

Asian Leasing Company Limited

Annual Report 1998

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COMPANY INFORMATION

Board of Directors:

Mr. Zafar Iqbal	Chairman
Mr. Mohammad Zafarullah Khan	Director
Brig. (Retd) Mian Akhtar Hameed	Director
Mr, Mohammad Aslam	Director
Mr. Razi-ur-Rehman Khan	Nominee Director- NIT
Mr. Muhammad Bilal Sheikh	Nominee Director - NDFC
Mr. Javed Sadiq	Nominee Director- NDFC
Mr. Shahid Hassan	Nominee Director-NDFC
Mrs. Roohi Raees Khan	Chief Executive Officer / Director

Company Secretary:

Mr. Imran-ur-Rehman

Bankers to the Company:

National Development Finance Corporation
Bank of Punjab
Crescent Investment Bank Limited
Faysal Bank Limited
Muslim Commercial Bank Limited
National Bank of Pakistan

Auditors:

Ford, Rhodes, Robson, Morrow
Chartered Accountants

Legal Advisor:

Khawaja M. Azeem
Advocate, High Court

Registrars and Share Transfer Office:

Noble Computer Services (Private) Ltd.
6th Floor, Hirani Centre,
I.I. Chundrigar Road, Karachi.

Registered Office & Head Office:

12-Ahmed Block,
New Garden Town, . Lahore.
Tel: 5882806-9
Fax: (042)5882669
Email: alc@brain.net.pk

Branch Office:

204-Clifton Centre,
Khayaban-e-Roomi, Clifton, Karachi.
Tel: 5835936, 5866095
Fax: (021) 5873573

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the TWELFTH ANNUAL GENERAL MEETING of ASIAN LEASING CORPORATION LIMITED will be held on Monday, 28th December, 1998 at the registered office of the Company at 12-Ahmed

Block, New Garden Town, Lahore at 10.00 a.m. to transact the following business '

- 1.To confirm the minutes of 1 lth Annual General Meeting of the Company held on 30th December, 1997.
- 2.To receive, consider and adopt the audited accounts for the year ended June 30, 1998 together with the Directors' and Auditors' reports thereon.
- 3.To appoint Auditors and fix their remuneration. The present Auditors, Messrs. Ford, Rhodes, Robson, Morrow, Chartered Accountants, retire and being eligible, offer themselves for re-appointment.
- 4.To transact any other business with the permission of the Chair.

BY ORDER OF THE BOARD

Lahore:
8th October, 1998.

IMRAN-UR-REHMAN
COMPANY SECRETARY

NOTES:

- 1.The Register of Members of the Company will remain closed from 23rd December, 1998 to 29th December, 1998 (both days inclusive) and no transfer of shares will be made during the period the register is closed.
- 2.A member entitled to attend and vote at the General Meeting is entitled to appoint one person as his proxy to attend and vote on his behalf.
- 3.Instrument appointing proxy and the power of attorney or other authority under which it is signed or a notarially certified copy of the power or authority must be deposited at the registered office of the Company atleast 48 hours before the time of the meeting.
- 4.Shareholders are requested to notify any change in address immediately.

DIRECTORS' REPORT TO THE MEMBERS

The Board of Directors presents to its members the 12th Annual Report together with Audited Accounts and the Auditors' Report thereon for the year ended June 30, 1998.

The past twelve months of economic turmoil that developed in South East Asia affected many countries in the region. In Pakistan the expected turn around in the economy could not materialize. During the year under review, the profitability of most of the leasing companies was adversely affected due to disturbed investment climate, substantial increase in the borrowing and operating costs. The general "Wait and See" policy adopted by the business combined with substantial devaluation of the rupee are factors which are likely to put further pressure on the financial sector including leasing companies, which rely mainly on foreign credit lines. This source of funding has become difficult to tap in the last year or so. The situation is not likely to improve very much in the coming year. The liquidity problems of DFIs/Banks made it difficult for the leasing companies to avail financing facilities from these traditional lenders. The Corporation was however able to raise Rs. 50.000 million credit line from a local DFI.

The growth of the Corporation in the first five to six years is comparable with the majority of the leasing companies. However a general decline has been witnessed in the last few years. This has been for various reasons, of which the major one has been unavailability of funds through credit lines. Almost all the leasing companies which have sustained a growth pattern over the past three to five years have mainly relied on the foreign credit lines.

ALC, since its inception has endeavored to grow gradually and continuously in order to maintain a quality portfolio. This growth continued till 1993 - 94 whereafter it was stunted due to unavailability of funds, which is the life line of the leasing companies. The deteriorating stock market conditions and slowing of economy in general did not allow ALC to go for increase in its Paid-up Capital, which factor hindered obtaining foreign credit lines and the operations declined during 1995-1998 and effected the return to the shareholders.

However, the quality of lease investment as well as sectoral / asset exposure has been well maintained due to which a healthy recovery rate was possible. The Corporation was also able to meet its commitments with local as well as foreign lenders.

FINANCIAL RESULTS

The financial results of the company for the year under review and comparative figures for the last two years are summarized below:

	1995-96*	1996-97	1997-98
	(Rs.)	(Rs.)	(Rs.)
Revenue	135,973,224	81,609,860	57,507,647
Expenditure			
Financial Charges	79,709,257	45,296,571	30,269,079
Provisions / Bad Debts	5,789,116	9,883,181	21,153,298

Others	18,305,521	14,698,934	14,673,206
Profit/(Loss) before Tax	32,169,330	11,731,174	(8,587,936)
Taxation	(19,400,000)	(19,500,000)	(44,510,667)
Profit/(Loss) after tax	12,769,330	(7,768,826)	(53,098,603)
*18 months			

The financial position of the company started declining over 1995 - 98 mainly owing to unavailability of funds to write the required additional leases in the past three years or so. This, together with deteriorating performance of many industrial sectors, especially cement, textile and engineering resulted in recovery problems as lease rentals could not be realized on time. Hence the provisioning of Rs. 21.4 million which added to the over all loss of the Corporation.

The tax formula applicable to the leasing companies requires provisioning of taxation as the lease investment reduces and depreciation advantage is lost. Like most leasing companies, the deferred taxation was not fully provided for by ALC in the initial years with the hope that increase in lease investments in the future years would reduce the requirement for deferred taxation which unfortunately did not materialize. However in order to present the accounts in accordance with the requirements of Corporate Law Authority (CLA) and International Accounting Standards (IAS) full provision of Rs. 22.9 million has been made in 1997-98. In addition to the above, a tax provision of Rs. 21.6 million has been made in accordance with Income Tax Ordinance, 1979.

FUTURE OUTLOOK

Keeping the mushroom growth of leasing companies in Pakistan, many with a small capital base, ALC Board in March, 1998, decided to look into the possibility of a merger in the larger interest of the lease financing sector. Such a pioneering step, it was hoped, would set an example for the other leasing companies to follow and allow a healthier lease financing industry to emerge.

Due to the reasons elaborated above and the requirement of CLA to raise paid-up capital up to Rs. 200 million in the year 1999, the Board of Directors of your Corporation has decided to bring about the amalgamation of operations with First Leasing Corporation Limited (FLCL) for which a Memorandum of Understanding(MOU) has been signed on June 19, 1998 and the Scheme of Arrangement has been drafted which after an agreement on a swap ratio will be presented to the members/shareholders. The trend of "Amalgamation/Mergers" in the lease financing sector will be witnessed in the coming two years when this sector consolidates.

After the proposed merger of ALC and FLCL, one of the largest leasing company in Pakistan, in terms of paid-up capital, will emerge. With strong capital base and gross lease investment, the merged Corporation would be able to attract local as well as multilateral financial institutions for obtaining credit lines. It is hoped that some other leasing companies may also come forward and further strengthen this merger.

CHANGE IN BOARD / MANAGEMENT

Mr. Mohammad Aslam Khan, Chairman ALC due to his ill health, retired and nominated Mr. Zafar Iqbal who was elected as the new Chairman of ALC in March, 1998.

In view of the expected amalgamation of ALC and FLCL operations, Mr. Muhammad Aslam relinquished charge from ALC w.e.f. July 12, 1998 and Mrs. Roohi R. Khan was appointed the new Chief Executive Officer to facilitate the proposed amalgamation of ALC with FLCL.

COMPLIANCE WITH CLA REQUIREMENT ON YEAR 2000

ALC has already substantially rectified its computerized systems to meet the CLA requirement for the millennium problem. It is expected that this requirement would be fully met shortly.

PATTERN OF SHAREHOLDING

The Pattern of share holding of the Company is annexed.

AUDITORS

The present Auditors M/s. Ford, Rhodes, Robson, Morrow, Chartered Accountants retire and being eligible offer themselves for re-appointment.

ACKNOWLEDGEMENT

The company is thankful to the authorities of the State Bank of Pakistan, Corporate Law Authority, our valuable clients, financial institutions and shareholders for their continued support and co-operation. Appreciation is also placed on record for the dedicated hard work put in by the staff of the Corporation.

ON BEHALF OF THE BOARD

Lahore
October 8, 1998

ROOHI R. KHAN
CHIEF EXECUTIVE

PATTERN OF SHARE HOLDINGS AS AT JUNE 30, 1998

Number of Shareholders	Shareholding		Total Shares Held
	From	To	

315	1	100	14,811
366	101	500	90,540
153	501	1,000	112,771
325	1,001	5,000	619,697
48	5,001	10,000	334,220
5	10,001	15,000	56,103
2	15,001	20,000	35,738
3	20,001	25,000	64,852
1	25,001	30,000	26,136
1	40,001	45,000	41,817
1	45,001	50,000	47,844
1	50,001	55,000	52,272
1	55,001	60,000	55,806
2	65,001	70,000	134,489
1	70,001	75,000	72,600
1	75,001	80,000	79,514
1	100,001	105,000	104,544
1	120,001	125,000	121,000
1	145,001	150,000	155,300
3	260,001	265,000	783,004
2	520,001	525,000	1,045,440
1	525,001	530,000	527,720
1	565,001	570,000	569,329
1	2,610,001	2,615,000	2,612,600
1	2,695,001	2,700,000	2,696,253
-----	-----	-----	-----
1238			10,454,400
=====	=====	=====	=====

CATEGORIES OF SHAREHOLDERS AS AT JUNE 30, 1998

Categories of Shareholders	Number	Shares Held	Percentage
INDIVIDUALS	1,213	3,609,024	34.522
INVESTMENT COMPANIES	4	263,073	2.516
INSURANCE COMPANIES	2	611,146	5.846
JOINT STOCK COMPANIES	9	378,199	3.618
FINANCIAL INVESTORS	3	5,381,453	51.475
MO DARABA	4	95,636	0.915
FOREIGN INVESTORS	0	0	0
CO-OPERATIVE SOCIETIES	2	112,733	1.078
CHARITABLE TRUSTS	1	3,136	0.030
OTHERS	0	0	0
	-----	-----	-----
Total	1,238	10,454,400	100.000
	=====	=====	=====

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Asian Leasing Corporation Limited as at June 30, 1998 and the related profit and loss account and statement of source and application of funds, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

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

(b) in our opinion:

i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and the statement of source and application of funds, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 1998

and of the loss and the changes in source and application of funds for the year then ended; and

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

Lahore:

FORD RHODES, ROBS ON, MORROW

October 8, 1998.

CHARTERED ACCOUNTANTS

BALANCE SHEET AS AT JUNE 30, 1998

	Notes	1998 Rupees	1997 Rupees
CAPITAL AND RESERVES			
Authorised capital			
25,000,000 (1997: 25,000,000) ordinary shares of Rs.10/- each		250,000,000 =====	250,000,000 =====
Issued, subscribed and paid-up capital	4	104,544,000	104,544,000
Special Reserve	5	7,104,821	7,104,821
General Reserve		31,336,477	31,336,477
Unappropriated loss		(60,867,429) ----- (22,426,131) -----	(7,768,826) ----- 30,672,472 -----
		82,117,869	135,216,472
LONG TERM AND DEFERRED LIABILITIES			
Long term loans- secured	6	52,639,036	78,459,557
Obligation under finance lease	7	193,381	-
Marginal deposits on lease arrangements	8	33,258,916	47,651,652
Customers' deposits - COIs	9	575,000	1,725,000
Provision for gratuity		25,277	55,085
Provision for deferred taxation		22,900,000 -----	- -----
		109,591,610	127,891,294
CURRENT LIABILITIES			
Current maturity of long term loans		69,627,277	93,865,603
Current maturity of obligation under finance lease		112,109	-
Current maturity of marginal deposits	8	19,984,764	20,794,920
Short term loans- secured	10	-	15,000,000
Short term customers' deposits- COIs	11	-	2,702,400
Accrued liabilities		557,431	322,078
Mark-up accrued on secured loans		1,200,511	2,912,469
Mark-up accrued on Certificates of Investment		17,654	86,678
Provision for taxation		42,788,462	32,967,541
Provision against Corporate Assets Tax		2,610,667	-
Central Excise duty payable		145,596	65,286
Others		797,800	469,223
Dividends		240,306	246,846
		138,082,577	169,433,044
CONTINGENCIES AND COMMITMENTS			
	12	- -----	- -----
		329,792,056 =====	432,540,810 =====
TANGIBLE FIXED ASSETS			
	13	5,974,703	5,209,982
INVESTMENT IN LEASE FINANCE			
Lease payments receivable		268,374,847	387,327,080
Residual value		53,346,258 -----	67,791,891 -----
Gross lease payments receivable		321,721,105	455,118,971
Less: Unearned mark-up		(55,898,189) -----	(82,087,583) -----
Net investment in lease finance		265,822,916	373,031,388
Less: Current maturity		(105,638,175)	(154,790,934)
Provision for doubtful receivables		(17,681,126) -----	(7,293,921) -----
		142,503,615	210,946,533
LONG TERM INVESTMENTS			
	14	8,617,000	8,888,000
DEFERRED COST			
	15	2,069,538	1,733,787

CURRENT ASSETS

Current portion of net investment in lease finance		105,638,175	154,790,934
Short term finances - secured	16	2,266,573	17,326,540
Other investments	17	10,000,000	-
Advances, deposits, prepayments and other receivables	18	18,218,602	14,347,939
Cash and bank balances	19	34,503,850	19,297,095
		-----	-----
		170,627,200	205,762,508
		-----	-----
		329,792,056	432,540,810
		=====	=====

The annexed notes form an integral part of these accounts.

Chief Executive Director

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

	Notes	1998 Rupees	1997 Rupees
Income from lease operations	20	48,284,177	72,018,354
Mark-up income	21	7,468,206	8,703,596
Other income	22	1,755,264	887,910
		-----	-----
		57,507,647	81,609,860

EXPENDITURE

Direct cost of leases	23	27,431	79,552
Financial charges	24	30,269,079	45,296,571
Administrative and operating expenses	25	11,805,615	12,395,475
Depreciation	13	1,377,993	1,225,502
Deferred costs - Amortised	15	1,187,167	998,405
Provision for doubtful receivables		21,153,298	9,883,181
Provision for diminution in value of investment		275,000	-
		-----	-----
		66,095,583	69,878,686
		-----	-----
(Loss) / profit before tax		(8,587,936)	11,731,174
Taxation	26	(44,510,667)	(19,500,000)
		-----	-----
Loss after tax		(53,098,603)	(7,768,826)
Unappropriated loss brought forward		(7,768,826)	-
		-----	-----
Unappropriated-loss carried forward		(60,867,429)	(7,768,826)
		=====	=====

The annexed notes form an integral part of these accounts.

Chief Executive Director

STATEMENT OF SOURCES AND APPLICATION OF FUNDS (CASH FLOW)**FOR THE YEAR JUNE 30, 1998**

	1998 Rupees	1997 Rupees
CASH FLOWFROM OPERATING ACTIVITIES		
Net loss after taxation	(53,098,603)	(7,768,826)
Adjustment for:		
Depreciation	1,377,993	1,225,502
Amortisation of deferred costs	1,187,167	998,405
(Profit) on sale of fixed assets	(1,398,077)	(259,852)
Provision for doubtful receivables	21,153,298	9,883,181
Provision for deferred tax	22,900,000	-
Provision for diminution in value of investments	275,000	-

	45,495,381	11,847,236
	-----	-----
Operating profit before working capital changes	-7,603,222	4,078,410
(Increase)/decrease in:		
Short term finances (other than provision for doubtful and current portion)	569,249	802,313
Other investment	(10,000,000)	-
Advances, deposits, prepayments and other receivable (other than provision for doubtful)	(14,649,255)	(1,471,973)
	(24,080,006	(669,660)
	-----	-----
Increase/(Decrease) in:		
Current liabilities (other than current maturity of long term loan, COI's and dividends)	(5,407,554)	13,013,575
	-----	-----
Cash generated from operation	(37,090,782)	16,422,325
Gratuity paid	(29,808)	-
	-----	-----
NET CASH FROM OPERATING ACTIVITIES	(37,120,590)	16,422,325
Brought forward	(37,120,590)	16,422,325
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	(2,271,230)	(1,991,580)
Sale proceeds of fixed assets	1,526,595	311,382
Deferred costs	(1,522,917)	(548,328)
Net investment in lease finance recovered	125,508,892	176,854,714
Net investment in lease finance provided	(18,300,420)	(87,962,748)
Marginal deposits on lease arrangements received	2,087,053	11,235,642
Marginal deposits on lease arrangements repaid	(17,289,945)	(20,500,035)
Long term investments	(4,000)	(3,000,000)
Long term finances	14,503,217	4,449,563
	-----	-----
Net Cash used in Investing Activities	104,237,245	78,848,610
CASH FLOW FROM FINANCING ACTIVITIES		
Obligation under lease finance	382,000	-
Repayment of obligation under lease finance	(76,510)	-
Dividends	(6,540)	(10,227,904)
Long term loans	50,000,000	37,000,000
Customer's deposits- COIs	(2,150,000)	(2,975,000)
Repayment of long term loans	(100,058,850)	(126,851,188)
	-----	-----
Net cash used in financing activities	(51,909,900)	(103,054,092)
	-----	-----
Net (decrease)/increase in cash and cash equivalents	15,206,755	(7,783,157)
Cash and bank balances at the beginning of the year	19,297,095	27,080,252
	-----	-----
Cash and bank balances at the end of the year	34,503,850	19,297,095
	=====	=====

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

1. THE COMPANY AND ITS OPERATIONS

The company is a public limited company and is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The company is engaged in the business of lease financing.

These accounts comply with International Accounting Standards in all material respects.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting convention

The financial statements are prepared under the historical cost convention.

3.2 Tangible fixed assets and depreciation

Fixed assets for own use are stated at cost less accumulated depreciation. Depreciation on these assets is calculated applying the straight line method whereby the cost of assets is written off over estimated useful lives.

A full one year depreciation is charged in the year of addition and no depreciation is charged in the year of deletion.

Repairs and maintenance costs are expensed out as and when incurred, however, major betterments are capitalised.

3.3 Deferred costs

These costs are to be written off over a period of five years from the year of incurrence.

3.4 Taxation

Current tax provision is based on profits as adjusted for tax purposes after taking into account all available allowances and credits.

The company determines deferred tax on all major timing differences using the liability method (Note: 26).

3.5 Revenue recognition

The company recognises all "sale and lease back" and "direct leases" as finance leases. Accordingly, the excess of aggregate lease rentals over the net investments in the cost of leased assets is deferred and amortised to income over the term of the lease, so as to produce a systematic return on the net investment in leases. Mark-up income on morabaha finances is recognised on receivable basis as stated in their respective agreements. Front end fees (project examination fees) are taken to income on receipt basis while commitment fees are recorded on accrual basis. Other income is accounted for when it becomes receivable.

3.6 Foreign currency translation

Transactions in foreign currencies are accounted for at the rates prevailing on the date of transaction. Assets and liabilities in foreign currencies are translated at the rate of exchange prevailing on the balance sheet date except for foreign currency loans registered under the Exchange Risk Cover Scheme of the Government of Pakistan which are, if any, recorded at the rate prevailing on the date of disbursement. Exchange difference, if any, arising from translation at year end rates is taken to profit and loss account.

3.7 Staff retirement benefits

The company had established an unfunded gratuity scheme for all permanent employees upto March, 1992 whereafter the scheme of Recognized Provident Fund has been introduced in place of gratuity scheme under a trust established for this purpose.

3.8 Provision for doubtful receivables

The company makes a provision for doubtful receivables equivalent to 2% (1997:2%) of net lease receivables, including advances against leases and long/short term finances, in pursuance to loan conditions of Asian Development Bank (Note: 7.1).

Provision for doubtful receivables is made at the higher of SBP's Rules of Business (Prudential Regulations) or 2% as specified by Asian Development Bank on an aggregate basis.

3.9 Long term investments

These are stated at average cost. However, average cost is reduced to recognise any decline thereof, other than temporary.

	1998 Rupees	1997 Rupees
4. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL		
5,000,000 (1997: 5,000,000) ordinary shares of Rs. 10/- each fully paid in cash	50,000,000	50,000,000
5,454,400 (1997: 5,454,400) ordinary shares of Rs.10 each issued as fully paid bonus shares	54,544,000	54,544,000
	-----	-----
	104,544,000	104,544,000
	=====	=====
5. SPECIAL RESERVE		
Opening and closing balance	7,104,821	7,104,821

=====

This represents special reserve created under Rule-3 of SBP's Rules of Business (Prudential Regulations) for Non-Banking Financial Institutions.

6. LONG TERM LOANS - SECURED

Foreign Currency Loans

Asian Development Bank -

Loan No. 1 (Note: 6.1)	-	5,598,755
Loan No. 2 (US \$ 1,750,003) Note: 6.2)	48,553,731	80,922,529
Loan No. 3 (Note: 6.3)	-	7,754,364

Local Currency Loans

National Development Finance Corporation-

Loan No. 4 (Note: 6.4)	-	5,000,000
Loan No. 5 (Note: 6.5)	-	7,272,726
Loan No. 6 (Note: 6.6)	8,333,332	16,666,666
Loan No. 7 (Note: 6.7)	50,000,000	-

Crescent Investment Bank Ltd.-

Loan No. 2 (Note: 6.8)	1,666,670	5,000,002
Loan No. 3 (Note: 6.9)	2,500,003	5,833,335
Loan No. 4 (Note: 6.10)	6,666,668	10,000,000

Al-Faysal Investment Bank Limited (Note: 6.11)

	-	7,500,000
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Muslim Commercial Bank Ltd.

Loan No. 1 (Note: 6.12)	908,909	4,545,453
Loan No. 2 (Note: 6.13)	3,637,000	7,273,000

Fidelity Investment Bank Ltd. (Note: 6.14)

	-	3,333,330
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Prudential Commercial Bank Ltd. (Note: 6.15)

	-	5,625,000
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	-----	-----
	122,266,313	172,325,160

Less: Current Maturity

	69,627,277	93,865,603
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	-----	-----
	52,639,036	78,459,557

	=====	=====
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6.1 A.D.B. Loan No. 1

This represented the balance of a loan of US \$ 3,000,000 sanctioned by Asian Development Bank for financing of lease operations and it was repaid during the year.

6.2 A.D.B. Loan No. 2

This represents the balance of a loan of US \$ 7,000,000 sanctioned by Asian Development Bank for financing of lease operations.

The loan carries interest at the rate of 9.4% per annum, payable semi-annually on 15th June and 15th December in each year.

The loan is repayable in 11 equal semi-annual instalments of US \$ 583,333 each commencing on June 15, 1994 and one final installment of US \$ 583,337.

The loan is secured by (i) a pari-passu floating charge on the leased assets purchased out of the proceeds of the loan, (ii) hypothecation of moveable assets and receivables of the company and (iii) demand promissory note.

The conditions of the loan agreement requires the company to, inter alia, maintain (i) a debt equity ratio not exceeding 10: 1, (ii) a debt service coverage ratio equalling or exceeding 1.25: 1, (iii) a provision for doubtful accounts equivalent to 2% of the total risk assets as defined in the agreement, (iv) not to distribute more than 60% of the unrestricted after tax profits of any year, (v) to maintain, at all times, a current ratio equal to at least 1.25:1 and (vi) to maintain, at all times, in cash or Government Securities an amount equivalent in value at least 10% of the principal amount of outstanding Certificates of Investment.

6.5 A.D.B. Loan No. 3

This represented the balance of a loan of US \$ 2,000,000 sanctioned by Asian Development Bank for financing lease operations and it was repaid during the year.

6.4 N.D.F.C. Loan No. 4

The loan was obtained under a sale and repurchase agreement for financing the leasing operations of the company.

The sale price of Rs.20,000,000 had a repurchase price of Rs. 31,509,608/- which was repaid during the year.

6.5 N.D.F.C. Loan No. 5

The loan was obtained under a sale and repurchase agreement for financing the leasing operations of the company.

The sale price of Rs. 20,000,000 had a repurchase price of Rs. 27,380,540 which was repaid during the year.

6.6 N.D.F.C. Loan No. 6

This loan has been obtained under a sale and repurchase agreement for financing the leasing operations of the company.

The sale price of Rs. 25,000,000 has a repurchase price of Rs. 33,937,900 which is repayable in 6 equal half-yearly instalments commencing from November 26, 1996.

The payment of the repurchase price is secured by way of (a) hypothecation charge on the entire assets and undertakings of the company, (b) mortgage charge on all the present and future fixed assets of the company and (c) demand promissory note.

6.7 N.D.F.C. Loan No. 7

The loan of Rs. 50,000,000 has been obtained under a sale and repurchase agreement for financing the leasing operations of the company. The repurchase price is Rs. 79,271,070 which is repayable in 6 equal half yearly instalments commencing from December 15, 1998.

The payment of the repurchase price is secured by way of (a) hypothecation charge on the entire assets and undertakings of the company, (b) mortgage charge on all the present and future fixed assets of the company, (c) floating charge on the business, undertaking and all other property and assets of the company, and (d) demand promissory note.

6.8 Crescent Investment Bank Ltd. - 2

This facility of Rs. 10.00 million has been obtained for the financing leasing operations of the company.

The facility carries mark-up @ 19% p.a. This facility is repayable in 12 equal quarterly instalments commencing from January 09, 1996.

The loan is secured against:

- (a) first charge on fixed assets of the company.
- (b) undertaking that if the promissory note is not paid upon maturity, company shall become liable to pay liquidated damages @ 20% p.a. for each day the payment is delayed.
- (c) demand promissory note.

6.9 Crescent Investment Bank Ltd. - 3

This facility of Rs. 10.00 million has been obtained for the financing leasing operations of the company. The facility carries mark-up @ 18.5% p.a. This facility is repayable in 12 equal quarterly instalments commencing from May 27, 1996.

The loan is secured against:

- (a) first charge on fixed assets of the company
- (b) undertaking that if the promissory note is not paid upon maturity, company shall become liable to pay liquidated damages @ 19.5% p.a. for each day the payment is delayed.

6.1 Crescent Investment Bank Ltd. - 4

This facility of Rs. 10.00 million has been obtained for the financing leasing operations of the company.

The facility carries mark-up @ 21% p.a. This facility is repayable in 12 equal quarterly instalments commencing from August 26, 1997.

The loan is secured against:

- (a) first charge on fixed assets of the company.
- (b) undertaking that if the promissory note is not paid upon maturity, company shall become liable to pay liquidated damages @ 22% p.a. each day payment is delayed.

6.11 M-Faysal Investment Bank Ltd.

The morabaha finance facility was obtained for financing the leasing operations of the company. The sale price of Rs. 9,500,000 had a repurchase price of Rs.11,647,671 which was repaid during the year.

6.12 Muslim Commercial Bank Ltd. - 1

The demand finance facility of Rs. 10.00 million has been obtained for financing the leasing operations of the company. The facility carries mark-up @ 18.25% p.a. The facility is repayable in 11 equal quarterly instalments commencing from March 31, 1996. The loan is secured against first pari passu charge on the current/fixed including leased assets of the company to extent of Rs.12.00 (M).

6.13 Muslim Commercial Bank Ltd. - 2

The demand finance facility of Rs. 10.00 million has been obtained for financing the leasing operations of the company.

The facility carries mark-up @ 18.98% p.a. This facility is repayable in 11 equal quarterly instalments commencing from September 30, 1996. The loan is secured against first pari passu charge on current/fixed assets of the company.

6.14 Fidelity Investment Bank Ltd.

The placement line of the Rs.20.00 million has been obtained for financing the leasing operations of the company. The facility carries mark-up @ 19% per annum. This facility is repayable in 12 equal quarterly instalments commencing from March 26, 1995. The facility is secured against charge on leased assets of the company.

6.15 Prudential Commercial Bank Ltd.

The demand finance facility of Rs. 7.500 million has been obtained for working capital requirement. The facility carries mark-up @ 20% per annum. This facility is repayable in 8 equal quarterly instalments commencing from March 01, 1997. The facility is secured against registered hypothecation charge on assets and receivables/book debts of the company for Rs. 10.00 million.

7. OBLIGATIONS UNDER FINANCE LEASE

The rate of interest used as the discounting factor (i.e. implicit in the lease) is 25% per annum. The amount of future payments and the periods during which they will fall due are:

	1998 Rupees	1997 Rupees
Year ending June 30,		
1999	160,680	-
2000	160,680	-
2001	51,590	-
	-----	-----
	372,950	-
Less: Future finance charges	67,460	-
	-----	-----
	305,490	-
Less: Current maturity	112,109	-
	-----	-----
	193,381	-
	=====	=====

The lease rentals are payable in monthly instalments. The amount of lease rental payable in 2001 include the amount of salvage value of Rs.38,200 adjustable at option to obtain ownership of the leased asset. There is no financial restriction in the lease agreement.

	1998 Rupees	1997 Rupees
8. MARGINAL DEPOSITS ON LEASE ARRANGEMENTS		
Margin deposits on lease arrangements	53,243,680	68,446,572
Less: Current maturity	19,984,764	20,794,920
	-----	-----
	33,258,916	47,651,652
	=====	=====

These represent interest free security deposits received against lease contracts and are adjustable/repayable at the expiry of their respective lease periods.

9. CUSTOMERS' DEPOSITS - Cols

Certificates of investment (Note: 9.1)	575,000	2,725,000
Less: Current maturity (Note: 11)	-	(1,000,000)
	-----	-----
	575,000	1,725,000
	=====	=====

9.1 These represent deposits accepted by the company from other companies and individuals in accordance with the permission to issue registered certificates of deposit granted by the Corporate Law Authority.

These are for the period ranging from two years to three years and the return on these deposits

range from 17% to 18% p.a.

10. SHORT TERM LOANS - SECURED

Saudi Pak Industrial & Agricultural
Investment Co. (Pvt.) Ltd.

Loan No. 1	-	10,000,000
Loan No. 2	-	5,000,000
	-----	-----
	-	15,000,000
	=====	=====

11. SHORT TERM CUSTOMER DEPOSITS - Cols

Local currency	-	900,000
Foreign currency (US \$ 20,000)	-	802,400
	-----	-----
	-	1,702,400
Current portion of long term certificate of investment (Note: 9)	-	1,000,000
	-----	-----
	-	2,702,400
	=====	=====

12. CONTINGENCIES AND COMMITMENTS

Nil

13. TANGIBLE FIXED ASSETS

These are for company's own use:-

	C O S T		Accumulated		DEPRECIATION		
	To July 01, 1997	Additions/ (Deletions)	To June 30, 1998	Depreciation June 30, 1998	Book Value As at June 30, 1998	Charge for the year	Rate %
	(R u p e e s)						
Building- freehold	2,430,520	-	2,430,520	789,919	1,640,601	121,526	5
Leasehold improvements	689,651	-	362,915	626,133	63,516	54,438	15
		(326,736)		'(326,734)			
Airconditioning plant and electric installations	827,330	442,970	804,570	824,188	446,109	120,686	15
		(465,730)		'(465,727)			
Furniture and fixtures	779,344	231,135	852,723	566,185	413,300	69,844	10
		(157,756)		(126,762)			
Office machines and equipment	2,156,973	843,361	2,830,334	1,491,141	1,509,192	374,487	15
		(170,000)		(169,999)			
Vehicles	4,268,135	347,496	2,778,794	2,941,142	1,576,971	555,758	20
		(1,836,837)		(1,739,319)			
	11,151,953	1,864,962	10,059,856	7,238,708	5,649,689	1,296,739	
		(2,957,059)		(2,828,541)			
Assets subject to finance lease	-	406,268	406,268	81,254	325,014	81,254	
	11,151,953	2,271,230	10,466,124	7,319,962	5,974,703	1,377,993	
		(2,957,059)		'(2,828,541)			
	9,611,908	1,991,580	11,151,953	6,341,976	5,209,982	1,225,502	
1997		(451,535)		(400,005)			
	=====	=====	=====	=====	=====	=====	

13.1 Detail of fixed assets sold during the year

Particulars	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Profit/ (Loss)	Mode of sale	Particulars of purchaser
Motor Vehicle							
Suzuki Mehran	253,518	177,464	76,054	175,000	98,946	Tender	Mr. Waqar Ahmed, 50-H, Model Town, Lahore.
Suzuki Mehran	173,931	173,930	1	146,786	146,785	Tender	Mr. Nusrat Iqbal,

House No.513/4,
Liaqatabad,
Karachi.
Mr. Saqib Waseem,
73-B, Ferozepur Road,
Lahore.
Syed Hassan All Naqvi,
42-A, Allama Iqbal Town,
Karachi.
Mr. Talat Rashid Butt
250-P, Model Town,
Lahore.
Mr. M. Ilyas,
85-B, Jail Road, Lahore.
Gestetner (Pvt.) Ltd.
The Mall, Lahore.

Suzuki Mehran	214,605	193,144	21,461	163,209	141,748	Tender
Nissan Sunny	623,083	623,082	1	309,000	308,999	Tender
Toyota Corrolla	571,700	571,699	1	361,000	360,999	Tender
Fixed Assets						
Office assets	950,222	919,223	30,999	300,000	269,001	Negotiation
Photocopy Machine	170,000	169,999	1	71,600	71,599	Negotiation
	-----	-----	-----	-----	-----	
	2,957,059	2,828,541	128,518	1,526,595	1,398,077	
	=====	=====	=====	=====	=====	

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

14. LONG TERM INVESTMENTS

Government securities		
Federal Investment Bonds (Note: 14.1)	7,800,000	7,800,000
Listed companies		
Muslim Commercial Bank Ltd.	588,000	588,000
14,160 (1997: 14,160) ordinary shares of Rs. 10/- each. Market value Rs. 18.60 (1997: Rs. 32.75)per share (Note: 14.2)		
Lease Pak Limited	500,000	500,000
50,000 (1997: 50,000) ordinary shares of Rs. 10/- each. Market value Rs.4.50 (1997: Rs. 5.15) per share		
Less: Provision for diminution in market value	(275,000)	-
	-----	-----
	225,000	500,000
Prudential Discount and Guarantee House Limited	4,000	-
2,000 ordinary shares of Rs. 10/- each. Market value Rs. 2.00 per share		
	-----	-----
	8,617,000	8,888,000
	=====	=====

14.1 These investments have been made to comply with SBP's Rules of Business (Prudential Regulations) for Non-Banking Financial Institutions. FIBs have face value of Rs. 7,800,000 (1997: Rs. 7,800,000) and maturity period range from three to ten years. The mark-up receivable is 15% per annum.

14.2 No provision has been made for the diminution in value amounting to Rs. 324,624 (1997: Rs. 124,260) as it is considered temporary in the context of the company's intention to hold this investment on a long term basis.

15. DEFERRED COSTS

	Loan			
	negotiation	Share issue	Total	Total
	expenses	expenses	1998	1997
	-----	-----	-----	-----
	Rupees	Rupees	Rupees	Rupees
Opening balance	1,582,467	151,321	1,733,788	2,183,864
Add' Incurred during the year	1,522,917	-	1,522,917	548,328
Less: Amortised during the year	(1,112,438)	(74,729)	(1,187,167)	(998,405)
	-----	-----	-----	-----
	1,992,946	76,592	2,069,538	1,733,787
	=====	=====	=====	=====

1998 1997
Rupees Rupees

16. SHORT TERM FINANCE - SECURED

Short term morabaha finances	207,335	918,763
Current portion of long term morabaha finances- overdue	2,266,573	14,503,217
	-----	-----
	2,473,908	15,421,980
Less: Provision for doubtful finance	207,335	219,834
	-----	-----
	2,266,573	15,202,146
Add: Advances against lease finance	-	2,124,394
	-----	-----
	2,266,573	17,326,540
	=====	=====

These have been provided under morabaha agreements with aggregate resale price of Rs.230,145 (1997: Rs. 2,442,335) repayable within one year. These are secured by demand promissory notes and personal guarantees of the directors of the respective Ioanee companies.

17. OTHER INVESTMENTS

These represent short term placements under resale (Reverse Repo) arrangements with other NBFIs secured against Government securities.

	1998 Rupees	1997 Rupees
18. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Advances to employees	194,079	510,158
Exchange rate difference recoverable from State Bank of Pakistan	273,909	273,909
Deposits	199,900	14,675
Prepayments	539,580	158,920
Accrued income (Note: 18.1)	2,802,966	2,990,692
Advance income tax paid	11,056,886	6,700,446
Advance Corporate Assets Tax	1,638,667	-
Other receivables	1,512,615	3,699,139
	-----	-----
	18,218,602	14,347,939
	=====	=====

18.1 Accrued income

Long term investment	434,959	456,530
Bank deposits	425,382	496,049
On lease operation	22,787,824	11,876,387
On morabaha finances and advances	35,828	264,161
	-----	-----
	23,683,993	13,093,127
Less: Provision against doubtful income		
Lease operations	20,845,199	10,102,435
Morabaha finance	35,828	-
	-----	-----
	20,881,027	10,102,435
	-----	-----
	2,802,966	2,990,692
	=====	=====

19. CASH AND BANK BALANCES

On deposit accounts	33,417,295	15,834,705
On current accounts (Note: 19.1)	1,000,405	3,409,060
Cash in hand	86,150	53,330
	-----	-----
	34,503,850	19,297,095
	=====	=====

19.1 It includes an interest free deposit of Rs. 509,913 (1997 'Rs. 509,950) maintained with State Bank of Pakistan under Rule 6 of SBP's Rules of Business (Prudential Regulations) for Non-Banking Financial Institutions.

20. INCOME FROM LEASE OPERATIONS

Mark-up on lease operations	48,107,997	71,030,724
Front end fee	162,073	833,887

Commitment fee	14,107	153,743
	-----	-----
	48,284,177	72,018,354
	=====	=====
MARK-UP INCOME		
Federal Investment Bonds	1,170,582	953,506
Banks deposits	3,812,814	3,783,734
Morabaha finance	2,371,894	3,909,544
Advance against leases	62,916	56,812
Dividend income	50,000	-
	-----	-----
	7,468,206	8,703,596
	=====	=====
22. OTHER INCOME		
Miscellaneous and Documentation charges recovered	357,187	628,058
Profit on sale of fixed assets (Note 13.1)	1,398,077	259,852
	-----	-----
	1,755,264	887,910
	=====	=====
23. DIRECT COST OF LEASES		
Lease executory expenses	27,431	54,397
Insurance expenses- Leased vehicles	-	25,155
	-----	-----
	27,431	79,552
	=====	=====
24. FINANCIAL CHARGES		
Mark-up on long term secured loans	21,690,345	32,427,143
Mark-up on short term secured loans	2,841,233	1,879,250
Mark-up on certificates of investment	288,368	2,731,159
Foreign exchange risk coverage fee	4,995,573	7,845,575
Excise duty on loan	-	68,034
Exchange loss	306,165	345,410
Others	147,395	-
	-----	-----
	30,269,079	45,296,571
	=====	=====
25. ADMINISTRATIVE AND OPERATING EXPENSES		
Salaries and benefits	5,881,336	6,982,483
Rent	528,621	359,890
Utilities	329 821	364,928
Stationery and supplies	353 558	474,577
Repairs and maintenance	895 471	740,400
Insurance	295 856	257,832
Telephone, telex and postage	610 862	815,502
Travelling	377 251	219,032
Boarding and lodging	124 147	133,795
Legal and professional charges	691 223	370,988
Advertisement	328 163	158,000
Auditors' remuneration (Note: 25.1)	217 270	146,000
Donations (Note: 25.2)	500	18,800
Corporate expenses	168,992	199,451
Zakat	6,093	1,778
Other expenses	996,451	1,016,452
Credit rating fee	-	134,417
Penalty levied by State Bank of Pakistan	-	1,150
	-----	-----
	11,805,615	12,395,475
	=====	=====
25.1 Auditors Remuneration		
Audit fee	65,000	60,500
Tax and other consultancy	127,500	-
Special audits		71,500
Miscellaneous certification	10,000	-
Expenses reimbursed	14,770	14,000
	-----	-----
	217,270	146,000

=====

25.2 None of the directors or their spouses had any interest in any of the donees.

26. TAXATION

Current		
For the year	19,000,000	19,500,000
Corporate Assets Tax (Note: 26.2)	2,610,667	-
	-----	-----
	21,610,667	19,500,000
Deferred	22,900,000	-
	-----	-----
	44,510,667	19,500,000
	=====	=====

26.1 Tax provision is based on taxable profits as adjusted for tax purposes after taking into account available rebates and credits.

26.2 Provision for Corporate Assets Tax includes Additional Tax and Penalty aggregating Rs. 1,610,667 levied for alleged late payment of the tax and filing of return. The company does not accept that it is subject to this tax and is contesting the levies in appeals.

26.3 Deferred taxation arising due to timing differences computed under the liability method is estimated at Rs. 22.90 million out of which Rs. 8.71 million debit is in respect of the current year (1997: Rs. 34.55 million, for the year 14.47 million debit). Therefore a full provision has been made there against.

27. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Chief Executive		Executives	
	1998	1997	1998	1997
	Rupees	Rupees	Rupees	Rupees
Managerial remuneration	760,000	623,053	298,764	453,700
Bonus	120,000	45,000	-	37,600
Accommodation	342,000	246,043	193,889	317,590
Utilities	90,000	160,935	25,726	93,588
Medical expenses	60,022	31,714	120,650	71,667
Club subscription	13,493	7,002	-	5,416
Residential telephone Bills reimbursed	34,942	30,250	6,000	20,258
	-----	-----	-----	-----
	1,420,457	1,143,997	645,029	999,819
	=====	=====	=====	=====
	1	1	3	2
	=====	=====	=====	=====

The Chief Executive and 2 Executives are provided with Company owned and maintained cars.

Fees paid to 5 non-executive Directors for attending meetings during the year Rs. 40,500 (1997:5 Directors; fee paid Rs. 40,500).

28. LEASES AND ADVANCES IN EXCESS OF 20% OF PAID-UP CAPITAL AND F-REE RESERVES

Following are the parties to whom net investment in lease finance exceeded 20% (i.e. Rs.15,002,610) of the paid-up capital and free reserves of the company:

Group name	1998	1997
	Rupees	Rupees
Chakwal group	25,798,156	29,451,242

29. GENERAL

-- Previous period figures have been re-arranged wherever necessary for the purposes of comparison.