executives
	Rupees			
Managerial remuneration	420,000	3,334,400	420,000	2,572,660
Housing and utilities	319,355	1,635,150	352,427	1,282,380
Medical and other perquisites	69,103	425,979	116,112	1,987,903
Provident fund contribution	--	293,880	--	233,160
	808,458	5,689,409	888,539	6,076,103
No. of persons	1	7	1	6

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. All executives were also provided with medical insurance cover.

**18. TAXATION - Current**

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

**19. GENERAL**

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