

Pak-Gulf Leasing Company Limited

Annual Report 1997

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COMPANY INFORMATION

Board of Directors

M. Salim Malik
(Chairman)
M. Ikhtiar Baig
(Vice Chairman)
Jan Mohammad
Muhammad Rafiq
Sohail Inam Ellahi
M. Ishtiaq Baig
Inam Ellahi Shaikh
Akbar M. Bilgrami
Jehangir Shah

Senior Management

Akbar M. Bilgrami
Managing Director & Chief Executive

Jehangir Shah
Director, Credit & Marketing

Syed Shah Sajid Hussain
(ACA, ACMA, ACIS)
Chief Accounting Officer
S. Iqbal Hussain
Company Secretary
S. Azfar Ali Baqvi
Manager Accounts
Saddiq Salim Karmally
Manager Credit & Marketing
Mirza Owais Omar
Manager Credit & Marketing

Auditors

Taseer Hadi Khalid & Co.,
Chartered Accountants
Sheikh Sultan Trust Building No. 2,
Beaumont Road,
Karachi.
Tel #: 5671761-3
Fax #: 5685095

Legal Advisors

M/s. Mohsin Tayebaly & Company
2nd Floor, Dime Centre,
BC-4, Block #9, Kehkashan,
Clifton,
Karachi.
Tel #: 538077, 571653, 5872.690
Fax #: 5870240, 5870468

Bankers

ABN AMRO Bank.
Askari Commercial Bank Limited.
Muslim Commercial Bank Limited.
National Bank of Pakistan.
Oman International Bank S.A.O.G.
Prime Commercial Bank Limited.
Standard Chartered Bank.
Schon Bank Limited.
Societe Generale - The French & Int'l Bank.
Union Bank Limited.

Registered/Share Transfer Office

Unibro House 114,
9th East Street, Phase-I, P.O. Box # 12215,
Defence Housing Authority,
Karachi-75500.
Tel# : 5887571-3, 546279, 546298
Fax# : 5887574
E-mail: pgl@cyber.net.pk

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 4th Annual General Meeting of Pak-Gulf Leasing Company Limited will be held on Monday November 3rd, 1997 at 3:30 p.m. at 114, Unibro House, 9th East Street, Phase-I Defence Housing Authority, Karachi being its Registered Office to transact the following business.

ORDINARY BUSINESS:

- * To read and approve the Minutes of the 3rd Annual General Meeting of the Company held on 23rd December 1996.
- * To receive, consider and adopt the audited accounts of the company for the year ended June 30, 1997 together with the Directors' and Auditors' Reports thereon.
- * To appoint Auditors of Company for the year July 01, 1997 to June 30, 1998 and fix their remuneration. The present Auditors M/s. Taseer Hadi Khalid & Company, Chartered Accountants retire and being eligible offer themselves for re-appointment.

* To transact any other business by the permission of the Chair..

BY ORDER OF THE BOARD

Karachi-
October 7th, 1997

S. IQBAL HUSSAIN
COMPANY SECRETARY

NOTES

- * The Register of Members of the company will be closed from Tuesday 28th October 1997 to Monday 3rd November 1997 (both days inclusive) and no transfer of shares will be made during the period the register is closed.
- * A member entitled to attend and vote at the General Meeting of the Members is entitled to appoint a Proxy to attend the Meeting and Vote on his / her behalf. A proxy need not be a member of the company.
- * The instrument appointing a proxy and / or the Power of Attorney or other Authority under which it is signed or a Notarially Certified Copy of Power of Attorney must be deposited at the registered office of the company at least 48 hours before the time of the meeting. A form of proxy is enclosed.
- * Shareholders are requested to notify any change of address immediately

DIRECTORS' REPORT

By the Grace of Almighty Allah the Board of Directors of Pak-Gulf Leasing Company Limited (PGL) have pleasure in presenting the Annual Report, Operational Review, and the Profit & Loss Statement of 9~2 months for the period ending June 30, 1997.

Board of Directors:

During the period under review Messrs. Jan Mohammad and Inam Ellahi Shaikh, both seasoned businessmen, were co-opted as Directors of the company in place of Messrs M.A. Allawala and A.B Shahid who have resigned from the Board.

Habib Bank Limited in accordance with the agreement nominated their Executive Vice President Mian Abdus Salam on our Board as their Nominee. He had been of valuable assistance to the company during the short period of his association.

Mr. Jehangir Shah in addition to being a Director of your company was appointed as Director Credit & Marketing and was given additional charge of Secretary to the Board. Effective January 05, 1997 Mr. Jehangir Shah relinquished his assignment as Secretary and Mr. S. Iqbal Husain was appointed as Secretary by the Board.

Review:

Despite unfavourable economic scenario and continued recession in the economy during the early months of our operation the company made investment in leases for Rs. 74,431,703/- upto June 30, 1997. The Lessees were carefully selected, utmost due diligence was exercised and the requirement of Assets to be leased were studied before undertaking the lease. This was to ensure safety and security of the Shareholders funds and to maintain a professional attitude in our operation. The portfolio of your company's lessees include local corporates, multi-nationals and individuals. The sanction of all leases have been handled through the Credit Committee, taking into consideration the economic situation in the country before disbursement. We have maintained the service standards and once the formalities have been completed the disbursements are made within 72 hours. Agro Chemicals have been given its due importance by your Board, and 17.55% of the company's lease portfolio consist of disbursements in this sector. Furthermore, keeping in consideration the importance and the necessity to encourage the Health Care and Education, the company disbursed 10.45% of its funds to this sector.

Break-down of the lease Portfolio (sector-wise):

Sector	%age
Steel & Engineering	9.28%
Electric & Electrical Goods	2.12%
Transport / Cargo Services	8.18%
Agro Chemicals / Fertilizers	17.55%
Textile	1.46%
Food, Tobacco & Beverages	4.96%
Hotels	0.48%
Health Care / Education	10.45%
Financial Institutions	35.28%
Miscellaneous	10.24%

100.00%
=====

Operating Results for 9 1/2

1997

	Rupees
* Profit before taxation	6,029,963
* Provision for taxation	95,700

* Net profit after taxation	5,934,263
* Unappropriated profit brought forward	-

	5,934,263
* Appropriations:	
Transfer to statutory reserve	(1,186,853)

* Unappropriated profit carried forward	4,747,410
	=====

Out of Rs. 5,934,263/- being profit available, your-directors recommend transfer of Rs. 1,186,853/- being 20% to Statutory Reserve and the balance Rs. 4,747, 410/- to unappropriated profit. There being no defaults or overdues as on June 30, 1997, the Board is of the opinion that no provision be made for bad and doubtful debts.

The Board recommends that no dividend be declared for the period under review and thereby further strengthen the financial base of the company. Earning per Share of Pak-Gulf Leasing Company Limited is Rs. 0.59 as on June 30, 1997.

Resource Mobilization:

The Directors are pleased to inform you that Credit Lines have been negotiated with Commercial and Investment Banks to ensure your company maintains a sustained growth rate and expansion as per demand for lease financing by both current lessees and potential clients.

Future Out-Look:

With the induction of the present Government, the Board is hoping that the policies which have already been announced for the revival of the economy will attract investment within the next few months. The Stock Market has already shown improvement as the Government's attitude is investor friendly for local and foreign investors.

To sustain impact of liberalization policy, Government has given full autonomy to State Bank of Pakistan to monitor financial health of the country and to reform ailing domestic financial sector. The on-going privatization policies of the Government are expected to have far reaching ramification on the growth of industrial and commercial sector.

The monitoring of Leasing and Modarba Sectors are now under direct supervision of Corporate Law Authority, Islamabad. PGL intends to be guided by the Authorities and continue to play an active role in encouraging the Industrial Growth in the country and plans to have offices in the provincial capitals to represent the company as a national level financial institution.

Government has withdrawn 1% central excise duty from the Lessees and recent reduction in the borrowing rates are also a healthy sign. The leasing sector in Pakistan will continue to grow and the recent debate to increase paid-up capital of leasing companies from Rs. 100 million to Rs. 200 million within the next 2-3 years will be a further source of funding and growth for the leasing industry. Your Directors are confident that PGL will emerge as one of the best performing. companies in the sector.

The Company also plans to make its contribution to the Capital Markets, Cottage Industry, Small Investors and Social Sectors.

Acknowledgment:

We take pleasure in informing you that on the basis of growth potential and successful operations of your company, foreign and local Investors picked-up from the financial institutions their shareholding in your company, thereby diversifying equity base.

Our focus has always been to improve the working atmosphere for the staff and their continuous growth. It is our privilege to mention that we are working with a quality staff and the Board places on record its appreciation for the commitment demonstrated in effectively implementing and exercising the policies of the Government and of the Company.

We also take this opportunity to thank the authorities - State Bank of Paksitan, Corporate Law Authority, Financial Institutions, our valued Clients, Shareholders and Stock Exchanges for their guidance, support and assistance.

The Board also wishes to acknowledge the timely advice provided by our Consultant and Auditors M/s. Taseer Hadi Khalid & Company, Legal Advisor M/s. Mohsin Tayebaly & Company, and Leasing Association of Pakistan through which your company is maintaining close coordination with other members.

Auditors:

The Auditors M/s. Taseer Hadi Khalid & Company- Chartered Accountant retire and being eligible offer themselves for re-appointment.

Pattern of Shareholding

The Pattern of Shareholding as on June 30, 1997, is annexed to this report.

On behalf of the Board.

Akbar M. Bilgrami
Managing Director &
Chief Executive

M. Salim Malik
Chairman

Karachi:
22 September 1997

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pak Gulf Leasing Company Limited as at 30 June 1997 and the related profit and loss account and the cash flow statement, together with the notes forming part thereof, for the period 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 period was for the purpose of the Company's business; and

iii) the business conducted, investments made and the expenditure incurred during the period 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 cash flow statement, 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 30 June 1997 and of the profit and the cash flow statement for the period then ended; and

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

Karachi:
22 September 1997

Taseer Hadi Khalid & co.
Chartered Accountants

BALANCE SHEET

As at 30 June 1997	Note	1997	1996
TANGIBLE FIXED ASSETS	3	3,511,185	2,809,860
LONG TERM INVESTMENTS	4	1,195,910	
NET INVESTMENT IN LEASES			
Minimum lease rentals receivable	5	84,021,667	-
Add: Residual value		7,289,705	-
		-----	-----
Lease contracts receivable		91,311,372	-
Less: Unearned income		23,538,480	-
		-----	-----
Net investment in leases		67,772,892	-
Less: Current portion of net investment in leases		17,235,294	-
		-----	-----
		50,537,598	
DEFERRED COSTS	6	5,293,172	5,944,067
LONG TERM DEPOSITS	7	29,500	10,000
CURRENT ASSETS		-----	-----
Current portion of net investment in leases		17,235,294	-
Short term investments		5,000,000	-
Advances, prepayments and	8		

movement of funds:

Depreciation	998,068	-
Amortization of deferred costs	1,058,629	-
Gain on disposal of listed securities	(260,108)	-
	-----	-----
Operating profit before working capital changes	7,826,552	-
Decrease/(Increase) in Advances, prepayments and other receivables	226,900	(972,431)
(Decrease) in Accrued expenses and other liabilities	(123,065)	(107,489)
Payment of tax	(1,240,984)	(87,341)
	(1,137,149)	(1,167,261)
	-----	-----
Net cash flow from operating activities	6,689,403	(1,167,261)
Cash flows from investing activities		
Net investment in lease	(67,772,892)	-
Deposits from lessees	4,974,173	-
Capital expenditure	-1,699,393	93,980
Long term investments	(11,200,700)	-
Proceeds from disposal of listed securities	10,260,608	-
Deferred costs	(407,734)	-3,586,762
Long term deposits	-19,500	-10,000
	-----	-----
Net cash flow from investing activities	65,865,438	-3,502,782
	-----	-----
Cash flows from financing activities		
Advances against issue of share capital	-	-9,009,400
Proceeds from issuance of share capital	50,000,000	49,955,000
	-----	-----
Net cash generated from financing activities	50,000,000	40,945,600
	-----	-----
Net (decrease)/increase in cash and cash equivalents	(9,176,035)	36,275,557
Cash and cash equivalents at beginning of the year	40,009,121	3,733,564
	-----	-----
Cash and cash equivalents at end of the year (Note 19)	Rupees 30,833,086	40,009,121

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

NOTES TO THE ACCOUNTS

For the year ended 30 June 1997

1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated on 27 December 1994 and commenced its operations on 16 September 1996. The Company is principally engaged in the business of leasing and is listed on all the Stock Exchanges of Pakistan.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

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

2.2 Revenue recognition

The Company follows the finance method in accounting for recognition of lease income. Under this method the unearned lease income i.e. the excess of aggregate lease rentals and the estimated residual value over the cost of leased assets is deferred and taken to income over the term of the lease, so as to produce a systematic return on net investment in leases.

Front end fee is taken to income on receipt basis.

Dividend income and profit on other investment are accounted for on accrual basis.

2.3 Deferred costs and amortization

Deferred costs are being written off over a period of five years from the date of commencement of commercial operations.

2.4 Investments

Long term investments are stated at cost net off provision made for decline, other than temporary, in value of investment, if any.

Short term investments are valued at the lower of cost and market value on an aggregate portfolio basis.

The charges or credits, if any, arising from adjustments in carrying amounts are taken to profit and loss account

currently.

2.5 Tangible fixed assets and depreciation

These are stated at cost less accumulated depreciation. Depreciation is charged applying the straight line method at the rates specified in note 3. In respect of additions during the year, depreciation is charged from the month of acquisition, while no depreciation is charged in the month of disposal.

Normal repairs and maintenance are charged to income as and when incurred.

2.6 Employees' retirement benefits

The Company operates a contributory provident fund for all its regular permanent employees and contributions are made monthly to the fund equally by the Company and the employees in accordance with the fund rules to cover the obligations.

2.7 Taxation

Current

Provision for taxation is made at the prevailing rates of taxation after taking into account tax credits available, if any.

Deferred

Deferred taxation is accounted for using the liability method on all major timing differences excluding the effects of those timing differences which are not likely to reverse in the foreseeable future.

3. TANGIBLE FIXED ASSETS

Description	Cost		Depreciation		Written down Depreci-		ation rate %	
	As at July 1, 1996	Additions/ (deletions) During the Year	As at June 30, 1997	As at July 1, 1996	Charge for the Year/ (adjustments)	As at June 30, 1997		value as at June 30, 1997
OWNED								
Lease hold imp	256,410	-	256,410	-	71,220	71,220	185,190	33.33
Furniture and Equipment	737,610	109,881	847,491	-	141,798	141,798	705,693	10
Equipment	670,795	607,967	1,278,702	-	229,576	279,576	999,126	20
Vehicles	1,145,045	981,605	2,126,650	-	505,474	505,474	1,621,176	20
	-----	-----	-----	-----	-----	-----	-----	-----
30-Jun-97 Rupees	2,809,860	1,699,393	4,509,253	-	998,068	998,068	3,511,185	
	=====	=====	=====	=====	=====	=====	=====	=====
June 30,1996 Rupees	2,903,840	334,920 (42S,900)	2,809,860	-	-	-	2,809,860	
	=====	=====	=====	=====	=====	=====	=====	=====

4. LONG TERM INVESTMENTS

	1997	1996
Federal Investment Bond - 10 years	1,000,000	-
	-----	-----
National Investment Trust Units	200,200	-
Less: Provision for diminution in value of investment	4,290	-
	-----	-----
National Investment Trust Units	195,910	
	-----	-----
Rupees	1,195,910	
	=====	=====

These represents investment made as required under the relevant provision of the State Bank of Pakistan's Prudential Regulations for Non-Banking Financial Institutions to maintain liquidity. The profit on FIB is 15% per annum payable half yearly. from the date of issue: The aggregate market value of the investments as on 30 June 1997 was Rs. 1,195,910.

5. MINIMUM LEASE RENTALS RECEIVABLE

	1997	1996
Due within one year	29,412,108	-
Due after one year	54,609,559	-
	-----	-----
Rupees	84,021,667	
	=====	=====

6. DEFERRED COSTS

Preliminary expenses	358,877	358,877
Underwriting commission	1,400,000	1,400,000
Pre-operating expenses-net	4,592,924	4,185,190
	-----	-----
	6,351,801	5,944,067
Less: Amortization to-date	(1,058,629)	-
	-----	-----
Rupees	5,293,172	5,944,067
	=====	=====

7. LONG TERM DEPOSITS

Deposits	Rupees	29,500	10,000
		=====	=====

8. SHORT TERM INVESTMENT

This represents Certificates of Investment (coI) issued by a Leasing company of the face value of Rupees 5,000,000, carrying a mark-up rate of 20.5% per annum. This COI is redeemable on August 26, 1997.

9. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

Advance income tax	1,330,200	89,216
Prepayments	206,757	85,037
Accrued return on investments	838,743	1,269,958
	-----	-----
Other receivables	82,595	
Rupees	2,458,295	1,444,211
	=====	=====

10. CASH AND BANK BALANCES

Cash in hand	17,650	427
Balances with banks on:		
- Current accounts	11,751,883	1,000
- Deposit accounts	14,063,553	40,007,694
	-----	-----
	25,815,436	40,008,694
	-----	-----
Rupees	25,833,086	40,009,121
	=====	=====

11. STATUTORY RESERVE

This represents transfer of after tax profits as required under the relevant rule of Rules for Business for Non-Banking Financial Institutions.

12. LONG TERM DEPOSITS

These represent interest free security deposits received against lease contracts and are refundable/adjustable at the expiry/termination of the respective leases.

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	1997	1996
Accrued expenses	78,700	59,236
Staff Provident fund	-	151,930
Other liabilities	11,204	6,093
	-----	-----
Rupees	89,904	217,259
	=====	=====

14. COMMITMENTS

Commitments for lease finance	Rupees	15,000,000	--
		=====	=====

15. INCOME FROM LEASING OPERATIONS

**From 16
September 1996
to 30 June 1997**

Income on lease contracts		3,910,273	
Front end fee		545,852	
Documentation income		147,100	
Gain on Lease Termination		41,320	

	Rupees	4,644,545	
		=====	

16. OTHER INCOME

Profit on Deposit Account		6,875,024	
Mark-up on Certificates of Investment		1,173,788	
Return on other investments		84,164	
Gain on disposal of listed securities		260,108	

	Rupees	8,393,084	
		=====	

17. ADMINISTRATIVE AND OPERATING EXPENSES

Directors' fee		24,500	
Salaries, allowances and benefits	17.10	2,733,247	
Office maintenance		70,159	
Insurance expense		67,708	
Office Rent & utilities		621,342	
Vehicle running expenses		365,047	
Travelling and conveyance		30,295	
Advertisement expenses		90,713	
Subscriptions, printing and stationery		274,680	
Entertainment expenses		65,060	
Legal and professional charges		438,764	
Auditors' remuneration	17.20	55,000	
Depreciation		998,068	
Amortization of deferred costs		1,058,629	
Commission & brokerage		3,546	
Computerisation expenses		10,500	
General meeting expense		72,446	
Security vault fee		4,960	
Bank charges		13,210	
Miscellaneous		5,502	

	Rupees	7,003,376	
		=====	

17.1 Remuneration of Chief Executive and Executives

	1997			
	Directors	Managing Director	Executives	Total
Managerial remuneration	-	454,840	520,493	975,333
Housing & Utilities	-	250,160	287,008	537,168
Leave Fare Assistance	-	25,742	-	25,742
Provident fund contribution	-	37,903	26,344	64,247
Meeting fee	24,500	-	-	24,500
		-----	-----	-----
	Rupees	24,500	768,645	833,845
		=====	=====	=====
No. of Persons	8	1	3	12
	=====	=====	=====	=====

In addition, the Managing Director and certain executives were also provided with free

use of company cars in accordance with their terms of employment. All executives were also provided with medical insurance cover.

17.2 Auditors' Remuneration

**From 16
September 1996
to 30 June 1997**

Annual audit fee	50,000	
Consultancy services	-	
Out-of-pocket expenses	5,000	

Rupees	55,000	
	=====	

18. PROVISION OF TAX

In view of tax loss for the year, minimum tax @ 0.5% of total turnover has been provided in these accounts. The income tax assessments of the company have been finalized upto and including assessment year 1996-97.

Deferred tax arising due to timing differences computed under the liability method is estimated at Rs. 2 million. The company considers that the liability for deferred tax is not likely to reverse in the foreseeable future and therefore, no provision for deferred tax has been made in the accounts.

19. CASH AND CASH EQUIVALENTS AT END OF THE YEAR

	1997	1996
Cash and bank balances	25,833,086	40,009,121
Short term investment	5,000,000	
	-----	-----
Rupees	30,833,086	40,009,121
	=====	=====

20. GENERAL

20.1 Amounts are rounded off to nearest rupee.

20.2 Previous period's figures have been rearranged, wherever necessary, to facilitate comparison.

Akbar M. Bilgrami
Managing Director &
Chief Executive

M. Ikhtiar Baig
Director

Jan Mohammad
Director

Muhammad Rafiq
Director