

## **Al-Zamin Leasing Modaraba**

### **Annual Report 1998**

#### **MANAGED BY:**

**Al-Zamin Modaraba Management (Private) Limited**

104-106, Kassam Court, BC-9, Block 5, Clifton, Karachi-75600

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#### **CORPORATE INFORMATION**

##### **BOARD OF DIRECTORS**

Mr. Hassan Zaheer-Chairman & Chief Executive

Syed Ghazanfar Ali [Nominee of Pak Libya Holding Co. (Pvt) Ltd.]

Mr. S.M. Farooq

Mr. C. Ahsanul Haq

Mr. Ansar Husain

Mr. Manzoor Hussain Shah Kazmi

Brig. (Retd) Luqman Mahmood

##### **AUDITORS OF THE MODARABA**

M. Yousuf Adil Saleem & Company, Chartered Accountants

##### **AUDITORS OF THE MODARABA COMPANY**

Jalis Ahmed & Company, Chartered Accountants

##### **BANKERS**

Allied Bank of Pakistan Limited

Askari Commercial Bank Limited

First Women Bank Limited

National Bank of Pakistan

National Development Finance Corporation

Pakistan Industrial Credit & Investment Corporation

Soneri Bank Limited

##### **LEGAL ADVISORS**

Sharif & Company, Advocates

Mansoor Ahmed Khan & Company, Advocates

##### **MODARABA COMPANY**

Al-Zamin Modaraba Management (Private) Limited

##### **REGISTERED OFFICE & SHARES DEPARTMENT**

104-106, Kassam Court,

BC-9, Block 5, Clifton,

Karachi-75600

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##### **ISLAMABAD OFFICE**

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## LAHORE OFFICE

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## CONTENTS

Directors' Report  
Auditors' Report  
Balance Sheet  
Profit and Loss Account  
Statement of Changes in Financial Position  
Notes to the Accounts  
Asset and Sector-wise Analysis of Leases  
Pattern of Certificate Holding

## DIRECTORS' REPORT FOR THE YEAR 1997-98

The Board of Directors of Al-Zamin Modaraba Management (Pvt) Limited takes pleasure in presenting the Sixth Annual Report together with audited accounts for the year ended 30th June, 1998.

### FINANCIAL RESULTS:

The Modaraba achieved a record operating profit of Rs. 26.236 million for the year, before appropriations, which was 16.8 per cent higher than the 1997 operating profit of Rs. 22.456 million. The composition of results with comparison of 1997 is as follows:

HIGHLIGHTS	1998 30th June	1997 30th June	Increase %
Net Lease Receivables	212,172,125	206,991,292	2.50
Total Earnings generated	53,464,323	46,402,295	15.22
Operating Expenses	13,275,479	11,042,509	20.22
Financial Charges	13,953,046	12,903,646	8.13
Operating Profit	26,235,798	22,456,140	16.83

### CREDIT RATING:

The Board is happy to report that, during the year, your Modaraba was awarded a respectable medium to long-term entity rating of Triple-B Minus by DCR-VIS Credit Rating Company Ltd which reflects "adequate credit quality with reasonable and sufficient protection factors". Short-term entity rating of D-3 was awarded which indicates "satisfactory' liquidity and other protection factors" qualifying the Modaraba for the investment grade. The Rating Agency expected timely payments despite the risk factors which were considered variable if changes occurred in the economy. The credit rating report acknowledges the strength of the Modaraba management and its satisfactory performance despite the economic downturn in the country and deteriorating performance of the Modaraba sector. Al-Zamin, in the opinion of the rating agency, can be distinguished amongst Modarabas due to the management's

rich local and international banking exposure and its ability to tap long-term and short-term finance. The rating report also acknowledges that, despite high cost of borrowed funds, the Modaraba had generated reasonable returns in a highly competitive environment and that the management had been successful in writing leases to credit worthy clients.

#### **APPROPRIATIONS:**

Since your Modaraba operated under the revised tax regime of 25 per cent for the year, a provision of Rs. 2.272 million has been made for the current and previous year tax liabilities. In addition, a sum of Rs. 0.500 million has also been allocated for the deferred tax as a matter of accounting prudence. Henceforth, the leasing Modarabas which distribute 90 per cent of their profit would be exempted from tax, effective assessment year 1999-2000. This is an important development which would promote the Modaraba sector and ensure suitable distributions to the certificate-holders in the future.

The stock market has been showing declining trends over the last two years. Your Modaraba was able to reduce its short-term and long-term investments in the stock market from Rs. 18.66 million to Rs. 5.83 million in the previous year thereby reducing its exposure to the market fluctuations substantially. While appropriate provisions have always been made for the short-term investments, your Board has decided to make a full provision of Rs. 3.361 million for the diminution experienced in the long-term investments of Rs. 4.090 million. This has been decided as a matter of abundant caution in order to protect your future results from any negative impacts. It is hoped that a substantial portion of this provision would be written back to the profits of the Modaraba when disinvestments take place after the market improvement.

A provision of Rs. 2.663 million has been made for the potential lease losses as against a provision of Rs. 1.636 million of the previous year. You may recall that a general reserve of Rs. 5.00 million had been created in the previous year to strengthen the operating base of the Modaraba. In view of current uncertainties prevailing in the economy, your Board has decided to add another sum of Rs. 1.00 million so as to make a Contingency Reserve of Rs. 6.00 million, as a matter of professional prudence, to provide a suitable safeguard for any possible losses of lease receivables in the future. It is proposed to keep on contributing suitable sums to the Contingency Reserve in the future years as well in order to evolve a strong base of the Modaraba's balance sheet. This has been done in addition to the transfer of a sum of Rs. 3.001 million to the Special Reserve in compliance with the prudential guidelines. As a consequence of these steps, the capital and reserve base of your Modaraba has increased from Rs. 143.0486 million of the previous year, to Rs. 158.052 million. The Board is confident that the prudent measures adopted by your management in the context of the prevailing conditions would be duly appreciated. As a consequence of the above appropriations, unutilised profit of Rs. 11.893 million is available which is being carried forward to the next year.

#### **OPERATIONS DURING THE YEAR:**

The year under review has been rather unprecedented in many ways. The declining growth of the gross national product and deteriorating performance of the manufacturing sector in the country persisted all along during the year. Consequently, decline in the fresh investments and business-expansion restricted new leases on the one hand and, on the other, the cash-flow problems of the industrial and business sectors affected the servicing of existing lease

rentals. In order to ensure preservation of the quality leasing port-folio, your Modaraba had to accept lower returns from the lessees of stronger financial strength. Rescheduling in certain cases had to be agreed in view of the genuine difficulties of the lessees. Your management is fully conscious of the importance of making concerted efforts to minimise incidence of default and your Board is happy to report that a constant in-flow of lease rentals was maintained in majority of the leases during the year. Your Modaraba, in line with the entire financial sector, anticipates deterioration in the servicing of the recoveries during the current year and effective steps shall be taken to safeguard your Modaraba against any adverse effects thereof.

The total earnings of your Modaraba increased from Rs. 46.402 million of the previous year to Rs. 53.464 million, indicating a growth of 15.2 per cent. The operating expenses increased from Rs. 11.042 to Rs. 13.275 million mainly due to the inflationary causes and refurbishment of Modaraba's offices at Karachi and Lahore. The financial charges also increased from Rs. 12.903 million to Rs. 13.953 million due to utilisation of further credit lines which, in turn, contributed towards the improvement of the earnings.

During the year, your Modaraba was able to mobilise fresh credit lines and musharaka finance to supplement cash resources and to further improve upon the matching maturities profile. The Board is happy to report that your Modaraba continues to have enough resources to pursue its growth, based on prudence and diversity.

#### **FUTURE PROSPECTS:**

The uncertainties in which the entire country is living at the moment, in view of the post-blast effects, make it difficult to predict any significant improvement in the size and quality of the business during the next year. Your Board shares the general view of the careful and conservative members of the financial sector that any fresh commitments during the current year should be made only with extreme caution and selectivity. It would be more prudent to preserve the cash resources and assets of the Modaraba rather than undertaking leasing and other commitments where the financial strength and track record of the counter parties is not beyond any doubt. Consequently, it would be a hard task to achieve any significant growth in the balance sheet during the year 1998-99 but qualitative and quantitative aspects of the current standing of the Modaraba shall be meticulously safeguarded.

#### **ACKNOWLEDGEMENT:**

The Board places on record its appreciation of the hard work and devoted efforts contributed by the staff to the successful operations of the Modaraba.

The Board also places on record its acknowledgment of the valuable guidance and assistance extended by the Registrar Modaraba and the Corporate Law Authority.

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

We have audited the annexed balance sheet as at June 30, 1998 and the related profit and loss account and statement of changes in financial position (cash flow statement), together with the notes to the accounts for the year ended June 30, 1998 of AI-Zamin Leasing Modaraba, which are Modaraba Company's [AI-Zamin Modaraba Management (Private) Limited] representation and we state that we

have obtained all the information and, explanation which we required and, after due verification thereof, we report that:

a) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of AI-Zamin Leasing Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Modaraba Companies and Modaraba Rules, 1981.

b) in our opinion, the balance sheet and profit and loss account have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, and Modaraba Companies and Modaraba Rules, 1981; and

c) in our opinion and to the best of our information and according to the explanations given to us;

i) the balance sheet and the related profit and loss account and statement of changes in financial position (cash flow statement), which are in agreement with the books of accounts, exhibit respectively a true and fair view of the state of the Modaraba's affairs as at June 30, 1998 and the profit and the changes in the financial position for the year ended on that date;

ii) Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, has been deducted by the Modaraba and deposited in the Central Zakat Fund established under Section 7 of that Ordinance, and

iii) the business conducted, investments made and the expenditure incurred by the Modaraba are in accordance with objects, terms and conditions of the Modaraba.

**M. Yousuf Adil Saleem & Co.**

Chartered Accountants

Karachi: 12th October, 1998

**BALANCE SHEET  
AS AT JUNE 30, 1998**

	Note	1998 Rupees	1997 Rupees
<b>CAPITAL AND RESERVES</b>			
Certificate capital			
Authorised			
20,000,000 Modaraba			
certificates of Rs. 10 each		200,000,000	200,000,000
		=====	=====
Issued, subscribed and paid-up	3	126,500,000	126,500,000
Reserves and unappropriated profit	4	31,551,979	16,547,873
		-----	-----
		158,051,979	143,047,873
<b>LONG TERM FINANCES</b>	5	27,491,612	20,962,645
<b>LONG TERM SECURITY DEPOSITS ON LEASE CONTRACTS</b>	6	25,536,300	20,917,289

<b>DEFERRED TAXATION</b>		1,000,000	500,000
<b>CURRENT LIABILITIES</b>			
Current portion of long term finances		20,971,033	16,038,596
Current portion of long term security deposits on lease contracts		5,340,489	7,707,841
Short term finances	7	43,299,330	34,152,194
Advance lease rent/security deposits		1,670,427	1,601,421
Accrued and other liabilities	8	2,155,338	2,617,124
Taxation		2,831,707	1,567,227
Dividend	9	829,764	21,870,649
		-----	-----
		77,098,088	85,555,052
		-----	-----
		289,177,979	270,982,859
		=====	=====
<b>FIXED ASSETS-TANGIBLE</b>	10	5,292,511	5,452,282
<b>LONG TERM INVESTMENTS</b>	11	729,296	4,892,710
<b>NET INVESTMENT IN LEASE FINANCE</b>			
Net investment	12	212,172,125	206,991,292
Current portion		(80,283,256)	(71,699,550)
		-----	-----
		131,888,869	135,291,742
<b>CURRENT ASSETS</b>			
Current portion of net investment in lease finance		80,283,256	71,699,550
Musharaka finance	13	39,991,096	35,741,082
Short term investments	14	422,501	938,322
Lease rent receivable	15	6,369,940	6,273,590
Advances, deposits and p repayments	16	2,152,765	1,357,149
Other receivables	17	3,483,835	2,037,339
Cash and bank balances	18	18,563,910	7,299,093
		-----	-----
		151,267,303	125,346,125
		-----	-----
		289,177,979	270,982,859
		=====	=====

The annexed notes from 1 to 25 form an integral part of these accounts.

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

	<b>Note</b>	<b>1998 Rupees</b>	<b>1997 Rupees</b>
<b>REVENUE</b>			
Income from leasing operations		45,003,803	38,766,201
Profit on Musharaka transactions		7,473,280	6,722,243

Profit/(Loss) on investment in securities		175,015	(575,962)
Profit on PLS deposit accounts		566,666	444,879
Other income	19	245,559	1,044,934
		-----	-----
		53,464,323	46,402,295

**OPERATING AND FINANCIAL COSTS**

Operating expenses	20	13,275,479	11,042,509
Financial charges	21	13,953,046	12,903,646
		-----	-----
		(27,228,525)	(23,946,155)
		-----	-----
		26,235,798	22,456,140

**OTHER CHARGES**

Amortization of deferred cost	22	--	976,900
Diminution in value of investments		4,019,360	(25,407)
Allowance for potential lease losses		2,662,563	1,636,157
		-----	-----

Profit before taxation		(6,681,923)	(2,587,650)
		19,553,875	19,868,490
		-----	-----

Modaraba Company's Management fee		(1,777,625)	(1,669,863)
Profit for the year		17,776,250	18,198,627

**Taxation**

Current		2,000,000	1,000,000
Prior year		272,144	--
Deferred		500,000	500,000
		-----	-----
		(2,772,144)	(1,500,000)
		-----	-----

Profit after taxation		15,004,106	16,698,627
Unappropriated profit brought forward		889,245	14,035,343
Profit available for appropriation		15,893,351	30,733,970

**APPROPRIATION**

Dividend (1997 - 17%)		--	21,505,000
Transfer to special reserve		3,000,821	3,339,725
Transfer to general reserve		--	5,000,000
Transfer to contingency reserve		1,000,000	--
		-----	-----
		(4,000,821)	(29,844,725)
		-----	-----

Unappropriated profit carried forward		11,892,530	889,245
		=====	=====

The annexed notes from 1 to 25 form an integral part of these accounts.

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

**1998**  
**Rupees**

**1997**  
**Rupees**

**A. CASH FLOW FROM OPERATING ACTIVITIES**

Profit after taxation	15,004,106	16,698,627
<b>Adjustments</b>		
Financial charges	13,953,046	12,903,646
Depreciation	1,173,813	1,119,369
Provision for diminution in value of investments	4,019,360	(25,407)
Provision for deferred tax	500,000	500,000
Allowance for potential lease losses	2,662,563	1,636,157
Gain on sale of fixed assets	(16,300)	(718,800)
Loss/(Gain) on sale of investments	(175,015)	575,962
Amortization of deferred cost	--	976,900
	-----	-----
Operating profit before working capital changes	37,121,573	33,666,454
<b>(Increase)/decrease in current assets</b>		
Lease rent receivable	(2,758,913)	(4,826,102)
Advances, deposits and prepayments	(795,616)	(1,027,147)
Other receivables	(1,446,496)	(734,908)
	-----	-----
	(5,001,025)	(6,588,157)
<b>Increase/(decrease) in current liabilities</b>		
Advance lease rent/security deposits	69,006	531,903
Accrued and other liabilities	(415,756)	813,931
Taxation	1,264,480	1,000,000
	-----	-----
	917,730	2,345,834
	-----	-----
Cash generated from operations	33,038,278	29,424,131
Financial charges paid	(13,999,076)	(12,521,956)
	-----	-----
Net cash from operating activities	19,039,202	16,902,175
	-----	-----

**1998**                      **1997**  
**Rupees**                      **Rupees**

**B. CASH FLOW FROM INVESTING ACTIVITIES**

Fixed capital expenditure	(1,322,742)	(3,231,690)
Investment in listed securities	(516,750)	(9,645,400)
Investment in leased assets	(5,180,833)	(17,074,062)
Proceeds from sale of investments	1,351,640	12,761,887
Musharaka financing	(4,250,014)	(3,643,823)
Proceeds from disposal of fixed assets	325,000	1,436,000
	-----	-----
Net cash used in investing activities	(9,593,699)	(19,397,088)

**C. CASH FLOW FROM FINANCING ACTIVITIES**

Long term Musharaka finance obtained	30,000,000	30,000,000
--------------------------------------	------------	------------



Security deposits on lease contracts	2,251,659	1,995,202
Increase in short term Musharaka finance	9,147,136	(3,664,614)
Repayment of long term Musharaka finance	(18,538,596)	(20,773,869)
Dividend	(21,040,885)	(135,561)
	-----	-----
Net cash from financing activities	1,819,314	7,421,138
	-----	-----
Net increase in cash and cash equivalents	11,264,817	4,926,225
Cash and cash equivalents at the beginning of the year	7,299,093	2,372,868
	-----	-----
Cash and cash equivalents at the end of the year	18,563,910	7,299,093
	=====	=====

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 1998

### 1. LEGAL STATUS AND NATURE OF BUSINESS

Al-Zamin Leasing Modaraba has been formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed thereunder. It is managed by Al-Zamin Modaraba Management (Private) Limited, a company incorporated in Pakistan under the Companies Ordinance, 1984 and registered with the Registrar of Modaraba Companies and Modarabas under the Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980. It is a perpetual multipurpose Modaraba authorised to undertake various business transactions under the Islamic Modes of Financing.

The Modaraba is listed on the Karachi, Lahore and Islamabad Stock Exchanges.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Accounting convention

These accounts have been prepared under the 'historical cost convention'.

#### 2.2 Staff retirement benefits

Modaraba operates a contributory provident fund scheme for its employees eligible under the scheme. Equal monthly contributions are made by the Modaraba and the employees in accordance with the rules.

#### 2.3 Taxation

##### Current

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

##### Deferred

Deferred tax is accounted for by using the liability method on all major timing differences excluding tax effect on those timing differences

which are not likely to reverse in the foreseeable future. As a measure of prudence, deferred tax debits are not accounted for.

#### **2.4 Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method. Depreciation on additions/disposals during the year is charged proportionately for the period of use. Gain or loss on disposal of assets is accounted for in the year in which it arises.

#### **2.5 Investments**

a) Long term investments in quoted shares are stated at cost. Provision is made for the decline, other than temporary in the value of investment.

b) Short term investments in quoted shares are stated at lower of cost and market value determined on an aggregate portfolio basis.

#### **2.6 Provision for Doubtful Debts**

Provision for doubtful debt is made at the year end after review of outstanding lease portfolio on the basis of State Bank of Pakistan Prudential Regulations as applies to Modaraba.

#### **2.7 Deferred cost**

Deferred cost is written off over a maximum period of five years from the year of deferment.

#### **2.8 Lease accounting**

The Modaraba provides assets on leasing arrangements to its clients under lease agreements as approved by the Religious Board. These leases are recorded in the books of accounts as finance lease in line with International Accounting Standard 17.

#### **2.9 Revenue recognition**

a) For leasing transactions, the unearned finance income is deferred and amortised to income over the term of lease applying the annuity method to produce a constant rate of return on the net investment in leases.

b) Profit from Morabaha transactions is recognised on pro-rata accrual basis, calculated on number of days funds were utilised.

c) Profit on Musharaka investments and finance is accounted for on the basis of the projected rate of profit. The effect of adjustments, if any, between actual rate and projected rate of profit is accounted for at the time of determination of the actual rate.

d) Profit on short term placements, term deposits and investments is recognised on accrual basis.

e) Capital gain/(Loss) on sale of investments is accounted for in the year in which it arises.

f) Dividend income from shares is recognized at the time of closure

of the shares transfer books of the company declaring the dividend and is shown net of Zakat.

g) Income from fee and commission is recognised as and when it becomes due.

### 3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

Fully paid Modaraba Certificates of Rs. 10 each.

1998 No. of certificates	1997	1998 Rupees	1997 Rupees
10,000,000	10,000,000 Fully paid in cash	100,000,000	100,000,000
2,650,000	2,650,000 Issued as fully paid bonus certificates	26,500,000	26,500,000
----- 12,650,000 =====	----- 12,650,000 =====	----- 126,500,000 =====	----- 126,500,000 =====

### 4. RESERVES AND UNAPPROPRIATED PROFIT

#### 4.1 Capital Reserve

Special reserve		
Opening balance	10,658,628	7,318,903
Transferred during the year	3,000,821	3,339,725
	-----	-----
Balance at the end of the year	13,659,449	10,658,628
Contingency Reserve		
Transferred from general reserve	5,000,000	--
Transferred during the year	1,000,000	--
	-----	-----
Balance at the end of the year	6,000,000	--

#### 4.2 General Reserve

General Reserve		
Opening balance	5,000,000	--
Transferred during the year	--	5,000,000
Transferred to contingency reserve	(5,000,000)	--
	-----	-----
	--	5,000,000

#### 4.3 Unappropriated profit

	11,892,530	889,245
	-----	-----
	31,551,979	16,547,873
	=====	=====

Special reserve represents appropriation @ 20% of profit after tax as per the rules of State Bank of Pakistan for non-banking financial institutions.

Contingency reserve has been created as a matter of prudence specifically to provide for possible losses on lease receivables. In view

of the prevailing economic climate, the directors consider this reserve not available for distribution at present.

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>5. LONG TERM FINANCES</b>		
Morabaha finance from financial Institutions		
Opening balance	37,001,241	27,775,130
Obtained during the year	30,000,000	30,000,000
	-----	-----
	67,001,241	57,775,130
Paid during the year	(18,538,596)	(20,773,889)
	-----	-----
	48,462,645	37,001,241
Payable within one year shown under current liabilities	(20,971,033)	(16,038,596)
	-----	-----
	27,491,612	20,962,645
	=====	=====
Amount	70,000,000	
Marked-up price	99,712,939	
Rate of profit	20% / 21.50%	

5.1 These finances are payable on quarterly and half yearly installments and are secured against hypothecation of specific leased out assets and charge on receivables.

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>6. LONG TERM SECURITY DEPOSITS ON LEASE CONTRACTS</b>		
Customer's security deposits	30,876,789	28,625,130
Payable within one year shown under current liabilities	(5,340,489)	(7,707,841)
	-----	-----
	25,536,300	20,917,289
	=====	=====

## 7. SHORT TERM FINANCES

### Musharaka finance (7.1)

Leasing companies	11,569,589	11,043,699
Investment company	4,000,000	4,300,000
Individuals	7,635,000	6,770,000
Financial institution	--	120,000

### Morabaha finance (7.2)

Banking companies	20,094,741	11,918,495
	-----	-----
	43,299,330	34,152,194
	=====	=====

7.1 These finances have been obtained for a period of 85 days to 365 days at

a profit rate ranging from 18% to 21% per annum. These are secured by way of demand promissory notes and/or pledge of marketable securities.

7.2 These represent finance obtained from Commercial Banks and is secured against pledge of marketable securities and/or hypothecation of leased assets and receivables. The rate of profit applicable is 20% per annum.

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>8. ACCRUED AND OTHER LIABILITIES</b>		
Profit payable on secured musharaka finances	1,473,534	1,519,564
Accrued expenses	681,804	708,270
Withholding tax	--	389,290
	-----	-----
	<u>2,155,338</u>	<u>2,617,124</u>
<b>9. DIVIDEND</b>		
Proposed	--	21,505,000
Unclaimed	829,764	365,649
	-----	-----
	<u>829,764</u>	<u>21,870,649</u>

#### 10. FIXED ASSETS - TANGIBLE

Particulars	Cost as at July 01, 1997	Additions/ (deletion)	Cost as at June 30, 1998	Accumulated depreciation as at June 30, '98	Written down Value as at June 30, '98	Depreciation for the year	Rate %
Office equipment	1,218,752	514,373	1,733,125	441,464	1,291,661	142,363	10
Furniture and fixtures	746,568	673,419	1,419,987	238,851	1,181,136	86,645	10
Vehicles	4,916,487	134,950 (378,000)	4,673,437	1,853,723	2,819,714	944,805	20
1998 Rupees	6,881,807	1,322,742 (378,000)	7,826,549	2,534,038	5,292,511	1,173,813	
1997 Rupees	5,881,454	3,231,690 (2,231,337)	6,881,807	1,429,525	5,452,282	1,119,369	

#### 10.1 Disposal of Fixed Assets

Particulars	Cost	Accumulated depreciation	Book Value	Sale Proceed	Particulars of purchaser
Motor vehicle	378,000	69,300	308,700	325,000	Mr. Sayed Nooruddin

21 I/B, Block-10  
F.B. Area, Karachi.

1997 Rupees	2,231,337	1,514,137	717,200	1,436,000
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## 11. LONG TERM INVESTMENTS

Name of the Company	No. of shares /certificates	Market value	1998 Rupees	1997 Rupees
ICP 19th Mutual fund	2,500	32,500	77,900	77,900
ICP 21 st Mutual fund	5,000	7,000	111,025	111,025
Reliance Spinning Mills Ltd.	1,500	14,925	41,445	41,445
Nishat Chunian Ltd.	1,500	13,500	54,240	54,240
Kashmir Polytex Ltd.	5,000	6,250	61,575	61,575
K.E.S.C. Ltd.	2,200	18,370	105,980	105,980
Agri Auto Industries Ltd. (Face value Rs. 5 each)	2,000	2,400	43,135	43,135
Maple Leaf Cement Ltd.	38,250	122,400	2,089,800	2,089,800
Pakistan Telecommunication Corporation Ltd.	20,000	333,000	1,011,100	1,011,100
Schon Bank Ltd.	--	--	--	622,440
Dhan Fibres Ltd.	20,000	36,000	234,750	234,750
Indus Motor Company Ltd.	5,000	41,250	123,300	123,300
Askari Commercial Bank Ltd.	2,656	37,051	65,320	65,320
Hub Power Company Ltd.	5,000	64,250	69,700	69,700
Fauji Cement Ltd.	100	400	1,000	181,000
		729,296	4,090,270	4,892,710
Less: Provision for diminution in value			(3,360,974)	--
			729,296	4,892,710

11.1 The face value of above fully paid shares unless otherwise mentioned is Rs. 10/- each.

	1998 Rupees	1997 Rupees
<b>12. NET INVESTMENT IN LEASE FINANCE</b>		
Minimum lease payments receivable	240,359,344	245,033,556
Residual value of leased assets	34,560,788	34,015,130
	274,920,132	279,048,686
Unearned income	(62,748,007)	(72,057,394)
Net investment	212,172,125	206,991,292
<b>13. MUSHARAKA FINANCE - SECURED</b>	39,991,096	35,741,082

It represents investments under Musharaka basis for working capital. Bank Guarantee and Shares are kept as security. Excepted rate of profit ranges between 21% to 24% per annum.

#### 14. SHORT TERM INVESTMENTS

Name of the Company	No. of shares /certificates	Market value	1998 Rupees	1997 Rupees
Ciba Geigy (Pakistan) Ltd.	100	3,800	8,465	8,465
Union Bank Ltd.	726	5,082	26,801	1,799
ICP 6th Mutual Fund	500	7,575	10,624	10,624
ICP 12th Mutual Fund	500	6,750	15,564	15,564
Financial Link Modaraba	11,800	10,620	118,000	118,000
Pakistan Industrial Credit and Investment Corporation Ltd.	198	1,049	6,859	6,859
Pakistan State Oil Ltd.	314	23,943	15,264	15,264
Dewan Salman Fibre Ltd.	209	2,853	7,224	7,224
Pak Suzuki Motor Co. Ltd.	200	6,900	11,700	11,700
Zahur Textile Mills Ltd.	380	855	4,828	4,828
Singer Pakistan Ltd.	125	8,855	10,589	10,589
Adamjee Insurance Co. Ltd.	180	8,550	11,764	11,764
Lever Brothers Pakistan Ltd.	24	24,000	17,923	17,923
D.G. Khan Cement Co. Ltd.	470	2,327	27,216	5,466
Trust Modaraba	182	1,001	1,859	1,859
Fauji Fertilizer Co. Ltd.	100	5,150	5,209	5,209
Adamjee Insurance Co. Ltd.	1,663	78,993	99,400	99,400
Cherat Cement Ltd.	2,500	25,000	111,650	111,650
KASB Premier Fund	5,000	10,000	36,450	36,450
Engro Chemicals Pakistan Ltd.	287	14,278	27,505	247,585
ICP SEMF	1,500	13,650	49,075	39,075
Sail Textile Mills Ltd.	1,210	12,100	38,660	38,660
Pak Suzuki Motor Co. Ltd.	--	--	--	107,275
Bank AI-Habib Ltd.	2,590	59,570	70,200	70,200
First Mehran Modaraba	1,200	3,000	15,336	--
Sui Northern Gas Company Ltd.	1,600	14,000	55,244	--
Ghandara Leasing Company Ltd.	1,000	8,500	54,740	--
Agri Auto Industries Ltd.	1,000	1,300	18,090	--
Indus Motor Company Ltd.	2,000	16,500	92,820	--
Bank AI-Habib Ltd.	400	9,200	20,601	--
First Hajveri Modaraba	100	350	984	--
Elite Capital Modaraba	1,000	1,000	11,687	--
Pakistan International Airlines Corp.	2,200	8,800	42,768	--
Bolan Casting Ltd.	1,000	5,150	35,160	--
First Ibrahim Modaraba	1,100	4,400	11,844	--
Ravi Textile Mills Ltd.	1,000	700	8,340	--
Sakrand Sugar Mills Ltd.	1,300	10,400	13,094	--
Kohinoor Power Company Ltd.	600	1,800	21,120	--
Maqbool Textile Mills Ltd.	1,000	4,500	11,340	--
		422,501	1,145,997	1,003,432
Less: Provision for diminution in value			(723,496)	(65,110)
			422,501	938,322

14.1 The face value of above fully paid shares / certificates unless otherwise mentioned is Rs. 10/- each.

	<b>1998</b>	<b>1997</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>15. LEASE RENT RECEIVABLE</b>		
Rentals receivable	11,486,259	8,727,346
Less: Allowance for potential lease losses	(5,116,319)	(2,453,756)
	-----	-----
	<u>6,369,940</u>	<u>6,273,590</u>
<b>16. ADVANCES, DEPOSITS &amp; PREPAYMENTS</b>		
Advance income tax	1,356,350	517,523
Short term deposits	40,900	20,900
Short term prepayments	560,532	759,632
Others	194,983	59,094
	-----	-----
	<u>2,152,765</u>	<u>1,357,149</u>
<b>17. OTHER RECEIVABLES- CONSIDERED GOOD</b>		
Accrued profit	2,588,699	1,700,974
Receivable from Management Company	266,895	105,000
Others	628,241	231,365
	-----	-----
	<u>3,483,835</u>	<u>2,037,339</u>
<b>18. CASH AND BANK BALANCES</b>		
Cash in hand	45,752	29,823
Cash with banks		
In PLS accounts	18,476,482	6,786,307
In current accounts	41,676	482,963
	-----	-----
	<u>18,518,158</u>	<u>7,269,270</u>
	-----	-----
	<u>18,563,910</u>	<u>7,299,093</u>
<b>19. OTHER INCOME</b>		
Dividend income	120,697	63,958
Profit on sale of assets	16,300	718,800
Underwriting commission	--	235,775
Miscellaneous	108,562	26,401
	-----	-----
	<u>245,559</u>	<u>1,044,934</u>



**20. OPERATING EXPENSES**

Salaries and benefits (20.1)	5,979,356	5,108,145
Rent, rates and taxes	726,589	698,355
Telecommunication	807,149	812,815
Printing and stationery	466,005	389,258
Fees and subscription	357,831	218,294
Electricity and gas	404,031	293,298
Insurance	869,420	374,547
Legal and professional	442,188	568,871
Postage	189,326	172,506
Repairs and maintenance	726,670	306,687
Vehicles running and maintenance	585,021	550,871
Travelling and conveyance	149,340	141,363
Advertisement	146,960	42,187
Auditors' remuneration (20.2)	37,500	57,500
Newspapers and periodicals	60,187	70,674
Entertainment	86,585	85,237
Depreciation	1,173,813	1,119,369
Donation (20.3)	10,000	2,750
Others	57,508	29,782
	-----	-----
	13,275,479	11,042,509
	=====	=====

20.1 These are in respect of officers and employees of the Modaraba.

**20.2 Auditors' remuneration**

Audit fee	30,000	30,000
Special audit	--	25,000
Out of pocket expenses	2,500	2,500
	-----	-----
	37,500	57,500
	=====	=====

20.3 No director and his spouse had any interest in the donees fund.

**21. FINANCIAL CHARGES**

Profit on long term finance	6,294,695	6,117,305
Profit on short term finance	7,241,778	6,697,706
Front end fee and bank charges	416,573	88,635
	-----	-----
	13,953,046	12,903,646
	=====	=====

**22. PROVISION FOR DIMINUTION  
IN VALUE OF INVESTMENTS**

Provision for long term investments	3,360,974	--
Provision for short term investments	658,386	(25,407)

4,019,360	(25,407)
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### 23. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The remuneration of the Chief Executive is paid by the Modaraba Management Company. The following emoluments were paid by the Modaraba to other executives and officers:

	<b>1998</b> <b>Rupees</b>	<b>1997</b> <b>Rupees</b>
Basic salary	2,781,297	2,394,641
House rent allowance	1,250,568	1,059,594
Utility allowance	207,242	176,233
Leave encashment	160,424	88,233
Bonus	173,600	121,000
	-----	-----
	4,573,131	3,839,701
	=====	=====
Number of persons	13	11

The Chief Executive and Executives were provided with free use of company cars.

### 24. TAXATION

Provision for current taxation has been made @ 25% which is chargeable on Modaraba from the accounting year 1997-98. However, from accounting year ending on June 30, 1999 onward the Modaraba will be exempt from tax if atleast 90% of its profits are distributed to certificate holders. The deferred tax liability on account of leased assets works out to Rs. 6.9 million. The timing differences are not likely to reverse in the foreseeable future. However, as a matter of prudence part provision has been made in the accounts.

### 25. FIGURES

Have been rounded off to the nearest Rupee.

Corresponding figures have been re-arranged where necessary for the purpose of comparison.

### ASSETS-WISE ANALYSIS OF LEASES AS AT JUNE 30, 1998

Nature of Asset	No. of Leases		Amount in '000		Percentage	
	1998	1997	1998	1997	1998	1997
Equipment	96	78	85,228	90,253	35.46	36.83
Machinery	25	21	90,009	86,973	37.45	35.50
Vehicles	170	171	65,122	67,807	27.09	267.67
	-----					
TOTAL	291	270	240,359	245,033	100.00	100.00
	=====					

**SECTOR-WISE ANALYSIS OF LEASES****AS AT JUNE 30, 1998**

Sector	No. of Leases		Amount in '000		Percentage	
	1998	1997	1998	1997	1998	1997
Banks	9	18	5,155	14,037	2.15	5.73
Sugar	1	3	377	1,360	0.16	0.56
Cement	1	3	20,396	16,320	8.49	6.67
Energy, Oil & Gas	1	3	9,967	12,863	3.73	5.25
Engineering	11	12	15,898	16,392	6.61	6.69
Electrical	--	--	--	--	--	--
Transport	5	12	10,318	1,047	4.29	0.43
Chemical & Pharmaceutical	35	30	44,156	47,966	18.37	19.58
Textile & Cotton	18	14	43,255	33,920	17.99	13.85
Banaspati & Allied	--	--	--	--	--	--
Paper & Board	5	2	4,372	640	1.82	0.26
Construction	7	3	4,524	1,287	1.88	0.52
Food & Beverages	8	7	4,085	6,588	1.70	2.68
Glass & Ceramics	--	--	--	--	--	--
Hotels	3	3	1,064	1,702	0.44	0.69
Health Care	22	18	12,850	18,781	5.35	7.66
Miscellaneous	165	142	64,942	72,130	27.02	29.43
<b>TOTAL</b>	<b>291</b>	<b>270</b>	<b>240,359</b>	<b>245,033</b>	<b>100.00</b>	<b>100.00</b>

**PATTERN OF CERTIFICATE HOLDING****AS AT JUNE 30, 1998**

Number of Certificate Holders	Certificate Holdings			Total Certificates Held
	From		To	
2,173	1	--	100	112,939
746	101	--	500	158,968
2,659	501	--	1,000	1,701,918
662	1,001	--	5,000	1,364,058
124	5,001	--	10,000	856,656
48	10,001	--	15,000	556,964
7	15,001	--	20,000	122,995
8	20,001	--	25,000	177,011
4	25,001	--	30,000	107,670
4	30,001	--	35,000	129,767
3	35,001	--	40,000	108,914
1	40,001	--	45,000	43,340
2	45,001	--	50,000	97,150
2	60,001	--	65,000	126,500
1	90,001	--	95,000	94,875
1	110,001	--	115,000	112,430
1	125,001	--	130,000	127,500
1	175,001	--	180,000	178,885
1	230,001	--	235,000	234,000

1	315,001	--	320,000	316,250
1	500,001	--	505,000	501,121
1	530,001	--	535,000	531,335
1	620,001	--	625,000	624,722
1	2,005,001	--	2,010,000	2,008,855
1	2,255,001	--	2,260,000	2,255,177

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6,454				12,650,000
=====				=====

**CATEGORIES OF CERTIFICATE HOLDING  
AS AT JUNE 30, 1998**

<b>Categories of Certificate Holders</b>	<b>Number of Certificate Holders</b>	<b>Certificates Held</b>	<b>Percentage</b>
1. INDIVIDUALS	6,417	5,701,238	45.07
2. INVESTMENT COMPANIES	7	1,047,210	8.28
3. INSURANCE COMPANIES	5	214,582	1.70
4. JOINT-STOCK COMPANIES	9	177,099	1.40
5. FINANCIAL INSTITUTIONS	10	3,233,766	25.56
6. MODARABA COMPANY	1	2,008,855	15.88
7. MODARABAS	3	200,000	1.58
8. OTHERS (TO BE SPECIFIED)	2	67,250	0.53
	-----	-----	-----
	6,454	12,650,000	100.00
	=====	=====	=====