Annual Report 2002

Pak Kuwait

Pakistan Kuwait Investment Company (Private) Limited

الشركة الباكستانية الكويتية للاستثمار (الخاصة) المحدودة

بسم الله الرحمن الرحيم

In the Name of Allah,
The Most Beneficent,
The Most Merciful.

Our Vision

To be The Financial House of Excellence

Our Mission

PROVIDING VALUE TO OUR ***CUSTOMERS***

OPTIMIZING RETURNS FOR OUR ***SHAREHOLDERS***

ATTRACTING, MOTIVATING AND RETAINING
TOP QUALITY ***PROFESSIONALS***

PURSUING OUR ***CORPORATE VALUES***

MAINTAINING HIGH STANDARDS OF ***CORPORATE GOVERNANCE***

BE INNOVATIVE IN OUR ***BUSINESS APPROACH***

50%	50%
GOVERNMENT OF PAKISTAN THROUGH STATE BANK OF PAKISTAN	GOVERNMENT OF KUWAIT THROUGH KUWAIT INVESTMENT AUTHORITY

A Joint Venture

THE COMPANY IS A JOINT VENTURE
BETWEEN THE GOVERNMENTS OF
PAKISTAN AND ***KUWAIT.***

Chairman & Managing Director

Contents

Board of Directors

Management

Shahid Usman	Deputy General Manager & Chief Financial Officer
Rana Ahmed Humayun	Senior Executive Vice President
Mohammad Ali Qureshi	Senior Executive Vice President
S. Mujahid Naqvi	Executive Vice President
Haseeb Babar	Advisor - Balance Sheet Management
Tasnimul Haq Farooqui	Senior Vice President
Fauzia Hasnain	Senior Vice President
Wamiq Rizvi	Senior Vice President
Mazhar Sharif	Senior Vice President
Farhan Malik	Head of Capital Markets

Chairman with The Management

Board of Directors

Abdulazim M.A. Al-Shamali	Chairman
Abu Shamim M. Ariff	Director
Emad Yousef Al-Monayea	Director
Javed Sadiq Malik	Director
Abdullah Abdulwahab Al-Ramadhan	Director
Zaigham Mahmood Rizvi	Managing Director

Executive Committee

Abdulazim M.A. Al-Shamali	
Zaigham Mahmood Rizvi	

Audit Committee

Emad Yousef Al-Monayea	Chairman
Abu Shamim M. Ariff	
Zaigham Mahmood Rizvi	

Wamiq Rizvi	Company Secretary

Summarized Operating and Financial Data for the last six years

(Rs. in millions)

	2002	2001	2000	1999	1998	1997
Paid up Capital	1,150	1,150	1,150	1,100	1,100	1,100
Reserves	4,395	2,932	2,819	2,770	2,220	2,082
Total Assets	14,136	10,787	9,882	11,420	21,169	35,947
Operating Profit	1,504	984	685	442	764	882
Net Profit (after tax & provisions)	2,127	314	298	800	288	806
Cash Dividend	665	200	200	250	150	275
Stock Dividend	350				50	

Statement of Investments of Provident and Gratuity Funds

Investments of Provident and Gratuity Funds as at December 31, 2002 according to their respective un-audited accounts were Rs 34.608 million and Rs. 1.032 million, respectively. Investment of Provident Fund amounted to Rs 14.080 million as at December 31, 1998 according to its audited accounts.

Directors

There has been no change in the Board of Directors during the year 2002.

Auditors

The present external auditors Messrs. A.F. Ferguson & Co. retire and are eligible to offer themselves for re-appointment for the next year. As required by the Code of Corporate Governance the Audit Committee and the Board has recommended appointment of A.F.Ferguson & Co. Chartered Accountants as auditors for the year 2003.

Acknowledgement

Pak-Kuwait continues to fulfil its social obligations through making contributions to health and education sector in an effort to help develop these two social sectors. In addition, senior executives have participated as guest speakers at various external functions, which helps generate goodwill and publicity for Pak-Kuwait.

An institution cannot be successful without its people who are to be complimented for performing well under difficult circumstances. Emphasis, therefore, continues on staff social activities outside office and training programs, besides participation in seminars within the country and abroad.

I also wish to put on record the appreciation of the Board of Directors for the hard work put in by the staff members leading to the highest ever profit earned by the company.

I extend my continued appreciation to my colleagues on the Board for their consistent support and guidance during the year and look forward to the continuing progress of Pak-Kuwait in the years ahead.

Abdulazim M.A. Al-Shamali
Chairman

Company Performance

It gives me immense pleasure to report that the company has crossed all previous milestones in terms of profitability by returning an unprecedented profit after tax figure of Rs. 2.127 billion reflecting an increase of 5.8 times over the preceding year. The paramount contribution towards this unparallel performance came from the capital markets department. Yet impressive performance was demonstrated by the newly activated local treasury operations that almost replaced the dwindling income from foreign currency deposit related operations. The corporate finance department has to re-adjust its strategy due to changing market conditions and declining interest rates.

The company has continued to build up on its trend to develop its asset base during the year. It achieved impressive growth in total assets of over 31% over the last year aggregating Rs. 14.1 billion at the end of year 2002 compared to Rs. 10.8 billion at the end of the previous year. Investments being the primary contributor behind the growth, fueled by extraordinary growth in both government and corporate debt instruments, perpetuated by the evolving interest rate environment during the period.

Credit Rating

I am happy to report that JCR-VIS, an affiliate of Japan Credit Rating Company has again maintained the company's long term rating at AAA (tripleA) and short term rating at A-1+ during the year 2002. The outlook on the ratings has been stable. The company has been successfully maintaining this rating for the last 3 years.

Corporate Governance Rating

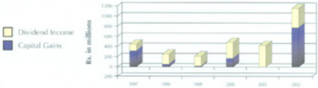
The company has voluntarily offered itself as the first institution for the rating on Code of Corporate Governance conducted by JCR-VIS which awarded CGR-8 on a scale of 1 to 10.

Capital Markets

The year 2002 witnessed a major turnaround for equities in Pakistan on account of declining interest rates, excess liquidity and improved investor confidence. Some of the other factors that contributed to the markets upside and improved sentiments were various timely reforms implemented by Securities & Exchange Commission of Pakistan (SECP) including introduction of T+3 settlements, circuit breakers, undisclosed market system to minimize front running, greater transparency through corporate governance and adoption of International Accounting Standard-39. The Karachi Stock Exchange ended up as the best performing market in the world during 2002.

Keeping in view the aforesaid developments, the capital markets department, under the guidance of the senior management, took a long-term view of the market with a focus towards building the core portfolio by investing in companies offering attractive valuations and above market yields. This proactive strategy led to accumulation of some of the best performing companies in the fuel & energy, fertilizer and telecom sectors, thereby providing Pak-Kuwait with a balanced portfolio and outstanding returns to the tune of Rs. 1.19 billion (Rs. 803 million in capital gains and Rs. 389 million in dividend income) during 2002 on an average portfolio size of Rs. 3.7 billion.

Dividend Income & Capital Gains



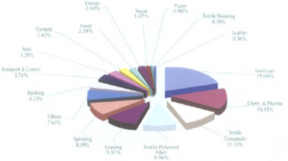
Treasury

The treasury department succeeded in establishing a strong local currency portfolio of government securities to substitute the assets booked against foreign currency deposits that were drying up at a very fast pace. Presently, Pak-Kuwait is an active player in local treasury market and has built its niche to not only support corporate finance business but also to derive income from its portfolio by actively engaging in repos, reverse repos and activities in other debt instruments and certificate of investment operations. Through money market operations the company, besides earning a gross income of Rs. 56 million, has also accumulated capital gains of Rs. 196 million as reflected in the balance sheet under a separate head 'surplus on revaluation of securities'.

Corporate Finance

Despite the challenges faced by the corporate finance department in 2002 as a consequence of the sharp reduction in the interest rate structure in the market, the department pro-actively marketed assets for its loan, lease and private equity portfolios. During the year approvals were received for fresh facilities (including investment in private equity placements and listed corporate bonds) amounting to Rs. 2.9 billion, out of which disbursements for Rs. 2.5 billion were effected. About 48% of the fresh disbursements were long term, which Pak-Kuwait being a DFI, made a concerted effort to focus on. Furthermore, the lease portfolio continued to grow and posted a 50% increase over last year in difficult market conditions to stand at Rs. 554 million by the end of the year. In its efforts to follow a planned strategy to diversify its portfolio customer-wise as well as sector-wise, the total exposure at year end was spread over 15 sectors and maximum exposure in any one sector was limited to 19%. The company's credit control as well as project monitoring systems yet again resulted in there being no new problem loans being added.

Corporate Finance Exposure (As at December 31, 2002)



In view of changing market conditions, the corporate finance department has re-positioned itself to service different market segments including local corporate financing and participating actively in new issues of debt instruments. The department is being reorganized to face the challenges posed by changing market mechanism. It is continuing its efforts to offer Sharia based financing products according to the company's long term strategy. It is also heartening to note that a major stuck up loan has been rescheduled resulting in recovery of significant income to the company. Further, no new loan loss provisions were required. The micro finance business has also been successfully launched and it is expected to increase smoothly over the next year to achieve sustainable business objective.

Balance Sheet Management

The company has re-vamped its Asset & Liability Committee (ALCO) function and it has now been set up on sound professional footings to guide and support all fund-based activities of treasury, capital markets and corporate finance. The ALCO with its current direction/guidelines has emerged as a strong and potent platform to manage/mitigate undesirable risk and take measured risks by leveraging the strength of Pak-Kuwait's balance sheet and promoting synergies among different business units.

New Initiatives

Pak-Kuwait continues to play a proactive role in developing the country's capital markets. It is among the sponsoring institutions of National Commodity Exchange (NCE), the only company to provide a centralized and regulated market place for commodity futures trading in Pakistan. Pak-Kuwait feels that commodity trading once established, will also be instrumental in promoting a new asset base for short term Islamic mode of financing. Pak-Kuwait is also among the main sponsors of the National Clearing Company (NCC) which is being set up with the objective of providing a single nation-wide clearing and settlement platform catering to all kinds of securities and instruments, with uniform practices and principles enforced across the board. Through this entity the possibility of creating an organized market for securities borrowing and lending will also be explored by Pak-Kuwait for which it has already been mandated by SECP.

In order to continue its drive to promote Islamic banking products and instruments in the country, Pak-Kuwait has launched through its asset management company, the Al-Meezan Investment Management Company (AMIM), an open-end Islamic Mutual Fund targeted to provide small investors access to professional fund managers operating under Sharia guidelines. AMIM is already managing, with a successful performance track, a closed-end mutual fund with net assets of Rs.450 million. Furthermore, Pak-Kuwait intends to set up and make operational Pakistan's first Islamic Insurance Company, the First Takaful Insurance Company during the year 2003, with the spirit of extending comprehensive support to Islamic banking in the country. The above initiatives amply demonstrate the developmental role that Pak-Kuwait continues to play to support the fast evolving financial markets of Pakistan.

A contingency plan for continuity of business in face of any eventuality is in the process of implementation. A permanent work-process for on-line back up is being developed, which is envisaged to ensure rapid and effective retrieval of relevant information in the event of any contingency.

In the year 2002, the company remained focused on further strengthening its internal control systems with substantial progress made towards achievement of ISO certification. It is expected that in the year 2003, Pak-Kuwait will be ISO certified.

Future Outlook

With the increasing competition from banks and other financial institutions, new business strategies are being evolved to diversify company business in a manner that will not only result in maintaining its position as a leading development financial institution but will also create new and innovative business avenues and products to ensure continued higher profitability and growth. While the business plan has been re-visited to incorporate the current business dynamics, new business initiatives are also in the pipeline. A new business plan and strategy for the medium term is going to be developed to realise the new opportunities created under the changing conditions as reflected by improved economic indicators of the country.

Compliance with the Code of Corporate Governance

Pak-Kuwait has traditionally adhered to all rules and regulations and with the same spirit it has complied with the requirements of Code of Corporate Governance, as practicably applicable. In this connection, the compliance of relevant clauses of the code is stated below:

- These financial statements present fairly the state of affairs of the company, the result of its operations, cash flow and changes in equity.
- The company has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied except as explained in note 3 to the enclosed accounts in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored. The controls which are in place are being continuously reviewed by the internal audit department and the process of review and monitoring will continue with the object to improve further.
- All liabilities in regard to the payment on account of taxes, duties, levies and charges have been fully provided and will be paid in due course or where claim was not acknowledged as liability the same is disclosed as contingent liabilities in the notes to the accounts.
- There is no doubt about the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The Board of Directors and employees of the company have signed 'Statement of Ethics and Business Practices'.

Board Meetings

During the year, four board meetings were held. The details of the attendance by each director in the Board meetings are given below:

Name	No. of Meetings attended
Abdulazim M. A. Al-Shamali	4
Zaigham Mahmood Rizvi	4
Emad Yousef Al-Monayea	4
Abu Shamim M. Ariff	4
Abdullah Abdul Wahab Al-Ramadhan	4
Javed Sadiq Malik	3

DIRECTORS' REPORT

On behalf of the Board of Directors of Pak-Kuwait, I am pleased to present the 24th Annual Report alongwith the financial statements for the year ended December 31, 2002.

FINANCIAL HIGHLIGHTS

Summary of financials and appropriations is as follows:

	(Rs. in millions)	
	2002	2001
PROFITABILITY		
Net Operating Income	1,699	1,119
Administrative and general expenses	195	135
OPERATING PROFIT	**1,504**	**984**
(Reversal) / provision for contingencies	(826)	613
PROFIT BEFORE TAXATION	**2,330**	**371**
Taxation	203	57
PROFIT AFTER TAX FOR THE YEAR	**2,127**	**314**
APPROPRIATIONS:		
Transfer to compulsory reserve	425	63
Transfer to general reserve	-	36
Transfer to contingencies reserve	20	15
Transfer to stock market fluctuation reserve	667	-
Transfer to reserve for issue of bonus shares	350	-
Interim cash dividend	165	-
Final cash dividend	500	200

DIVIDEND

The company has paid interim dividend of Rs. 165 million. The Board of Directors approved a final cash dividend of Rs. 500 million and stock dividend of Rs. 350 million thus making a total dividend payout for the year to be Rs. 1,015 million, being 88 % of the paid up capital of the company. With these declarations, the cumulative dividend payout amounts to Rs. 3.532 billion since inception.

BUSINESS ENVIRONMENT & ECONOMIC CONDITIONS

The year under review presented new opportunities as well as challenges. The economic indicators witnessed substantial improvement over the last year showing GDP growth for the fiscal year at 3.5% compared to just 2.6% in the previous year. The cherished aim of country's money managers to secure economic credibility of the country was largely achieved with the successful completion of IMF assistance programme, strengthening of Pak Rupee on the back of increased remittances and higher capital inflows, low discount rate to keep inflation lower and prudent monetary and fiscal policies. The outlook for Pakistan's economy appears promising barring the impact of looming Iraq crisis. On the strength of stable economic and political situation, the stock markets performed a miracle by showing unprecedented rise in index exceeding over 110% during the year. However, despite these favorable macro economic factors, there were not ample opportunities for new projects.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED DECEMBER 31, 2002

This statement is being presented to comply with the Code of Corporate Governance framed by the Securities and Exchange Commission of Pakistan which was made applicable to the company through paragraph 3 of the BSD Circular No. 15 of the State Bank of Pakistan.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors. At present the Board has one executive director.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFI or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.

4. No casual vacancy occurred during the year on the Board.

5. Statement of Ethics and Business Practices has been approved and signed by the Board of Directors and also signed by the employees of the Company.

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies alongwith the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Managing Director have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman. The Board met once in every quarter after application of the Code to the Company. Written notices of the Board Meetings, alongwith agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Company had arranged an orientation course for its directors to apprise them of their duties and responsibilities.

10. The Board has approved re-designation of Head of Accounts and the Board Secretary as Chief Financial Officer and Company Secretary respectively on existing terms and conditions.

11. The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by the Managing Director and Chief Financial Officer before approval of the Board.

13. The Directors, Managing Director and executives do not hold any interest in the shares of the Company.

14. The Company has complied with all the corporate and financial reporting requirements of the Code

15. The Board has formed an audit committee. It comprises three members, of whom two are non-executive directors including the Chairman of the committee who are the core members. The Managing Director is a non core member of the audit committee.

16. During the year, five audit committee meetings were held, which included review of half-yearly results and one meeting subsequent to year end to review the annual financial results of the company as required by the Code. The terms of reference have been framed and advised to the Committee for compliance.

17. The Board has setup an effective internal audit function.

18. The statutory 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 and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan. The auditors or any partners of the firm, their spouses and minor children do not hold shares of the Company.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have conformed that they have observed IFAC guidelines in this regard.

20. We confirm that all other material principles contained in the Code have been complied.

Chief Executive

Review Report to the Members on Statement of Compliance with 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 Pakistan Kuwait Investment Company (Private) Limited to comply with paragraph 3 of the BSD Circular No. 15 dated June 13, 2002 issued by the State Bank of Pakistan.

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 inquires of the company 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 carried 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 the effectiveness of such internal controls.

Based on our review nothing has come to our attention which cause us to believe that the Statement of Compliance does not appropriately reflect the status of 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 December 31, 2002.

A. F. FERGUSON & CO.
Chartered Accountants
April 29, 2003
Karachi.

Pak Kuwait

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Kuwait Investment Company (Private) Limited as at December 31, 2002 and the related profit and loss account, statement of changes in equity and cash flow statement 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) in our opinion, proper books of accounts 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 theron have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in notes 2.4 and 2.8 to the accounts with which we concur;

  (ii) the expenditure incurred during the year was for the purpose of the company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof 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 respectively give a true and fair view of the state of the company's affairs as at December 31, 2002 and of the profit, its changes in equity and cash flows for the year then ended; and

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

A. F. FERGUSON & CO.
Chartered Accountants
April 29, 2003
Karachi.

BALANCE SHEET

AS AT DECEMBER 31, 2002

	Note	2002	2001
		Rupees '000	
ASSETS			
Cash and bank balances	4	1,556,283	1,335,685
Investments	5	7,043,986	3,556,973
Placements with and lending to financial institutions	6	1,188,507	175,000
Loans and advances	7	2,589,875	4,033,285
Amounts recoverable under finance leases	8	490,543	296,255
Advances, deposits, prepayments and other receivables	9	1,106,674	1,110,071
Deferred taxation	10	94,521	226,714
Tangible fixed assets	11	65,195	52,874
		14,135,584	10,786,857
LIABILITIES			
Borrowings from financial institutions	12	1,138,351	-
Certificates of investment	13	2,516,000	886,000
Creditors, accrued expenses and other liabilities	14	877,352	1,321,799
Loan and finance	15	808,385	893,011
Foreign currency deposits	16	1,333,407	3,311,868
Taxation		278,126	257,831
Other staff benefits		33,707	21,807
Staff retirement gratuity	17	18,339	12,155
		7,003,667	6,704,471
NET ASSETS		7,131,917	4,082,386
REPRESENTED BY			
Issued, subscribed and paid-up capital	18	1,150,000	1,150,000
RESERVES			
Capital reserve			
- compulsory reserve	19.1	1,494,835	1,069,380
- reserve for issue of bonus shares	19.1	350,000	-
- special reserve	19.1	80,045	80,045
		1,924,880	1,149,425
Revenue reserve			
- general reserve	19.2	1,754,698	1,754,698
- contingencies reserve	19.2	48,500	28,263
- stock market fluctuation reserve	19.2	666,585	-
		2,469,783	1,782,961
		4,394,663	2,932,386
Surplus on revaluation of investments	5.11	1,587,254	-
		7,131,917	4,082,386

CONTINGENCIES AND COMMITMENTS 20

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

CHIEF EXECUTIVE

CHAIRMAN

Profit and Loss Account

For the year Ended December 31, 2002

	Note	2002	2001
		Rupees '000	
Financial income - gross	21	2,241,532	2,121,232
Financial charges - gross	22	542,794	1,002,707
		1,698,738	1,118,525
Administrative and general expenses	23	194,776	134,926
Operating profit		1,503,962	983,599
(Reversal) / provision for contingencies	24	(826,038)	612,953
Profit Before Taxation		2,330,000	370,646
Taxation	25	202,723	57,092
Profit After Taxation		2,127,277	313,554
Appropriations			
Transfer to compulsory reserve (reserve fund)	19.1	425,455	62,711
Transfer to reserve for issue of bonus shares	19.1	350,000	-
Transfer to general reserve	19.2	-	35,554
Transfer to contingencies reserve	19.2	20,237	15,289
Transfer to stock market fluctuation reserve	19.2	666,585	-
Interim dividend		165,000	-
Final dividend - proposed		500,000	200,000
		2,127,277	313,554
Unappropriated profit carried forward		-	-
Basic earnings per share	26	Rs 46,245	Rs 6,816

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

Chief Executive

Chairman

Statement of Changes in Equity

For the year Ended December 31, 2002

	Issued, subscribed and paid-up capital	Capital reserves			Revenue reserves				Total
		Compuls-ory	Reserve for issue of bonus shares	Special	General	Continge-ncies	Stock market fluctuation	Unapprop-riated profit	
	Rupees '000								
Balance as at January 1, 2001	1,150,000	1,006,669	-	80,045	1,719,144	12,974	-	-	3,968,832
Profit for the year ended December 31, 2001	-	-	-	-	-	-	-	313,554	313,554
Transfer to compulsory reserve	-	62,711	-	-	-	-	-	(62,711)	-
Transfer to general reserve	-	-	-	-	35,554	-	-	(35,554)	-
Transfer to contingencies reserve	-	-	-	-	-	15,289	-	(15,289)	-
Proposed dividend	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance as at December 31, 2001	1,150,000	1,069,380	-	80,045	1,754,698	28,263	-	-	4,082,386
Profit for the year ended December 31, 2002	-	-	-	-	-	-	-	2,127,277	2,127,277
Transfer to compulsory reserve	-	425,455	-	-	-	-	-	(425,455)	-
Transfer to reserve for issue of bonus shares	-	-	350,000	-	-	-	-	(350,000)	-
Transfer to contingencies reserve	-	-	-	-	-	20,237	-	(20,237)	-
Transfer to stock market fluctuation reserve	-	-	-	-	-	-	666,585	(666,585)	-
Interim dividend	-	-	-	-	-	-	-	(165,000)	(165,000)
Final dividend proposed	-	-	-	-	-	-	-	(500,000)	(500,000)
Balance as at December 31, 2002	1,150,000	1,494,835	350,000	80,045	1,754,698	48,500	666,585	-	5,544,663

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

Chief Executive

Chairman

CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2002

	Note	2002	2001
		Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	28	949,761	1,279,396
Staff retirement gratuity paid		(6,543)	-
Dividends received		485,309	390,472
Financial charges paid		(349,163)	(845,754)
Financial income received		974,281	910,232
Forward cover fee paid		(120,329)	(395,029)
Loans and advances		1,500,871	144,002
Amounts recoverable under finance leases		(127,059)	(221,733)
Investments		(477,650)	24,587
Long term foreign currency deposits		(2,076,367)	(515,773)
Certificate of investment		85,000	76,000
Taxes paid		(130,554)	(67,324)
		(242,204)	(500,320)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure made during the year		(33,601)	(4,815)
Proceeds from sale of fixed assets		13,418	2,048
		(20,183)	(2,767)
CASH FLOW FROM FINANCING ACTIVITIES			
Loans and finance		(101,776)	(35,986)
Dividend paid during the year		(365,000)	(200,000)
		(466,776)	(235,986)
Net increase in bank balances		220,598	540,323
Cash and cash equivalents at the beginning of the year		1,335,685	795,362
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**1,556,283**	**1,335,685**

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

CHIEF EXECUTIVE

CHAIRMAN

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2002

1. LEGAL STATUS AND OPERATIONS

The company was incorporated in Pakistan as a private limited company on March 17, 1979 and is a joint venture between the governments of Pakistan and Kuwait. The objective of the company is to profitably promote industrial investments in Pakistan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

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

2.2 Basis of presentation

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), the directives issued by the State Bank of Pakistan (SBP), and the International Accounting Standards (IASs) issued by the International Accounting Standards Committee (IASC) and interpretations issued by Standing Interpretations Committee of the IASC (the interpretations), as adopted in Pakistan. However, the requirements of the Ordinance and the directives of the SBP have been followed in case where their requirements are not consistent with the requirements of the IASs and the interpretations.

The SBP through its BSD circular No. 11 dated September 11, 2002 has deferred the implementation of IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for Non-Bank Financial Institutions (NBFIs) in Pakistan. Accordingly, the requirements of those International Accounting Standards (IASs) have not been considered in the preparation of these financial statements.

2.3 Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents comprise of cash in hand and balances with other banks.

2.4 Investments

With effect from December 31, 2002 the company values its investments in government securities at rates quoted on the PKRV (Reuters Page) and quoted investments including investments in associates on the basis of market rates of the Karachi Stock Exchange as at the balance sheet date and any surplus/ (deficit) arising on revaluation of securities will not be taken to profit and loss account except when actually realised and instead will be kept in a separate account called 'surplus/deficit on revaluation of securities' and is shown below equity.

Unquoted investments including investments in associates are stated at cost. Impairment loss is recognised whenever the carrying amount of an investment exceeds its recoverable amount. An impairment loss is recognised in income currently.

Previously, the company had a policy of valuing investments in government securities and quoted investments at the lower of cost and market value on an aggregate portfolio basis. Investment in long term unquoted investments were stated at cost less provision for diminution in the value of investment. Further, diminution in the value of investments was taken to the profit and loss account.

The reason and effect of the aforementioned changes in accounting policies are stated in note 3 below.

Profits and losses on sales of investments during the year are included in income currently.

Consistent with prior years the premium on acquisition of government securities is amortised over the period to maturity of government securities on a straight line basis.

2.5 Loans and advances

Consistent with prior years advances are stated net of provision for doubtful debts. Provision for doubtful debts is determined on the basis of 'Rules of Business for Non-Bank Financial Institutions' issued by the State Bank of Pakistan and charged to the profit and loss account.

Advances are written off when there is no realistic prospect of recovery.

Pak Kuwait

2.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation except leasehold land which is stated at cost.

Depreciation is charged to the profit and loss account applying the straight line method whereby the cost of an asset is written off over its estimated service life.

The full annual rate of depreciation is applied on the cost of additions while no depreciation is charged on assets deleted during the year.

Maintenance and normal repairs are charged to income as and when incurred.

Profit or loss on sale or retirement of fixed assets is included in income currently.

2.7 Staff retirement benefits

The company operates a funded gratuity scheme for all its permanent and contract employees. Contribution to the fund is made every year. The scheme was approved by the Commissioner of Income Tax effective May 1,2000.

The projected unit credit method, as allowed under the International Accounting Standard No. 19 'Employee Benefits' (revised 2000), was used for actuarial valuation based on the following significant assumptions.

- discount rate – 7% per annum
- expected rate of increase in salaries – 7% per annum
- expected rate of return on investment – 7% per annum

Actuarial gains or losses are recognised in accordance with the actuary's recommendation.

The last actuarial valuation of the scheme was conducted as at December 31, 2002.

The company also operates a recognised provident fund scheme for its employees. Equal monthly contributions are made, both by the company and the employees, to the fund at the rate of 10 % of the basic pay.

2.8 Employees' compensated absences

Effective January 1, 2002, the company has started recognising liability in respect of employees compensated absences on the basis of actuarial valuation. The liability in respect of compensated absences of employees is accounted for in the period in which these are earned in terms of basic salary earned upto the balance sheet date.

The last actuarial valuation of the employees' compensated absences was conducted as of December 31, 2002.

The reason and effect of this change in accounting policy is stated in note 3.

2.9 Taxation

Current

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

Deferred

Consistent with prior years the company accounts for deferred taxation using the balance sheet liability method. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the applicable tax rates. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits will be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.10 Revenue recognition

(i) Consistent with prior years dividend income is recognised when the company's right to receive payment is established.

(ii) Gain on sale of shares and income from loans, term finance certificates, debentures, bank deposits, government securities and reverse repo transactions are recognised on accrual basis, except where recovery is considered doubtful the income is recognised on receipt basis.

(iii) The company follows the finance method in recognising income on lease contracts. Under this method the unearned income i.e. the excess of aggregate lease rentals and the estimated residual value over the cost of the leased asset is deferred and then amortised over the term of the lease, so as to produce a constant rate of return on net investment in the lease.

2.11 Foreign currencies

Consistent with prior years monetary assets and liabilities in foreign currencies are reported in Pakistan rupees at the rates of exchange prevailing on the balance sheet date except those liabilities covered under forward exchange contracts which are reported at the contractual rates. Foreign currency transactions during the year are recorded at the rates prevailing at the date of transaction.

Exchange gains and losses are included in income currently.

2.12 Off-setting of financial assets and financial liabilities

Consistent with prior years a financial asset and financial liability is setoff and the net amount is reported in the balance sheet if the company has a legal right to setoff the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.13 Related party transactions

For the purpose of ascertaining whether an investee company is associated or not, that investee company where a director or officer of the company has been nominated as a director on its (the investee company's) behalf and the company has a shareholding in excess of twenty percent in that investee company and is therefore able to exercise significant influence over that investee company has been considered as an associated company.

3. Reason And Effect Of Changes In Accounting Policies

3.1 The State Bank of Pakistan through BSD circular No. 20 dated August 4, 2000 has directed all NBFIs to revalue their security holdings on the basis of market value and any surplus/(deficit) arising on such revaluation should not be taken to profit and loss account except when actually realised and instead should be kept in a separate account called 'surplus / deficit on revaluation of securities'. The company had however continued to state its investment at the lower of cost and net realisable value and the provision for diminution in the value of investments was taken to profit and loss account in the financial statements of the company for the year ended December 31, 2001.

Effective December 31, 2002 the company has changed its accounting policy for valuation of its investments which are now stated at market values as referred to in note 2.4 above. The resulting surplus/(deficit) on revaluation is shown under equity. The effect of this change has been recognised during the year. The restated pro-forma information has been presented in notes 3.3 and 3.4 in accordance with the allowed alternative treatment stated in IAS-8 (revised 1993) 'Net profit or loss for the period, fundamental errors and changes in accounting policies'. The opening retained earnings in the pro-forma information for the year ended December 31, 2001 have been increased by Rs 246.034 million which is the amount of the adjustment relating to periods prior to 2001.

Had the company continued with its previous policy the value at which investments are stated would have been lower by Rs 1,667.573 million, deferred tax asset would have been higher by Rs 80.319 million and there would have been no surplus on revaluation of securities. However, there would have been no effect on the profit for the year.

3.2 Consequent to adoption of International Accounting Standards, the company has started recognising liability in respect of employees compensated absences on the basis of actuarial valuation. The effect of such change in accounting policy is not considered material.

3.3 Restated pro-forma information

	2002	2001
	Rupees '000	
Profit after taxation	2,127,277	313,554
Cumulative effect of change in accounting policy	(782,683)	536,649
Profit after taxation as restated	1,344,594	850,203

3.4 Statement of retained earnings

	2002	2001
Opening retained earnings as previously reported	2,932,386	2,818,832
Effect of change in accounting policy with respect to valuation of investments	782,683	246,034
Opening retained earnings as restated	3,715,069	3,064,866
Profit after taxation as restated	1,344,594	850,203
	5,059,663	3,915,069
Less: Dividend (interim / proposed final)	165,000	200,000
Closing retained earnings	4,894,663	3,715,069

4. Cash And Bank Balances

	2002	2001
	Rupees '000	
Balances with banks in:		
- Current accounts – note 4.1	67,712	71,453
- Savings accounts	618,270	223,816
- Call deposits	107,301	36,007
- Term deposits - note 4.2	745,000	328,500
Special deposit with the SBP – note 4.3	-	650,909
Cash reserve with the SBP - note 4.4	18,000	25,000
	1,556,283	1,335,685

4.1 These include amounts aggregating Rs 21.481 million (2001: Rs 56.776 million) deposited with banks which under agreements with the related foreign currency depositors can only be withdrawn on February 24 and March 31, 2003 for restricted purposes only.

4.2 The returns on these placements range between 6.5 (2001: 7.5) to 8.5 (2001: 11.5) percent per annum and have maturity periods ranging between 6 to 7 months.

4.3 This represented the liquidity generated from a foreign currency deposit and placed with the SBP under a special deposit scheme.

4.4 This represents the amount required to be maintained with the SBP by the company in accordance with the regulations of SBP for NBFIs.

5. Investments

	2002		2001	
	Rupees '000			
Government securities				
Treasury bills – note 5.4		631,317		-
Federal Investment Bond (FIB) – note 5.5		25,000		25,000
Pakistan Investment Bonds (PIBs) – note 5.6		679,735		-
		1,336,052		25,000
Surplus on revaluation of securities - note 5.11		195,901		-
		1,531,953		25,000
Special US Dollar Bonds		-		25,741
Quoted securities				
Listed companies, modarabas, TFCs and mutual funds - at cost – notes 5.7 and 5.8	3,224,000		3,544,110	
Less: Provision for diminution in the value of marketable securities	-		(801,922)	
Add: Surplus on revaluation of securities – note 5.11	1,045,504		-	
		4,269,504		2,742,188
Investment in associates				
Quoted ordinary shares				
Cost	545,647		491,207	
Add: Surplus on revaluation of securities - note 5.11	426,168		-	
Appreciation in the value of marketable securities (netted off against provision for diminution on an aggregate portfolio basis)	-		19,239	
		971,815		510,446
Unquoted ordinary shares				
Cost	58,670		7,000	
Less: Provision for diminution in the value of investments	2,894		-	
		55,776		7,000
Investment in unquoted redeemable capital – note 5.1		187,887		66,568
Unquoted ordinary shares	89,559		193,457	
Less: Provision for diminution in the value of investments	62,508		107,966	
		27,051		85,491
Investment in marketable bonds in foreign currency – note 5.9		-		94,539
		7,043,986		3,556,973

Pak Kuwait

5.1 Investment in unquoted redeemable capital	2002	2001
	Rupees '000	
Unquoted securities		
Term finance certificates – notes 5.1.1 and 5.10	234,037	112,718
Less: Provision for diminution in the value of term finance certificates	46,150	46,150
Investment in unquoted redeemable capital	187,887	66,568

5.1.1 Included in unquoted redeemable capital is an amount of Rs 30.814 million (2001: Rs 29.979 million) receivable within twelve months against which provision of Rs 16 million (2001: Rs 16 million) is made for receivables considered doubtful.

5.2 Treasury bills, Federal Investment Bond (FIB) and Pakistan Investment Bonds (PIBs) are held with the SBP for dealing purposes and are also eligible for rediscounting with the SBP.

5.3 Government securities (treasury bills and PIBs) having a cost of Rs 1,046.599 million (2001: Nil) are pledge as collateral against borrowings from financial institutions (note 12). These investments have a market value of Rs 1,180.437 million as at December 31, 2002.

5.4 These treasury bills carry returns ranging from 6.65 to 6.97 percent per annum and have maturity periods ranging between May 2 to August 21, 2003.

5.5 This FIB carries a return of 15 percent per annum and is maturing on January 19, 2003.

5.6 These PIBs carry returns ranging from 9 to 13 percent per annum and have maturity periods ranging between 2005 to 2012.

5.7 Quoted securities include securities having a market value of Rs 336.392 million (2001: Rs 139.328 million) and a cost of Rs 266.522 million (2001: Rs 164.728 million) with surplus on revaluation aggregating Rs 69.870 million which are held as trading securities. Included in net gains/losses on stock exchange operations (note 21) is a net gain of Rs 44.421 million (2001: net loss of Rs 29.379 million) arising on trading securities.

5.8 Quoted securities having a cost of Rs 131.359 million (2001: Rs 164.728 million) are pledged with banks against running finance facilities under mark-up arrangements amounting to Rs 100 million (2001: Rs 120 million). These investments have a market value as at December 31, 2002 of Rs 203.854 million (2001: Rs 139.328 million). The company did not have any amounts outstanding under these facilities as at December 31, 2002.

5.9 These represented investment in Islamic Republic of Pakistan 10% notes (bonds in foreign currency) which have been sold during the year. These bonds were stated at cost (US$ 1.569 million) which was reported at the rate prevailing on the balance sheet date (i.e. December 31, 2001).

5.10 Included in unquoted term finance certificates is an amount of Rs 134.800 million representing cost of investment in quoted term finance certificates (TFCs). These TFCs were subsequently quoted on the Karachi Stock Exchange.

5.11 Surplus on revaluation of securities	2002	2001
	Rupees '000	
Government securities		
Treasury bills	7,353	-
Federal Investment Bond (FIB)	132	-
Pakistan Investment Bonds (PIBs)	188,416	-
	195,901	-
Less: Deferred tax on government securities - note 10	80,319	-
	115,582	-
Quoted securities		
Listed companies, modarabas, TFCs and mutual funds	1,045,504	-
Investment in associates quoted ordinary shares	426,168	-
As at December 31	1,587,254	-
5.12 Particulars of write off		
Against provision for diminution in the value of investments in unquoted ordinary shares	2,400	-

6.	PLACEMENTS WITH AND LENDING TO FINANCIAL INSTITUTIONS	2002	2001
		Rupees '000	
	Reverse repurchase agreement – note 6.1	51,247	-
	Certificates of investments (COIs) – notes 6.2 and 6.3	1,137,260	175,000
		1,188,507	175,000

6.1 The return on this reverse repo agreement is 6.9 percent per annum which is maturing on February 22, 2003.

6.2 This includes COIs in local currency amounting to Rs 1,009 million. The profit rates on these COIs range between 4.95 (2001: 11) to 14.25 (2001:15.50) percent per annum. All COIs are due for maturity within six months.

6.3 This also includes a COI in foreign currency amounting to US $ 2.199 million (2001: US $ Nil). The expected profit rate on this COI is 1.47 percent per annum and is due for maturity on June 3, 2003.

7.	LOANS AND ADVANCES	2002	2001
		Rupees '000	
	Long term loan and advances	1,997,266	3,551,684
	Short term loan and advances	775,029	678,537
	Staff loans – note 7.2	38,981	29,465
	Total advances – notes 7.3, 7.4 and 7.5	2,811,276	4,259,686
	Less: Provision for doubtful advances	221,401	226,401
		2,589,875	4,033,285
7.1	Considered good – note 7.4	2,589,875	4,033,285
	Considered doubtful – note 7.4 and 7.5	221,401	226,401
		2,811,276	4,259,686
	Less: Provision for doubtful advances – note 7.4 and 7.5	221,401	226,401
		2,589,875	4,033,285

7.2 Included in staff loans is an amount of Rs 5.800 million (2001: Rs Nil) which is due from the Chief Executive.

7.3 Included in total advances are amounts aggregating Rs 560.340 million (2001: Rs 994.858 million) which are outstanding for over three years.

7.4 Included in balances considered good and doubtful are amounts aggregating Rs 2,271.525 million (2001: Rs 2,172.452 million) and Rs 199.600 million (2001: Rs 157.988 million) respectively which are receivable within one year.

7.5 Advances include Rs 381.401 million (2001: Rs 226.401 million) which have been placed under non-performing status as detailed below:

	Amount outstanding	Provision required	Provision held
		Rupees '000	
Other assets especially mentioned	-	-	-
Doubtful	320,000	160,000	160,000
Loss	61,401	61,401	61,401
	381,401	221,401	221,401

7.6 Particulars of provision against non-performing advances	2002 Specific	2001 Specific
	Rupees '000	
Opening balance	226,401	146,646
Charge for the year	-	96,000
Reversals	(2,800)	(16,245)
	(2,800)	79,755
Amounts written off - note 7.7	(2,200)	-
Closing balance	221,401	226,401

7.7 Particulars of write off

Against provisions	2,200	-
Directly charged to the profit and loss account	-	-
	2,200	-

8. Amounts Recoverable Under Finance Leases

Net investment in leases

	2002 Not later than one year	2002 Later than one and less than five years	2002 Total	2001 Not later than one year	2001 Later than one year and less than five years	2001 Total
	Rupees '000					
Lease rentals receivable	197,351	446,024	643,375	78,108	344,565	422,673
Residual value	16,544	25,633	42,177	16,468	10,529	26,997
Minimum lease payments	213,895	471,657	685,552	94,576	355,094	449,670
Financial charges for future periods	109,216	85,793	195,009	57,126	96,289	153,415
Present value of minimum lease payments	104,679	385,864	490,543	37,450	258,805	296,255

8.1 In respect of the aforementioned finance leases the company holds an aggregate sum of Rs 38.164 million (2001: Rs 26.779 million) as security deposits on behalf of the lessees which are included under 'creditors, accrued expenses and other liabilities' (note 14).

8.2 The principal amount of lease rentals and salvage value due but not received are disclosed in note 9.2.

8.3 The company has entered into lease agreements with various companies for lease of vehicles and plant and machinery. The amount recoverable under these arrangements are receivable by the year 2007 and are subject to finance income at rates ranging between 12 to 19.75 percent per annum.

9. Advances, Deposits, Prepayments And Other Receivables

	2002	2001
	Rupees '000	
Advances		
Unsecured, considered good		
- to employees	20	54
- to suppliers	26	985
	46	1,039
Security deposits	311	293
Prepayments		
- forward exchange risk cover fee paid to the SBP	29,465	98,244
- others	1,615	820
	31,080	99,064
Other receivables – note 9.1	1,075,237	1,009,675
	1,106,674	1,110,071

	2002	2001
	Rupees '000	
9.1 Other receivables		
Income and markup receivable on advances, term finance certificates, finance leases and others - secured		
- Considered good	142,739	239,749
- Considered doubtful	54,512	57,174
	197,251	296,923
Less: Provision for doubtful income receivable	54,512	57,174
	142,739	239,749
Income receivable on financings, government securities and guarantees - secured	49,413	11,799
Income receivable on certificates of investment	14,766	1,073
Dividends	64,774	160,436
Receivable on account of sale of marketable securities	772,937	569,609
Central excise duty – note 20.1.1	2,077	2,219
Principal amount of lease rentals and salvage value due but not received – note 9.2	6,813	16,330
Others	21,718	8,460
	1,075,237	1,009,675
9.2 Principal amount of lease rentals and salvage value due but not received		
- Considered good	6,813	16,330
- Considered doubtful	56,654	57,045
	63,467	73,375
Less: Provision for doubtful receivables	56,654	57,045
	6,813	16,330

9.2.1 Leases include Rs 56.654 million (2001: Rs 57.045 million) which have been placed under non-performing status as detailed below:

	Amount outstanding	Provision required	Provision held
		Rupees '000	
Other assets especially mentioned	-	-	-
Doubtful	1,363	682	1,363
Loss	55,291	55,291	55,291
	56,654	55,973	56,654

9.2.2 Particulars of provision against non-performing leases

	2002 Specific	2001 Specific
	Rupees '000	
Opening balance	57,045	68,964
Charge for the year	1,363	-
Reversals	(1,754)	(3,451)
	(391)	(3,451)
Amounts written off	-	(8,468)
Closing balance	56,654	57,045

10. Deferred Taxation

	2002	2001
	Rupees '000	
Debit/(credit) balances arising on account of:		
Accelerated tax depreciation allowances	7,562	2,436
Provision for staff retirement gratuity, and compensated absences	6,947	5,470
Other staff benefits	6,333	4,359
Finance lease arrangements	(8,864)	26,505
Exchange difference	78,791	96,285
Provision for contingencies	84,071	91,659
Surplus on revaluation of government securities - note 5.11	(80,319)	-
	94,521	226,714

11. Tangible Fixed Assets

	2002	2001
Operating assets - note 11.1	55,098	52,874
Capital work in progress - note 11.2	10,097	-
	65,195	52,874

11.1 Operating assets

Following is a statement of operating assets:

	Cost as at January 1, 2002	Additions/ (deletions)	Cost as at December 31, 2002	Accumulated depreciation as at January 1, 2002	Depreciation for the year/ (on disposals)	Accumulated depreciation as at December 31, 2002	Net book value as at December 31, 2002	Rate (%) of depreciation for the year
	Rupees '000							
Leasehold lands	1,600	(1,500)	100	-	-	-	100	-
Buildings on leasehold lands	49,305	(5,756)	43,549	13,602	1,090 (1,611)	13,081	30,468	2.5
Furniture and fixtures	15,727	380 (1,572)	14,535	10,984	2,113 (1,572)	11,525	3,010	20
Motor vehicles	22,856	16,384 (5,212)	34,028	15,944	5,966 (3,383)	18,527	15,501	20
Office equipment	15,113	4,141	19,254	12,235	3,525	15,760	3,494	33.33
Electrical appliances	3,393	2,599 (722)	5,270	2,355	863 (473)	2,745	2,525	20
2002	107,994	23,504 (14,762)	116,736	55,120	13,557 (7,039)	61,638	55,098	
2001	106,368	4,815 (3,189)	107,994	45,837	10,775 (1,492)	55,120	52,874	

11.2 Capital work in progress

	2002	2001
	Rupees '000	
Advance for purchases of vehicles	9,342	-
Advance for building renovation	755	-
	10,097	-

Pak Kuwait

12. Borrowings From Financial Institutions

Secured

The company has arranged borrowings from various financial institutions against sale and repurchase of government securities as stated in note 5.3. The overall facility for these finances under markup arrangements amounts to Rs 1,138.351 million (2001: Rs Nil) for periods ranging from two days to six months. The markup on these finances ranges between 3.50 percent to 7.50 percent per annum.

13. Certificates Of Investment

The profit rates on these certificates of investment (COIs) range between 5.15 (2001: 9.85) to 14 percent (2001:14 percent) per annum. The COIs are due for maturity between January 2 , 2003 to August 30, 2006. Included in COIs is an amount of Rs 2,100 million (2001: Rs 555 million) payable within twelve months.

14. Creditors, Accrued Expenses and Other Liabilities

	2002	2001
	Rupees '000	
Accrued liabilities	33,445	24,710
Return accrued on term deposits	57,710	130,085
Interest accrued on loan	56,815	45,623
Return accrued on certificates of investment	52,211	16,877
Arrangement fee and commitment charges payable to financial institutions	27,593	31,875
Security deposits – note 8.1	38,164	26,779
Retention money payable	104	104
Provision for loss on foreign currency deposits under arrangements with SBP – note 14.1	22,255	134,328
Payable on account of purchase of marketable securities	71,379	700,054
Proposed dividend	500,000	200,000
Employees' compensated absences	4,739	-
Other liabilities	12,937	11,364
	877,352	1,321,799

14.1 As stated in note 14.2 at each anniversary of the foreign currency deposits under arrangements with the SBP (foreign currency deposits), the company will pay or receive the difference between the rate at which the deposit was booked (or the rate applicable at the last rollover date) and the official rate applicable for the conversion of US dollars deposit prevailing on the date of such anniversary. However, in view of the recent appreciation in the value of the rupee viz a viz the US dollar the company has as a matter of prudence provided for the loss on these foreign currency deposits. The loss represents the difference between the official rates prevailing on the rollover dates and the rate prevailing on the balance sheet date.

14.2 The foreign currency deposits referred to in note 14.1 above aggregated US $ 13.500 million as at December 31, 2002 (2001: US $ 48.500 million) and have been netted off in these financial statements with the equivalent rupees received thereagainst. The foreign currency deposits with the SBP were to be withdrawn by the company on various maturity dates at the rates at which these had been surrendered or at rates ruling on subsequent rollover dates for which forward cover contracts have been executed with the SBP.

However, the SBP through its FE circular no. 31 dated July 2, 1998, has imposed restrictions on the withdrawals in foreign exchange from foreign currency accounts. As a result at the maturity of the subject forward cover contracts, the company can either rollover the deposit, convert the deposits into Special US Dollar Bonds or obtain rupees in lieu of the deposits at the SBP rate prevailing on such date. The cost of these deposits was fully amortised during the year ended December 31, 2001.

14.3 Included in the balance of creditors, accrued expenses and other liabilities is an amount of Rs 25.710 million which is payable after one year.

15. Loan And Finance

	2002	2001
	Rupees '000	
Loan		
Asian Development Bank (ADB)		
- notes 15.1 and 15.2	789,317	870,827
Unsecured finance		
SBP - notes 15.3 and 15.4	19,068	22,184
	808,385	893,011

15.1 As an approved Participating Financial Institution (PFI), the company has utilised amounts aggregating US $14.852 million (2001: US $ 14.852 million), out of a US $ 100 million credit line available to other PFIs as well, for financing the foreign exchange component of projects. Further drawdowns from this facility are no longer available. Interest on the loan was payable at the rate of 6.69% and 6.34% per annum (2001: 5.68 % and 6.70% per annum) during the year, which is based on the Ordinary Capital Resources rate of the ADB. Other charges were also payable at the rate of 0.75 % per annum (2001: 0.75% per annum) on this facility. The loan is repayable over a period not exceeding fifteen years or as may be agreed by the ADB including a grace period not exceeding three years. This loan is covered under the loan agreement (Financial Sector Intermediation Loan Project) dated October 6, 1995 between The Islamic Republic of Pakistan and ADB.

15.2 Includes an amount of Rs 105.846 million (2001: Rs 88.696 million) payable within one year.

15.3 This local currency finance has been acquired from the SBP under lines of credit for refinancing purchases of locally manufactured machinery (LMM). This finance is repayable in seventeen equal half yearly installments commencing upto maximum four years after the date of first draw down. However, at no time the outstanding finance from SBP should exceed the outstanding amount of the finance extended by the company under this scheme. The SBP will share in the overall profit (before tax) earned on funds during an accounting year subject to a maximum of 12% of the amount of refinance facility availed on annual basis.

15.4 Includes an amount of Rs 3.115 million (2001: Rs 3.115 million) payable within one year.

16. Foreign Currency Deposits

The foreign currency deposits have maturity periods ranging from three months to twelve months (2001: Rs 1,235.501 million).

17. Staff Retirement Gratuity

		2002	2001
		Rupees '000	
17.1	Movement in liability		
	Opening balance	12,155	8,629
	Expense charged in the current year - note 23.1	12,727	3,526
	Company's contribution to the gratuity fund	(6,543)	-
	Closing balance	18,339	12,155
17.2	Balance sheet reconciliation		
	Obligation	26,649	20,914
	Plan assets	(1,032)	(5,401)
	Unrecognised actuarial losses	(7,278)	(3,358)
		18,339	12,155

18. Issued, Subscribed And Paid - Up Capital

		2002	2001
18.1	Authorised capital		
	80,000 ordinary shares of Rs 25,000/-each	2,000,000	2,000,000
18.2	Issued, subscribed and paid - up capital		
	25,950 ordinary shares of Rs 25,000 each issued for cash	648,750	648,750
	20,050 ordinary shares of Rs 25,000 each issued as bonus shares	501,250	501,250
		1,150,000	1,150,000

The Sate Bank of Pakistan (SBP) on behalf of the Government of Pakistan (GoP) and the Kuwait Investment Authority (KIA) on behalf of the Government of Kuwait each held 23,000 (2001: 23,000) ordinary shares of the company as at December 31, 2002.

19. RESERVES

	2002	2001
	Rupees '000	
Capital reserves – note 19.1	1,924,880	1,149,425
Revenue reserves – note 19.2	2,469,783	1,782,961
	4,394,663	2,932,386

19.1 Capital reserves

	2002	2001
Compulsory reserve (reserve fund) – note 19.1.1		
As at January 1	1,069,380	1,006,669
Add: Transfer from profit and loss appropriation account	425,455	62,711
	1,494,835	1,069,380
Reserve for issue of bonus shares		
Transfer from profit and loss appropriation account	350,000	-
Special reserve – note 19.1.2	80,045	80,045
	1,924,880	1,149,425

19.1.1 Compulsory reserve (reserve fund)

In terms of article 67(1) of the Articles of Association of the company, an amount equal to 10% of the net profit for the year shall be made and set aside for the formation of a compulsory reserve. Such percentage ceases to be compulsory when the said reserve exceeds 25% of the paid-up share capital of the company.

According to NBFIs' circular No. 1 dated December 5, 1991 issued by the SBP, an amount not less than 20% of the profit shall be transferred to create a reserve fund till such time the reserve fund equals the amount of the paid- up capital. The company has transferred Rs 425.455 million (2001: Rs 62.711 million) out of its 'profit after taxation' for the year to the compulsory reserve.

Although the reserve fund is now in excess of the paid-up capital, the company shall continue to appropriate 20% of its net profit after tax towards the compulsory reserve.

19.1.2 Special reserve

This 'special reserve' was created during the year 1999 under section 23 (1) (xi) of the Income Tax Ordinance,1979 by transferring Rs 80.045 million out of the 'profit after taxation' for that year to the special reserve. However, as the said subsection has been omitted by the Finance Ordinance, 2000 therefore similar amounts are no longer being transferred to this account.

	2002	2001
	Rupees '000	
19.2 Revenue reserves		
General reserve		
As at January 1	1,754,698	1,719,144
Add: Transfer from profit and loss Appropriation account	-	35,554
	1,754,698	1,754,698
Contingencies reserve – note 19.2.1		
As at January 1	28,263	12,974
Add: Transfer from profit and loss Appropriation account	20,237	15,289
	48,500	28,263
	1,803,198	1,782,961
Stock market fluctuation reserve – note 19.2.2		
As at January 1	-	-
Add: Transfer from profit and loss Appropriation account	666,585	-
	666,585	-
	2,469,783	1,782,961

Pak Kuwait

Pakistan Kuwait Investment Company (Private) Limited

الشركة الباكستانية الكويتية للاستثمار (الخاصة) المحدودة

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21. Financial Income - Gross

	2002	2001
	Rupees '000	
Income on loans and advances	471,290	523,477
Dividends	389,647	436,773
Income from term finance certificates	25,736	20,901
Income from bank deposits	70,930	112,886
Income from short term financings, government securities and guarantees	238,114	131,731
Income on finance leases	61,543	26,309
Income on certificates of investment	46,296	18,002
Income on marketable bonds in foreign currency	10,825	15,525
Gain on sale of marketable bonds in foreign currency	51,551	-
Gain on sale of un-quoted ordinary shares	38,220	-
Commission and fees	14,856	22,003
Net gains/(losses) on stock exchange operations – note 5.7	803,050	(17,083)
Exchange gain – net - note 21.1	9,935	816,329
Profit on sale of fixed assets	5,695	351
Other income	3,844	14,028
	2,241,532	2,121,232

21.1 Included in exchange gain- net is income on foreign currency deposits (note 14.1) amounting to Rs 10.741 million (2001: Rs 972.722 million) which is similar to income on foreign currency deposits which are exempt from income tax under the Protection of Economic Reforms Act, 1992.

22. Financial Charges - Gross

Profit on LMM refinance facility	2,549	2,922
Return on term deposits	114,182	205,989
Interest on long term loan	53,319	57,384
Return on COIs and short term borrowings	139,616	130,560
Amortisation of deferred cost	-	121,875
Forward exchange risk cover fee	189,108	449,890
Amortisation of premium on government securities	1,945	-
Return on borrowing from financial institutions	13,648	-
Brokerage and commission	1,184	307
Arrangement fee and commitment charges to financial institutions	27,243	33,780
	542,794	1,002,707

23. Administrative And General Expenses

Salaries, allowances and employees' benefits	88,319	66,223
Directors' remuneration (including remuneration of chief executive)	20,761	13,965
Provision for gratuity – note 23.1	12,727	3,526
Employer's contribution to the provident fund	2,710	2,169
Travelling and conveyance	7,464	2,904
Rent and rates	702	454
Utilities	1,203	1,220
Communication	2,460	3,544
Professional training and staff welfare	271	451
Advertisements, periodicals and membership dues	6,509	2,823
Printing and stationery	2,535	2,016
Depreciation	13,557	10,775
Audit fee	550	500
Legal, consultancy and other professional services	9,954	8,498
Central excise duty receivable written off	142	-
Repairs and maintenance	2,328	5,230
Motor vehicle expenses	2,150	2,128
Insurance	1,552	834
Donations - notes 23.2 and 23.3	10,998	3,900
Entertainment	915	603
Software development expenses	2,089	138
Bank charges	751	274
Miscellaneous	4,129	2,751
	194,776	134,926

23.1 Provision for gratuity	2002	2001
	Rupees '000	
Current service cost	2,620	2,227
Interest cost	2,181	1,875
Expected return on plan assets	(633)	(576)
Actuarial loss amortised	115	-
Settlement cost	8,444	-
	12,727	3,526

23.2 Donations in excess of Rs 100,000 each were charged to profit and loss account during the year ended December 31, 2002 in respect of Shaukat Khanum Endowment Fund, Shalimar Special Education Center, Taluka Hospital, Al Fawz Academy Trust, Sir Syed Deaf Association, Sindh Government Qatar Hospital, Anjuman Khuddam ul-Quran, Sindh Institute of Urology and Transplantation, City District Government Karachi for Anti Beggary and Human Development Trust Fund.

23.3 Donations were not made to any donee in whom a director or his spouse had any interest at any time during the year.

24 (Reversal) / Provision For Contingencies

	2002	2001
	Rupees '000	
(Reversal) / provision for diminution in the value of marketable securities	(782,683)	536,649
(Reversal) of provision for diminution in the value of investments in unquoted ordinary shares and redeemable capital	(40,164)	-
(Reversal)/ provision for doubtful loans and advances	(2,800)	79,755
(Reversal)/ provision for doubtful finance lease receivables	(391)	(3,451)
(Credit)/ charge for the year	(826,038)	612,953

25. Taxation

	2002	2001
Current		
- For the year	199,112	117,182
- For prior years	(48,263)	62,577
	150,849	179,759
Deferred tax	51,874	(122,667)
	202,723	57,092

25.1 Reconciliation between tax expense and accounting profit

	2002	2001
Profit before taxation	2,330,000	370,646
Tax at the applicable rate of 43% (2001: 45%)	1,001,900	166,791
Tax effect on income taxed at different rate	(131,184)	(116,900)
Net tax effect of income not subject to tax and expenses that are not allowable in determining taxable income	(611,201)	(55,376)
Effect of difference in tax rate considered for deferred and current taxation purposes	(8,529)	-
	250,986	(5,485)
Tax charge for the year		
- current	199,112	117,182
- deferred	51,874	(122,667)
	250,986	(5,485)

26. Basic Earnings Per Share

	2002	2001
Profit after taxation (Rupees in thousand) (a)	2,127,277	313,554
Number of ordinary shares (b)	46,000	46,000
Basic earnings per share (a - b)	Rs 46,245	Rs 6,816

27. Dividend Per Share

	2002	2001
Dividend - cash		
- interim	165,000	-
- final - proposed	500,000	200,000
Total (Rupees in thousand) (a)	665,000	200,000
Number of ordinary shares (b)	46,000	46,000
Dividend per share (a - b) of Rs 25,000 each	14,456	4,348

28. Cash Generated From / (Used In) Operations

	2002	2001
	Rupees '000	
Profit before taxation	2,330,000	370,646
Adjustments for:		
Depreciation	13,557	10,775
Provision for staff retirement gratuity	12,727	3,526
Surplus on revaluation of investments	1,667,573	-
Other staff benefits	11,900	8,465
Amortisation of deferred cost	-	121,875
Profit on sale of fixed assets	(5,695)	(351)
Forward exchange risk cover fee	189,108	449,890
Dividends	(389,647)	(436,773)
Financial income	(928,578)	(862,859)
Financial charges	323,314	846,745
Working capital changes - note 28.1	(2,274,498)	767,457
	949,761	1,279,396

28.1 Working capital changes

	2002	2001
(Increases) / decreases in current assets		
Investments	(3,009,363)	(204,844)
Placements with and lending to financial institutions	(1,013,507)	25,000
Loans and advances	(57,461)	327,104
Amounts recoverable under finance leases	(67,229)	(22,329)
Advances, deposits, prepayments and other receivables	(206,747)	(498,864)
	(4,354,307)	(373,933)
Increases / (decreases) in current liabilities		
Borrowings from financial institutions	1,138,351	-
Certificates of investment	1,545,000	-
Creditors, accrued expenses and other liabilities	(718,598)	838,566
Loans and finance	17,150	34,828
Foreign currency deposits	97,906	267,996
	2,079,809	1,141,390
	(2,274,498)	767,457

29. Financial Assets And Liablities

	Effective yield/interest rate	Interest bearing Maturity upto one year	Maturity after one year	Sub total	Non interest bearing Maturity upto one year	Maturity after one year	Sub total	Total 2002	Total 2001
	%	Rupees '000							
Financial assets									
Cash and bank balances	6.16	1,470,571	-	1,470,571	85,712	-	85,712	1,556,283	1,335,685
Investments	9.60	1,748,082	173,073	1,921,155	4,068,189	1,054,642	5,122,831	7,043,986	3,556,973
Placements with and lending to financial institutions	6.95	1,188,507	-	1,188,507	-	-	-	1,188,507	175,000
Loans and advances	14.12	2,067,533	483,361	2,550,894	4,392	34,589	38,981	2,589,875	4,033,285
Amounts recoverable under finance leases	16.14	92,225	360,154	452,379	-	-	-	452,379	269,476
Advances, deposits, prepayments and other receivables		-	-	-	1,075,237	-	1,075,237	1,075,237	1,110,071
		6,566,918	1,016,588	7,583,506	5,233,530	1,089,231	6,322,761	13,906,267	10,480,490
Financial liabilities									
Borrowings from financial institutions	5.49	1,138,351	-	1,138,351	-	-	-	1,138,351	-
Certificates of investment	7.58	2,100,000	416,000	2,516,000	-	-	-	2,516,000	886,000
Creditors, accrued expenses and other liabilities	-	-	-	-	839,188	-	839,188	839,188	1,295,020
Loan and finance	12.98	108,961	699,424	808,385	-	-	-	808,385	893,011
Foreign currency deposits	5.69	1,333,407	-	1,333,407	-	-	-	1,333,407	3,311,868
		4,680,719	1,115,424	5,796,143	839,188	-	839,188	6,635,331	6,385,899

29.1 Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair values.

29.2 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. However, the company does not believe that it is exposed to major concentration of credit risk. The company reduces such exposure to credit risk by portfolio diversification and adequate collateral, wherever applicable. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. Further, the company appropriates an estimated amount in percentage term as 'contingencies reserve' each year as referred to in note 19.2.1 to these financial statements.

29.3 Currency risk exposure

Currency risk is the risk that the value of a financial instrument will fluctuate due to change in foreign currency rates. The company has undertaken currency risk on liability towards ADB loan (note 15) in the event that the value of Pakistan rupee appreciates / depreciates against US dollar at the balance sheet date in comparison to the conversion rate prevailing at the last balance sheet date. The risk is hedged against similar amounts placed with the SBP as deposits under arrangements with the SBP (notes 14.1 and 14.2).

29.3.1 The assets and liabilities of the company exposed to currency risk are as follows:

	2002	
	Assets	Liabilities
	Rupees '000	
US dollars	195,657	789,317
Euro	158	-
Pound Sterling	91	-
	195,906	789,317

29.4 Maturities of assets and liabilities as on December 31, 2002

	Total	Upto one year	One year to five years
		Rupees '000	
Assets			
Cash and bank balances	1,556,283	1,556,283	-
Investments	7,043,986	5,816,271	1,227,715
Placements with and lending to financial institutions	1,188,507	1,188,507	-
Loans and advances	2,589,875	2,071,925	517,950
Amounts recoverable under finance leases	490,543	104,679	385,864
Advances, deposits, prepayments and other receivables	1,106,674	1,106,674	-
Deferred taxation	94,521	-	94,521
Tangible fixed assets	65,195	-	65,195
	14,135,584	11,844,339	2,291,245
Liabilities			
Borrowings from financial institutions	1,138,351	1,138,351	-
Certificates of investment	2,516,000	2,100,000	416,000
Creditors, accrued expenses and other liabilities	877,352	851,642	25,710
Loan and finance	808,385	108,961	699,424
Foreign currency deposits	1,333,407	1,333,407	-
Taxation	278,126	278,126	-
Other staff benefits	33,707	6,590	27,117
Staff retirement gratuity	18,339	18,339	-
	7,003,667	5,835,416	1,168,251
	7,131,917	6,008,923	1,122,994
Shareholders' equity	5,544,663		
Surplus on revaluation of securities	1,587,254		
	7,131,917		

29.5 Maturities of assets and liabilities as on December 31, 2001

	Total	Upto one year	One year to five years
		Rupees '000	
Assets			
Cash and bank balances	1,335,685	1,335,685	-
Investments	3,556,973	2,901,447	655,526
Placements with and lending to financial institutions	175,000	175,000	-
Loans and advances	4,033,285	2,018,821	2,014,464
Amounts recoverable under finance leases	296,255	47,380	248,875
Advances, deposits, prepayments and other receivables	1,110,071	1,109,778	293
Deferred taxation	226,714	-	226,714
Tangible fixed assets	52,874	-	52,874
	10,786,857	7,588,111	3,198,746
Liabilities			
Borrowings from financial institutions	-	-	-
Certificates of investment	886,000	555,000	331,000
Creditors, accrued expenses and other liabilities	1,321,799	1,310,630	11,169
Loan and finance	893,011	91,811	801,200
Foreign currency deposits	3,311,868	1,235,501	2,076,367
Taxation	257,831	257,831	-
Other staff benefits	21,807	4,966	16,841
Staff retirement gratuity	12,155	12,155	-
	6,704,471	3,467,894	3,236,577
	4,082,386	4,120,217	(37,831)
Shareholders' equity	4,082,386		
Surplus on revaluation of securities	-		
	4,082,386		

Pak Kuwait

30. Segment Analysis

		2002	
		Rupees '000	Percentage
30.1	Investments in quoted ordinary shares		
	- Segment by class of business		
	Auto and allied	551,766	10.95
	Cement	12,717	0.25
	Chemical and pharmaceuticals	691,418	13.73
	Financial	1,493,691	29.63
	Food and allied	52,958	1.05
	Fuel and energy	1,729,157	34.31
	Textile	14,200	0.28
	Transport and communication	444,208	8.81
	Others	49,889	0.99
		5,040,004	100.00
30.2	Investments in quoted term finance certificates (TFCs)		
	- Segment by class of business		
	Chemical and pharmaceutical	79,445	39.47
	Financial	25,620	12.73
	Fuel and energy	52,000	25.83
	Textile	34,250	17.00
	Transport and communication	10,000	4.97
		201,315	100.00
30.3	Loans and advances and amounts recoverable under finance leases		
	- Segment by class of business		
	Agro business	320,000	9.51
	Automobile and transport	151,064	4.49
	Cement	6,630	0.20
	Chemical and pharmaceuticals	597,851	17.77
	Communication	583,000	17.32
	Electronics and electrical appliances	6,792	0.20
	Energy	352,658	10.48
	Financial and insurance	669,959	19.91
	Shoes and leather	5,000	0.15
	Sugar	30,000	0.89
	Textiles	510,488	15.17
	Individuals	47,335	1.40
	Others	84,509	2.51
		3,365,286	100.00
	- Segment by sector		
	Public / government	516,139	15.34
	Private	2,849,147	84.66
		3,365,286	100.00
30.4	Certificates of investment		
	- Segment by class of business		
	Financial institutions	1,137,260	100.00
	- Segment by sector		
	Public / government	300,000	26.38
	Private	837,260	73.62
		1,137,260	100.00

- Segment by geographical location

The operations of the company are in Pakistan only.

31. Related Party Transactions

		2002	2001
		Rupees '000	
31.1	Particulars		
	Related party transactions		
	Expenses charged to related parties by the company	12,776	11,485
	Expenses incurred by related parties on behalf of the company	1,424	2,273
	Receivable from a related party as at December 31	4,995	-
	Dividend income from related parties	31,488	79,051
	Placement with a related party		
	Balance as at January 1	-	100,000
	Addition during the year	128,260	50,000
	Repayment during the year	-	150,000
	Balance as at December 31	128,260	-
	Mark up earned on placement with a related party	149	3,760
	Commitments for investment in equity of related parties	45,830	-

31.2 Associates

The investments in associates are valued as stated in note 2.4 above. The company's significant associates are Al-Meezan Mutual Fund Limited, Al-Meezan Investment Management Limited, Meezan Bank Limited and The General Tyre and Rubber Company of Pakistan Limited in which the company's direct percentages of holding were 19, 30, 34.47 and 27.98 respectively.

32. Number Of Employees

Total number of employees as at December 31, 2002 was 57 (2001: 59).

33. Corresponding Figures

Due to presentation of financial statements on the basis of the International Accounting Standards (IASs) and mainly because of application of IAS-30, 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' prior year's figures have been reclassified, wherever necessary, for the purposes of comparison.

34. Date Of Authorisation For Issue

These financial statements were authorised for issue on April 17, 2003 by the Board of Directors of the company.

Chief Executive

Chairman

Pak Kuwait

Pak - Kuwait

Vibrant
&
Energetic

19.2.1 Contingencies reserve

Effective December 31, 2000 the company has set up a separate 'contingencies reserve' to which an amount equal to 1% of the outstanding balance as at the year end, of loans and advances, leases and TFCs considered good, excluding balances relating to back to back lendings and financings against sovereign guarantees, is appropriated from the profit.

19.2.2 Stock market fluctuation reserve

The company has set up a separate 'stock market fluctuation reserve' in which an amount of Rs 666.585 million has been transferred out of the profit for the year ended December 31, 2002.

20. Contingencies And Commitments

20.1 Contingent liabilities

20.1.1 In terms of the joint venture agreement between the governments of Pakistan and Kuwait, the company was granted exemption from payment of central excise duty (CED) in respect of loans and advances made to any person vide SRO No. 1064 (I)/91 dated October 6, 1991. The said exemption was withdrawn by the Central Board of Revenue (CBR) vide SRO dated June 28, 1995. The CED on loans and advances made by the banking companies / financial institutions was subsequently withdrawn by the Government of Pakistan (GOP) through SRO No. 418 (I) / 97 and SRO No. 419 (I) / 97 dated June 13, 1997.

The company had made a representation to the GOP requesting it to restore the specific exemption earlier available to the company for the period for which the exemption was withdrawn. The GOP vide its letter No. 2291 –JS (IF) / 09 dated June 26, 1998 turned down the representation and advised the company to deposit the CED with the Collector Excise, Karachi as it maintained that the CED was payable by the borrowers and it was not an incidence of tax on the company. An amount of Rs 200.802 million was accordingly deposited under protest.

The Additional Collector, Excise has through his letter dated November 16, 1999 lodged a claim of Rs 24.885 million (comprising CED due from leasing companies and from such other companies which had earlier obtained stay orders from the courts) and levied a penalty of Rs 0.200 million. The company had filed an appeal with the Collector Appeals, Customs, Central Excise and Sales Tax to set aside the above claim, which was decided against it. The company had therefore filed an appeal with the Appellate Tribunal against that decision. The Appellate Tribunal had stayed the payment of Rs 15 million out of the above and the company deposited the balance amount of Rs 10.085 million under protest on December 13,1999 until the case is decided. Out of the foregoing amount a sum of Rs 2.077 million (2001: Rs 2.219 million) is shown as CED receivable under note 9.1. The company has not made any provision for the amounts claimed as the matter is still pending with the Appellate Tribunal and based on the appeal filed, on its behalf, by the legal counsel, the company is confident that eventually no liability will be attached to it.

20.1.2 During the year the Inspecting Additional Commissioner of Income Tax has revised the assessments of the company for the years 2000-2001 and 2001-2002 under section 66A of the Income Tax Ordinance, 1979. Through the revised orders the income from foreign currency deposits under arrangements with the SBP has been subjected to tax, which was previously allowed as exempt in the original assessment orders framed under section 62 of the Ordinance. The amount of tax on such add backs aggregated Rs. 253 million. The Company is agitating these orders in appeals as it contents that such income is exempt under the provisions of the Protection of Economic Reforms Act, 1992 and provision has not been recognised in these accounts as the management is confident that the ultimate outcome of the appeal on this issue would be in the company's favour.

Further, the management of the company is also confident that if similar add backs are made by the income tax authorities in respect of other relevant assessment years the appellate authorities will eventually decide the matter in the company's favour if such matters are subjected to appeals.

	2002	2001
	Rupees '000	
20.1.3 Direct credit substitute - Guarantee issued	205,267	205,267

The company had issued a counter guarantee in favour of a bank. During the year the Government of Pakistan (GOP) has communicated to the bank that it (that bank) has been absolved of its guarantee. However, the bank has not as yet received the original guarantee from the beneficiaries.

20.2 Commitments	2002	2001
	Rupees '000	
Undisbursed sanctions for financial assistance in the form of loans, equity, lease and underwriting	206,994	374,000