Pak Gulf Leasing Company Limited

Annual Reports 2003

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Company Information

Board of Directors

Mr. Sohail Inam Ellahi	Chairman
Mr. Fawad S. Malik	Vice Chairman
Mr. A. B. Shahid	M.D. & CEO
Mr. Inam Ellahi Shaikh	Director
Mr. Shaheed H. Gaylani	Director
Mr. Shaikh Aftab Ahmed	Director
Mr. Sheikh Mohammad Jawed	Director
Mr. Yousuf Jan Mohammad	Director

Company Secretary

Mr. S. Azfar All Baqvi

Audit Committee

Mr. Sohail Inam Ellahi	Chairman
Mr. Fawad S. Malik	Member & Secretary
Mr. Shaikh Aftab Ahmed	Member
Mr. Sheikh Mohammad Jawed	Member

Senior Management

Mr. A. B. Shahid
Managing Director & Chief Executive

Mr. S. Azfar All Baqvi
Chief Accounting Officer
Mr. Sheikh M. Asghar
Chief Manager Marketing

Auditors

M/s. Taseer Hadi Khalid & Company
Chartered Accountants
Sheikh Sultan Trust Building No. 2,
Beaumont Road,
Karachi.
Tel # : 5671761-3, 5685847
Fax # : 5685095

Legal Advisor

M/s. Mohsin Tayebaly & Company
2nd Floor, Dime Centre,
BC-4, Block # 9, Kehkashan, Clifton,
Karachi.
Tel #: 538077, 571653, 5872690
Fax #: 5870240, 5870468

Bankers

Askari Commercial Bank
Bank AI-Falah Ltd.
Muslim Commercial Bank Ltd.
National Bank of Pakistan.
PICIC Commercial Bank Ltd.
Standard Chartered Grindlays Bank pic
Union Bank

Registered / Share Transfer Office

Mr. S. Farhan Abbass
Manager Credit & Marketing

Credit Rating Agency
JCR-VIS Credit Rating Co. Ltd.

Entity rating:
- BBB for medium to long term
- A-3 for short term
- outlook stable

Pak-Gulf Leasing Company Limited
THE FORUM:
Room # 125-127, First Floor,
G-20, Block # 9, P. 0. Box # 12215,
Main Khayaban-e-Jami, Clifton,
Karachi-75600.
Tel #: 5820301, 5375985-87, 5824401
Fax #: 5820302
E-mail: pgl@cyber.net.pk

Mission Statement

The Company will:

• Aim to gain the confidence of all its stakeholders by earning a credible reputation for being an innovative enterprise that is prepared to change in the best interests of its stakeholders.

• Continually monitor structural changes in the various sectors of the economy, and accordingly alterthe Company's business strategy to benefit from the emerging opportunities.

• Focus on changing customer needs and strive to improve tangible and intangible returns to its customers by providing service and satisfaction at par with the best in the industry, which would be reflected in prompt risk evaluation and facility disbursement procedures and practices.

• Consciously share, and remain part of all initiatives by the leasing industry to play a positive role in the evolution of small and medium-size enterprises to expand the country's industrial base and support economic growth, higher employment, and a better future for all.

Notice is hereby given that the 10th Annual General Meeting of Pak-Gulf Leasing Company Limited, will be held at the Company's Registered Office at THE FORUM, Room Nos. 125 - 127, First Floor, G-20, Block # 9, Main Khayaban-e-Jami, Clifton, Karachi-75600, on October 29th, 2003 at 2.00 p.m. to transact the following business:

Ordinary Business

1) To confirm the minutes of the 9 th Annual General Meeting held on October 26, 2002.

2) To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2003 together with Director's and Auditors' Report thereon.

3) To approve, as recommended by the Directors in their meeting held on Thursday, the September 18, 2003, the payment of cash dividend @ 7.5% i.e. Rs. 0.75 per share for the year ended June 30, 2003.

4) To appoint External Auditors of the company for the year July 01, 2003 to June 30, 2004 and fix their remuneration. The present Auditors M/s. Taseer Hadi Khalid & Co., Chartered Accountants retire, and being eligible, offer themselves for re-appointment.

5) To transact any other business with the permission of the Chair.

By Order of the Board

Syed Azfar Ali Baqvi

Company Secretary

Karachi: September 30th, 2003

Notes:

1. The Share Transfer Register of the Company will remain closed from October 20th, 2003 to October 29th, 2003 (both days inclusive) and no transfer of shares will be made during the period the Register is closed.

2. A member entitled to attend, speak, and vote at the Company's General Meeting is entitled to appoint a proxy to attend, speak, and vote on his/ her behalf. A company or corporation may, by means of a resolution of its Board of Directors appoint a person as its proxy, who is not a Member of the Company. A proxy must, however, be a member of the Company that appoints him/her as its proxy. Proxy Forms can be obtained from the Registered office of the Company.

3. An instrument of proxy and the power of attorney or other authority, if any, under which it is signed or, in order to be valid, notarially certified copy of the power of attorney must be deposited at the Registered Office of the Company not less than 48 hours before the time of the General Meeting.

4. Members are requested to notify changes in their address, if any, to the Company's Share Transfer Office at THE FORUM, Room Nos. 125 - 127, First Floor, G-20, Block # 9, Main Khayaban-e-Jami, Clifton, Karachi-75600.

Dear Shareholders,

The Directors of your company are presenting a review of the operating results of your company during 2002-03 in the following pages of this report. The results are impressive because they were achieved in an intensely competitive environment and rapidly changing economic and regulatory scenario, which I will try to summarize in the following paragraphs.

Impact of fiscal discipline on the economy in 2002-03

Growth in leasing depends on the pace at which investment in capital assets expands. In Pakistan, investment growth remains slow as various economic sectors adjust their strategies to the fiscal disciplinary reforms the government introduced during the last three years. Besides, they are also trying to adjust to interest rate fluctuations for which there are few hedging options available. Tight fiscal discipline has prevented investment in infrastructure, which has impacted downstream private sector investment and growth in employment. This trend continues to impact purchasing power and demand. GDP growth, and a credible revival of investor confidence have therefore been slow.

Low private sector investment had an impact on the leasing sector. While industrial asset leasing rose as a result of import of mostly used plant and equipment, its benefits could not be shared by thfrleasing-sector because initial depreciation earlier allowed on leasing used equipment, was abruptly withdrawn by GBR in 2002-03, limiting leasing sector's traditional profitability thereon. It was restored only in June 2003. Bulk of the growth was therefore in vehicle leasing, a large part of which was accounted for by higher prices, not as much in the number of units leased. Even in this segment the aggressive leasing posture adopted by commercial banks squeezed the share of leasing companies and gave rise to unhealthy market practices that continue unabated.

Commercial banking sector, which remains flush with cheap liquidity, forced the leasing sector to accept a decline in its profitability. Given banks' massive resource mobilization infrastructure and inflow of cheap foreign funds in the aftermath of 9/11, they enjoy a clear edge over leasing companies. This scenario rendered the financial services sector an uneven playing field - a factor ignored for sometime in spite of representations by leasing companies.

Impediments to demand creation

Although it was hoped that profit rates on bank deposits would not fall further (given their adverse impact on small savers and criticism thereof in the national press) that trend continues. This trend will eventually have its impact on consumer demand because most savers are now getting a negative real rate of return on their savings, which, in due course, will erode their purchasing power, and their ability to invest in durable assets. Given their cost structures, large commercial banks are finding it hard to lend to the corporate sector, which initially responded by large TFC issues to replace expensive bank borrowing. As a consequence, banks are shifting to high yielding consumer finance. Most banks are gearing up to serve this sector. Given their network reach, they can lift demand in a wide spectrum of consumers products provided pricing of their consumer loans is right.

Housing sector holds out a promise

A positive new development has been the resurgence of housing finance in a wider spectrum of the financial services sector. Undoubtedly, housing is the sector that holds the key to reviving and expanding the base for practically every industry but the absence of interest rate hedging mechanisms and uncertainties connected with predicting long-term interest rates will prevent its growth at a pace necessary for building confidence in this sector and creating opportunities for investment construction-related industries. This is a critical issue that needs to be addressed by the financial services sector and

its regulators. Uninitiated ordinary home buyers are still not prepared to borrow on floating rates because, given the uncertainties being created by the impending WTO regime change, survival of their employers, and hence their continuing in their present jobs. They are uncertain about their employment situation, future remuneration, their capacity to save and their long-term ability to repay housing loans.

Nevertheless, housing finance holds out bright prospects if these uncertainties can be allayed. The substantially lower cost of borrowing and the opening up of new venues (commercial banks) for obtaining financing facilities can boost this all important sector with positive spillovers for a wide variety of industries.

Future challenges for the leasing sector

To a great extent, Pakistan has recovered from the adverse impact of the Afghan and Iraq wars. Pressure on external sector too has been offset by the re-profiling of Pakistan's external debt and stabilization of the exchange value of the Pak Rupee. But uncertainty rooted in the unpredictable impact of WTO regime change, is worrying the business sector. While exporters have to concentrate on meeting progressively stiffer international quality standards, the prospects of inflow of cheaper imports, is a challenge that the domestic industry has face up to. There has been a visible move towards modernization of plants and equipment to face up to this challenge, which augurs well for the leasing sector.

To support the industry in this endeavour, SBP announced a further hefty cut in its Discount Rate in November 2002 which the financial services sector initially found difficult to transmit down the line given Pakistan's decades old culture of borrowing and lending on fixed-rates. It will have a positive impact on investment climate as the culture of dealing on floating rates gains pace, though the paucity of yardstick market rates for pegging floating loan rates credibly will continue to distort loan pricing by the banking sector. In the wake of cuts in the Discount Rate (frequent by Pakistan's standards), lessees expect a rapid fall in IRR. Leasing companies find it hard to raise funds to finance leases at continuously falling rates because banks, that are themselves leasing in a big way, do not relish the idea of lending a helping hand to their competitors. The advantage has clearly shifted to the big banks, and not surprisingly, they continue to launch ambitious vehicle leasing campaigns.

Allowing banks to undertake consumer financing has shifted a large share of this market to the banking sector thereby forcing the leasing sector to strive for a bigger share in equipment financing. The shrinking role of DFIs is forcing the industrial sector to look to leasing companies for financing high-ticket plant and equipment needs - a void the leasing sector may be able to fill only partly given its resource base. Besides, it calls for familiarity with the sourcing, supply, and pricing of a wider variety of industrial technology, and adopting a sophisticated approach to risk assessment. It remains to be seen whether the leasing sector responds to this challenge appropriately. Your company has taken a lead in this direction by augmenting its capabilities for risk assessment, and catering to the needs of the industrial sector on a gradually increasing scale.

Your company also benefited from lower rates to expand its business base through competitive pricing i.e. by passing on bulk of this advantage to the lessees rather than pocketing it. This is the only way forward if businesses are to grow - by increasing prosperity at the widest possible scale, which we consider to be the sole justification for the existence of business and industry. That is why, in spite of the odds that are likely to become tougher, your company will do well in the ensuing financial year by sharing the benefits of falling rates with its valued lessees.

Sohail Inam Ellahi

Chairman

Karachi: September 18, 2003

Dear Shareholders,

The Directors are pleased to present to you the 7 th Annual Report of the company for the year ending 30»> June 2003.

In spite of tougher competition, high interest rate volatility, and the unfortunate trend of pre-mature termination of contractual legal obligations by lessees, 2002-03 was a better year for your company. During the year, balance sheet footing of your company expanded from Rs. 264.7 million in 2001-02 to Rs. 365.8 million reflecting 38% overall growth. During the year, 271 fresh leases worth Rs. 207.4 million were written. Besides leases, at year-end, the company also had on its books advance payment against leases amounting to Rs. 3 million. Together with the leases written, the business booked during the year amounted to Rs. 210.4 million comparedjo Rs. 132.33 transacted last year reflecting a rise of 59% in overall business. After accounting for leases that matured during the year, the lease portfolio expanded from Rs. 208.5 million in 2001-02 to Rs. 314.9 million representing a rise of 51%. Gross revenue for the year amounted to Rs. 38.6 million representing 50.8% increase over last year, and 28.8% rise in net profit compared to 3.64% last year.

Results	June 30, 2003	Mune 30, 2002
Revenue	38.626	25.605
Expenditure	20.527	11.089
Provision for possible lease losses	0.536	1.047
Profit before taxation	17.563	13.469
Provision for taxation	2.035	1.191

Profit after taxation	15.528	12.278
Un-appropriated profit brought forward	0.527	8.702
Profit available for appropriation	16.055	20.98
Appropriations:		
Transfer to statutory reserves	3.106	2.353
Transfer to Reserve for Issue of Bonus Shares	-	18.1
Proposed cash dividend @ 7.5%	12.75	-
Total appropriations	15.856	20.453
Un-appropriated profit carried forward	0.199	0.527

* Restated after adjustments made by External Auditors this year.

The impact of higher operating costs

Growth in pre-tax profit could be higher but for the squeeze forced by intense competition from commercial banking sector. PGL is aware of the new dimensions of competition and is facing them squarely by reducing its costs and improving overall resource productivity. However, higher activity level resulted in larger outlay on promotion, utilities, communications, transport, administration and maintenance expenses. Impact of utility expenses was magnified by continuing increase in these charges. Yet the growth in earnings has been respectable.

Expenses were also incurred on floatation of second Right Shares issue and amortization of the Discount thereon. It is therefore significant that in spite of the squeeze on profitability and higher expenses, the company improved its pre- and post-tax profit. Equally important is the fact that expansion in leasing portfolio was achieved at an improved rate of profitability.

Management of the rate risk

Your company remains conscious of the rate risk arising out of a significant mismatch between the bases on which it is built into lease rentals, and paid out on liabilities funding the leases. As a policy, therefore, the company contains this mismatch to a maximum of 20% of the net investment in leases keeping in view the fact that the present profile of the money market is devoid of any risk hedging arrangements. This policy is implemented vigorously.

During the year under review, your company's management focused on optimizing the benefit from falling funding cost and continually re-structured its bank borrowing lines to contain the narrowing of profit margins. That it succeeded in this endeavour is reflected in the substantially improved pre- and post-tax profits receded during 2002-03.

Flotation of Certificates of Investment

In the context of containing the funding cost, the company commenced issuing **Certificates of Investment** (COIs) from mid-April 2003, after receiving SECP clearance there for. As on June 30, 2003 investment in COIs by both individuals and businesses amounted to Rs. 26.443 million, which is a good beginning considering the fact that an advertisement campaign to introduce the venture widely was postponed until the second quarter of 2003-04 by which time the company hopes to see clearer signs of investment growth, and a significant rise in leasing business.

Containment of credit risk

Intense competition by the commercial banking sector forced a significant change in the role of the leasing sector in terms of the economic sectors to focus on. Your company has therefore gradually been shifting its focus on to the industrial sector, and has expanded its exposure in selected varieties of industrial machinery. It is fully conscious of the adverse consequences of inadequacy of investigative effort in validating the cost and sourcing of technology, and sustained availability of technical and material inputs to keep the financed plants running. Leasing of such assets is therefore supported by appropriate investigative effort by qualified, licensed, and reputable engineering surveyors before the company decides to finance components of integrated industrial units. Your company continues to follow a judicious credit policy and has put in place an effective monitoring system, and support procedures, that contain the incidence of over due rentals.

The result of this cautious approach is reflected in the good health of the lease portfolio of your company. Accumulation of the cautionary provision for potential lease delinquency is another prudent initiative in this direction. Given these ingredients of prudential risk management, and the business momentum generated last year through promotion of the company's cost efficient leasing services, the company is now on track for rapid growth. Based on current form and the hope that the investment environment will not become more sluggish than it is, next year your company should register even higher growth in business and profit.

Dividend Policy

In 2001-02 the Directors concluded that in order to expand the operations of the company, it was imperative that it retains its post-tax profits to enhance its equity base. Accordingly, in line with SECP advice the Directors proposed transfer of Rs. 18.1 million of un-appropriated profit to Reserve for Issue of Right Shares. This fulfilled the SECP requirement of raising company equity to Rs. 200 million. After meeting this prudential objective, the company considered declaring a cash-cum stock dividend this year and approached SECP for obtaining exemption from the cumbersome provisions of SRO 110(i)/96 Section 6 (iii) and (iv) whereby companies intending to issue Right Shares must

ensure that their free reserves are equal to 25% of the increased capital. The company applied for exemption from this rule on the ground that on complying with above restriction it may not be able to convert the Reserve for issue of Bonus Shares into Paid-up-Capital for several years besides being unable declare a cash dividend for the same period to build free reserves for complying with the condition imposed by the SRO. A definite SECP decision on this request was not received until convening of the Board meeting for approving 2002-03 Annual Accounts.

Credit Rating

On September 6, 2002 JCR-VIS had revised upwards the entity rating your company to BBB for medium to long-term outlook, and A-3 for the short-term. The outlook of company was rated as stable. JCR-VIS had noted with satisfaction the successful issuance of Right Shares in the first phase of the plan. Now that the second phase of the issue of Right Shares has also been completed and the company has performed much better than last year, the company fairly expects a further upward revision of its Credit Rating.

Social Responsibility

Your company is conscious of being a part of the society it operates in. This is reflected in its policy of sharing the benefits of changing market and regulatory scenario with its stakeholders. This year, as a part of this policy, it will offer few scholarships to university students who achieve good academic results in the first year of their Master's Degree course but are financially hard put to continue their education. Details of the scholarship program will be worked out with colleges and universities in Karachi.

Acknowledgments

The Board gratefully acknowledges the understanding and cooperation extended to the Company by the SECP in agreeing to a realistic timeframe for enhancement of the Company equity. We also gratefully acknowledge the co-operation extended to the Company by the State Bank of Pakistan and the other regulatory authorities. The Board also wishes to place on record its appreciation of the guidance provided by the Company's External Auditors. Last but not the least, we profusely thank our valued shareholders, bankers, and other financiers that provided us their support, and for reposing their confidence in us. We hope to continue to fulfill our commitments to them.

The Board wishes to place on record its appreciation of the hard work and dedication shown by the management and all staff members of the company. The year under review was tough but they performed extremely well facing up to the challenges posed by intense competition. The Board Members assure them of their continued support, and hope that they will do even better next year.

Financial Reporting

To the best of our knowledge and belief, we confirm correctness of the following information in compliance with Code No. XIX of the Code of Corporate Governance of the SECP:

a. Financial statements prepared by the management of the company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

b. Proper books of account of the listed company have been maintained.

c. Appropriate accounting policies have been consistently applied in preparation of financial statements and the accounting estimates presented in the report are based on reasonable and prudent judgment.

d. IAS standards, as applicable in Pakistan, were followed in preparation of the financial statements, and there was no departure from these standards, except to the extent required by SECP Circular No. 22 dated September 11, 2003.

e. The system of internal control is sound in design, and has been effectively implemented and monitored. An Internal Audit Committee consisting of Mr. Sohail Inam Ellahi, Director & Chairman, Mr. Sheikh Muhammad Jawed, and Director, Mr. Shaikh Aftab Ahmed, Director, has been formed. Mr. Fawad S. Malik, Director & Vice Chairman will act as its Secretary.

f. There are no significant doubts upon the company's ability to continue as a going concern.

g. There has been no material departure from best practices of corporate governance, as detailed in the listing regulations.

h. Pattern of shareholding (name-wise as per the categories specified in the code of Corporate Governance) is included as an annexure at the end of the report.

i. Significant deviations from last year in operating results have been highlighted in the Directors' Report to the Shareholders along with the reasons thereof. The company has not declared dividend only for the years 2000-01 and 2001-02 nor issued Bonus Shares during these years because it made a commitment to the SECP that profit for both these years will be retained in the company in the Reserve for Issue of Bonus Shares until the company equity is raised to Rs. 200 million. This promise was fulfilled in January 2003.

j. Mr. A.B. Shahid, appointed MD & CEO on September 01, 2001, continues to serve in those capacities. Strength of Marketing and Internal Audit Departments was increased during the year. Details on expansion of company business have been provided under the heading Review of operations. The company does not foresee any serious threats to its business except those outlined under the heading Future challenges for the leasing industry in the Chairman's review.

Key operating and financial data of last six years is summarized below:

Year	Total Assets	Inv. Leases	Pre-tax Inc.	Net Income	Total Equity	Bank Credit	Cash Dlv.	Right Share
1998	126,638,823	90,618,196	10,706,048	8,206,048	104,140,311	-	10,000,000	-
1999	134,335,219	113,867,736	12,603,526	10,355,026	104,995,337	-	9,500,000	-
2000	143,336,155	121,495,070	13,805,897	11,564,897	107,560,234	-	9,000,000	-
2001	187,775,027	161,979,589	14,005,441	11,681,241	119,241,475	28,055,554	-	-
2002	*264,653,108	208,478,228	13,469,023	'12,278,265	•170,528,485	26,616,568	-	40,000,000
2003	365,767,357	314,944,473	17,563,069	15,527,950	"•203,306,435	"55,262,935	12,750,000	30,000,000

* To render them comparable, figures are reported net o all expenses, provisions and statutory transfers except appropriation for dividend.

" Inclusive of Rs. 26,443,273 raised through certificates of Investment.

"* Net of cash dividend recommended for 2002-03.

k. Six Board Meetings were held during the year under review. Details of Board Meetings and attendance by each Director are detailed below:

No.	Particulars of the meeting
1	66th Meeting on July 31, 2002
2	67th Meeting on September 21 , 2002
3	68th Meeting on October 26, 2002
4	69th Meeting on December 27, 2002
5	*70"* Meeting on February 24, 2003
6	71s Meeting on April 18, 2003

Directors	Meetings attended
Mr. A. B. Shahid	6
Mr. Shikh Aftab Ahmed*	6
Mr. Sohail Inam Ellahi	5
Mr. Inam Ellahi Shaikh	5
Mr. Fawad S. Malik	4
Mr. Sheikh M. Jawed	4
Mr. Shaheed H. Gaylani	3
Mr. Yusuf Jan Muhammad	2

I. No statutory payment on account of taxes, duties, levies and charges was outstanding against the company on June 30, 2003.

m. Significant plans and decisions, such as corporate restructuring, business expansion and discontinuance of operations, have been outlined along with future prospects, risks and uncertainties present in detail in the Directors' Report to the Shareholders contained in the earlier paragraphs of the document.

n. On June 30, 2003 company investment reported in the Balance Sheet and under Provident Fund had following values:
Long-term investments represent: investment in:

WAPDA Bonds with a face value of Rs. 5,000,000. We believe that their book value represented their fair market value on June 30, 2003.

National Investment Trust (NIT) Units with a face value of Rs. 200,200. As on June 30, the quoted market value of these units was Rs. 322,465.

o. The figure of Rs. 484,000 reported under Provident Fund represents investment in Defence **Saving Certificates.** We believe that their book value represented their fair market value on June 30, 2003.

p. There was no trade in shares of the company, carried out by its directors, CEO, CFO, Company

Secretary and their spouses and minor children.

Dear Shareholders,

It *is* hereby certified that the Company has:

(i) Recorded all transactions with related parties undertaken during the financial year on arm's length price using valuation modes, as admissible, in the best interests of the Company in the books of account of the Company and the Record of Related Party Transactions;

(ii) Duly filed with the Commission all required periodic returns in respect of related parties, which completely and fully disclosed all related parties and transactions with those related parties during the financial year;

(iii) Provided all the aforesaid information, together with the minutes of the Board of Directors meetings wherein the valuation policy and the related party transactions were approved and the decisions of the Audit Committee ratifying the related party transactions, to the statutory auditor for the purposes of the audit; and

(iv) That the statutory auditors of the Company have made no adverse remarks with regard to the above and the transfer pricing policy of the Company in their audit report on the financial Statements for the year under review.

Statement of compliance with

The Code of Corporate Governance Clause (xiv)

For the year ended June 30, 2003

This statement is being presented to comply with Regulation 37, (xiii) and 36 of Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance as stated in the Code of Corporate Governance whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes seven independent non-executive directors, two Directors representing minority shareholders.

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 tax payers and none of them has defaulted in payment of any loan to a banking company, DPI or an NBFI or, being a member of a stock exchange, has been declared as defaulter by that stock exchange.

4. During the year 2002-03 no casual vacancy occurred in the Board of the company.

5. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and 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 along with 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, the appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board. At present, other than the CEO the company doesn't have any Director working in executive capacity.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with 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 Board Members have been explained at length their responsibilities, obligations and the supervisory they will be expected to play as Directors each time a new directive was issued by the SECP. All non-Executive Directors being businessmen or career professionals are conversant with their role. A formal comprehensive orientation course will be organized for them during the coming year to up-date them on their duties and responsibilities.

10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

11. The directors' report for this 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 CEO and CFO before approval of the Board.

13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

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 four members, and all members are non-Executive Directors including the Chairman of the Committee.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has set-up an effective internal audit function and the personnel involved are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.

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

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 confirmed

that they have observed IFAC guidelines in this regard.

20. We confirm that all other material principles contained in the Code have been complied with except for the following, towards which reasonable progress is being made by the Company to seek compliance by the end of next accounting year.

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 Pak-Gulf Leasing Company Limited to comply with the Listing Regulation No. 37,36 and Chapter Xin of the Karachi, Islamabad and Lahore Stock Exchanges respectively where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company 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 causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance effective as at 30 June 2003.

Auditors' Report to the Members

We have audited the annexed balance sheet of Pak-Gulf Leasing Company Limited as at

30 June 2003 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

a) 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, except for the change as stated in note 2.10 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«bjeets«ftheeempany

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, cash flow statement and statement of changes in equity 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 30 June 2003 and of the profit, its cash flows'and changes in equity for the year then ended; and

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

	NOTE	2003 Rupees	2002 Rupees (Re-stated)
ASSETS			
CURRENT ASSETS			
Cash and bank balances	3	1,216,748	2,927,617
Advances, prepayments and other receivables	4	10,430,883	24,758,344
Net investment in lease finance - current portion	5	96,750,283	67,473,661
		108,397,914	95,159,622
LONG-TERM LOANS AND DEPOSITS	6	982,774	522,625
NET INVESTMENT IN LEASE FINANCE	5	218,194,190	141,004,567
INVESTMENTS	7	5,580,773	1,173,030
DEFERRED COST	8	17,450,000	11,600,000
TANGIBLE FIXED ASSETS	9	15,161,706	15,193,264
		365,767,357	264,653,108
LIABILITIES			
CURRENT LIABILITIES			
Accrued expenses and other liabilities	10	4,806,627	5,073,526
Short-term finances under markup arrangements	11	1,041,886	2,760,706
Short-term loans	12	20,000,000	25,000,000
Certificates of investments	13	26,443,274	-
Dividend payable		50,109	380,109
Current portion of liabilities against assets subject to finance lease		555,442	368,589
Current portion of long term loan		3,333,336	3,333,336
Proposed dividend		12,750,000	—
		68,980,674	36,916,266
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	14	1,067,899	389,991

LONG-TERM LOAN	15	4,444,440	1 ,388,882
LONG-TERM DEPOSITS	16	80,596,090	46,942,226
DEFERRED TAXATION	17	7,371,819	8,487,258
		162,460,922	94,124,623
NET ASSETS		203,306,435	170,528,485
REPRESENTED BY			
Share capital	18	170,000,000	140,000,000
Statutory reserve	19	15,007,338	11,901,748
Reserve for bonus shares		18,100,000	18,100,000
Unappropriated profit		199,097	526,737
		203,306,435	170,528,485
Commitments	20		

The annexed notes from 1 to 34 form an integral part of these financial statements.

Profit and Loss Account

For the year ended June 30, 2003

	NOTE	2003 Rupees	2002 Rupees (Re-stated)
INCOME			
Income from leasing operations	21	36,356,568	24,310,244
Mark-up on placements / deposits and return on investments	22	737,865	679,657
Other income	23	1,531,215	614,720
		38,625,648	2P. 604,621
EXPENSES			
Administrative and operating expenses	24	-14,720,593	-8,760,061
Financial charges	25	-5,806,356	-2,328,517
Provision for potential lease losses		-535,630	-1,047,020
PROFIT BEFORE TAXATION		17,563,069	13,469,023
Taxation	26	-	-
- Current		-600,000	-415,000
- Prior years		-2,550,558	-
- Deferred		1,115,439	-775,758
		-2,035,119	-1,190,758
NET PROFIT FOR THE YEAR AFTER TAXATION		15,527,950	12,278,265
EARNINGS PER SHARE	27	1.01	1.12

The annexed notes from 1 to 34 form an integral part of these financial statements.

	2003 Rupees	2002 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	17,563,069	13,469,023
Adjustments for:		
Depreciation	1,694,958	1 ,380,855
Amortization of deferred costs and premium on investment; ;	3,154,278	400,000
Financial charges	5,806,356	2,328,517
Gain on remeasurement of investments	-149,436	-33,605
Gain on disposal of fixed assets	-513,247	-91,118
Provision for potential lease losses	535,630	1,047,020
	28,091 ,608	18,500,692
Changes in operating assets and liabilities		
Advances, prepayments and other receivables excluding advance income tax		

		12,149,667	-14,188,150
Net investment in lease finance		-107,001,875	-47,545,659
Accrued expenses and other liabilities		-634,326	3,028,218
Deposits from lessees		33,653,864	16,691,740
Long-term loans and deposits		-460,149	-67,292
Long-term investments		-4,262,586	—
		-66,555,405	-42,081,143
Cash used in operations		-38,463,797	-23,580,451
Payments for:			
Financial charges		-5,269,685	-2,618,691
Taxation		-972,764	-718,607
		-6,242,449	-3,337,298
Net cash flows from operating activities		-44,706,246	-26,917,749
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for capital expenditure		-640,253	-4,813,312
Proceeds from disposal of fixed assets		994,100	169,000
Net cash flows from investing activities		353,847	-4,644,312
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		-330,000	-28,710
Proceeds from issue of certificates of investments		26,443,274	-
Proceeds from issue of right shares		21 ,000,000	28,000,000
Proceeds from borrowings		5,000,000	5,000,000
Repayment of long-term loan		-6,944,442	-3,333,336
Repayment of liability against assets subject to finance lea	ses	-808,482	-639,131
Net cash flows from financing activities		44,360,350	28,998,823
Net increase / (decrease) in cash and cash equivalents		7,951	-2,563,238
Cash and cash equivalents at beginning of the year		166,911	2,730,149
Cash and cash equivalents at the end of the year	28	174,862	166,911

The annexed notes from 1 to 34 form an integral part of these financial statements.

Statement of Changes in Equity
For the year ended June 30, 2003

	Share Capital	Statutory Reserve	Reserve for Bonus Shares	Unappro-priated **Profit**	Total
Balance as at 30 June 2001	100,000,000	9,548,295	-	9,693,180	119,241,475
Adjustment resulting from change in accounting policy due to application of IAS-39	-	-	-	30,745	30,745
Re-stated balance as on 1 July 2001	100,000,000	9,548,295	-	9,723,925	119,272,220
Adjustment resulting from change in accounting policy relating to deferred tax	-	-	-	-1,022,000	-1,022,000
Re-stated balance as on 1 July 2001	100,000,000	9,548,295	-	8,701,925	118,250,220
Right issue (4,000,000 ordinary shares @ Rs. 10 each)	40,000,000	-	-	-	40,000,000
Profit for the year	-	-	-	12,278,265	12,278,265
Transferred during the year	-	2,353,453	18,100,000	-20,453,453	-
Re-stated balance as at 30 June 2002	140,000,000	11,901,748	18,100,000	526,737	170,528,485
Right issue (3,000,000 ordinary shares @ Rs. 10 each)	30,000,000	-	-	-	30,000,000
Profit for the year	-	-	-	15,527,950	15,527,950
Transferred during the year	-	3,105,590	-	-3,105,590	-
Proposer cash dividend @7.5% (2002: Nil)	-	-	-	-12,750,000	-12,750,000

Balance as at 30 June 2003	Rupees	170,000,000	15,007,338	18,100,000	199,097	203,306,435

The annexed notes from 1 to 34 form an integral part of these financial statements.

Notes to the Financial Statements
For the year ended June 30, 2003

1. THE COMPANY AND ITS OPERATIONS

Pak-Gulf Leasing Company Limited ("the Company") was incorporated in Pakistan on 27 December 1994 having its registered office in Karachi, Sindh and commenced its operations on 16 September 1996. The Company is principally engaged in the business of leasing and is listed on all three Stock Exchanges of Pakistan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These accounts have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention, except for revaluation of available for sale securities.

2.3 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.

Unrealised income is suspended where necessary in accordance with the requirements of the Prudential Regulations for Non-Banking Finance Companies Undertaking the Business of Leasing.

Front-end fee is taken to income on receipt basis.

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

2.4 Investments

Investmets held by the company are clasifies as held to maturity and available for sale.

Held to maturity investments are securities with fixed payments that the Company has positive intent and ability to hold to maturity and are stated at amortized cost less provision for permanent diminution in value, if any.

Investments that could not be classified as held for trading or held to maturity are classified as available for sale and are stated at fair value, with any resultant gain or loss being recognized directly in the profit and loss account. Fair value is determined on the basis of year-end quoted prices.

Investments classified as either held to maturity or available for sale are initially recognized at cost.

2.5 Tangible fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is charged applying the straight-line method at the rates specified in note 9. 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; major renewals and improvements are capitalized and the asset so replaced, if any, are retired. Gains and losses on disposal of assets, if any, are taken to profit and loss account.

2.6 Assets subject to finance lease

Asset subject to finance lease is accounted for by recording the asset at the lower of present value of minimum lease payments under the lease agreements and the fair value of asset acquired. The related obligation under the lease is accounted for as liability. Financial charges are allocated to accounting period in a manner so as to provide a constant periodic rate of charge on the outstanding liability.

2.7 Deferred cost

Deferred costs representing discount on issue of shares are amortized over a period of sixty months from the date of allotment of shares.

2.8 Net investment in lease finance

These are stated at present value of minimum lease payments under the lease agreements. Impairment losses on non-performing leases are recognized at the higher of provision required in accordance with Prudential Regulations for Non-Banking Finance Companies Undertaking the Business of Leasing and the difference between carrying amount of receivable and present value of expected cash flows discounted at the rate implicit in the lease agreement.

2.9 Employees' retirement benefits

The Company operates a defined 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's rules to cover the obligations.

2.10 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account available tax credits and rebates, if any, or one-half of one percent of turnover, whichever is higher.

Deferred

Deferred tax is provided using balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount cf deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using the current rates of taxation.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Up to 30 June 2002, the Company accounted for deferred taxation on all major timing differences using the liability method. Deferred tax was not provided if it could be established that these timing differences will not reverse in the foreseeable future. However, in accordance with the directives of Securities and Exchange Commission of Pakistan, the Company beginning from 1998-99 was providing unrecognised deferred tax liability as at 30 June 1998 in five equal annual installments together with any liability arising in that year.

During the year the Company has changed its accounting policy in respect of deferred tax to comply with the requirements of International Accounting Standard: IAS - 12 "Incomes Taxes".

The above change in accounting policy has been applied retrospectively and the comparative . information has been restated. Had the accounting policy not been changed, the profit after taxation for the year would have been lower by Rs. 511,000.

2.11 Financial instruments

At the time of initial recognition, ail financial assets and liabilities are measured at cost, which is the fair value of the consideration given or received for it. Subsequent to initial recognition financial assets which are tradable in open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities are considered not significantly different from book value.

2.12 **Offsetting of financial assets and financial liabilities**

A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the Company has the enforceable legal right to set off the transaction and also intends either to settle on net basis or to realize the asset and settle the liability simultaneously.

2.13 Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits. Bank borrowings that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

		2003	2002
		Rupees	Rupees
3. CASH AND BANK BALANCES			
Cash in hand		4,687	25,815
Cash at bank - deposit account	3.1	1,212,061	2,901,802
		1,216,748	2,927,617

3.1 It includes Rs. 91,245 (2002: Rs. 74,570) deposited with the State Bank of Pakistan.

	2003 Rupees	2002 Rupees
4. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES		
Advance income tax (net of provision)	4,596,899	6,774,694
Advance against lease	2,620,000	12,526,000
Prepayments	256,234	316,084
Accrued return on investments	87,514	173,297
Net receivable against terminated leases	166,906	2,148,795
Other receivables	2,588,330	2,759,474
Others	115,000	60,000
	10,430,883	24,758,344

5. NET INVESTMENT IN LEASE FINANCE - secured

	2003			2002		
	Not later than one year	Later than one year and **less than five** years	Total	No later than one year	Later than one year and **less than five** years	Total
Lease rentals receivables	116,014,019	166,478,446	282,492,465	80,386,228	120,876,006	201,262,234
Estimated residual value of leased assets	10,138,038	72,172,625	82,310,663	10,893,364	37,940,835	48,834,199
Minimum lease payments	126,152,057	238,651,071	364,803,128	91,279,592	158,816,841	250,096,433
Unearned lease income	-29,401,774	-18,874,231	-48,276,005	-23,805,931	-16,765,254	-40,571,185
Provision for potential lease losses	-	-1,582,650	-1,582,650	-	-1,047,020	-1,047,020
Rupees	96,750,283	218,194,190	314,944,473	67,473,661	141,004,567	208,478,228

The Company has entered into various lease agreements with mark-up rates ranging from 22.53 percent to 10.44 percent per annum. The agreements usually are for a period ranging from three to five years.

In certain leases, the Company has security, in addition to leased assets, in the form of corporate / personal guarantee of associated companies / directors.

	2003	2002
6. LONG TERM LOANS AND DEPOSITS		
Deposits	537,900	485,000
Loans to employees - considered good	444,874	37,625
	982,774	522,625

Notes to the Financial Statements
For the year ended June 30, 2003

	2003 Rupees	2002 Rupees
7. INVESTMENTS		
Held to maturity investments:		
- WAPDA Bonds	5,258,308	-
- Federal Investment Bonds	-	1 ,000,000
Available for sale:		
National Investment Trust Units	322,465	173,030
	5,580,773	1,173,030
8. DEFERRED COST		
Balance as at 1 July	11,600,000	—
Discount on right shares issued during the year		

	9,000,000	12,000,000
Amortisation of discount on issue of right shares	-3,150,000	-400,000
Balance as at 30 June	17,450,000	11,600,000

9. TANGIBLE FIXED ASSETS

	COST				DEPRECIATION					
	As at Uuly 2002	Additions/ (disposals)	Adjust- rents	As at 30 June 2003	As at Uuly 2002	Charge for the year/ (accumulated depreciation on disposals)	Adjust- merits	As at 30 June 2003	Book value value as at 30 June 2003	Depreciation rate %
Owned Assets										
Leasehold premises	12,250,262 -			-12,250,262	477,902	612,516		-1,090,418	11,159,844	5
Leasehold improvement	548,846	122,135		670,981	213,416	186,320		399,736	271,245	33.33
Furniture and fixtures	1,392,440	148,518		-1,540,958	589,212	126,614		715,826	825,132	10
Equipments	2,107,987	369,600		-2,325,687	1,543,902	232,579		-1,649,406	676,281	20
		-151,900		680,000		-127,075				
Vehicles	1,670,773 -			1,062,570	953,312	164,493	306,000	591,6	470,940	20
		-1,288,203				-832,175				
Leased Assets										
Vehicles	1,284,000	1,504,000	(680,000)	2,108	283,300	372,436	(306,000)	349,	1,758,264	20
2003 Rupees	19,254,308	2,144,253		-19,958,458	4,061,044	1,694,958		-4,796,752	15,161,706	
		-1,440,103				-959,250				
2002 Rupees	14,148,521	5,417,312		-19,254,308	2,913,832	1,380,855		-4,061,044	15,193,264	
		-311,525				-233,643				

9.1 Details of deletions during the year

Description	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Mode of disposal	Particulars of Purchasers
Vehicle	992,000	595,200	396,800	763,000	Tender	Mr. M. Asad Khan, Karachi.
Vehicle	296,203	236,975	59,228	182,000	Tender	Ms. Anila Shaukat, Karachi
Equipment	151,900	127,075	24,825	49,100	Settled against rent	M/s. Unibro House, Karachi
2003 Rupees	1,440,103	959,250	480,853	994,100		
2002 Rupees	311,525	233,643	77,882	169,000		

	2003 Rupees	2002 Rupees
10. ACCRUED EXPENSES AND OTHER LIABILITIES		
Accrued expenses	424,765	319,182
Advance rentals	851,127	269,315
Accrued financial charges	689,607	322,180
Other liabilities	2,841,128	4,162,849
	4,806,627	5,073,526

11. SHORT-TERM FINANCES UNDER MARK-UP ARRANGEMENTS - Secured

This represent a running finance facility of Rs. 10 million obtained from a commercial bank. The facility is secured by first charge on specific leased assets and related lease rentals receivable. The facility carries a mark-up of 8.5 percent per annum payable quarterly. The facility is maturing on 2 June 2004.

12. SHORT-TERM LOANS

Short-term loan 1 - secured		_	10,000,000
Short-term loan 2 - secured		—	5,000,000
Short-term loan 3 - unsecured		—	5,000,000
Short-term loan 4 - unsecured		-	5,000,000
Short-term loan 5 - unsecured	12.1	10,000,000	-
Short-term loan 6 - unsecured	12.2	5,000,000	-
Short-term loan 7 - unsecured	12.3	5,000,000	-
		20,000,000	25,000,000

12.1 This represent unsecured facilities obtained from a Non Banking Finance Company. These facilities carries mark-up at rates ranging from 9.5 percent to 9.75 percent per annum. These facilities are repayable by 11 July 2003 and 28 July 2003 respectively.

12.2 This represent unsecured facility obtained from a Non Banking Finance Company. The facility carries mark-up at the rate of 11 percent per annum. The facility is repayable by 4 July 2003.

12.3 This represent unsecured facility obtained from a Non Banking Finance Company. The facility carries mark-up at the rate of 11.25 percent per annum. The facility is repayable by 7 July 2003.

13. CERTIFICATE OF INVESTMENTS - Unsecured

13.1 These represents Certificates of Investments issued during the year by the Company with the permission of the Securities and Exchange Commission of Pakistan. These certificates are for a period ranging from three months to onr year with mark-up at the rates ranging from 6.5 percent to 7.5 percent per annum.

13.2 This include Rs. 10.043 million subscribed by a director of the Company and also includes Rs.5 million subscribed by a related party.

14. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - secured

	2003			2002		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial Charges for future periods	Principal outstanding
Not later than one year	698,076	142,634	555,442	434,316	65,727	368,589
Later than one year and not later than five years	1,128,642	60,743	1,067,899	422,221	32,230	389,991
Rupees	1,826,718	203,377	1,623,341	856,537	97,957	758,580

This represents vehicles acquired under lease agreements from leasing companies. Lease rentals include financial charges ranging between 15 percent to 17.9 percent per annum which have been used as discounting factor and are payable on monthly basis. The Company has an option to purchase the assets upon completion of lease period by adjusting the security deposits and has intention to exercise the option.

15. LONG-TERM LOAN

This represents long-term finance facility of Rs. 10 million obtained from a commercial bank for a period of three years. The facility is secured by hypothecation charge over specific leased assets and related receivables of the Company. The facility carries mark-up of approximately 9.5

percent per annum. The loan is repayable in 36 equal monthly installments commencing from 28 November 2002.

16. 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.

	2003 Rupees	2002 Rupees
17. DEFERRED TAX (LIABILITIES) / ASSETS		
Deferred debits arising in respect of:		
- Assessed losses	6,277,653	2.390.984
- Unassessed losses	5,381,263	4.470,445
- Suspense income	245,306	503,113
Deferred (credits) arising in respect of:		
- Difference between investment in lease and tax book value of assets given on lease	-19,221,126	-15,660,546
- Difference between accounting book value of fixed assets and tax base	-54,915	-191,254
Net deferred tax (liabilities) / assets	-7,371,819	-8,487,258

18. SHARE CAPITAL

2003	2002		2003 Rupees	2002 Rupees
		Authorised		
20,000,000	20,000,000	Ordinary shares of Rs. 10 each	200,000,000	200,000,000
		Issued, subscribed and paid-up		
		Ordinary shares of Rs. 10 each		
17,000,000	14,000,000	fully paid in cash	170,000,000	140,000,000

19. STATUTORY RESERVE

In accordance with the Prudential Regulations For Non-Banking Finance Companies Undertaking the Business of Lease Only, the Company is required to transfer twenty percent of its after tax profit to statutory reserve until the reserve equals its paid-up capital. Thereafter, five percent of after tax profit is required to be transferred to reserve.

20. COMMITMENTS

Leasing contracts committed but not executed at the balance sheet date amounted to Rs. 4.02 million (2002: Rs. 12.5 million).

	2003 Rupees	2002 Rupees
21. INCOME FROM LEASING OPERATIONS		
Income on lease contracts	34,923,638	23,449,272
Front end fee	92,517	166,771
Documentation income	392,127	190,180
Gain on lease termination	268,803	36,297
Other income	679,483	467,724
	36,356,568	24,310,244
22. MARK-UP ON PLACEMENTS / DEPOSITS AND RETURN ON INVESTMENTS		
Profit on bank accounts	350,594	515,715
Return on investments	387,271	163,942

		737,865	679,657
23. OTHER INCOME			
Gain on disposal of fixed assets		513,247	91,118
Miscellaneous income		1,017,968	523,602
		1,531,215	614,720

		2003 Rupees	2002 Rupees
24. ADMINISTRATIVE AND OPERATING EXPENSES			
Directors' fee		12,000	28,500
Salaries, allowances and benefits [including Provident Fund contribution Rs. 177,954 (2002: Rs.122,107)]	24.2	4,846,800	3,583,081
Amortization of deferred costs	8	3,150,000	400,000
Depreciation	9	1,694,958	1 ,380,855
Office rent and utilities		1,086,992	456,927
Professional charges		838,945	587,738
Subscriptions, printing and stationery		673,600	515,929
Vehicle running expenses		637,028	540,183
Repair and maintenance		209,913	53,033
Office maintenance		193,190	235,088
Auditors' remuneration	24.3	169,675	76,575
Insurance expenses		161,459	137,315
Advertisement expenses		105,045	80,990
Commission and brokerage		104,733	128,502
Computerization expenses		97,425	100,225
Bank charges		94,829	30,495
Cantonment taxes		86,291	-
Credit Information Bureau Report charges		78,625	20,820
Kitchen and canteen expenses		72,422	59,222
General meeting expenses		65,425	117,349
Postage and courier		64,073	45,513
Traveling and conveyance		60,680	40,928
Security guard fee		55,500	46,000
Legal charges		30,000	27,500
Charge registration fee		17,212	20,000
Entertainment expenses		14,726	20,762
Security vault fee		10,000	11,087
Internet expenses		2,250	1,500
Zakat		-	3,324
Miscellaneous		86,797	10,620
		14,720,593	8,760,061

24.1 Total number of employees as at 30 June 2003 were 18 (2002: 16).

24.2 Remuneration of Directors, Chief Executive and Executives

	Directors		Chief Executive		Executive		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Managerial remuneration	-	-	619,356	587,957	944,352	733,811	1,563,708	1,321,768
Housing and utiliti	-	-	340,644	323,378	534,557	183,589	875,201	506,967
Provident Fund contribution	-	-	51,612	81,250	76,570	27,817	128,182	109,067
Meeting fee	12,000	28,500	-	-	-	-	12,000	28,500
Rupees								

	12,000	28,500	1,011,612	992,585	1,555,479	945,217	2,579,091	1,966,302
Number of persons	8	8	1	1	6	4	15	13

The Chief Executive and certain executives of the Company are also entitled to free use of Company maintained vehicles.

	2003 Rupees	2002 Rupees
24.3 Auditors' remuneration		
Annual audit fee	75,000	75,000
Fee for special certification	50,000	-
Half yearly review fee	25,000	-
Out-of-pocket expenses	19,675	1,575
	169,675	76,575

25. FINANCIAL CHARGES

Mark-up on:		
- Long-term finance	1,136,051	1 ,046,735
- Short-term finance	4,330,935	1,181,455
- Certificates of investments	170,127	-
Mark-up on lease financing	169,243	100,327
	5,806,356	2,328,517

26. TAXATION

Current

In view of taxable loss incurred for the year ended 30 June 2003, the Company is liable to pay minimum tax required under section 113 of the Income Tax Ordinance, 2001 at the rate of one-half of one percent of turnover. The following is a reconciliation of relationship between tax expense and accounting profit.

	2003 Rupees	2002 Rupees
Accounting profit for the current year	17,563,069	13,469,023
Income tax at statutory rate	6,147,074	4,714,158
Inadmissible income and expenses-net	35,222,775	24,361,764
Tax benefit of depreciation on assets on finance lease	-34,929,360	-26,676,468
Tax benefit of assessed losses	-6,277,653	-2,390,984
Gain on sale of fixed assets	-162,836	-8,470
(Reversal) / charge of deferred tax liability relating to origination and reversal of timing differences	-1,115,439	775,758
Tax arising due to finalization of assessments prior years	2,550,558	-
Minimum tax required at statutory rates	600,000	415,000
Charge for the year	2,035,119	1,190,758

Deferred

Deferred tax arising due to timing differences computed under the balance sheet liability method is estimated at Rs. 7.4 million (2002: Rs. 8.5 million).

Status of assessment

The income tax assessments of the Company have been finalized up to and including the assessment year 2002-2003. Further, various appeals have been filed by the Company and the tax department in respect of certain disallowances for assessment years 1997-98 to 1999-2000 which are pending before the appellate authorities.

In case of adverse decision in appeals described above, further tax liability amounting to Rs. 1.5 million may arise, for which no provision has been made in these accounts as management expects favorable outcome of such appeals.

	2003 Rupees	2002 Rupees
27. EARNINGS PER SHARE - basic and diluted		
Net profit for the year	15,527,950	12,278,265
Weighted average number of outstanding ordinary shares Number	15,347,183	10,953,818
Earnings per share	1.01	1.12
28. CASH AND CASH EQUIVALENTS		
Short-term finances under mark-up arrangements	-1,041,886	-2,760,706
Cash and bank balances	1,216,748	2,927,617
	174,862	166,911

29. CREDIT RISK AND CONCENTRATIONS 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. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continuously assessing the credit worthiness of counter parties.

The Company follows two sets of guidelines. Internally, it has its own operating policy duly approved by the Board of Directors whereas externally it adheres to the regulations issued by the Securities and Exchange Commission of Pakistan. The operating policy defines the extent of fund and non-fund based exposures with reference to a particular sector or group of leases. The Management also classifies a particular lease on the basis of the Prudential Regulations for Non-Banking Finance Companies Undertaking the Business of Leasing.

Details of the industry sector analysis of gross lease portfolio is given below:

	2003	%	2002	%
Sugar and allied	3,206,631	1.01	5,433,605	2.59
Cement	—	0	870,153	0.41
Energy, oils and gas	7,324,869	2.32	1,177,588	0.56
Steel, engineering and auto	15,357,564	4.85	8,456,412	4.04
Electrical goods	7,866,866	2.49	6,758,669	3.23
Transport and communications	30,608,935	9.67	11,714,265	5.59
Chemical, fertilizer and Pharmaceuticals	35,314,286	11.16	14,545,828	6.94
Textile	29,748,879	9.4	26,154,277	12.48
Leather footwear's	1,479,048	0.47	1,315,370	0.63
Food, tobacco and beverage	15,495,571	4.9	8,065,881	3.85
Glass and ceramics	3,300,390	1.04	3,822,548	1.82
Health care	2,291,953	0.72	—	0
Advertisement	10,616,342	3.35	6,546,140	3.12
Publication	32,267,315	10.19	30,960,152	14.78
Services	62,998,062	19.9	45,836,426	21.88
Packing	10,196,521	3.22	8,203,683	3.92
Security services	2,097,899	0.66	1,548,510	0.74
Photo films	2,210,195	0.7	4,375,174	2.09
Others	44,145,797	13.95	23,740,567	11.33

	316,527,123	100	209,525,248	100

In addition the Company has invested certain funds in Government Securities. For details refer note 7.

30. MATURITIES OF ASSETS AND LIABILITIES

	Total	Up to three month	3 months to one year	1 year to 5 years	Over 5 years
ASSETS					
Cash and bank balances	1,216,748	1,097,760	27,743	91,245	_
Advances, prepayments and other receivables	10,430,883	2,255,237	3,053,723	5,121,923	-
Long-term loans and deposits	982,774	38,260	84,953	859,561	-
Net investment in lease finance	314,944,473	22,219,648	74,530,635	218,194,190	-
Investments	5,580,773	322,465	-	5,258,308	-
Deferred cost	17,450,000	1,400,000	3,150,000	12,900,000	-
Tangible fixed assets	15,161,706	564,987	1,271,218	6,779,832	6,545,669
	365,767,357	27,898,357	82,118,272	249,205,059	6,545,669
LIABILITIES					
Accrued expenses and other liabilities	4,806,627	2,242,057	2,564,570	-	-
Short-term finances under mark-up arrangements	1,041,886	-	1,041,886	-	-
Short-term loan	20,000,000	20,000,000	-	-	-
Unclaimed dividend	50,109	50,109	-	-	-
Proposed dividend	12,750,000	12,750,000	-	-	-
Certificates of investments	26,443,274	1,000,000	25,443,274	-	-
Liabilities against assets subject to finance lease	1,623,341	131,116	424,326	1,067,899	-
Long-term loans	7,777,776	833,336	2,500,000	4,444,440	-
Long-term deposits	80,596,090	2,788,979	8,454,865	69,352,246	-
Deferred taxation	7,371,819			7,371,819	
	162,460,922	39,795,597	40,428,921	82,236,404	-
NET ASSETS Rupees	203,306,435	-11,897,240	41,689,351	166,968,655	6,545,669
Share Capital	170,000,000				
Statutory reserve	15,007,338				
Reserve for bonus shares	18,100,000				
Unappropriated profit	199,097				
NET EQUITY Rupees	203,306,435				

31. MARK-UP / INTEREST / PROFIT RATE MANAGEMENT

31.1 The Company manages this risk by matching the repricing of assets and liabilities. The Company's interest rate sensitivity position, based on the earlier of contractual repricing or maturity dates, is as follows:

	2003					
	Total	Up to three months	Three month to one year	One year **to five** years	**Over five** years	Not exposed to mark-up interest/ **profit rate** risk
Financial assets						
Cash and bank balances	1,216,748	1,097,760	_	_	_	118,988
Advances and other receivables	5,462,750	2,230,212	25,025	2,682,489	-	525,024

Long-term loans and deposits	982,774	30,608	84,953	329,313	-	537,900
Investment in lease finance • gross	316,527,123	20,216,127	72,861,227	142,853,679	-	80,596,090
Investments	5,580,773	-	-	5,258,308	-	322,465
	329,770,168	23,574,707	72,971,205	151,123,789	-	82,100,467
Financial liabilities						
Accrued expenses and other liabilities	3,955,500	_	_	_	_	3,955,500
Short-term finances under mark-up arrangements	1,041,886	-	1,041,886	-	-	
Short-term loan	20,000,000	20,000,000	-	-	-	-
Unclaimed dividend	50,109	-	-	-	-	50,109
Proposed dividend	12,750,000	-	-	-	-	12,750,000
Certificates of investments	26,443,274	1,000,000	25,443,274	-	-	-
Liabilities against assets subject to finance lease	1,623,341	131,116	424,326	1,067,899	-	-
Long-term loans	7,777,776	833,336	2,500,000	4,444,440	-	-
Long-term deposits	80,596,090	-	-	-	-	80,596,090
	154,237,976	21,964,452	29,409,486	5,512,339	-	97,351,699
On balance sheet gap Rupees	175,532,192	1,610,255	43,561,719	145,611,450	-	-15,251,232
Total interest risk sensitivity gap		1,610,255	43,561,719	145,611,450	-	
Cumulative interest risk sensitivity ga	Rupees	1,610,255	45,171,974	190,783,424	190,783,424	

31.2 The effective mark-up / interest / profit rate for each of the monetary financial instrument is *as* follows:

	2003	2002
	Effective mark-up / interest / pof it rate (%)	
Assets		
Cash and bank balance	1 to 6.5	1 to 9.5
Long-term loans and deposits	9.5 to 15	15
Net investment in lease finance	15.16	19.36
Investments	7.25	15
Liability		
Short-term finances under mark-up arrangements	8.5	13 to 16.5
Short-term loans	9.5 to 11.25	12.57 to 14
Certificate of investments	6.5 to 7.5	_
Liabilities against assets subject to finance lease	15 to 17.9	17.25to 17.9
Long-term loans	9.5	16.5

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments are not significantly different from their carrying values.

33. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS / RELATED PARTIES

The related parties comprise directors, entities over which the directors are able to exercise significant influence and employees fund. The Company has a policy whereby all transactions with related parties are entered into at arms length prices using the uncontrolled price valuation methods.

Transactions with related parties comprise of the following:

	2003	2002
	Rupees	Rupees
Lease transactions		

Mr. Sheikh Mohammad Jawed, Director			
Net investment outstanding 30 June	Rupees	-	422,515
Lease income received during the year	Rupees	7,825	47,142
Loan from Directors			
Mr. Fawad S.Malik	Rupees	-	5,000,000
Mr. Sohail Inam Ellahi	Rupees	-	5,000,000
Certificate of investment			
Unibro Textile Mills	Rupees	5,000,000	-
Mr. Sohail Inam Ellahi, Director	Rupees	10,043,274	-
Office rent			
Unibro House	Rupees	409,056	-
Adjustments in fixed assets			
Unibro House	Rupees	49,100	-
Provident fund contribution			
Employees	Rupees	177,954	122,107

34. GENERAL

34.1 Figures have been rounded off to the nearest rupee.

34.2 These financial statements were authorised for issue by the Board of Directors of the Company on September 18, 2003.

Pattern of Shareholding
As at June 30, 2003

No. of Share Holders	Having shares From	To	Shares Held	Percentage %
2	1	100	142	0.0008
14	101	500	7000	0.0411
7	501	1000	5914	0.0347
10	1001	5000	20077	0.1181
4	5001	10000	35785	0.2105
4	10001	15000	50972	0.2998
6	15001	20000	103560	0.6091
1	20001	25000	22600	0.1329
4	25001	30000	116100	0.6829
26	35001	40000	1031649	6.0685
2	40001	45000	86000	0.5058
4	45001	50000	1 99800	1.1752
1	50001	55000	50500	0.297
1	65001	70000	68238	0.4014
1	95001	100000	99000	0.5823
2	100001	105000	204500	1 .2029
2	105001	110000	217200	1 .2776
1	110001	115000	114240	0.672
2	135001	140000	274455	1.6144
1	245001	250000	247500	1 .4558
1	250001	255000	255000	1 .5000
1	260001	265000	261725	1 .5395
3	270001	275000	814500	4.7911
2	345001	350000	695945	4.0937
1	490001	495000	490251	2.8838
2	505001	510000	1015056	5.9709
1	510001	515000	514145	3.0243
1	520001	525000	523631	3.0801

1	560001	565000	562997	3.3117
1	635001	640000	637245	3.7485
1	655001	660000	658490	3.8734
1	1200001	1205000	1200200	7.06
1	1210001	1215000	1210775	7.1222
1	1910001	1915000	1912358	11.2491
1	3290001	3295000	3292450	19.3673
115			17000000	100

CATEGORIES OF SHAREHOLDERS
As at June 30, 2003

Categories of shareholders	Number	Shares held		Percentage %
Associated companies, Undertakings and Related Parties	6		1,867,390	10.985
Unibro Industries Ltd.		658,490		
Unibro Industries Ltd.		99,000		
Unibro Industries Ltd.		247,500		
Mid East Agencies (Pvt.) Ltd.		505,400		
Mid East Agencies (Pvt.) Ltd.		255,000		
Mid East Agencies (Pvt.) Ltd.		102,000		
NIT and ICP	-	-		-
Directors, Chief Executive & their spouse and minor Children	12		4,590,446	27.003
Mr. Sohail Inam Ellahi		1,210,775		
Mr. Azfar Bin Shahid		11,424		
Mr. Inam Ellahi Shaikh		1,929,786		
Mrs. Rasila Begum Shaikh		86,149		
Mr. Yousuf Jan Mohammad		106,623		
Mrs. Faryal		40,000		
Mr. Fawad S. Malik		903,731		
Mrs. Ateeqa Fawad		28,050		
Mr. Sheikh Mohammad Jawed		49,360		
Mrs. Foqia Jawed		200,000		
Mr. Shaheed H. Gaylani		12,274		
Mr. Shaikh Aftab Ahmed		12,274		
Executive	1		3,441	0.02
Mr. S. Azfar Ali Baqvi Chief Acct. Officer & Co. Secretary		3,441		
Public Sector Companies and Corporations	-	-	-	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modaraba and Mutual Funds	_	_	_	_
Foreign Companies	3		3,776,850	22.217
Kraftex Limited		3,292,450		
Kraftex Limited		138,400		
Kraftex Limited		346,000		
Individuals	91	6.761,273	6,761,273	39.772
Others	2	600	600	0.003
Total	115	17,000,000	17,000,000	100

Holding 10% or above		
Kraftex Limited	3,776,850	22.217