

**Grays Leasing Limited
Annual Report 1998**

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COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. William Gray
Mr. Khawar Anwar Khawaja
Mr. Abdul Rashid Mir
Mr. Harold John Gray
Mr. Ronald George Blake
Mr. Muhammad Tahir Butt
Mr. Khurram Anwar Khawaja
Mr, Saeed Ahmad Jabal
Mr. Muhammad Farooq
Mrs. Nuzhat Khawar Khawaja

Chairman
Vice Chairman
Chief Executive
Director
Director
Director
Director
Director
Director
Director

AUDITORS

Riaz Ahmad & Company
Chartered Accountants
8-Mall Mansion, 30-Shahrah-e-Quaid-e-Azam,
Lahore - 54000 - Pakistan
Tel: (042) 7233324-26
Fax: (042) 7235762
E-mail: sarfraz@smlhr. wizenetpng.ch

MANAGEMENT CONSULTANT

CORPORATE SECRETARY

LEGAL ADVISOR

MANAGEMENT CONSULTANT

REGISTERED AND HEAD OFFICE

Sarfraz Mahmood (Pvt) Ltd.
Mr. Abdul Ghaffar
International Legal Services
Sarfraz Mahmood (Pvt) Ltd.
41-A, Lawrence Road, Lahore.
Tel: (042)6372159-61
Fax: (042) 6371898
E-mail: gll@ms.net.pk

BANKERS

ANZ Grindlays
Bank Alfalah Ltd.
The Bank Of Punjab Ltd.
The Bank of Khyber
Askari Commercial Bank Ltd.
Muslim Commercial Bank Ltd.
Faysal Bank Ltd.
First Women Bank Ltd.
Prime Commercial Bank Ltd.
Habib Bank Ltd.

NOTICE OF 3RD ANNUAL GENERAL MEETING

Notice is hereby given that the 3rd Annual General Meeting of the Company will be held on December 17, 1998 at 11.00 a.m. at the Registered Office of the Company located at 41-A, Lawrence Road, Lahore to transact the following business:

1. To confirm the minutes of 2nd Annual General Meeting held on November 29, 1997.
2. To receive, consider and adopt the audited accounts of the company for the year ended June 30, 1998 together with Directors' and Auditors' Reports thereon.
3. To appoint Auditors and to fix their remuneration. The present Auditors M/s. Riaz Ahmad & Company, Chartered Accountants, retire and being eligible, offer themselves for re-appointment.
4. To transact any other business with the permission of the Chair.

BY THE ORDER OF THE BOARD

Lahore: November 18, 1998

COMPANY SECRETARY

Notes:

- i) The shares transfer books of the Company will remain closed from December 8, 1998 to December 17, 1998 (both days inclusive).
- ii) A member entitled to attend and vote at the meeting may appoint another member as his/her proxy to attend, speak and vote in the A.G.M. Proxies, in order to be effective, must be received at the Registered Office of the Company not less than 48 hours before the time for holding the meeting.
- iii) Shareholders are requested to immediately notify the change in address, if any.

CHAIRMAN'S MESSAGE

Dear shareholders

It gives me immense pleasure to communicate my heartlest greetings to you for successful accomplishment of the growth level planned by the management of your company for the year ended June 30, 1998. The other group companies have also shown commendable performance during the period which is definitely a source of strength and support to GLL as well.

The operating performance of your company as revealed by its financials, is by all means satisfactory particularly if reviewed in the context of the prevailing economic conditions. We are aware that Pakistan has been facing a financial crisis, perhaps the worst of its life; all major macro-economic indicators remained under a severe strain and the industrial sector, which is the principal clientele of the leasing sector, is still going through a persistent recession. The overall economy has thus decelerated in growth and the financial market is in a great turbulence. Consequently, the leasing sector with constrained resources and a sluggish market, could not remain immune from the adversities of the prevailing phenomenon, The fact that despite all these bottlenecks your company' has performed so well, surely inspires me to extend appreciation to the management and staff at all levels.

Dear friends, I assure you that we all here at Cambridge will continue our support to the management to further explore the growth potentials and expand the dimensions of your company which, by the grace of Almighty, will not only generate good returns to you but will also emerge as a potential contributor towards the economic growth of PAKISTAN.

WILLIAM GRAY

Dated . November 12, 1998

Chairman

DIRECTORS' REPORT

Or, behalf of the Board of Directors, i am pleased to present the Third Annual Report together with Audited

Accounts and the Auditors' Report for the year ended June 30. 1998 and the Auditors' Report thereon.

PERFORMANCE REVIEW

During the year ended June 30, 1998, your company generated lease business worth Rs. 142.809 million comprising 129 lease contracts. Rental recoveries and the operating results are satisfactory. The operating performance of the company is summarised hereunder:

	RUPEES
Total revenue	
Total expenditure	28,681,875
	11,829,725

Profit before tax	
Provision for taxation	16,852,150
	460,000

Profit after tax	
Unappropriated profit brought forward	16,392,150
	2,661,753

Profit available for appropriation	19,053,903
Appropriations	
Transfer to statutory reserve	4,000,000
Transfer to general reserve	15,000,000

	19,000,000

Unappropriated Profit	53,903
	=====

CHIEF EXECUTIVE'S REVIEW

The Directors endorse the attached Chief Executive's Review on the performance, activity and future prospects of the Company.

AUDITORS

The present auditors Messrs. Riaz Ahmad and Company, Chartered Accountants, retire and being eligible, offer themselves for reappointment.

PATTERN OF SHAREHOLDING

A statement showing pattern of shareholdings in the company as on June 30, 19'98 appears on page 24 of this report.

For and on behalf of the Board

KHAWAR A. KHAWAJA

Vice Chairman

Sialkot: November 12, 1998

CHIEF EXECUTIVE'S REVIEW

I am pleased to present before you the 3rd Annual Report of your Company for the year ended June 30.1998

REVIEW OF OPERATIONS

During the year, we managed to place Rs. 142.809 million in lease business generating a respectable lease portfolio comprising 126 leases (Rs. 80.364 million in 44 leases in 1997). These lessees were very carefully selected after in depth scrutiny of their operations: most of them have a past record of demonstrated successful performance which has again been substantiated through their excellent rental payment behaviour

The period under review was in fact the first full year as compared to the previous one of four and half months, Thus

the comparative figures just give a bird's eye view of the overall operating results which reveal 77.70 percent growth in the lease-business and 149.25 percent rise in our net investment in leases which increased from Rs. 75,100 million on June 30, 1997 to Rs. 187.190 million on June 30, 1998.

The gross revenues from operations were Rs. 28.682 million (Rs. 6.651million in 1997) and net profit before and after tax were Rs. 16.852 million and Rs. 16.392 million respectively as compared to Rs. 3.662 million and Rs. 3.362 million during 1997. You will surely appreciate that income from lease operations has increased from 25 percent of the total revenue in 1997 to 90 percent in 1998 which proves that your company has now really taken off.

Dear shareholders, our major emphasis still remains on small to medium size leases; with selected blue chip companies, and a blend of assets with high degree of concentration on productive assets financing. The analysis of the portfolio shows that 72 percent of the leased assets represent our support to the industrial sector to finance its requirements of balancing, modernisation and replacement of plant and machinery.

A nominal decrease in the ratio of assets comprising plant and machinery financed during the current year as compared to the previous year's figure is visible from the above but it does not represent any change in our policy.

This is just a reflection of the persistent recession in the market which has slowed down the industrial activity for some considerable time.

At the same time, we have also been quite vigilant about risk diversification and have endeavored to maintain a balanced sectoral exposure. The sector wise analysis of our lease portfolio shows that 19-20 per cent is the maximum investment in any single sector.

CREDIT RATING

You will be pleased to know that DCR-VIS Credit Rating Company has assigned to us entity rating of BBB- for medium to long term and D3 for short term. Our equity rating has been assessed at PE-3 which signifies high quality returns to the shareholders. You would surely be delighted that your company is perhaps the first in the leasing - sector who offered themselves to DCR-VIS forequity rating.

RESOURCE MOBILIZATION

During the year under review, we utilised credit lines of 49 million rupees and have received further sanctioned credit lines of 95 million rupees, half of which has so far been utilised by us. Negotiations are in progress with different financial institutions for raising funds to the tune of 100 million rupees more to finance our planned future activities.

Further, in the month of February, 1999, we will complete our two years of operations, which, along with credit rating, is a pre-requisite for obtaining permission for raising funds through issuance of COIs. After this permission, we will have another important avenue of resource mobilization which has never lost sight of the management of your company for furtherance of business in future.

Human resource development is also an important area where We have concentrated all along to develop a team of dedicated and devoted persons in the marketing as well as administration departments according to the specific requirements of the company.

THE ECONOMY AND LEASING SECTOR

Pakistan's economy has remained under pressure since it came into existence but during the recent years it has gone too critical due to variety of reasons from financial mis-management to the recent imposition of sanctions after nuclear detonation which have caused the prevalent all-fired disruption in the economic activity. However, the economic managers of Pakistan now seem to have realised the harsh ground realities and after recapitulating the existing scenario, appear to take appropriate measures to evolve a strategy to avert the situation so as to help the country out of the present impasse and financial imbroglio.

Among all others, the Leasing Industry, which has grown rapidly in both size and volume over last couple of years mainly as an alternate to the post-nationalisation inefficient banking system, is also in dire straits and with lots of challenges ahead. Leasing companies are fast weakening their position on the front of long term resources and, in order to maintain a sustained growth, they have resorted to short term local borrowings. It has thus become our prime responsibility at this juncture to seek measures with a careful diagnostic vision to mend the situation before it goes totally out of control and to 'step forward to save an absolute disaster. Some of the generally suggested measures are:

* Revamping of legal infrastructure to stop the weakening recovery ratio;

- * Restoration of confidence of the investors for availability of long term local funds;
- * Provision of exchange risk coverage on foreign currency loans; and
- * Enhancing the value limit for depreciation allowance on passenger transport vehicle.

Some positive steps the government has already taken include exemption of 3.5 percent withholding tax on sale and lease-back transactions, and acceptance (by the tax authorities) of residual value at the end of the lease as purchase price in the hands of the lessee. These measures will definitely provide some boost to the leasing sector which, except with a few reservations, is termed as an Islamic mode of financing and, being perhaps the only medium or long term source available at the moment, has become the most preferred mode of asset financing by the trade and industry.

FUTURE OUTLOOK

Grays Leasing has established a good name in the market and looks forward to develop and diversify its activities to achieve its corporate goal of a sustained growth without compromising over security of capital or lowering ethical standards. To accomplish this sole objective, our strategy will, Insha-Allah, remain to:

- * Tread with caution and care and continue to remain a keen observer of the changing scenario;
- * Further consolidate and wait for the revival of the economy and mobilization of the industrial activity;
- * Increase allocation for consumer leasing - cars, computers and other durables but without losing emphasis on capital asset financing to blue chip companies; and
- * Manage efficient utilisation of resources, spreading risk over a broad spectrum of clients and sectors, conservative and prudent approach in evaluating the lease proposals so as to achieve 45-50 percent planned growth to make the year 1998-99 a success.

ACKNOWLEDGEMENT

I would like to thank the banks, financial institutions for their support, the clients who provided us opportunity to serve them and extend a very special thanks and appreciation to company employees for their noteworthy, tireless and dedicated efforts which enabled the company to produce these good results.

ABDUL RASHID MIR

Lahore: November 12, 1998.

Chief Executive

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **GRAYS LEASING LIMITED** as at June 30, 1998 and the related profit and loss account and statement of sources and application of funds, 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 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 sources and application of funds, 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 sources and application of funds for the year then ended; and

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

RIAZ AHMAD & COMPANY
Chartered Accountants

LAHORE: November 12, 1998

BALANCE SHEET AS AT 30 JUNE 1998

	NOTE	1998 Rupees	1997 Rupees
SHARE CAPITAL AND RESERVES			
Authorized capital			
20,000,000 ordinary shares of			
Rupees 10 each		200,000,000	200,000,000
		=====	=====
issued, subscribed and paid up capital			
10,000,000 ordinary shares of			
Rupees 10 each fully paid up			
in cash		100,000,000	100,000,000
Capital reserve	3	4,700,000	700,000
General reserve		15,000,000	--
Unappropriated profit		53,903	2,661,753
		-----	-----
		119 753 903	103 361 753
LONG TERM LOANS	4	20 384 615	--
LIABILITIES AGAINST ASSETS			
SUBJECT TO FINANCE LEASE			
LONG TERM DEPOSITS	6	26,748,306	10,168,265
EMPLOYEES' RETIREMENT GRATUITY		396,001	158,000
CURRENT LIABILITIES			
Current portion of long term liabilities	7	10,553,793	536,130
Short term finances	8	19,000,000	--
Accrued and other liabilities	9	3,740,221	806,151
Provision for taxation		601,840	300,000
		-----	-----
		33,895,854	1,642,281
CONTINGENCIES AND COMMITMENTS			
		-----	-----
		202,499,321	116,757,104
		=====	=====
TANGIBLE FIXED ASSETS			
Operating fixed assets	10	3,130,194	2,601,685
INVESTMENT IN FINANCE LEASES			
Lease rentals receivable		208,597,827	91,320,690
Guaranteed residual value of leased assets		28,817,236	10,384,465
		-----	-----
Gross investment in leases		237,415,063	101,705,155
Less: Unearned finance income		50,224,798	26,605,250
		-----	-----
Net investment in finance leases		187,190,265	75,099,905
		-----	-----
Less: Current portion		61,243,337	18,618,956
Provision for doubtful receivables		9,608	--
		-----	-----
		61,252,945	18,618,956
		-----	-----

		125,937,320	56,480,949
LONG TERM INVESTMENT	11	98,508	50,424
LONG TERM DEPOSITS AND DEFERRED COST	12	1,358,346	1,338,840
CURRENT ASSETS			
Current portion of investment in finance leases		61,243,337	18,618,956
Advances, prepayments and other receivables	13	1,986,341	1,643,362
Musharika investment		--	5,000,000
Cash and bank balances	14	8,745,275	31,022,888
		-----	-----
		71,974,953	56,285,206
		-----	-----
		202,499,321	116,757,104
		=====	=====

The annexed notes form an integral part of these accounts,

KHAWAR ANWAR KHAWAJA
Vice Chairman

ABDUL RASHID MIR
Chief Executive

MUHAMMAD TAHIR BUTT
Director

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

	NOTE	01 July 1997 to 30 June 1998	26 February 1997 to 30 June 1997
		Rupees	Rupees
REVENUE			
income from lease operations		25,707,936	1,676,878
Other Income	15	2,973,939	4,974,459
		-----	-----
		28,681,875	6,651,337
EXPENDITURE			
Administrative and other operating expenses	16	9,598,270	2,907,242
Financial charges	17	2,231,455	82,342
		-----	-----
		11,829,725	2,989,584
PROFIT BEFORE TAXATION		16,852,150	3,661,753
PROVISION FOR TAXATION	18	460,000	300,000
		-----	-----
PROFIT AFTER TAXATION		16,392,150	3,361,753
UNAPPROPRIATED PROFIT BROUGHT FORWARD		2,661,753	--
		-----	-----
PROFIT AVAILABLE FOR APPROPRIATION		19,053,903	3,361,753
APPROPRIATIONS			
Statutory reserve		4,000,000	700,000
General reserve		15,000,000	--
		-----	-----
		19,000,000	700,000
UNAPPROPRIATED PROFIT		53,903	2,661,753
		=====	=====

KHAWAR ANWAR KHAWAJA
Vice Chairman

ABDUL RASHID MIR
Chief Executive

MUHAMMAD TAHIR BUTT
Director

**STATEMENT OF SOURCES AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 30 JUNE 1998**

	01 July 1997 to 30 June 1998 Rupees	26 February 1997 to 30 June 1997 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	16,852,150	3,661,753
Adjustments to reconcile profit with net cash provided by operating activities		
Depreciation	697,511	158,886
Deferred cost amortized	280,307	280,307
Provision for gratuity	243,335	101,333
Financial charges	2,231,455	82,342
Provision for doubtful receivables	9,608	--
Loss on disposal of fixed assets	1,750	--
	-----	-----
	3,463,966	622,868
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE ADJUSTMENT OF WORKING CAPITAL	20,316,116	4,284,621
DECREASE IN ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES	409,470	428,638
INCREASE IN ACCRUED AND OTHER LIABILITIES	1,216,366	503,518
	-----	-----
NET CASH FLOWS FROM CHANGES IN WORKING CAPITAL	1,625,836	932,156
	-----	-----
	21,941,952	5,216,777
FINANCIAL CHARGES PAID	(63,532)	(8,731)
INCOME TAX PAID	(910,609)	--
GRATUITY PAID	(5,334)	--
	-----	-----
NET CASH FLOWS FROM OPERATING ACTIVITIES	20,962,477	5,208,046
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in finance leases	(112,090,360)	(75,099,905)
Assets purchased for own use	(235,145)	(727,936)
Long term deposits and deferred cost incurred	(299,813)	(609,845)
Sale proceeds of fixed assets	5,500	(50,424)
Long term investments	(48,084)	116,500
	-----	-----
NET CASH FLOWS FROM INVESTING ACTIVITIES	(112,667,902)	(76,371,610)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Ordinary share capital/deposit for shares	--	60,797,078
Long term loan	30,000,000	--
Short term borrowings	19,000,000	--
Long term deposits	16,580,041	10,168,265
Lease rentals paid	(1,152,229)	(259,812)
	-----	-----
NET CASH FLOWS FROM FINANCING ACTIVITIES	64,427,812	70,705,531
	-----	-----
NET INCREASE/(DECREASE) IN		

CASH AND CASH EQUIVALENTS (27,277,613) (458,033)

CASH AND CASH EQUIVALENTS

AT BEGINNING OF THE YEAR 36,022,888 36,480,921

CASH ANDY CASH EQUIVALENTS

AT THE END OF THE YEAR (1997: INCLUSIVE
OF MUSHARIKA INVESTMENT) 8,745,275 36,022,888

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KHAWAR ANWAR KHAWAJA

Vice Chairman

ABDUL RASHID MIR

Chief Executive

MUHAMMAD TAHIR BUTT

Director

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 1998

1. LEGAL STATUS AND NATURE OF BUSINESS

The company was incorporated in Pakistan as public limited company on 31 August 1995. The company is listed on Karachi and Lahore Stock Exchanges. The company is principally engaged in the leasing business and also provides financial and advisory services.

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 'Finance Method' to recognize the income on finance leases. The unearned finance income i.e. the excess of aggregate lease rentals and the residual value over the cost of leased assets is amortized to income over the lease term by applying the annuity method to produce a constant rate of return on the net cash investment in the lease.

Income on bank deposits and other investments is recognized on time proportion basis taking hint account the principal outstanding and applicable rate of mark-up/profit thereon. Dividend income, fees, commissions and commitment charges etc; are accounted for on receipt basis.

2.3 Tangible fixed assets and depreciation

Owned

These are stated at cost less accumulated depreciation. The company has changed the policy to depreciate the operating assets from straight line to diminishing balance method to write off the cost of assets over their expected useful life. No depreciation is charged on assets deleted during the year. Maintenance and repairs are charged to income as and when incurred. Major renewals and improvements are capitalized.

Assets subject to finance lease

These are stated at lower of present value of minimum lease payments under the lease agreements and fair value of assets acquired on lease. The related obligations under the lease agreements are accounted for as liabilities. Depreciation is charged on the basis and rates similar to those applied for owned assets.

2.4 Deferred cost

These costs are amortized over a period of five years commencing from the year in which they are incurred.

2.5 Investments

Long term investments are stated at cost. Provision for diminution in value of investments is made if considered permanent. Short term investments are stated at lower of cost and market value determined on

an aggregate portfolio basis.

2.6 Employees retirement benefits

The company operates an unfunded gratuity scheme covering all its permanent employees who have completed the minimum qualifying period of six months. Provision is made annually to cover the obligation.

2.7 Taxation

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

2.8 Foreign currency transactions

Transactions in foreign currency are accounted for in Pak Rupees at the rates of exchange ruling at the date of the transactions. Assets in foreign currency are translated into Pak Rupees at the rate of exchange ruling at the balance sheet date. Exchange gain/loss on transaction of foreign currency bank account is charged to current year's income.

3. CAPITAL RESERVE

This represents the special reserve created to comply with rules of business for non-banking financial institutions (NBFIs).

	1998 Rupees	1997 Rupees
Opening balance	700,000	--
Transferred during the year	4,000,000	700,000
	-----	-----
	4,700,000	700,000
	=====	=====

4. REDEEMABLE CAPITAL

Trust Investment Bank Limited (Note 4.1)	15,000,000	--
Islamic Investment Bank Limited (Note 4.2)	5,000,000	--
Askari Commercial Bank Limited (Note 4.3)	10,000,000	--
	-----	-----
	30,000,000	--
Less: Current portion	9,615,385	--
	-----	-----
	20,384,615	--
	=====	=====

4.1 This facility has been obtained for financing the leasing operation of the company. The face value of pro-note discount facility is Rupees 24.45 million with discount rate of 21% per annum and repayable in lump sum on 12 November 2001. The facility is secured against charge on company's lease rentals receivable to the extent of Rupees 15 million, personal guarantee of directors and demand promissory note.

4.2 This facility has been obtained for financing the leasing operation of the company. The facilities carried mark-up at the rate of 22% per annum and repayable in 13 equal monthly installments commencing from 31 July 1998. The facility is secured against charge on leased assets valuing Rupees 6.667 million, personal guarantee of two directors and assignment of lease rentals receivables.

4.3 This facility has been obtained for financing the lease operation of the company. It carries mark-up @ 18.25% per annum. This facility is secured against first pari passu charge over leased asset and assignment of lease rental of the company for Rupees 13.34 million and repayable in 8 equal quarterly installments commencing from 30 September 1998.

5. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The rate of interest used as the discounting factor, implicit in leases, ranges from 22 percent to 24 percent per annum. The amount of future payments and periods during which they fall due are:

	1998 Rupees	1997 Rupees
Year ended 30 June		
1998	--	874,032
1999	1,276,356	874,032
2000	1,212,033	809,709
2001	233,921	--
	-----	-----
	2,722,310	2,557,773
Less: Unamortized finance charges	463,260	594,838
	-----	-----
	2,259,050	1,962,935
Less: Current portion	938,408	536,130
	-----	-----
	1,320,642	1,426,805
	=====	=====

The lease rentals are payable in monthly installments. The amount of rentals payable in the years 2000 and 2001 includes the amount of salvage value of Rupees 214,913 and Rupees 99,813 respectively adjustable at the end of the lease term. The lease agreements carry renewal and purchase option at the end of lease period. There are no financial restrictions in lease agreements. These are secured by deposits of Rupees 317,726 included in long term security deposits.

6. LONG TERM DEPOSITS

This represents the interest free security deposits received against lease contracts and are repayable/adjustable at the expiry/termination of the respective leases.

	1998 Rupees	1997 Rupees
7. CURRENT PORTION		
Redeemable capital	9,615,385	--
Liabilities against assets subject to finance lease	938,408	536,130
	-----	-----
	10,553,793	536,130
	=====	=====

8. SHORT TERM FINANCES

This amount comprise of two facilities of Rupees 10 million and Rupees 9 million obtained from Escort investment Bank Limited. These are unsecured and carried mark-up at the rate of 22% and 17.75 percent per annum respectively.

	1998 Rupees	1997 Rupees
9. ACCRUED AND OTHER LIABILITIES		
Mark-up on redeemable capital	1,680,084	--
Mark-up on unsecured finances	46,569	--
Advance lease rentals	335,188	142,228
Due to associated undertaking	--	4,752
income tax withheld	1,015,855	339,087
Excise duty payable	--	8,949
Other accrued liabilities	662,525	311,135
	-----	-----
	3,740,221	806,151
	=====	=====

10. OPERATING FIXED ASSETS

DESCRIPTION	COST		ACCUMULATED DEPRECIATION			BOOK VALUE	DEPRECIATION		
	As at 01 July 1997	Additions/ (Deletions)	As at 30 June 1998	As at 30 June 1997	Adjustment	As at 30 June 1998	AS AT 30 JUNE 1998	Charge for the year	Rate %
Owned									
Furniture and fixtures	403,457	51,100	454,557	13,448	--	57,559	396998	44,111	10
Office equipments	203,229	184,045 (7,500)	379,774	6,774	250	73,001	306,773	66,477	10-30
Vehicles	4,750	--	4750	317	--	1204	3546	887	20
Leased									
Motor vehicles	1,565,200	998,125	2,563,325	34,000	--	596,143	1,967,182	491,796	20
Office equipments	583,935	--	583,935	104,347	--	128,240	455,695	94,240	10-30
June 30, 1998 Rupees	2760571	1233270 (7,500)	3986341	158886	250	856147	3130194	697,511	
June 30, 1997 Rupees	--	2,877,071 (116,500)	3,758,696	--	--	158,886	2,601,685	158,886	

Deletion represents the mobile phone sold to Mr. Muhammad Nazir, Lahore for Rupees 5,500 through negotiation against book valuing Rupees 7,250.

	1998 Rupees	1997 Rupees
11. LONG TERM INVESTMENT		
Packages Limited		
29 Term finance certificates (1997:10) of Rupees 5,000 eac	98,508	50,424
	=====	=====

11.1 The term finance certificates are realizable in the year 2000 and market value thereof as on 30 June 1998 was Rupees 97,555 (1997: Rupees 47,810).

	1998 Rupees	1997 Rupees
12. LONG TERM DEPOSITS AND DEFERRED COST		
Long term security deposits	517,426	217,613
Deferred cost (Note 12.1)	1,121,227	1,401,534
Less: Amortized during the year	280,307	280,307
	-----	-----
	840,920	1,121,227
	-----	-----
	1,358,346	1,338,840
	=====	=====

12.1 This represents the unamortized portion of preliminary, share issue and other pre-operating expenses (Net).

	1998 Rupees	1997 Rupees
13. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES		
Advance income tax	1,341,709	589,260
Other advances-Considered good	320,225	49,120

Profit accrued on placement of funds with banks and financial institutions	109,255	792,205
Short term prepayments	146,171	183,427
Other receivables	68,981	29,350
	-----	-----
	1,986,341	1,643,362
	=====	=====

14. CASH AND BANK BALANCES

Cash in hand	45,885	23,473
Cash with banks		
On current accounts (Note 14.1)	803,480	5,965,803
On deposit accounts	7,895,910	25,033,612
	-----	-----
	8,699,390	30,999,415
	-----	-----
	8,745,275	31,022,888
	=====	=====

14.1 It includes Rupees 20,000 kept with State Bank of Pakistan as required by rules and business of non-banking financial institutions (NBFIs). It is an interest free deposit.

	01 July 1997	26 February
	to 30	1997 to 30
	June 1998	June 1997
	Rupees	Rupees

15. OTHER INCOME

Profit on placement of funds	2,565,913	4,648,368
Profit on term finance certificates	15,659	--
Profit on bank deposits	387,548	272,500
Miscellaneous income	4,819	53,591
	-----	-----
	2,973,939	4,974,459
	=====	=====

16. ADMINISTRATIVE AND OTHER**OPERATING EXPENSES**

Staff salaries and other benefits (Inclusive of gratuity Rupees 243,335 (1997: 101,333))	5,109,489	977,245
Repair and office maintenance	161,325	422,618
Rent, rates and taxes	656,884	206,000
Postage and telephone	397,666	149,829
Vehicles' running	393,535	113,439
Electricity, water and gas	217,483	43,387
Legal and professional	197,223	60,208
Insurance	317,404	83,741
Fee and subscription	461,777	250,150
	-----	-----
	52,476	32,548
Auditors' remuneration		
Audit fee	50,000	30,000
Out of pocket expenses	2,476	2,548
	-----	-----
	52,476	32,548
Travelling and conveyance	238,226	29,339
Printing and stationery	222,995	44,973
Advertisement	39,200	4,550
Miscellaneous	145,161	50,022
Amortization of deferred cost	280,307	280,307
Provision for doubtful receivables	9,608	--

Depreciation	697,511	158,886
	-----	-----
	9,598,270	2,907,242
	=====	=====

17. FINANCIAL CHARGES

Mark up on:

Redeemable capital	1,675,084	--
Short term finances	51,569	--
Finance charges	450,219	73,611
Commission and other bank charges	54,583	8,731
	-----	-----
	2,231,455	82,342
	=====	=====

18. PROVISION FOR TAXATION

Current year	301,840	300,000
Prior year	158,160	--
	-----	-----
	460,000	300,000
	=====	=====

18.1 This represents the provision for minimum tax as required under section 80D of the Income Tax Ordinance, 1979. In view of tax losses of Rupees 9 million, no provision except minimum tax is required.

18.2 The company has filed appeal with Commissioner of Income Tax [Appeals] against the order of Deputy Commissioner of Income -tax for levying tax amounting to Rupees 1.588 million on other income for the pre-operating period. Due to pending outcome of the appeal, no provision has been made in the accounts there against.

19. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

	1998			1997		
	Chief Executive Rupees	Executives Rupees	Total Rupees	Chief Executive Rupees	Executives Rupees	Total Rupees
Managerial remuneration	800,000	1,502,000	2,302,000	680,000	162,500	842,500
House rent	360,000	675,900	1,035,900	306,000	73,125	379,125
Utilities	40,000	75,100	115,100	34,000	8,125	42,125
Gratuity	96,667	126,334	223,001	56,667	25,000	81,667
	-----	-----	-----	-----	-----	-----
	1,296,667	2,379,334	3,676,001	1,076,667	268,750	1,345,417
	=====	=====	=====	=====	=====	=====
Number of persons	1	5		1	1	

19.1 No meeting fees were paid to directors during the year under reference.

19.2 The chief executive and three executives were provided free use of company's maintained vehicles in accordance with the terms of their appointment.

20. CORRESPONDING FIGURES

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

KHAWAR ANWAR KHAWAJA
Vice Chairman

ABDUL RASHID MIR
Chief Executive

MUHAMMAD TAHIR BUTT
Director

**PATTERN OF SHARE HOLDINGS
AS AT JUNE 30, 1998**

No. of Shareholders	Shareholdin		Total Shares Held
	From	To	
1081	101	500	547000
17	501	1000	16371
30	1001	5000	104649
21	5001	10000	200357
7	10001	15000	95150
19	15001	20000	378121
9	20001	30000	235000
12	30001	50000	544144
8	50001	100000	744813
1	185001	190000	186284
2	525001	530000	1059246
2	721001	725000	1444432
1	995001	1000000	1000000
1	1440001	1445000	1444433
1	1995001	2000000	2000000

-----	-----	-----	-----
1212		10,000,000	
=====		=====	

Category of Shareholders	Number of Shareholders	Shares Held	Percentage
Individuals	1199	3,909,135	39.09
Investment Companies	2	2,166,649	21.67
Joint Stock Companies	11	3,924,216	39.24

Total	1212	10,000,000	100.00
	=====	=====	=====

**ASSOCIATED COMPANIES
IN PAKISTAN**

Grays of Cambridge (Pakistan) Limited
 Small Industries Estate, Sialkot-51310
 E-mail address: grays@skt.comsats.net.pk
 Tel: (0432) 563051-563052
 Fax: (0432) 551252

Anwar Khawaja Industries (Pvt.) Limited
 Small Industries Estate, Sialkot-51310
 E-mail address: select@brain.net.pk
 Tel: (0432) 551004, 554531, 554535. 65473
 Fax: (0432) 553609

Dawn Sports (Private) Limited
 Small Industries Estate, Sialkot-51310
 Tel: (0432) 554537, 557808

OVERSEAS

Grays of Cambridge (International) Limited
 Station Road, Robertsbridge,
 East Sussex TN32 5DH, ENGLAND
 E-mail address: grayscambridge@compuserv.com
 Tel: 01580 880357

Fax: 01580 881156

Gray-Nicolls

Station Road, Robertsbridge,
East Sussex TN32 5DH, ENGLAND

Grays-Nicolls (Australia) Pty. Limited

3 Fiveways Boulevard
Keyborough VIC 3173

AUSTRALIA

Tel: 03 9769 0999

Fax: 03 9769 0977