

UNIVERSAL LEASING CORPORATION LIMITED

ANNUAL REPORT 2004

DIRECTORS' REPORT It is a privilege to present on behalf of the Board of Directors the Annual Report and audited financial statements of Universal Leasing Corporation Limited for the year ended June 30, 2004.

We feel pleasure in updating our shareholders about the recent development. EOBI the main sponsor of the company has injected Rs. 50 million in shape of Sub Ordinate loan to comply with the capital adequacy requirement of the company as set by Securities and Exchange Commission of Pakistan for all leasing companies.

	June 2004	June 2003
Profit after taxation	7,070,482	8,549,084
Operating Expenditure	10,519,610	13,943,585
Provisions	-7,279,454	8,031,622
Share Capital & Reserves	153,174,916	145,955,354
EPS	0.34	0.41

The operating results show improvement in the shareholder equity during the year under review. The revenues generated by the company were mainly due to capital gain on sale of investment in shares of listed companies, bank profits and dividend income. The company also reversed Rs. 2.5 million excess provisioning on account of investment in Pakland Cement Term Finance Certificates (TFCs) Series "B" and a reversal also arrived on account of deferred taxation, which reflected in note 30. Measures taken by the company in the past to control expenses has also shown a reduction of 26% in expenses (2004: 10,519 million 2003: 13,943 million). Although the company initiated cases against defaulting clients, which involve huge legal expenses but managed to curtail expenses during the year under review.

Company has also made provisioning of Rs2.4 million for the year on doubtful leases and diminution value of investment in share held for trading. The company liquidated a part of equity portfolio during the year and realized capital gains, which helped to wipe off earlier losses. The EOBI main sponsor of the company having 72% shareholding has initiated the process of divestment of its shareholding and invited expression of interest (EOIs) from prospective buyers through print media. The whole process is been managed by M/s AMZ Securities (Pvt.) Limited, Financial Advisor appointed by EOBI for the job.

In line with proposed divestment plan, the company has significantly cut down its leasing operations although company had received so many leasing proposals amounting to Rs. 80 million but the management had disbursed only 15 million during the year. The EOBI majority stakeholder of the company treats the company as a national asset and desires that any potential group which acquires ULCL be of renowned market reputation that can run the affairs of the company in a professional manner and keep the company as a going concern.

The company is in a process to appoint actuaries for carrying out actuarial valuation as required by the International Accounting Standard 19 Employees Benefits related to gratuity scheme and believe that it will not effect materially in respect of provisioning made in the books.

Board Of Directors

Mr. Farooq A. Awan director of the company has joined the company as a Chief Executive Officer of the company on May 15, 2004.

j) No executive owns or has acquired any shares in the company during the year and no trading was carried out in the shares of the company during the year by the Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary, Chief Internal Auditor or their spouses and minor children.

Audit Committee

The Audit Committee comprises of three non-executive directors namely Mr. M.A. Lodhi, (Chairman) Mr. Nazim F. Haji (Member) and Mr. Mohamamd Saeed Akhter (Member)

Auditors

The present auditors, M/s Anjum Asim Shahid Rahman, Chartered Accountants, retire and being eligible, offer themselves for re-appointment for the year 2004-2005. On the suggestion of the Audit Committee, the Board recommends the appointment of M/s Anjum Asim Shahid Rahman, Chartered Accountants, as statutory auditors for the year 2004-2005.

Shareholding Pattern

The shareholding pattern as on June 30, 2004 is annexed with this report.

Financial Highlights

Key financial highlights are summarized and annexed to these financial statements.

For and on behalf of the Board

Universal Leasing Corporation Limited

Corporate Governance

The Board of Directors of the company is responsible to the shareholders for the management of the company. It acknowledges the responsibility for the system of sound internal controls and is committed to uphold the highest standards of Corporate Governance. Review report on compliance with best practices of the Code of Corporate Governance by statutory auditors is annexed with the report.

Statement of Corporate Governance

The Directors are pleased to state that:

- a) The financial statements, prepared by the management of the company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b) Proper books of account of the company have been maintained.
- c) Appropriate accounting policies have been consistently applied (except for changes mentioned in notes 3 to the financial statement to which the auditors concur) in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements .
- e) The Board has appointed M/s Riaz Ahmad Saqib Gohar and Company Chartered Accountants to perform internal audit function. The ultimate responsibility of the effectiveness of internal control system and its monitoring lies with the Board. An Audit Committee has been formed for the purpose that meets periodically and independently throughout the year with the management and also the internal and external auditors to discuss the effectiveness of internal control system and other financial reporting matters.
- f) There are no significant doubts upon the company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) During the year 2003-2004 board meeting were held. These meetings were attended by the directors as under:

Name of Directors	Designation	Number of Meeting	
		Held during	Attended the year
Mr. Muhammad Shafi Malik	Chairman	5	5
Mr. Farooq A. Awan	Chief Executive/Dir	5	4
Mr. M.A. Lodhi	Director	5	3
Mr. Nazim F. Haji	Director	5	5
Mr. Akhter Jamil Khan	Director	5	0
Mr. Mohamamd Saeed Akhter	Director	5	4
Mr. Zia Ejaz	Director	5	3

The key information as to operating and financial data of the company is available in the Annual Report. The categories and shareholding pattern as required by the Companies Ordinance, 1984 are also included in the Annual Report.

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Universal Leasing Corporation Limited (the company) to comply with the Listing Regulation of the Karachi, Lahore and Islamabad Stock Exchanges respectively, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company's personnel and review of various documents prepared by the company to comply with the Code.

As *part* of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not earned out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the company's compliance, in all

material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company, for the year ended June 30, 2004.

	2004	2003	2002	2001	2000	1999
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
REVENUE						
Income from Lease Operation	1,187,964	4,402,995	5,835,676	4,434,793	3,291,133	5,472,668
Other income	20,307,582	10,080,067	27,951,062	15,047,962	577,803	9,850,183
LESS • EXPENSES	21,495,546	14,483,062	33,786,738	19,482,755	3,868,936	15,322,851
Administrative and other Expenses	10,178,307	10,156,330	15,471,336	20,573,664	10,886,270	10,827,240
Financial Charges	341,303	3,787,255	5,052,341	7,282,519	2,626,950	3,734,878
Provisions/Reversal	(4,003,682)	9,598,217	10,200,000	31,596,389	32,005,228	-
Appreciation in value of Investment	8,890,906	-20,337,117	-2,144,565	-	-	-
Allowance for potential lease losses	2,392,230	2,707,278	294,885	10,238,435	973,238	9,431,954
	17,799,064	5,911,963	28,873,997	69,691,007	46,491,686	23,994,072
PROFIT BEFORE TAXATION	3,696,482	8,571,099	4,912,741	-50,208,252	-42,622,750	-8,671,221
PROVISION FOR TAXATION	3,374,000	-22,015	-2,661,170	-1,878,500	-84,825	-375,929
PROFIT AFTER TAXATION	7,070,482	8,549,084	2,251,571	-52,086,752	-42,707,575	-9,047,150
UNAPPROPRIATED PROFIT BROUGHT FORWARD	-75,587,289	-82,426,556	-84,227,813	-41,928,333	779,242	4,106,392
PROFIT TAKEN OVER FROM MLCL UNAPPROPRIATE	-	-	-	9,787,272	-	-
CARRIED FORWARD APPROPRIATIONS	-68,516,807	-73,877,472	-81,976,242	-84,227,813	-41,928,333	-4,940,758
Statutory Reserve	-1,414,096	-1,709,817	-450,314	-	-	-
Contingencies Reserve General Reserve	-	-	-	-	-	-5,720,000
Proposed dividend	-	-	-	-	-	-
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation	149,080	-	-	-	-	-
Unappropriated profit(Loss) carried forward	-68,516,807	-73,877,472	-81,976,242	-84,227,813	-41,928,333	779,242
	-69,781,823	-75,587,289	-82,426,556	-84,227,813	-41,928,333	-4,940,758

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Universal Leasing Corporation Limited as at June 30, 2004 and the related profit and loss account, cash flow statement and statement of changes in equity 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.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) The company has not invested seventy percent of its assets in the leasing business as required under rule 13(a)(i) of the Non-Banking Finance Companies (Establishment and Regulation), Rules 2003.

b) The company has not carried out actuarial valuation as required by the International Accounting Standard 19 'Employees Benefits' of the defined benefits related to gratuity scheme as at the balance sheet date or any near date.

c) in our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE CORPORATE GOVERNANCE TO THE MEMBERS

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Stock Exchanges in Pakistan for the purpose of establishing a framework with best practices of good corporate governance. The company is already complying with representation of seven Institutional Nominee directors on the board instead of one required. None of the Directors of the company are serving as a Director in ten or more listed companies. All of the resident Directors of the company are registered Tax payers and none of them have defaulted in payment of any dues, to a banking company, a DPI or NBFI or Stock Exchanges. The company has defined and implemented Vision/Mission statement and also in process of formulating policies and guidelines as "statement of Ethics and Business Practices" which shall be implemented with in due course of time. All major decisions relating to investments and disinvestments, granting of lease facilities, rescheduling of non-performing leases and appointment, remuneration and terms and conditions of CEO are taken or ratified by the Board. and the board met three times during the year. Written notices of the board meeting, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated. The Board has appointed M/s Riaz Ahmad Saqib Gohar and Company Chartered Accountants to perform internal audit function they are qualified and experienced for the purpose and are conversant with the polices and procedures of the company. The Internal Auditors reports to the Audit Committee. Arrangements were made for orientation course for Directors to appraise them of their duties and responsibilities with reference to Companies Ordinance, leasing rules and Code of Corporate Governance in the past and similar practice will also be continued in future with new board members. The appointment of CFO and Company Secretary including their remuneration and terms and conditions is approved by the board and will be made by CEO in consultation with Executive Committee on Human Resources. The Directors' report for the year has been prepared keeping in view in the requirements of the Code of Corporate Governance & Companies Ordinance 1984. The Directors do not hold any interest in the shares of the company other than that has been disclosed in the pattern of shareholding annexed with printed Balance Sheet of the company. The Board has formed an audit committee comprising of three non-executive members including the Chairman of the committee. The Audit Committee meetings were held during the year prior to approval of interim and final results of the company and as required by the code. The auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they are not aware of any instances where shares of the company are held by any of the partners of the firm, their spouses and minor children and that the firm and all its partners are compliant with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan. (ICAP).

BALANCE SHEET AS AT JUNE 30, 2004

	Note	2004 Rupees	2003 Rupees
SHARE CAPITAL AND RESERVES			
Authorized capital			
50,000,000 (2003: 50,000,000) ordinary shares of Rs. 10 each		500,000,000	500,000,000
Issued, subscribed and paid-up capital	5	210,000,000	210,000,000
Reserves	6	12,956,739	11,542,643
Accumulated loss		-69,781,823	-75,587,289
		153,174,916	145,955,354
Sub-ordinated loan	7	50,000,000	-
Surplus on revaluation of fixed assets	8	2,600,140	2,749,220
NON CURRENT LIABILITIES			
Liabilities against assets subject to finance lease	9	-	363,977
Deferred liabilities	10	727,150	4,235,473
Long term deposits	11	1,850,000	627,219
CURRENT LIABILITIES			
Current portion of long- term deposits	11	5,516,476	6,968,172
Liabilities against assets subject to finance lease			
Overdues	9	-	721,241
Current portion	9	-	558,778
Accrued and other liabilities	12	1,699,224	50,533,592
		7,215,700	58,781,783
CONTINGENCIES AND COMMITMENTS			
	13	215,567,906	212,713,026

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;

e) 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, cash flow statement and statement of changes in equity together with the notes forming part thereof, except for the effect of the matters stated in paragraph a) and b) above conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and except for the effects, if any, of the observation stated in paragraph a) and b) above respectively give a true and fair view of the state of the company's affairs as at June 30, 2004 and of the profit, its cash flows and changes in equity for the year then ended; and

f) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980. Without qualifying our opinion, we draw attention to note 1.1 to these accounts, which states that the company's license to operate as a leasing company has been granted subject to the condition that the company would increase its equity to Rs. 200 million by December 31, 2003. Accordingly, as fully explained in note 1.1, Employees Old Age Benefit Institution has injected Rs. 50 million as subordinated loan. Further, the management of the company has developed a detailed formal plan for divestment of its shareholding in the company. In line with the planned divestment, the company has significantly curtailed its leasing operations during the year. These circumstances, if continue to exist, cast doubt about the company's ability to continue as a going concern.

	Note	2004 Rupees	2003 Rupees
PROFIT AND LOSS ACCOUNT			
Income from investments	26	1,187,964	4,402,995
Income from placements		-	5,053,832
Other income	27	541,397	4,484,838
EXPENSES		21,495,546	14,483,062
Administrative and operating	28	-10,178,307	-10,156,330
Financial charges	29	-341,303	-3,787,255
		-10,519,610	-13,943,585
PROVISION		10,975,936	539,477
Provision for potential lease losses	18.1	-2,392,230	-2,707,278
Reversal / (Provision) against income	16.3	4,003,682	-5,321,191
Appreciation / (Diminution) in value of investments	19	-8,890,906	20,337,117
Provision for non-recoverability of placement	21	-	-2,500,000
Provision against other receivables		-	-1,603,353
Provision against bank balances	24	-	-173,673
		-7,279,454	8,031,622
Profit before taxation		3,696,482	8,571,099
Provision for taxation	30	3,374,000	-22,015
Profit after taxation		7,070,482	8,549,084
Accumulated loss brought forward		-75,587,289	-82,426,556
APPROPRIATION		-68,516,807	-73,877,472
Transfer to statutory reserve		-1,414,096	-1,709,817
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation		149,080	-
		-1,265,016	-1,709,817
Accumulated loss carried to balance sheet		-69,781,823	-75,587,289
Earnings per share - basic and diluted	31	0.34	0.41

	Note	2004 Rupees	2003 Rupees
NON CURRENT ASSETS			
Fixed assets- tangible	14	45,651,500	48,922,796
Net investment in lease finance	15	12,779,908	10,223,829
Long term investments	16	10,261,129	12,634,218
Long term deposits	17	134,600	440,400
CURRENT ASSETS			
Current portion of net investment in lease finance	18	16,773,190	13,432,085
Current portion of long-term investments	16	10,234,871	5,285,331

Short-term investments	19	27,049,270	45,966,609
Short-term loans	20	710,883	-
Placements	21	-	-
Advances, deposits and prepayments	22	76,608	32,397
Other receivables	23	72,182	1,350,014
Taxation - net		3,853,904	3,441,205
Cash and bank balances	24	87,969,861	70,984,142
		146,740,769	140,491,783

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2004

	Share capital	Statutory reserve	Capital Reserve	Unappropriated profit/ deferred tax	Total
	Rupees				
Balance as at July 01, 2002 as previously reported	210,000,000	9,832,826	2,280,000	(82,426,556)	139,686,270
Effect of change in accounting policy with respect to recognition of deferred taxation	-	-	-2,280,000	-2,280,000	-
Transfer from reserve for deferred taxation to retained earnings	-	-	(2,280,000)	2,280,000	-
Balance as at July 01, 2002 as restated	210,000,000	9,832,826	-82,426,556	137,406,270	-
Net profit for the period from July 01, 2002 to December 31, 2002			11,692,402	11,692,402	
Balance as at December 31, 2002	210,000,000	9,832,826	-70,734,154	149,098,672	
Net loss for the period from January 01, 2003 to June 30, 2003	-	-	-3,143,318	-3,143,318	
Transfer to statutory reserve	-	1,709,817	-1,709,817	-	
Balance as at June 30, 2003	210,000,000	11,542,643	-75,587,289	145,955,354	
Profit for the year ended June 30, 2004	-	-	7,070,482	7,070,482	
Transfer to statutory reserve	-	1,414,096	-1,414,096	-	
Incremental depreciation transferred from surplus on revaluation of fixed assets			149,080	149,080	
Balance as at June 30, 2004	210,000,000	12,956,739	-69,781,823	153,174,916	

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2004

	2004	2003
	Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES	32	
Decrease in long term deposits	-59,432,217	14,182,281
Gratuity paid	-25,419	126,000
Income tax paid	-402,107	-
Net cash (used in) / generated from operating activities	-59,553,943	13,562,418
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend received	2,393,029	4,846,531
Purchase of fixed assets	-141,900	-
Receipt of subordinated loan	50,000,000	-
Proceeds from sale of investments	26,053,762	-
CASH FLOWS FROM FINANCING ACTIVITIES	78,304,891	4,846,531
Rental of lease liability	-1,044,395	-
Additional financing to Pakland Cement Limited	-710,883	-
Financial charges paid	-9,951	-1,389
Net cash (used in) financing activities	-1,765,229	-1,389
Net increase in cash and cash equivalents	16,985,719	18,407,560
Cash and cash equivalents at beginning of the year	70,984,142	52,576,582
Cash and cash equivalents at end of the year	87,969,861	70,984,142

In the absence of any subsequent treatment of the said capital reserve in the above circular 16 of SECP, the Institute of Chartered Accountants of Pakistan (ICAP) issued Technical Release (TR) - 27 to ensure compliance with IAS - 12. As per clause 5 of the said TR - 27, change in treatment of deferred taxation would be considered as change in accounting policy in accordance with International Accounting Standard (IAS) - 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies".

In the financial statements, this change in accounting policy with respect to recognition of deferred taxation has been applied retrospectively in order to conform with the benchmark treatment prescribed by IAS - 8, which requires that any resulting adjustment should be reported as an adjustment to the opening balance of the retained earnings of the earliest period presented and comparative information should be restated as if the new policy had always been in use. Accordingly, unrecorded deferred tax liability arisen in the previous years and the opening balance

of the retained earnings have been adjusted as shown in the statement of changes in equity. Accordingly the opening balance of deferred tax reserve as per SECP circular 16 of 1999 has been reduced by Rs. 2,280,000 pertaining up to June 30, 2002 and has been transferred to deferred tax liability. The change in accounting policy has no effect on profit and loss for the current and prior years.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Accounting convention

The financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities which are stated at fair value or amortized cost as applicable.

4.2 Financial Instruments

Recognition

Financial instruments are recognized when the company becomes a party to the contractual provisions of the instruments.

Off-setting

A financial asset and a financial liability is set-off and the net amount is reported in the balance sheet if the company has a legal 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.

4.3 Fixed assets and depreciation

Owned Assets

Fixed assets are stated at cost or revalued amounts less accumulated depreciation. Depreciation is charged using the straight line method whereby the cost of an asset is written off over its estimated useful life. Full year's depreciation is charged on additions while no depreciation is charged on assets disposed off during the year.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized.

Gains and losses, on disposal of fixed assets are included in income currently.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2004

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 The Universal Leasing Corporation Limited (ULCL) was incorporated in Pakistan on July 29, 1993 as a public limited company under the Companies Ordinance, 1984. The company commenced business on April 24, 1995 and is engaged in the leasing business. The company is listed on the Karachi Stock Exchange. Rule 7(3) of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 requires that the existing Non-Banking Finance Companies (NBFCs), whose equity is not upto the stipulated level shall raise their equity to the stipulated level (Rs. 200 million for NBFCs carrying on the business of leasing) latest by December 31, 2003. Securities and Exchange Commission of Pakistan in exercise of the rule 5 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 granted license to ULCL to operate as a leasing company subject to the condition that the equity to be enhanced to Rs. 200 million by December 31, 2003. On June 17, 2004, Employees' Old-Age Benefit Institution (EOBI), which holds 71.43% shares in the company, injected Rs. 50 million on account of subordinated loan (refer note 7) in accordance with the Securities and Exchange Commission of Pakistan's letter no. SC/NBFC(1)-R/ULCL/2004/354, dated June 3, 2004.

The major shareholder EOBI is also considering an option and has formulated a plan to divest its shareholding in ULCL and invited expression of interest (EOI) from prospective buyers through print media with the approval of Securities and Exchange Commission of Pakistan and The Karachi Stock Exchange (Guarantee) Limited. The whole process is being managed by AMZ Securities (Private) Limited, a financial advisor duly appointed by EOBI for this purpose. Expression of interest has been received from a number of potential bidders. Short listing is in progress and thereafter bidding will take place.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan, requirements of the Companies Ordinance, 1984 (the Ordinance), Non-Banking Finance Companies (Establishment Regulations) Rules, 2003 and Prudential Regulations for Non-Banking Finance Companies. Approved accounting standards comprise of such International Accounting Standards (IAS) as notified under the provisions of the Ordinance. Whenever the requirements of the Ordinance, the Rules and directives issued by the Securities

and Exchange Commission of Pakistan differ with the requirements of these IAS, the requirements of Ordinance, the Rules or the requirements of the said directives take precedence.

3. CHANGE IN ACCOUNTING POLICIES

During the year the company has changed its policies related to deferred tax. Details are as under:

Deferred taxation

The accounting policies and method of computation followed for the preparation of these accounts are same as those applied in preparing the annual accounts for the year ended June 30, 2003 except for the change in accounting policy respective to deferred taxation to account for deferred tax assets and liabilities in accordance with the provisions of International Accounting Standard (IAS) - 12 "Income Taxes (Revised 1996)" as opposed to the past policy of transferring the same to capital reserve, during each of the five financial years beginning July 1, 1998 and ending June 30, 2003, in accordance with circular 16 of 1999 issued by Securities and Exchange Commission of Pakistan (SECP).

Taxation

Current

Provision for taxation is made at the prevailing rates of taxation after taking into account tax credits available, if any, or the provision of Section 113 of Income Tax Ordinance, 2001 whichever is higher.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of temporary timing differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Revenue Recognition

Income from lease operations

The company follows the "financing method" for recognition of lease income. Accordingly, at the commencement of lease, the total unearned lease finance income consists of the excess of aggregate lease rental receivables plus any residual value over the cost of the leased assets. This finance income is allocated over the lease term on a pattern reflecting a constant periodic return on the company's net investment outstanding in respect of the lease.

Front-end fee, commitment fee and other commissions are taken to income as and when realized.

Income on government securities

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

Profit on musharika investment

Expected profit on musharika investments is recognized on pro-rata accrual basis.

Dividend income

Dividend income is recognized when the right to receive the dividend is established.

Staff retirement benefits

The company operates an un-funded gratuity scheme for all of its permanent employees. Provision for gratuity is made on one month gross salary for those employees who have completed six months of service according to Gratuity Law given in labour laws (Amendment) Act, 1994.

Provision for potential lease losses

The provision for potential lease losses is made in accordance with guidelines for provisioning for non-performing assets given in the Prudential Regulations for Non-Banking Finance Companies.

Assets subject to finance lease

The company accounts for fixed assets acquired under finance leases by recording the assets and the related liability. These amounts are determined at the inception of lease, on the basis of the lower of the fair value and the present value of minimum lease payments. Financial charges are allocated to the accounting period in a manner so as to provide a constant rate of charge on the outstanding liability. Depreciation is charged to income applying the same basis as for owned assets.

Investment

Held for trading

Investments which are acquired principally for the purposes of generating a profit from short term fluctuations in price are classified as held for trading. These are stated at fair values with any resulting gains or losses recognized directly in the profit and loss account.

Held to maturity

These are investments with fixed or determinable payments and intended to be held to maturity. These are initially recognized at cost and subsequently measured at amortized cost less any impairment loss recognized.

Available for sale

Investments which could not be classified as held for trading, loans and receivables originated by enterprise or held to maturity are classified as available for sale and are stated at fair value, with any resultant gain or loss being recognized directly in equity. Investments sold, collected, or otherwise disposed off, or determined to be impaired at which time the cumulative gain or loss recognized in equity, is transferred to profit and loss account.

All investments whether held for trading, held to maturity and available for sale are initially recognized at cost and are recognized / de-recognized by the company on the date it commits to purchase / sell off

investments.

The fair value of those investments representing listed equity and other securities i.e. debt instruments are determined on the basis of year-end bid prices obtained from stock exchange quotations and quotes from brokers.

Repurchase and resale transactions

The company enters into transactions of re-purchase (repo) and re-sale (reverse repo) of securities at contracted rates for a specified period of time following the trade date accounting. These transactions are recorded as follows:

- a) in case of sale under re-purchase obligations, the securities remain on the balance sheet and a liability is recorded in respect of the consideration received as 'Borrowing'. Charges arising from the differential in sale and re-purchase values are accrued on a prorata basis; and
- b) in case of purchases under re-sale obligations, the securities are not recognized on the balance sheet and the consideration paid is recorded as 'Placement with financial institutions' and the differential of the purchase price and contracted re-sale price is recognized over the period of the contract.

SURPLUS ON REVALUATION OF FIXED ASSETS Revaluation of office premises and furniture and fixture (refer note 14.4) has produced a surplus of Rs. 2,600,134 (2003: Rs. 2,749,220). This amount has been credited to surplus on revaluation of fixed assets account, adjusted by incremental depreciation of Rs.1 49,080, to comply with requirements of section 235 of the Companies Ordinance, 1984. **LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

The company had entered into lease agreements with Askari Leasing Corporation Limited company for financing to acquire motor vehicles. Payments under these agreements included financial charges at the rate of 16.05 percent (2003: 16.05 percent) per annum, which was used as discounting factor and payable in monthly installments. The company has exercised purchase option by adjusting the security deposit at the expiry of lease period. The aggregate future minimum lease payments to which the company was committed under the various lease agreements and the periods, in which they became due, were as follows:

	2004			2003		
	Minimum lease payments	Financial charges	Principal	Minimum lease payments	Financial charges	Principal
Overdues	-	-	-	1,055,992	334,751	721,241
Due not later than one year				666,942	108,164	558,778
Current portion				1,722,934	442,915	1,280,019
Due later than one year				376,536	12,559	363,977
				2,099,470	455,474	1,643,996
RESERVES						
Statutory reserve						
Reserve for deferred tax		6.1	12,956,739	11,542,643		
			12,956,739	11,542,643		
6.1 Statutory reserve						
Balance at beginning of the year			11,542,643	9,832,826		

Transfer from profit and loss account	1,414,096	1,709,817
Balance at end of the year	12,956,739	11,542,643
Reserve for deferred taxation		
Balance at beginning of the year	3,380,000	
Effect of change in accounting policy with respect to recognition of deferred taxation (refer note 3)	-3,380,000	
Balance at end of the year		

CONTINGENCIES AND COMMITMENTS

has been finalized by the Deputy Commissioner of Income Tax (DCIT) and demand of Rs. 15.859 million raised. The management filed a complaint before the Honorable Federal Tax Ombudsman (FTO) on the point of jurisdiction of the assessment, which has been decided in favor of the company. However, the department, has filed a representation before the President of Pakistan against the order passed by the Honorable FTO. The management expects a favorable outcome of the representation, consequently, no provision has been made in these accounts for the demand of Rs. 15.859 million.

The DCIT has made assessments for the assessment years 1998-99 and 1999-2000 (income years ended June 30, 1998 and 1999) and raised a demand of Rs. 10.819 million and Rs. 7.682 million respectively by disallowing various expenses, making additions in income on account of lease rentals and imposing penalty on set off of undetermined loss against income for prior assessment years. The management has made provision for taxation of Rs. 1.464 million and Rs. 2.451 million for the respective years and for balance tax demand disputed the add backs and filed appeals with Appellate Authorities. Pending outcome of the matters, no provision has been made in these financial statements for the balance demand raised amounting to Rs. 14.586 million as the management is confident that the outcome of the case will be in favor of the company.

13.2 Based on a legal opinion, the company has not accounted for salary of one of its former directors Mr. Asif Dar amounting to Rs. 1,863,062 for the period from April 2002 to September 2003.

	2004	2003
	Rupees	Rupees
10.2 Deferred Tax Balance at beginning of the year	3,380,000	1,100,000
Deferred tax liability recognized as at July 01, 2002 (refer note 3)	-	2,280,000
Balance at beginning as restated Reversed during the year	-3,380,000	3,380,000
Balance at end of the year	-	3,380,000
LONG TERM DEPOSITS		
Security deposits - Lease key money Less: Adjusted ag NAB account'	11.1 7,366,476	10,507,101
	40 -	-2,911,710
	7,366,476	7,595,391
Less: Current portion shown under current liabilities	-5,516,476	-6,968,172
	1,850,000	627,219
ACCRUED AND OTHER LIABILITIES		
	40 791,782	-7,735,576
Subordinate loan Financial charges on liabilities against assets	115,753	791,782 190,503
Accrued expenses Other liabilities Gain on repo transact	12.1 788,004	-41,312,892
	-	-
Payable to chairman NAB account Tax deducted	12.2 1,085 2,600	303,706
	3,685	46,682,699
	1,699,224	50,533,592

	2004	2003
	Rupees	Rupees
NET INVESTMENT IN LEASE FINANCE		
Minimum lease rentals receivables	51,295,287	75,201,433
Adjusted against 'Payable to chairman NAB account'	40 -	-33,734,405
	51,295,287	41,467,028
Add: Residual value of leased assets	7,651,766	7,880,681
Unearned finance income	1,916,360	4,243,175
Adjusted against 'Payable to chairman NAB account'	40 -	-2,848,985
	1,916,360	1,394,190
Net investment in lease finance	57,030,693	47,953,519

Less: Overdues	18	-35,700,095	-25,675,606
		21,330,598	22,277,913
Less: Current portion	18	-8,550,690	-12,054,084
		12,779,908	10,223,829
		41,421,841	

		2004	2003
		Rupees	Rupees
Provision reversed during the year		-4,003,682	-
Balance at end of the year		22,447,960	26,451,642
Balance at beginning of the year Suspended		2,064,703	2,064,703
Balance at end of the year		2,064,703	2,064,703
17. LONG TERM DEPOSITS		134,600	230,600
Deposits against assets subject to finance lease		134,600	440,400

		2004	2003
		Rupees	Rupees
LONG TERM INVESTMENT - Held to maturity			
Pakland Cement Limited - Term Finance Certificates	16.1		
- Series 'A' (1 certificate of Rs. 20,496,000)		20,496,000	20,496,000
- Markup capitalized during the year		7,385,894	7,385,894
		27,881,894	27,881,894
- Series 'B' (1 certificate of Rs. 18,554,000)		17,126,769	18,554,000
		45,008,663	46,435,894
Less: Provision	16.2	-22,447,960	-26,451,642
Less: Mark-up suspense	16.3	-2,064,703	-2,064,703
Less: Current portion		20,496,000	17,919,549
- Series 'A'		-4,525,947	-1,003,638
- Series 'B'		-5,708,924	-4,281,693
		-10,234,871	-5,285,331
		10,261,129	12,634,218

SHORT-TERM LOAN

Pakland Cement Limited

The loan carries markup at a rate of 18 percent per annum.

		2004	2003
		Rupees	Rupees
Balance at beginning of the year		19,999,408	17,292,130
Charged during the year Less: Adjusted against 'Payable to chairman NAB		2,371,509	-4,228,654
		2,371,509	2,707,278
Balance at end of the year		22,370,917	19,999,408

18.2 The movement in income suspense account during the year was as follows:

Balance at beginning of the year Income suspended during the year		808,481	6,209,233
Less: Adjusted ag 40		-	-1,911,036
Balance at end of the year		5,106,678	4,298,197

SHORT TERM INVESTMENTS

ABAMCO Stock Fund Limited 432 (2003: 1,000) ordinary shares of Rs. 10 e		8,230	8,230
Ahmed Hasan Textiles Mills Limited		18,260	18,260
(:000. 2,000) ordinary shares of HS. 10 each		26,490	26,490
Agri Auto Industries Limited Nil (2003: 10,500) ordinary shares of Rs. 5 each -			51,240
Pakistan Telecommunication Corporation Limited (PTCL) 50,000 (2003: 50,000) ordinary shares of Rs. 10 each		902,594	902,594
Hub Power Company Limited 542,000 (2003: 542,000) ordinary shares of Rs. 10 each		11,224,332	11,224,332

	2004	2003
	Rupees	Rupees
OTHER RECEIVABLES		
Considered good		
Receivable from Total Securities Limited	-	58,868
Less: Adjusted ag 40	-	-58,868
Accrued markup on TFCs	6,618,312	2,229,826
Less: Income suspended during the year	-6,618,312	-2,229,826
Stamps in hand	-	10,500
Accrued profit on bank deposits	4,045	1,108,821
Dividend receivable	2,159	207,301
Receivable against insurance	15,496	23,392
Receivable from Pakland Cement Limited	50,482	-
	72,182	1,350,014

Considered doubtful		
Accrued mark-up on placements	1,580,205	1,155,958
Less: Adjusted ag 40	-	-15,890
Less: Markup Suspense on placement	-440,137	-
	1,140,068	1,140,068
Receivable from Bingham group	5,232,704	5,232,704
Mark-up against leased assets	781,074	781,074
Accrued mark-up on musharaka	7,784,100	7,784,100
Receivable from IIFSI	2,170,524	2,177,454
Other receivables	323,116	323,116
Receivable from Aims	144,000	144,000
Receivable from Saif Khan	45,920	45,920
Receivable from Nusrat Ali	2,756,900	2,756,900
Receivable from Ex. MLCL Management	463,285	463,285
Receivable from Unicap Modaraba	1,300,000	1,300,000
	22,141,691	22,148,621
Less: Provision for doubtful receivables	-22,141,691	-22,148,621
	-	-
	72,182	1,350,014

	2004	2003
	Rupees	Rupees
PLACEMENTS • Unsecured		
TAAS Securities (Private) Limited	21.1	2,500,000
Less: Provision for non-recoverability	-	-2,500,000
	-	-

ADVANCES, DEPOSIT AND PREPAYMENT		
Advance to staff	134,032	134,032
Advance against legal charges	100,000	100,000
	234,032	234,032
Provision for doubtful advances	-234,032	-234,032
	-	-
Deposit with the Privatization Commission	22.1	10,000,000
Provision for doubtful deposits	-	-10,000,000
Prepayment	76,608	32,397
	76,608	32,397

	2004	2003
	Rupees	Rupees
ADMINISTRATIVE AND OPERATING EXPENSES		
Salaries, allowances and benefits	2,694,537	2,972,306
Rent, rate and taxes	1,051,842	504,000
Travelling and conveyance	28,687	22,727
Vehicle running	356,828	361,303
Utilities	236,222	173,668
Communication	220,791	191,143

Insurance		65,020	130,627
Fees, subscriptions and periodicals		300,733	776,645
Printing and stationery		105,683	75,028
Legal and professional charges		1,171,938	67,065
Auditors' remuneration	28.1	112,500	112,500
Repairs and maintenance		302,514	175,552
Entertainment		36,870	18,734
Depreciation	14	2,821,996	4,123,148
Advertisement		330,220	26,600
Provision for gratuity		142,647	327,272
Miscellaneous		199,279	98,012
		10,178,307	10,156,330
Auditors' remuneration			
Statutory audit fee		75,000	75,000
Interim review		37,500	37,500
Out of pocket expenses		-	-
		112,500	112,500
FINANCIAL CHARGES			
Finance charges on liabilities against assets subject to finance lease		215,599	190,503
Mark-up on			
Sub-ordinated loan		115,753	-
Borrowings		-	3,595,363
Bank charges		9,951	1,389
		341,303	3,787,255
PROVISION FOR TAXATION			
Current			
for the year		6,000	22,015
Deferred - prior year		-3,380,000	-
		-3,374,000	22,015
		2004	2003
CASH AND BANK BALANCES			
		Rupees	Rupees
Cash in hand Cash at bank		2,578	5,794
- Current accounts		4,018,039	808,097
- PLS deposits accounts		83,949,244	70,303,664
Dividend account		-	40,260
		87,967,283	71,152,021
Less: Provision for non-recoverability of bank balances	24.1	-	-173,673
		87,969,861	70,984,142
INCOME FROM LEASE OPERATIONS			
Income on lease contracts	40	1,180,790	2,491,959
		-	1,911,036
		1,180,790	4,402,995
Front end and documentation fee		7,174	-
		1,187,964	4,402,995
INCOME FROM INVESTMENTS			
Dividend income		2,393,029	5,053,832
Gain on sale of investments		16,020,406	—
		18,413,435	5,053,832
OTHER INCOME			
Profit on bank deposits		889,931	4,484,838
Others		1,004,216	—
		1,894,147	4,484,838

REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND OTHER EXECUTIVES

	2004			2003	
	Chief Executive	Executive	Chief Executive	Directors	Executive
Managerial remuneration	584,325	483,864	667,800	193,548	275,799
Housing and utilities	321,300	266,136	367,200	106,452	151,701

Expenses reimbursed	191,625	143,037	219,000	-	59,627
	1,097,250	893,037	1,254,000	300,000	487,127
No. of persons	1	3	1	1	2

NUMBER OF EMPLOYEES

The average number of employees during the period were 16 (2003 : 16).

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which an asset could be exchanged or liability settled between knowledgeable willing parties in an arms length transaction. The company prepares its financial statements under the historical cost convention, however, the estimated fair value of all financial instruments are not significantly different from their book values on June 30, 2004.

	2004 Rupees	2003 Rupees
EARNINGS PER SHARE		
Basic		
Profit after taxation	7,070,482	8,549,084
Average number of shares outstanding during the year	21,000,000	21,000,000
Earnings per share basic - rupees	0.34	0.41
Diluted	N/A	N/A
CASH GENERATED FROM OPERATIONS		
Profit for the year - before taxation	3,696,482	8,571,099
Adjustments for non cash items:		
Depreciation	2,821,996	4,123,148
Diminution / (Appreciation) in value of investments - held for trading	8,883,976	-20,337,117
Provision for gratuity	142,647	327,272
Provision for potential lease losses	2,392,230	2,707,278
Provision / (Reversal) against income from TFCs	-4,003,682	5,321,191
Provision for non-recoverability of placements	-	2,500,000
Provision for other receivable	-	3,668,056
	10,237,167	-1,690,172
Loss on termination of leases	215,599	-
Dividend income	-2,393,029	-5,053,832
Gain on sale of investments-held for trading	-16,020,410	-
Financial charges	341,303	3,787,255
Profit / (Loss) before working capital changes	-3,922,888	5,614,350
<i>Working cspitsl chsnages</i>		
(Increase) / Decrease in net investment in lease finance	-8,297,706	33,978,382
Decrease in placements	—	6,200,000
(Increase) / Decrease in advances, deposits and prepayment	-44,211	19,677
(Increase) / Decrease in other receivables	1,277,832	-8,996,063
Increase / (Decrease) in long term deposits - Lease key money	221,075	-4,097,581
(Decrease) in borrowing	-	-25,000,000
(Decrease) / Increase in accrued and other liabilities	-48,666,319	6,463,516
	-55,509,329	8,567,931
Cash generated from operations after working capital changes	-59,432,217	14,182,281

	2004 Rupees	
Detailed industrial sector wise analysis of lease portfolio is given below:		
Sector	Exposure	Percentage
Food and allied	10,730,339	20.92%
Individuals	3,708,197	7.23%
Textile	2,266,220	4.42%
Consumer goods	2,743,248	5.35%
Services	10,151,285	19.79%
Paper and board	7,998,922	15.59%
Energy and fuel	13,697,076	26.70%

51,295,287 100.00%

GENERAL

Lease key money	2,911,710
Mark-up suspense	1,911,036
Un-earned finance income	2,848,985
Borrowing	25,000,000
Mark-up payable on borrowing	7,735,576
Gain on repo transactions of government securities suspended	41,312,892
Provision for potential lease losses	4,228,654
	85,948,853
Adjusted for:	
MLP receivable	33,734,405
Income from lease operations	1,911,036
Receivable from Total Securities - group company	58,868
Accrued mark-up on placements from Interworld Securities (Private) Limited - group company	15,890
Provision for potential lease losses	4,228,654
	39,948,853
Total payable to chairman NAB account	46,000,000
ULCL, during the year has paid off the above mentioned amount.	

PATTERN OF SHARE HOLDING AS AT 30-06-2004

HOLDERS	NO. OF SHARE SHAREHOLDING		TOTAL
	FROM	TO	SHARES
	19	1	100
	40	101	500
	8	501	1000
	8	1001	5000
	2	5001	10000
	5	10001	15000
	2	15001	20000
	2	35001	45000
	2	95001	100000
	1	145001	155000
	1	435001	540000
	1	590001	595000
	1	850001	950000
	1	1410001	1415000
	1	1900001	4465000
	1	5000001	5500000
	1	9995001	10000000
	96		21,000,000

CATEGORIES OF SHAREHOLDERS

Categories of Shareholders	Number Share Holders	Shares Held	Percentage
1. INDIVIDUALS	82	358,100	1.71
2. INVESTMENT COMPANY	1	1,412,800	6.73
3. JOINT STOCK COMPANY	5	593,200	2.82
4. FINANCIAL INSTITUTIONS	4	3,014,900	14.36
5. MODARABA COMPANY	2	593,300	2.83
6. OTHERS (TO BE SPECIFIED *)	2	-	71.56
	96	21,000,000	100