

Escorts Investment Bank Limited

Annual Report 1999

CONTENTS

Company Information
Notice of Meeting
Directors' Report
Auditors' Report to the members
Balance Sheet
Profit & Loss Account
Statement of Changes in Financial Position
Notes to the Accounts
Pattern of Shareholding

COMPANY INFORMATION

Board of Directors

Mr. Bashir Ahmed

Chairman

Mr. Shafqat Ali Bokhari

Chief Executive

Mr. Zaigham Mahmood Rizvi

Nominee-Pak Libya Holding Co (Pvt.) Ltd.

Mr. Rasool Ahmed Kaleemi

Nominee- National Bank of Pakistan

Miss. Shazia Bashir

Mr. Mutahir Ahmed

Mr. Mahboob Husain

Ms. Maryam Bashir

Mr. Bairam Qureshy

Mr. Qaim Mehdi

Mr. Farrukh Ahmed Kamran

Company Secretary

Farooq Ahmed

Share Registrars

Hameed Majid Associates (Pvt) Ltd.

H.M House, 7-Bank Square, Lahore

Bankers

Gulf Commercial Bank Limited

Union Bank Limited

Habib American Bank N.Y.

Auditors

Ebrahim & Co. Chartered Accountants

Legal Advisor

Mandviwalla & Zafar,

Advocates and Legal Consultants

Registered Office

Escorts House, 4th Floor
26-Davis Road, Lahore

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 4th Annual General Meeting of the shareholders of ESCORTS INVESTMENT BANK LIMITED will be held on Tuesday the November 16, 1999 at 11:30 A.M at the registered office of the company at Escorts House, 26- Davis Road, Lahore to transact the following business:

1. To confirm the minutes of 3rd Annual General Meeting held on November 14, 1998.
2. To receive and adopt the Directors' and Auditors' Report and Audited Accounts for the year ended June 30, 1999.
3. To consider and if thought fit, approve a dividend payment @ 10%.
4. To elect ten directors of the Company, as fixed by the Board of Directors of the Company, for a period of three years under section 178(1) of the Companies Ordinance, 1984 in place of the retiring directors namely, (1) Mr. Bashir Ahmed,(2) Mr. Zaigham Mahmood Rizvi, (3) Ms. Shazia Bashir, (4) Ms. Maryam Bashir, (5) Mr. Shafqat Ali Bokhari, (6) Mr. Mutahir Ahmed, (7) Mr. Farrukh Ahmed Kamran, (8) Mr. Bairam Qureshy, (9) Mr. Qaim Mehdi and, (10) Syed Mahboob Husain. Mr. R.A. Kaleemi being a nominee director of National Bank of Pakistan is not subject to re-election.
5. To appoint the Auditors and to fix their remuneration. The present Auditors M/S Ebrahim & Co, Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS

6. To approve the remuneration of the Chief Executive and a full time working director of the company. Further, to authorize the Board of Directors to revise the remuneration of the Chief Executive and full time working director of the company.

A statement under section 160 of the Companies Ordinance, 1984 pertaining to the special business is being sent to the shareholders with a copy of the notice.

7. To transact any other business with the permission of the chair.

By order of the Board

Lahore
October 26, 1999

**FAROOQ AHMED
COMPANY SECRETARY**

NOTES

i. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend the meeting and vote for him/her. Form of Proxy is enclosed with the annual report. Proxies in order to be effective, must be received at the registered office of the Company, at least 48 hours before the time of holding the meeting.

ii. The members are requested to immediately notify the change in address, if any.

iii. Account holders and sub-account holders book entry securities of the Company in Central Depository System of Central Depository Company of Pakistan Limited are requested to bring Original I.D. Card or attested copy of I.D. Card for identification purposes.

STATEMENT U/S 160(1) (b) OF THE COMPANIES ORDINANCE, 1984

The member's permission is sought for the payment of remuneration and the provision of certain other utilities to the Chief Executive and a full time working director of the company, as per bank's service rules. For the purpose the following resolution is proposed to be passed.

"Resolved that, with effect from July 1999 the remuneration of the Chief Executive and a full time working director are approved at Rs. 126,500/- per month and Rs. 77,000/- per month respectively along with other benefits as per bank's service rules.

Further resolved that the Board of Directors be and is hereby authorized to revise the remuneration of the Chief Executive and the full time working director of the company from time to time in accordance with the company's rules and policies".

DIRECTORS' REPORT TO THE MEMBERS OF THE COMPANY

On behalf of the Board of Directors of Escorts Investment Bank Limited, I welcome you to the 4th Annual General Meeting and present the annual report for the Financial Year ended June 30,1999.

The year 1998-99 has been another difficult year in the economic history of the country. Besides East Asian economic turmoil, the economy was subjected to economic sanctions putting severe pressure on the balance of payments. This led to major regulatory changes during the year.

In order to maintain the forex reserves to a respectable level, the Government suspended major forex payments. This resulted in erosion of investor's confidence, decline in the stock markets, drying up of the external official inflows, low level of remittances and private capital inflows, and depreciation of the rupee in the free market. This was followed by the introduction of a dual exchange rate system.

The Karachi Stock Exchange 100 index dropped to the level of 945 on December 31, 1998 and finally closed at 1054 on June 30, 1999. Main reasons being the Government IPP tussle, which continues till date, the East Asian crisis, nuclear blasts of May 1998 and massive off loading of existing positions by foreign investors.

FINANCIAL RESULTS

The bank earned a pretax profit of Rs. 21.330 million as against Rs. 20.336 million in the preceding year, while the total balance sheet footing showed an improvement of Rs. 231.14 million from Rs. 543.314 million to Rs. 774.454 million. Gross income increased by 27.99% to Rs. 89.385 million from Rs. 69.833 million of last year. Successful efforts were made to control the administrative and operating expenses at the previous year's level.

The results although lower than expected, can be attributed to the troubled economic conditions prevailing in the country resulting in a slow down in the overall business activity.

FUTURE

The overall economic performance of the fiscal year showed some improvement. The stock market showed some signs of recovery from the third quarter of fiscal 1998-99 and before dipping back to 1054 on June 30, 1999 touched the level of 1300. The rescheduling of debts by the Paris and London Clubs and partial withdrawal of sanctions also impacted positively on the stock markets.

The Government forecasts also envisage positive trends to continue. Investment Banking Sector is at a cross road where future strategies have to be carefully re-evaluated. Emphasis will have to be placed on strict Asset Liability Management to avoid mismatch of positions, the chances of which have increased many fold due to continuous withdrawal of the rupee counterpart of converted foreign currency accounts.

In view of the changing scenario, greater emphasis is now being placed on fee based business, and development of capital market related activities. As part of these efforts, your bank for the first time participated in the Pre-IPO of a large TFC issue of a Blue Chip company. This activity is expected to gain momentum in the days to come.

DIRECTORS

During the year Mrs. Zubeda Shirin resigned from the directorship of the company. Ms. Maryam Bashir was co-opted in her place. The Board wishes to place on record an appreciation of the services rendered by Mrs. Zubeda Shirin.

DIVIDEND

Your directors take pleasure in recommending a dividend at the rate of 10 percent of the paid up capital of the company.

YEAR 2000 COMPLIANCE

In the last annual report, your directors had reported that the services of experienced software engineers are at hand to prepare a revised system which can effectively deal with the millennium bug. On behalf of the board of directors, it gives me pleasure in reporting to you that the assignment has been completed. The revised system has been put into place and fully tested alongwith the hardware in use.

Based on the tests performed, and certification by the software vendors, we can safely say that your bank is Year 2000 compliant.

PATTERN OF SHAREHOLDING

Pattern of shareholding of the company is enclosed.

AUDITORS

The current auditors M/S Ebrahim & Co., retire and offer themselves for reappointment.

STAFF

Finally, the board wishes to thank the Management and staff for their efforts and dedication in developing the bank through this difficult year. We also appreciate the support of our valued clients and took forward to a mutually beneficial relationship.

For and on behalf of the Board.

Shafqat Ali Bokhari
Chief Executive

September 27, 1999

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of ESCORTS INVESTMENT BANK LIMITED as at June 30, 1999 and the related profit and loss account and statement of changes in financial position together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit, and after due verification thereof, we report that:

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

b) in our opinion:

i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied, except for the change in accounting policy as stated in Note: 10.3 with which we concur;

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and the statement of changes in financial position together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 1999 and of the profit and changes in financial position for the year then ended' and

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

KARACHI
DATED: 27 September, 1999

EBRAHIM & COMPANY
CHARTERED ACCOUNTANTS

BALANCE SHEET AS AT JUNE 30, 1999

	<i>Note</i>	<i>1999 Rupees</i>	<i>1998 Rupees</i>
SHARE CAPITAL AND RESERVES			
Authorised capital 50,000,000 shares of Rs. 10 each		500,000,000 =====	500,000,000 =====
Issued, subscribed and paid up capital	3	200,000,000	200,000,000
Statutory reserve	4	6,902,481	4,036,573
Unappropriated profit		7,609,921	16,146,290
		----- 214,512,402	----- 220,182,863

CERTIFICATES OF INVESTMENT	5	61,049,919	18,274,130
CURRENT LIABILITIES			
Current portion of liability against assets subject to finance lease		--	499,746
Certificates of Investment	5	452,301,565	291,252,954
Accrued and other liabilities	6	12,796,705	6,310,658
Provision for taxation	7	13,793,674	6,793,674
Proposed dividend		20,000,000	--
		498,891,944	304,857,032
CONTINGENCIES AND COMMITMENTS	8		
		774,454,265	543,314,025
		=====	=====
TANGIBLE FIXED ASSETS	9	6,183,840	8,021,546
INVESTMENTS	10	79,255,659	20,117,638
MORABAHA FINANCING	11	154,720	6,250,000
DEPOSITS, PREPAYMENTS AND DEFERRED COST	12	6,157,944	7,860,745
CURRENT ASSETS			
Advances, deposits, prepayments and other receivables	13	47,732,229	15,723,622
Morabaha financing	14	104,042,718	130,978,193
Investments	15	411,355,115	336,129,725
Cash and bank balances	16	119,572,040	18,232,556
		682,702,102	501,064,096
		774,454,265	543,314,025
		=====	=====

The annexed notes form an integral part of these accounts.

Chief Executive

Director

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 1999**

	Note	1999 Rupees	1998 Rupees
INCOME			
Profit on morabaha financing		18,237,917	26,195,620
Income on investments and placements		70,104,010	42,405,279
Guarantee commission		101,890	193,744
Fee income		200,000	125,000
Profit on sale of investments	17	368,499	778,850
Other income	18	373,137	134,945
		89,385,453	69,833,438
		=====	=====

EXPENDITURE

Return on Certificates of Investment		48,226,755	25,257,865
Administrative and other operating expenses	19	18,895,731	18,634,370
Financial charges	20	933,428	5,605,465
		-----	-----
		68,055,914	49,497,700
		-----	-----
OPERATING INCOME BEFORE TAXATION		21,329,539	20,335,738
PROVISION FOR TAXATION			
Current		7,000,000	6,793,674
Prior year		--	138,445
Deferred		--	(38,420)
		-----	-----
		7,000,000	6,893,699
		-----	-----
PROFIT AFTER TAXATION		14,329,539	13,442,039
UNAPPROPRIATED PROFIT BROUGHT FORWARD		16,146,290	5,392,659
		-----	-----
PROFIT AVAILABLE FOR APPROPRIATION		30,475,829	18,834,698
APPROPRIATIONS			
Transferred to statutory reserve		2,865,908	2,688,408
Proposed dividend -- 10% (1998: Nil)		20,000,000	--
		-----	-----
		22,865,908	2,688,408
		-----	-----
UNAPPROPRIATED PROFIT CARRIED FORWARD		7,609,921	16,146,290
		=====	=====
EARNINGS PER SHARE		Rs. 0.716	Rs. 0.672
		=====	=====

The annexed notes form an integral part of these accounts.

Chief Executive

Director

**STATEMENT OF CHANGES IN FINANCIAL POSITION
(CASH FLOW STATEMENT)
FOR THE YEAR ENDED JUNE 30, 1999**

	1999	1998
	Rupees	Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	21,329,539	20,335,738
Adjustments for non cash charges		
Depreciation	1,335,636	1,773,619
Gain on sale of investments	(368,499)	--
Amortization of deferred costs	2,518,308	2,518,308
Gain on sale of fixed assets	(251,005)	(18,160)
	-----	-----
	3,234,440	4,273,767

(Increase)/Decrease in operating assets

Advances, deposits, prepayments and other Receivables	(8,759,667)	(2,156,206)
Morabaha financing	33,030,755	125,905,526
Short term investments	(103,500,000)	(33,956,477)
	-----	-----
	(79,228,912)	89,792,843

Increase/(Decrease) in operating liabilities

Certificates of investment	203,824,400	(114,272,443)
Accrued and other liabilities	6,486,047	1,810,799
	-----	-----
	210,310,447	(112,461,644)

	155,645,514	1 940,704
Income tax paid	(23,248,940)	(5,117,157)
	-----	-----
Net cash flow from operating activities	132,396,574	(3,176,453)

CASH FLOW FROM INVESTING ACTIVITIES

Addition to fixed assets	(41,925)	(1,216,461)
Proceeds from sale of fixed assets	795,000	550,000
Long term investments	(30,494,912)	(2,607,853)
Deposits and prepayments	(815,507)	--
	-----	-----
Net cash flow from investing activities	(30,557,344)	(3,274,314)

1999	1998
Rupees	Rupees

CASH FLOW FROM FINANCING ACTIVITIES

Payment of lease obligation under finance lease	(499,746)	(611,231)
	-----	-----
Net increase/(decrease)in cash and cash equivalents	101,339,484	(7,061,998)
Cash and cash equivalents at the beginning of the year	18,232,556	25,294,554
	-----	-----
Cash and cash equivalents at the end of the year	119,572,040	18,232,556
	=====	=====

Chief Executive**Director****NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 1999****1. LEGAL STATUS AND NATURE OF BUSINESS**

Escorts Investment Bank Limited is a public limited company and its shares are quoted on Stock Exchanges in Pakistan. The Company was incorporated in Pakistan on May 15, 1995 and started its commercial operation on October 16, 1996, working as an investment bank within the purview of activities as described in SRO 585(I)87 dated July 13, 1987 issued by Federal Government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These accounts have been prepared under historical cost convention.

2.2 Taxation

Provision for current taxation is based on taxable income at the current rate of tax. Provision for deferred taxation is made on all major timing differences, using the liability method. Debit balances on account of deferred taxation are recognized only if there is reasonable certainty for realisation.

2.3 Staff retirement benefits

The Company operates a funded contributory provident fund scheme covering all regular employees. Monthly contributions are made by the Company and employees to the fund.

2.4 Fixed assets

Operating fixed assets are stated at cost less accumulated depreciation. Depreciation is charged using reducing balance method. Gains or losses on deletion of assets are included in income currently. Full year's depreciation is charged on additions during the year, while no depreciation is charged on the assets disposed off during the year. Normal repairs and maintenance is charged to revenue as and when incurred, whereas major renewals and replacements are capitalized.

2.5 Investments

Long term investments are stated at cost. However, cost is reduced to recognise any decline thereof other than temporary.

Short term investments are stated at lower of cost and market value determined on aggregate portfolio basis.

Investments under purchase and resale arrangement are stated at purchase price.

Investments in debt securities are stated at acquisition cost, net of adjustments and provisions. Adjustments relate to amortisation of premium/discount over the period of maturity. Provisions are made, wherever considered necessary, to cover the decline in market value as at the balance sheet date, determined on an aggregate portfolio basis.

Gain or loss on sale of investments is accounted for in the year of sale.

2.6 Deferred cost

Deferred cost comprising preliminary and pre-operating expenses are being amortized over a period Of five years from the commencement of commercial operations.

2.7 Revenue recognition

Return on finance provided and placements with banks and financial institutions is recognised on a time proportion basis over the related period of finance/placements.

Dividend income is recognised if declared on or before the balance sheet date. Fee and commission is recorded on actual receipt basis except guarantee commission received in advance which is deferred over the guarantee period

Income on debt securities is recognised according to repayment schedule.

2.8 Currency translation

Assets and liabilities in foreign currency are translated into rupees at the exchange rates prevailing on the balance sheet date. Foreign currency deposit liabilities, subject to forward exchange cover, are translated at rates prevailing on dates when these deposits were received. Forward cover fee is amortized over the period of the forward contract.

Other foreign currency transactions are translated at rates prevailing on the dates of the transactions.

Exchange differences are taken to income.

	1999	1998
	Rupees	Rupees
3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL		
20,000,000 ordinary shares of Rs.10 each fully paid in cash	200,000,000	200,000,000
	=====	=====
4. STATUTORY RESERVE		
Opening balance	4,036,573	1,348,165
Transferred from profit and loss account	2,865,908	2,688,408
	-----	-----
	6,902,481	4,036,573
	=====	=====

This represents statutory reserve created in compliance with State Bank of Pakistan's NBF's Circular No.1 dated December 05, 1991.

5. CERTIFICATES OF INVESTMENT

Local currency (Note: 5.1)	510,720,902	270,125,597
Foreign currency (Notes: 5.1 & 5.2)	2,630,582	39,401,487
	-----	-----
	513,351,484	309,527,084
	=====	=====
These are regrouped as under:		
Due within one year	452,301,565	291,252,954
Due after one year	61,049,919	18,274,130
	-----	-----
	513,351,484	309,527,084
	=====	=====

5.1 Certificates of Investment are issued for period ranging from one month to five and half years. The expected rates of return payable on these Certificates of Investment (COIs) range from approximately 13.00% to 20.00% per annum for Pak rupee COIs and 4.1250% to 7.4350% per annum for foreign currency COIs. Foreign currency is exchanged for Pak rupees by the State Bank of Pakistan which provides the foreign exchange risk cover.

5.2 Break up of foreign currency deposits in their relevant currencies is as follows:

Year Ending	US Dollar	Pound Sterling	Deutsche Mark
1999	6,920	8,114	60,942
1998	866,609	7,500	58,144

	1999 Rupees	1998 Rupees
6. ACCRUED AND OTHER LIABILITIES		
Accrued return on Certificates of Investment	12,348,043	5,172,504
Accrued expenses	284,939	577,934
Margin against guarantees	--	78,350
Unearned guarantee income	117,000	3,316
Other liabilities	46,723	478,554
	-----	-----
	12,796,705	6,310,658
	=====	=====

7. PROVISION FOR TAXATION

The Company has used income tax rates applicable to public limited companies (other than banking companies) in computing the tax liabilities for the assessment years upto 1998-99.

The tax department has levied income tax rates applicable to banking companies against which the Company has filed appeals with Commissioner of Income Tax (appeals). The Management is confident that the outcome of the appeal will be in their favour.

No provision has been made in these accounts to reflect the additional tax liability, in case the Company is assessed as banking company

8. CONTINGENCIES AND COMMITMENTS

8.1 Contingencies

Guarantees

Outstanding guarantees as on balance sheet date were Rs. 13.186 million (1998: Rs. 15.734 million).

Taxation

The assessments for the assessment years 1997-98 and 1998-99 have been completed and the total tax liability determined amounts to Rs. 20.00 million which the Company is disputing in appeals. In the event of adverse decision in pending appeals, additional tax liability is estimated to be Rs 9.408 million for the assessment years 1997-98 and 1998-99 and Rs 6.764 million for the assessment year 1999-2000.

8.2 Commitments

There was no capital commitment as at the balance sheet date.

9. TANGIBLE FIXED ASSETS

COST					DEPRECIATION				
AS AT 01-07-1998	ADDITIONS	ADJUSTMENTS /DISPOSALS	AS AT 30-06-1999	RATE %	AS AT 01-07-1998	ADJUSTMENTS FOR THE YEAR	AS AT 30-06-199	WRITTEN DOWN VALUE	

AS AT
30-06-1999

Owned										
Improvements on leasehold premises	2,314,408	16,200	--	2,330,608	20	1,145,382	--	237,045	1,382,427	948,181
Office furniture	503,280	--	21,000	524,280	10	132,470	5,691	37,081	175,242	349,038
Computer equipment	839,025	24,950	(173,350)	690,625	10	165,070	(48,045)	69,891	186,916	503,709
Office equipment	694,139	142,775	152,350	989,264	10	185,557	80,836	61,278	327,680	661,584
Vehicles	6,470,772	1,756,290	(1,062,490)	7,164,572	20	2,174,338	338,574	930,332	3,443,244	3,721,328
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	10,821,624	1,940,215	(1,062,490)	11,699,349		3,802,817	377,056	1,335,056	5,515,509	6,183,840
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Assets Subject to Finance Lease										
Office equipment	142,000	--	(142,000)	--	10	38,482	(38,482)	--	--	--
Vehicles	1,756,290	--	(1,756,290)	--	20	857,069	(857,069)	--	--	--
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	1,898,290	--	(1,898,290)	--		895,551	(895,551)	--	--	--
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
TOTAL RUPEES-1999	12,719,914	1,940,215	(2,960,780)	11,699,349		4,698,368	(518,495)	1,335,636	5,515,509	6,183,840
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL RUPEES-1998	12,334,453	385,461	--	12,719,914		3,223,910	(300,807)	1,775,265	4,698,368	8,021,546
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

9.1 Detail of disposal of fixed assets is as follows:

PARTICULARS	COST	ACCUMULATED DEPRECIATION	BOOK VALUE	SALE PROCEEDS	PARTICULAR OF PURCHASER	MODE OF DISPOSAL
Toyota Corolla	604,000	294,752	309,248	465,000	Mr. Ahmed Munir, Lahore	Negotiation
Suzuki Margalla	458,490	223,743	234,747	330,000	Escorts Pakistan Ltd. (Associated Company), Lahore	Negotiation

1999
Rupees

1998
Rupees

10. INVESTMENTS

At cost		
Federal Investment Bonds (Note: 10.1)	18,214,500	18,214,500
	-----	-----
Term Finance Certificates (Note: 10.2)	33,896,274	3,032,863
Less: Due within one year shown as current asset	855,115	1,129,725
	-----	-----
Placement (Note: 10.4)	33,041,159	1,903,138
	28,000,000	--
	-----	-----
	79,255,659	20,117,638
	=====	=====

10.1 Federal Investment Bonds have been issued by the Government of Pakistan and carry profit at the rate of 15% per annum.

10.2 Term Finance Certificates have been issued by Dewan Salman Fibre Limited and Packages Limited for period of five years, having various dates of maturity upto 2004

and carrying mark-up of 19.00% and 18.50% respectively. The aggregate market value as at June 30, 1999 was Rs. 33.989 million.

10.3 During the year the Company has changed the accounting policy of carrying debt securities at redeemable value to carrying at acquisition cost, net of adjustment and provision. Had the Company not changed the policy, the profit for the year would have reduced by Rs. 730,142 and consequently unappropriated profit and statutory reserves would have been less by Rs. 584,114 and Rs. 146,028 respectively.

10.4 This represents deposit with a non-banking financial institution maturing on June 22, 2001 and carries a rate of return at 17% per annum.

11. MORABAHA FINANCING

The facility is secured by lien on deposits and carries mark-up at 17.5% per annum and is repayable by May 15, 2002. Amounts due within twelve months of the balance sheet date aggregating to Rs. 193,918 (1998: Rs. 18,750,000) have been included under short term morabaha financing.

	<i>1999</i> <i>Rupees</i>	<i>1998</i> <i>Rupees</i>
12. DEPOSITS, PREPAYMENTS AND DEFERRED COST		
Security deposits	302,200	305,800
Prepayments		
Office rent (Note: 12.1)	1,531,452	--
Less: Current portion shown under current assets	712,345	--
	-----	-----
	819,107	--
Deferred cost		
Preliminary expenses	1,070,000	1,070,000
Public issue expenses		
- Underwriting commission	1,181,250	1,181,250
- Others	4,982,961	4,982,961
- Take-up commission	1,625,599	16,255,991
	-----	-----
	7,789,810	7,789,810
Pre-operating expenses	3,731,754	3,731,754
	-----	-----
	12,591,564	12,591,564
Less: Amortization	7,554,927	5,036,619
	-----	-----
	5,036,637	7,554,945
	-----	-----
	6,157,944	7,860,745
	=====	=====

12.1 This represents office rent paid upto June 30, 2001 to a Director.

13. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Advances (Unsecured - considered good)		
For expenses	215,000	215,000
Income	25,924,363	2,675,423
Deposits	--	259,210

1999 **1998**
Rupees **Rupees**

Prepayments

Forward cover fee	89,545	1,043,075
Office rent	712,345	--
Others	170,063	221,668
	-----	-----
	971,953	1,264,743

Other receivables (considered good)

Interest receivable (Note: 13.1)	20,602,899	11,080,152
Excise duty on financing	--	16,674
Others	18,014	2,124,201
	-----	-----
	20,620,913	11,309,246
	-----	-----
	47,732,229	15,723,622
	=====	=====

13.1 These include balance due from Associated Company amounting to Rs. 1.008 million (1998: Rs. 0.530 million). Maximum amount due from Associated Company at the end of any month during the year was Rs. 1.008 million (1998: Rs. 0.530 million).

14. MORABAHA FINANCING

Secured - considered good

Associated Company (Note: 14.1)	20,000,000	24,684,493
Executive	900,000	500,000
Others	83,142,718	105,793,700
	-----	-----
	104,042,718	130,978,193
	=====	=====

14.1 The maximum balances outstanding at the end on any month during the year were as follows:

(Rupees in million)

Associated Company	24.684	24.684
Executive	0.900	0.500

14.2 Morabaha finance facilities are principally secured by hypothecation of or charge on assets, mortgage of property, lien over bank deposits and pledge of stocks and shares of listed companies. The expected rates of return range from 16.50 % to 21.00% per annum.

1999 **1998**

15. INVESTMENTS

	<i>Rupees</i>	<i>Rupees</i>
Current portion of Term Finance Certificates	855,115	1,129,725
Investment under purchase and resale Agreement (Note: 15.1)	15,000,000	15,000,000
Musharaka Investment (Note: 15.2)	151,000,000	76,000,000
Placements (Note: 15.3)	244,500,000	244,000,000
	-----	-----
	411,355,115	336,129,725
	=====	=====

15.1 The aggregate agreed price of investment in securities under purchase and resale agreement was Rs. 15,642,740 (1998: Rs. 15,642,740).

15.2 These are unsecured and represent investment with non-banking financial institutions. The expected rates of return range from 18% to 20% per annum.

15.3 These represent short-term deposits with non-banking financial institutions. The rates of return range from 14.50% to 21.00% per annum.

16. CASH AND BANK BALANCES

Cash in hand	4,219	1,710
Cash with banks		
- Current accounts (Note: 16.1)	2,556,814	3,696,300
- Profit and loss sharing accounts	67,011,007	14,534,546
	-----	-----
	69,567,821	18,230,846
Term deposit receipts	50,000,000	--
	-----	-----
	119,572,040	18,232,556
	=====	=====

16.1 These include Rs. 1,385,110 (1998: Rs. 3,342,333) held with State Bank of Pakistan.

	<i>1999</i>	<i>1998</i>
	<i>Rupees</i>	<i>Rupees</i>

17. PROFIT ON SALE OF INVESTMENTS

Gain on sale of listed securities	368,499	538,350
Provision reversed for diminution in value of investments	--	240,500
	-----	-----
	368,499	778,850
	=====	=====

18. OTHER INCOME

Exchange gain	47,284	62,997
Gain on sale of fixed assets	251,005	18,160
Others	74,848	53,788
	-----	-----
	373,137	134,945

	1999	1998
19. ADMINISTRATIVE AND OTHER OPERATING EXPENSES		
Salaries, wages and allowances (Note: 19 1)	11,181,273	10,134,906
Staff training	26,284	13,700
Travelling and hotel	180,416	213,376
Utilities	363,210	355,823
Depreciation	1,335,636	1,773,619
Deferred expenses amortised	2,518,308	2,518,308
Auditors remuneration		
Audit fee	50,000	50,000
Out of pocket expenses	14,000	14,000
	64,000	64,000
Telephone charges	384,040	501,026
Vehicle running and maintenance	174,346	129,530
Entertainment	62,352	584,545
Printing and stationary	202,274	158,836
Insurance premium	295,304	302,882
Advertising and publications	259,665	391,235
Repair and maintenance-office	113,973	89,081
Repair and maintenance-equipment	112,525	80,601
Fees and subscriptions	374,200	124,846
Legal and professional charges	374,144	298,013
Rent, rates and taxes	755,176	787,851
Books and periodicals	24,971	23,034
Postage and courier	39,318	68,054
Miscellaneous expenses	54,316	21,104
	18,895,731	18,634,370

19 1 This includes Company's contribution to provident fund amounting to Rs. 340,039 (1998: Rs 278,682).

20. FINANCIAL CHARGES

Mark-up on finance lease	14,826	131,209
Forward cover fee	436,373	4,402,690
Advisory and consultancy fee	233,153	835,181
Bank and other charges	99,030	137,989
Brokerage and commission	117,626	71,461
Others	32,420	26,935
	933,428	5,605,465

21. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

The following transactions were carried out during the year with Associated Undertakings:

	1999	1998
	<i>(Rupees in million)</i>	
Morabaha financing (repaid)/provided	(4.684)	14.684
Return on morabaha financing received	4.151	3.591

Sale of vehicle

0.330

--

22. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive		Directors		Executives	
	1999 Rupees	1998 Rupees	1999 Rupees	1998 Rupees	1999 Rupees	1998 Rupees
Managerial remuneration	920,004	503,748	560,004	560,004	1,836,796	668,083
House rent allowance	414,000	89,661	252,000	252,000	742,080	344,769
Utilities	45,996	40,461	27,996	27,996	134,324	38,300
Bonus	115,000	--	70,000	--	211,650	--
Provident fund	92,004	50,667	--	--	181,009	74,074
Others	--	430,000	--	--	--	279,453
	-----	-----	-----	-----	-----	-----
	1,587,004	1 114,537	910,000	840,000	3,105,859	1,404,679
	=====	=====	=====	=====	=====	=====
	1	1	1	1	7	5

i) In addition to above the Chief Executive and three Executives were provided with free use of the Company's car and reimbursement of medical expenses.

ii) No fee was paid to the Directors for attending the board meetings.

i:

23. INTEREST RATE RISK

Interest rate risk and sensitivity of the Company's financial liabilities and financial assets as at June 30, 1999 can be evaluated from the following:

Description	Note	Total	Exposed to Interest Rate Price Risk			Exposed to Interest Rate Cash Flow Risk			
			Within One year	More than one year and upto five years	Above five years	Within one year	More than one year and upto five years	Above five years	Not exposed to interest rate risk
LIABILITIES									
Customers deposits	5	513,351,484	452,301,565	61,049,919	--	--	--	--	--
Accrued and other liabilities	6	12,796,705	--	--	--	--	--	--	12,796,705
Provision for taxation	7	13,793,674	--	--	--	--	--	--	13,793,674
Proposed dividend		20,000,000	--	--	--	--	--	--	20,000,000
share capital and reserves		214,512,402	--	--	--	--	--	--	214,512,402
		-----	-----	-----	-----	-----	-----	-----	-----
		774,454,265	452,301,565	61,049,919	--	--	--	--	261,102,781
		=====	=====	=====	=====	=====	=====	=====	=====
ASSETS									
Tangible fixed assets	9	6,183,840	--	--	--	--	--	--	6,183,840
Investments	10&15	490,610,774	411,355,115	79,255,659	--	--	--	--	--
Morabaha Financing	11&14	104,197,438	104,042,718	154,720	--	--	--	--	--
Deferred cost	12	5,036,637	--	--	--	--	--	--	5,036,637
Advances, deposits, prepayments and other receivables	12&13	48,853,536	--	--	--	--	--	--	48,853,536
Cash and bank balances	16	119,572,040	117,011,007	--	--	--	--	--	2,561,033

	774,454,265	632,408,840	79,410,379	--	--	--	--	62,635,046
Total interest rate sensitivity gap	--	180,107,275	18,360,460	--	--	--	--	(198,467,735)
Cumulative interest rate sensitivity gap	--	180,107,275	198,467,735	--	--	--	--	--
Unrecognized Financial assets and financial liabilities	--	--	--	--	--	--	--	--
Outstanding for:	--	--	--	--	--	--	--	--
Undisbursed morabaha financing	--	--	--	--	--	--	--	--
Guarantees issued	--	13,186,000	--	--	--	--	--	13,186,000
Forward Exchange Contracts	--	--	--	--	--	--	--	--

23.1 Weighted average interest by currencies for financial assets and financial liabilities is as follows:

	<i>Local currency</i>	<i>US Dollar</i>	<i>Foreign Currency Deutsche Mark</i>	<i>Pound Sterling</i>
	<i>Percentage</i>			
LIABILITIES				
Customers deposits of fixed maturities	15.00	5.90	4.12	7.43
AS SETS				
Federal investment bonds	15.00	--	--	--
Term finance certificates	18.75	--	--	--
Placements	17.75	--	--	--
Morabaha financing	19.80	--	--	--
Deposit accounts	13.50	--	--	--

24. CREDIT RISK

The Company's credit risk exposure is not significantly different from that reflected in the financial statements. The Management monitors and limits Company's exposure to credit risk through monitoring of clients' credit exposure, review and conservative estimates of provisions for doubtful receivables and through the prudent use of collateral for large amounts of credit. The Management is of the view that it is not exposed to significant concentration of credit risk as its financial assets are adequately diversified in different avenues.

25. FAIR VALUE OF THE FINANCIAL INSTRUMENTS

The carrying value of financial assets and financial liabilities approximates their fair values as reflected in the financial statements except those stated as listed securities as referred in Note: 10 and 15.

26. PORTFOLIO MANAGEMENT SCHEME

The Company provides portfolio management services to its customers. Under this scheme the funds so received are invested, on the customers' authority, in various investment

alternatives depending upon the opportunities available. The related assets and liabilities of these management funds are not included in the accounts. The outstanding funds under this scheme as on June 30, 1999 were Rs. 20.950 million (1998: Nil).

27. FINANCIAL RELIEF AND PROVISION AGAINST NON-PERFORMING ADVANCES

As no relief was given or loan written off during the year under review, the information for Statements required to be filed under Section 33A of the Banking Companies Ordinance, 1962 is "Nil".

28. GENERAL

i) Figures have been rounded off to the nearest rupee.

ii) Corresponding figures have been rearranged wherever necessary for the purpose of comparison.

Chief Executive

Director

Pattern of Share Holding As At 30-06-1999

<i>Number of Shareholders</i>	<i>From Shares</i>	<i>To Shares</i>	<i>Total Shares Held</i>
612	101	500	306,000
2	501	1000	2,000
1	1,001	5,000	2,734
2	5,001	10,000	20,000
0	10,001	35,000	0
1	35,001	40,000	40,000
0	40,001	45,000	0
1	45,001	50,000	50,000
0	50,001	95,000	0
1	95,001	100,000	100,000
0	100,001	205,000	0
1	205,001	210,000	209,078
0	210,001	310,000	0
1	310,001	315,000	314,000
0	315,001	560,000	0
1	560,001	565,000	563,969
0	565,001	675,000	0
1	675,001	680,000	680,000
0	680,001	835,000	0
1	835,001	840,000	836,313
0	840,001	995,000	0
2	995,001	1,000,000	2,000,000
0	1,000,001	1,050,000	0
1	1,050,001	1,055,000	1,050,656
0	1,055,001	5,345,000	0
1	5,345,001	5,350,000	5,345,250
0	5,350,001	8,475,000	0
1	8,475,001	8,480,000	8,480,000

630
=====

20,000,000
=====

<i>Categories</i>	<i>Number of Shareholders</i>	<i>Shares Held</i>	<i>Percentage</i>
Individual	623	10,555,969	52.7800
Investment Companies	3	5,557,062	27.7900
Joint Stock Companies	1	1,050,656	5.2500
Financial Institutions	3	2,836,313	14.1800
	-----	-----	-----
	630	20,000,000	100.0000
	=====	=====	=====



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