

Escorts Investment Bank Limited

Annual Report 2000

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COMPANY INFORMATION

Board of Directors

Mr. Bashir Ahmed

Chairman

Mr. Shafqat All Bokhari

Chief Executive

Mr. Zaigham Mahmood Rizvi

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

Miss. Shazia Bashir

Mr. Mutahir Ahmed

Mrs. Darakhshan Bashir

Ms. Maryam Bashir

Mr. Bairam Qureshy

Mr. Qaim Medhi

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.

AI Baraka Islamic Bank B.S.C (EC)

Head Office and Lahore Branch

4th Floor, Escorts House,

26-Davis Road, Lahore.

Legal Advisor

Mandviwalla & Zafar,

Advocates and Legal Consultants

Auditors

Ebrahim & Co. Chartered Accountants

Karachi Branch

Suite # 817, 8th Floor,

Progressive Plaza,

Beaumont Road, Karachi.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 5th Annual General Meeting of the shareholders of ESCORTS INVESTMENT BANK LIMITED will be held on Friday the December 08, 2000 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 4th Annual General Meeting held on November 16, 1999.

2. To receive and adopt the Directors' and Auditors' Report and Audited Accounts for the year ended June 30, 2000.

3. To consider and if thought fit, approve a dividend payment @ 5%.

4. 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.

By order of the Board

Lahore
November 16, 2000

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.

iv. The Members Register will remain closed from December 02, 2000 to December 08, 2000 (both days inclusive). Transfers received in order at the Registered Office by the close of business hours on December 01 2000 will be treated in time for the entitlement of dividend.

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 5th Annual General Meeting and present the Annual Report for the Financial Year ended June 30, 2000..

The year 1999-2000 was yet another eventful and difficult year in the history of the country. We saw the Paris and London Club lenders agree on a 3year debt rescheduling, suspension of membership by the Commonwealth, Rescheduling of US. \$ 610 million Government Bonds, the historic judgment of the Supreme Court of Pakistan on elimination of Riba from the economy, establishment of the Corporate and Industrial Reconstruction Commission (CIRC), Removal of capital controls on forex remittances by the State Bank and last but not the least, survey for the documentation of economy.

The Karachi Stock Exchange index moved in line with the above stated events and in May was hit badly by the crisis triggered due to default of certain brokers. All the three exchanges remained closed for a few days, while the KSE 100 index after touching 1399 finally ended at 1520.7 on June 30, 2000.

FINANCIAL RESULTS

The bank earned a pre-tax profit of Rs. 12.050 million as against Rs. 21.330 million in the preceding year. The total balance sheet footing also declined to Rs. 735.970 million from Rs. 774.454 million. Gross income increased by Rs. 5.200 million to Rs. 94.585 million.

The results are lower than expected, and can be attributed to the reduced spreads. State Bank in order to reduce, the lending rates and enhance private lending, slashed the discount rate, which resulted in a sharp decline in the lending rates. All possible steps were taken to curtail the deposit costs. In spite of all efforts, margins continue to shrink as it is becoming increasingly difficult to market good quality customers at competitive rates.

FUTURE

Pakistan's economy is facing multidimensional challenges which include restoring investor confidence, reinvigorating growth, restoring macro economic stability, reducing poverty, improving social indicators and governance. There are no quick solution to these challenges.

Pakistan's overall economic performance during 1999-2000 offers grounds for optimism. There are signs which suggest that the economy has begun to stage a modest turnaround. This recovery is supported by a strong rebound in agriculture and a pick up in large scale manufacturing (excluding sugar industry). A bumper cotton and wheat crops coupled with a good rice crop supported the overall growth by contributing 5.5% as against 1.9% last year (if the last estimates of wheat production are taken into consideration the overall growth rate goes to an impressive figure of 7.1%). The large scale manufacturing sector, (other than sugar industry) grew by 6.4% as against 3.5% last year.

One of the major pillars of the Socio-economic reform agenda announced by the present government is the revival of economy and restoration of investor confidence. As part of these efforts, State Bank slashed the discount rate to 11% (currently 13% as of October 05, 2000), yields on T-Bills were slashed, so was the rates on National Savings Schemes. This has resulted in a sharp decline in

spreads, with large commercial banks at a distinct advantage due to the presence of current and low cost, and savings account deposits. Lately, the privatization process has also kick started, this is also expected to improve investor confidence.

In view of the changed scenario, development of fee based activities is expected to gain momentum. Also, your bank for the first time in its history ventured into the capital market business, the results were encouraging. This activity will be further developed.

DIRECTORS

During the year, fresh elections of the directors were held. Syed Mahboob Hussain retired and did not offer himself for re-election. In his place Mrs. Darakhshan Bashir was elected as director of the company. Mr. Rasool Ahmed Kaleemi - nominee director of National Bank of Pakistan also resigned from the board, no fresh nomination has been made in his place by National Bank of Pakistan. The Board wishes to place on record an appreciation of the services rendered by the outgoing directors.

YEAR 2000 COMPLIANCE

We had reported in our last report that a revised system has been acquired which can effectively deal with the millennium bug. It is a matter of great satisfaction to report that there have been no glitches in the move to the new millennium.

PATTERN OF SHARE HOLDING

Pattern of shareholding of the company is enclosed.

AUDITORS

The current auditors M/s. Ebrahim & Co., retire and being eligible, offer themselves for re-appointment.

STAFF

Finally the board wishes to thank the management and staff for their hard work and dedication in developing the bank. We also appreciate the support of our valued clients and look forward to a mutually beneficial relationship.

For and On Behalf of the Board

October 14, 2000

Shafqat Ali Bokhari
Chief Executive

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of ESCORTS INVESTMENT BANK LIMITED as at June 30, 2000 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 above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

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

b) in our opinion:

i) the balance sheet and profit and loss account together with the notes 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 explained in note 2.5 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, 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 June 30, 2000 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Karachi
October 14, 2000

EBRAHIM & COMPANY
CHARTERED ACCOUNTANTS

BALANCE SHEET AS AT JUNE 30, 2000

	<i>Note</i>	<i>2000 Rupees</i>	<i>1999 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	8,532,428	6,902,481
Unappropriated profit		4,129,707	7,609,921
		212,662,135	214,512,402
LIABILITY AGAINST ASSET SUBJECT TO FINANCE LEASE			
	5	364,897	--
CERTIFICATES OF INVESTMENT			
	6	53,224,919	61,049,919
CURRENT LIABILITIES			
Current portion of liability against assets subject to finance lease		184,917	--
Certificates of Investment	6	370,744,188	452,301,565
Short term loans	7	58,000,000	--
Accrued and other liabilities	8	13,093,461	12,796,705
Provision for taxation	9	17,693,674	13,793,674
Dividend	10	10,001,375	20,000,000
		469,717,615	498,891,944
CONTINGENCIES AND COMMITMENTS			
	11	735,969,566	774,454,265
TANGIBLE FIXED ASSETS			
	12	6,328,366	6,183,840
INVESTMENTS			
	13	114,156,023	79,255,659
MORABAHA FINANCING			
	14	130,151	154,720
DEPOSITS, PREPAYMENTS AND DEFERRED COST			
	15	3,088,029	6,157,944
CURRENT ASSETS			
Advances, prepayments and other receivables	16	41,316,450	47,732,229
Morabaha financing	17	99,217,523	104,042,718
Investments	18	409,462,969	411,355,115
Cash and bank balances	19	62,270,055	119,572,040
		612,266,997	682,702,102
		735,969,566	774,454,265

The annexed notes form an integral part of these accounts.

Chief Executive

Director

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2000**

	<i>Note</i>	<i>2000 Rupees</i>	<i>1999 Rupees</i>
INCOME			
Profit on morabaha financing		17,833,713	18,237,917
Income on investments and placements		72,719,876	70,104,010
Guarantee commission		117,000	101,890
Fee income		135,000	200,000
Profit on sale of investments	20	3,766,289	368,499
Other income	21	12,809	373,137
		-----	-----
		94,584,687	89,385,453
EXPENDITURE			
Return on Certificates of Investment		58,869,846	48,226,755
Administrative and other operating expenses	22	20,899,658	18,895,731
Financial charges	23	315,450	933,428
		-----	-----
		80,084,954	68,055,914
OPERATING PROFIT BEFORE PROVISION AND TAXATION			
		-----	-----
		14,499,733	21,329,539
General provision against doubtful morabaha financing		2,450,000	--
		-----	-----
OPERATING PROFIT BE FORE TAXATION		12,049,733	21,329,539
PROVISION FOR TAXATION			
Current		3,900,000	7,000,000
		-----	-----
PROFIT AFTER TAXATION		8,149,733	14,329,539
UNAPPROPRIATED PROFIT BROUGHT FORWARD			
		7,609,921	16,146,290
		-----	-----
PROFIT AVAILABLE FOR APPROPRIATION APPROPRIATIONS		15,759,654	30,475,829
Transferred to statutory reserve		1,629,947	2,865,908
Proposed dividend - 5% (1999 : 10%)		10,000,000	20,000,000
		-----	-----
		11,629,947	22,865,908
		-----	-----
		4,129,707	7,609,921
		=====	=====
		Re.	Re.
EARNINGS PER SHARE	24	0.41	0.72
		=====	=====

The annexed notes form an integral part of these accounts.

Chief Executive

Director

**CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2000**

	<i>2000 Rupees</i>	<i>1999 Rupees</i>
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	12,049,733	21,329,539
Adjustments for non cash charges		
Depreciation	1,312,614	1,335,636
Provision for doubtful debt	2,450,000	--
Gain on sale of investment	--	(368,499)
Amortization of premium/discount on investment	76,836	--
Amortization of deferred costs	2,518,308	2,518,308
Gain on sale of fixed assets	--	(251,005)
	-----	-----
	6,357,758	3,234,440
Decrease/(Increase) in operating assets		
Advances, deposits, prepayments and other receivables	8,635,494	(8,759,667)

Morabaha financing	2,399,764	33,030,755
Short term investments	2,600,000	(103,500,000)
	-----	-----
	13,635,258	(79,228,912)
(Decrease)/Increase in operating liabilities		
Certificates of investment	(89,382,377)	203,824,400
Short term loans	58,000,000	--
Accrued and other liabilities	296,756	6,486,047
	-----	-----
	(31,085,621)	210,310,447
	-----	-----
	957,128	155,645,514
Income tax paid	(2,219,715)	(23,248,940)
	-----	-----
Net cash flow from operating activities	(1,262,587)	132,396,574
CASH FLOW FROM INVESTING ACTIVITIES		
Addition to fixed assets	(782,140)	(41,925)
Proceeds from sale of fixed assets	--	795,000
Long term investments	(35,685,054)	(30,494,912)
Deposits and prepayments	5,516,071	(815,507)
	-----	-----
Net cash flow from investing activities	(35,915,587)	(30,557,344)
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of lease obligation under finance lease	(125,186)	(499,746)
Dividend paid	(19,998,625)	--
	-----	-----
	(20,123,811)	(499,746)
	-----	-----
Net (decrease)/increase in cash and cash equivalents	(57,301,985)	101,339,484
Cash and cash equivalents at the beginning of the year	119,572,040	18,232,556
	-----	-----
Cash and cash equivalents at the end of the year	62,270,055	119,572,040
	=====	=====

Chief Executive

Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2000

	Share capital	Statutory reserve	Unappropriated profit	Total
Amounts in Rupees				
Balance as at June 30, 1998	200,000,000	4,036,573	16,146,290	220,182,863
Net profit for the year ended June 30, 1999	--	--	14,329,539	14,329,539
Proposed dividend	--	--	(20,000,000)	(20,000,000)
Transfer to statutory reserve	--	2,865,908	(2,865,908)	--
	-----	-----	-----	-----
Balance as at June 30, 1999	200,000,000	6,902,481	7,609,921	214,512,402
Net profit for the year ended June 30, 2000	--	--	8,149,733	8,149,733
Proposed dividend	--	--	10,000,000	(10,000,000)
Transfer to statutory reserve	--	1,629,947	(1,629,947)	--
	-----	-----	-----	-----
Balance as at June 30, 2000	200,000,000	8,532,428	4,129,707	212,662,135
	=====	=====	=====	=====

Chief Executive

Director

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2000

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(1)87 dated July 13, 1987 issued by Federal Government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These accounts have been prepared in accordance with requirements of the Companies Ordinance, 1984 and the International Accounting Standards, as applicable in Pakistan.

2.2 Cost convention

These accounts have been prepared under historical cost convention.

2.3 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.

2.4 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.

2.5 Compensated absences

The International Accounting Standard 19-Employee Benefits became applicable for all financial statements covering periods beginning on or after January 01, 1999. This standard requires that liability in respect of accumulated compensated absences of employees should be accounted for in the period in which these absences are earned. According to the previous accounting policy of the Company these absences were accounted for on payment basis. Accordingly, the management has decided to change the accounting policy of the Company and has made a total provision of Rs. 0.251 million in respect of accumulated compensated absences in accordance with Circular No. 14 of 2000 of Securities and Exchange Commission of Pakistan. The liability not provided for in accounts amounting to Rs. 0.500 million shall be recognised over the next two years as prescribed in the Circular. Had the policy not been changed, the profit before taxation for the year would have higher by Rs. 0.251 million. The comparative information has not been restated as it was considered impracticable to do so.

2.6 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.

2.7 Assets subject to finance lease

The Company accounts for assets acquired under financial leases by recording the assets and related liabilities. The amounts are determined on the basis of discounted value of total minimum lease payments. Financial charges are allocated to accounting periods in a manner so as to provide constant periodic rate of charge on the outstanding liability. Depreciation is charged using reducing balance method at the rates specified in the related note.

2.8 Investments

Long term investments are stated at cost. However, cost is reduced to recognise decline in market value 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 Joss on sale of investments is accounted for in the year of sale.

2.9 Deferred cost

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

2.10 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 income 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.

2.11 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.

2.12 Provision for doubtful financing

The Company provides for doubtful financing in accordance with NBFIs Rules issued by the State Bank of Pakistan as applicable to non-banking financial institutions.

General provision for potential losses against morabaha financing represents provision which, in the opinion of the management, is required to cover potential losses that can be reasonably anticipated.

	<i>2000</i>	<i>1999</i>
	<i>Rupees</i>	<i>Rupees</i>
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	6,902,481	4,036,573
Transferred from profit and loss account	1,629,947	2,865,908
	-----	-----
	8,532,428	6,902,481
	=====	=====

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

5. LIABILITY AGAINST ASSET SUBJECT TO FINANCE LEASE

Present value of minimum lease payments	549,814	--
Less: Current portion shown under current liabilities	184,917	--
	-----	-----
	364,897	--
	=====	=====

The above liability represents the unpaid balance of the total of minimum lease payments and the residual value payable at the end of lease discounted at 22.51% per annum.

Remaining aggregate rentals of Rs. 0.687 million inclusive of mark-up are payable in 27 equal monthly installments latest by September 2002.

Future lease payments are as follows:

	Rupees
Financial year	
2000 - 2001	275,160
2001 - 2002	275,160
2002 - 2003	136,290

	686,610
Less: Financial charges allocated to future periods.	136,796

	549,814
	=====

At the end of the lease period, the ownership of asset shall be transferred to the Company on payment of residual value.

The cost of operating and maintaining the leased asset is borne by the Company.

	<i>2000</i>	<i>1999</i>
	<i>Rupees</i>	<i>Rupees</i>
6. CERTIFICATES OF INVESTMENT		
Local currency (Note: 6.1)	423,969,107	510,720,902
Foreign currency	--	2,630,582
	-----	-----

	423,969,107	513,351,484
	=====	=====

These are regrouped as under

Due within one year	370,744,188	452,301,565
Due after one year	53,224,919	61,049,919
	-----	-----
	423,969,107	513,351,484
	=====	=====

6.1 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 (COI) range from approximately 12.00% to 18.45% per annum for Pak rupee COI.

7. SHORT TERM LOANS

Secured	30,000,000	--
Brokerage house (Note: 7.1)		
Unsecured		
Non-banking financial institution (Note: 7.2)	28,000,000	--
	-----	-----
	58,000,000	--
	=====	=====

7.1 The facility is secured against Term Finance Certificates of investment and carries markup at 11.65% per annum. The balance is repayable by July 28, 2000.

7.2 This represent short term musharaka facility from a non banking financial Institution and carries expected rate of return at 13% per annum. The balance is repayable by June 28, 2001.

	<i>2000</i>	<i>1999</i>
	<i>Rupees</i>	<i>Rupees</i>
8. ACCRUED AND OTHER LIABILITIES		
Accrued return on Certificates of investment	10,990,703	12,348,043
Mark-up on secured loan	900,082	--
Mark-up on unsecured loan	38,109	--
Accrued expenses	415,091	284,939
Unearned guarantee income	294,606	117,000
Other liabilities	454,870	46,723
	-----	-----
	13,093,461	12,796,705
	=====	=====

9. PROVISION FOR TAXATION

The Company has used income tax rates applicable to listed companies (other than banking companies) in computing the tax liabilities for the assessment years upto 2000-2001.

In the initial assessments made by the Deputy Commissioner of Income Tax (DCIT), the rate applicable to banking companies had been used for the assessment years 1997-98 and 1998-99. However, in appeals against the initial assessment for 1997-98 and 1998-99 the Commissioner of Income Tax (CIT) (Appeals) directed the DCIT to apply the rates applicable to listed companies against which the department has filed appeal before Income Tax Appellate Tribunal (ITAT). The Management is confident that the out come 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.

10. DIVIDEND

Unclaimed dividend	1,375	--
Proposed dividend	10,000,000	20,000,000
	-----	-----
	10,001,375	20,000,000
	=====	=====

11. CONTINGENCIES AND COMMITMENTS

11.1 Contingencies

a. Guarantees

Outstanding guarantees as on balance sheet date were Rs. 36.826 million (1999: Rs. 13.186 million).

b. Taxation

The assessments for the assessment years 1997-98 and 1998-99 have been completed and the total tax liability determined amounts to Rs. 20.000 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.16.172 million for the assessment years 1997-98, 1998-99 and 1999-2000 and Rs. 4.718 million for the assessment year

2000-2001. In view of the ITAT full bench decision in parallel cases, the management is confident of a favourable decision.

11.2 Commitments

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

12. TANGIBLE FIXED ASSETS

PARTICULARS	COST				RATE %	DEPRECIATION			WRITTEN DOWN VALUE	
	AS AT	ADDITIONS	ADJUSTMENTS	AS AT		AS AT	ADJUSTMENTS	FOR THE	AS AT	AS AT
	01-07-1999		/DISPOSALS	30-06-2000		01-07-1999		YEAR	30-06-2000	30-06-2000
Owned										
Improvements on leasehold premises	2,330,608	140,650	--	2,471,258	20	1,382,427	--	217,766	1,600,193	871,065
Office furniture	524,280	28,940	--	553,220	10	175,242	--	37,798	213,040	340,180
Computer equipments	690,625	212,400	--	903,025	10	186,916	--	71,611	258,527	644,498
Office equipments	989,264	400,150	--	1,389,414	10	327,680	--	106,173	433,853	955,561
Vehicles	7,164,572	--	--	7,164,572	20	3,443,244	--	744,266	4,187,510	2,977,062
	11,699,349	782,140	--	12,481,489		5,515,509	--	1,177,614	6,693,123	5,788,366
Leased										
Vehicle	--	675,000	--	675,000	20	--	--	135,000	135,000	540,000
	--	675,000	--	675,000		--	--	135,000	135,000	540,000
TOTAL RUPEES 2000	11,699,349	1,457,140	--	13,156,489		5,515,509	--	1,312,614	6,828,123	6,328,366
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

13. INVESTMENTS

	2000 Rupees	1999 Rupees
At cost		
Federal Investment Bonds (Note 13.1)	31,916,919	18,214,500
Term Finance Certificates (Note 13.2)	45,802,073	33,896,274
	77,718,992	52,110,774
Less: Due within one year shown as current asset	1,562,969	855,115
	76,156,023	51,255,659
Placement (Note 13.3)	38,000,000	28,000,000
	114,156,023	79,255,659

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

13.2 Term Finance Certificates have been issued by Dewan Salman Fibre Limited, Sigma Leasing Corporation Limited, Pakistan Industrial Leasing Corporation and Paramount Leasing Limited having various dates of maturity upto December 2004 and carrying mark-up of 19%, 17%, 18% and 16.25% respectively. The aggregate market value as at June 30, 2000 was Rs. 49.716 million.

13.3 This represents deposit with a non-banking financial institution maturing on December 11,2001 and carries rates of return ranging from 14% to 15% per annum.

14. MORABAHA FINANCING

The facility is secured by lien on deposits and carries mark-up at 17.5% per annum and is repayable by March 15, 2003. Amounts due within twelve months of the balance sheet date aggregating to Rs. 0.094 million (1999: Rs. 0.194 million) have been included under short term morabaha financing.

15. DEPOSITS, PREPAYMENTS AND

	2000 Rupees	1999 Rupees
DEFERRED COST		
Security deposits	569,700	302,200
Prepayments		
Office rent (Note: 15.1)	939,097	1,531,452
Less: Current portion shown under current assets	939,097	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	1,625,599
	-----	-----
	7,789,810	7,789,810
Pre-operating expenses	3,731,754	3,731,754
	-----	-----
	12,591,564	12,591,564
Less: Amortization	10,073,235	7,554,927
	-----	-----
	2,518,329	5,036,637
	-----	-----
	3,088,029	6,157,944
	=====	=====

15.1 This includes office rent paid upto June 30, 2001 to a Director amounting to Rs. 0.819 million (1999: Rs. 1.531 million).

16. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

Advances (Unsecured - considered good)		
For expenses	--	215,000
Income tax	28,144,078	25,924,363
Prepayments		
Forward cover fee	--	89,545
Office rent	939,097	712,345
Others	331,033	170,063
	-----	-----
	1,270,130	971,953
Other receivables (considered good)		
Interest receivable (Note: 16.1)	11,720,763	20,602,899
Others	181,479	18,014
	-----	-----
	11,902,242	20,620,913
	-----	-----
	41,316,450	47,732,229
	=====	=====

16.1 These include a balance due from Associated Company amounting to Rs. 0.011 million (1999: Rs. 1.008 million). Maximum amount due from the Associated Company at the end of any month during the year was Rs. 1.008 million (1999: Rs. 1.008 million).

17. MORABAHA FINANCING

Secured		
Considered good		
Associated Company (Note: 17.1)	20,000,000	20,000,000
Executive (Note: 17.1)	587,583	900,000
Others	67,312,106	83,142,718
	-----	-----
	87,899,689	104,042,718
Considered doubtful		
Other	13,767,834	--
	-----	-----
	101,667,523	104,042,718
Less: Provision against doubtful		
Morabaha Financing (Note: 17.3)	2,450,000	--
	-----	-----
	99,217,523	104,042,718
	=====	=====

17.1 The maximum balances outstanding at the end of any month during the year were as follows:

	2000	1999
	(Rupees in million)	
Associated Company	20.000	24.684
Executive	0.900	0.900

17.2 Morabaha finance facilities are principally secured by hypothecation of or charge on assets, mortgage of property, lien over bank deposits and pledge of stock. The expected rates of return range from 14.00% to 21.00% per annum.

17.3 Particulars of provision against non-performing advances:

	<i>Specific</i>	<i>General</i>	Total	
			2000	1999
Amounts in Rupees				
Opening Balance	--	--	--	--
Exchange adjustments	--	--	--	--
Charge for the year	--	2,450,000	2,450,000	--
Amounts written off	--	--	--	--
Reversals	--	--	--	--
Other movements	--	--	--	--
	-----	-----	-----	-----
Closing balance	--	2,450,000	2,450,000	--
	=====	=====	=====	=====
Provision against:				
Advances to banks			--	--
Advances to others			2,450,000	--
			-----	-----
			2,450,000	--
			=====	=====

This represents 9general provision for potential loss on recovery of morabaha facility against which legal proceedings for recovery have been initiated.

18. INVESTMENTS

	2000	1999
	Rupees	Rupees
Current portion of Term Finance		
Certificates and Federal Investment Bonds	1,562,969	855,115
Investment under purchase and resale		
Agreement	--	15,000,000
Musharaka Investment (Note: 18.1)	46,000,000	151,000,000
Placements (Note: 18.2)	361,900,000	244,500,000
	-----	-----
	409,462,969	411,355,115
	=====	=====

18.1 These are unsecured and represent investment with non-banking financial institutions. The expected rates of return range from 15.25% to 19.10% per annum.

18.2 These represent short-term deposits with non-banking financial institutions. The rates of return range from 12.20% to 16.25% per annum.

19. CASH AND BANK BALANCES

Cash in hand	9,191	4,219
Cash with banks		
- Current accounts (Note: 19.1)	3,271,972	2,556,814
- Profit and loss sharing accounts	58,988,892	67,011,007
	-----	-----
	62,260,864	69,567,821
Term deposit receipts	--	50,000,000
	-----	-----
	62,270,055	119,572,040
	=====	=====

19.1 These include Rs. 2,386,223 (1999: Rs. 1,385,110) deposited with State Bank of Pakistan.

20. PROFIT ON SALE OF INVESTMENTS

Income from dealing in listed securities	3,766,289	368,499
	=====	=====

21. OTHER INCOME

Exchange gain	2,985	47,284
Gain on sale of fixed assets	--	251,005
Others	9,824	74,848
	-----	-----
	12,809	373,137
	=====	=====

22. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Salaries, wages and allowances (Note: 22.1)	8,884,305	8,261,273
---	-----------	-----------

Advertising and business promotion	1,213,720	259,665
Rent, rates and taxes	1,151,269	755,176
Travelling and hotel	2,072,724	1,620,416
Utilities	1,133,474	1,036,656
Auditors remuneration		
Audit fee	50,000	50,000
Out of pocket expenses	31,000	14,000
	81,000	64,000
Telephone charges	618,575	597,949
Vehicle running and maintenance	447,906	542,406
Entertainment	95,030	166,937
Printing and stationary	212,873	202,274
Insurance premium	269,289	295,304
Repair and maintenance-office	104,989	113,973
Repair and maintenance-equipments	144,294	112,525
Fee and subscription	219,325	374,200
Legal and professional charges	310,844	494,144
Books and periodicals	17,967	24,971
Postage and courier service	75,134	39,318
Staff training	10,440	26,284
Depreciation	1,312,614	1,335,636
Deferred expenses amortised	2,518,308	2,518,308
Miscellaneous expenses	5,578	54,316
	20,899,658	18,895,731

22.1 This includes Company's contribution to provident fund amounting to Rs. 0.378 million (1999: Rs. 0.340 million).

23. FINANCIAL CHARGES

Mark-up on finance lease	81,184	14,826
Forward cover fee	49,733	436,373
Advisory and consultancy fee	--	233,153
Bank and other charges	50,133	99,030
Brokerage and commission	134,400	117,626
Others	--	32,420
	315,450	933,428

24. EARNINGS PER SHARE

Profit for the year after taxation	8,149,733	14,329,539
	Number of shares	
Average issued ordinary shares	20,000,000	20,000,000
	Rupees	
Earnings per share	0.407	0.716

25. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

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

	2000	1999
	(Rupees in million)	
Morabaha financing (repaid)	--	(4.684)
Return on morabaha financing received	5.008	4.151
Sale of vehicle	--	0.330
COI deposit	5.000	--

26. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2000	1999	2000	1999	2000	1999
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Managerial remuneration	1,011,996	920,004	569,329	560,004	2,748,987	1,836,796
House rent allowance	404,808	414,000	225,408	252,000	1,126,124	742,080

Utilities	101,196	45,996	59,263	27,996	202,160	134,324
Bonus	--	115,000	--	70,000	--	211,650
Provident fund	101,196	92,004	--	--	219,479	181,009
	1,619,196	1,587,004	854,000	910,000	4,296,750	3,105,859
	1	1	1	1	10	7

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.

iii) Chairman secretariat expenses have been reimbursed.

27. INTEREST RATE RISK

Interest rate risk and sensitivity of the Company's financial liabilities and financial assets as at June 30, 2000 can be evaluated from the following

Description	Note	Total	Exposed to Interest Rate Price Risk			Exposed to Interest Rate Cash Flow Risk			Not exposed to interest rate risk
			Within One Year	More than one year and upto five years	Above five year	Within One Year	More than one year and upto five years	Above five year	
LIABILITIES									
Liability against asset subject to finance lease	5	549,814	184,917	364,897	--	--	--	--	--
Customers deposits	6	423,969,107	370,744,188	44,559,919	8,665,000	--	--	--	--
Short term loans	7	58,000,000	58,000,000	--	--	--	--	--	--
Accrued and other liabilities	8	13,093,461	--	--	--	--	--	--	13,093,461
Provision for taxation	9	17,693,674	--	--	--	--	--	--	17,693,674
Dividend	10	10,001,375	--	--	--	--	--	--	10,001,375
Share capital and reserves		212,662,135	--	--	--	--	--	--	212,662,135
		735,969,566	428,929,105	44,924,816	8,665,000	--	--	--	253,450,645
ASSETS									
Tangible fixed assets	12	6,328,366	--	--	--	--	--	--	6,328,366
Investments	13&18	523,618,992	409,462,969	--	114,156,023	--	--	--	--
Morabaha Financing	14&17	99,347,674	--	99,217,523	130,151	--	--	--	--
Deferred cost	15	2,518,329	--	--	--	--	--	--	2,518,329
Advances, prepayments and other receivables	15&16	41,886,150	--	--	--	--	--	--	41,886,150
Cash and bank balances	19	62,270,055	58,988,892	--	--	--	--	--	3,281,163
		735,969,566	567,669,384	114,286,174	--	--	--	--	54,014,008
Total interest rate sensitivity gap		--	138,740,279	69,361,358	--	(8,665,000)	--	--	(199,436,637)
Cumulative interest rate sensitivity gap		--	138,740,279	208,101,637	--	199,436,637	--	--	--
Unrecognised Financial assets and financial liabilities									
Outstanding for:									
Undisbursed morabaha financing		--	--	--	--	--	--	--	--
Guarantees issued		36,825,788	--	--	--	--	--	--	36,825,788
Forward exchange contracts		--	--	--	--	--	--	--	--

27.1 Weighted average interest by currencies for financial assets and financial liabilities was as follows:

	Local currency Percentage
LIABILITIES	
Customers deposits of fixed maturities	13.79
ASSETS	
Federal investment bonds	15.00
Term finance certificate	18.29
Placements	13.81
Morabaha financing	15.35

Deposit accounts 10.50

28. 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.

29. 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: 13 and 18.

30. DEFERRED TAXATION

Deferred tax arising due to timing differences, calculated at the current rate of taxation, amount to Rs. 1.082 million Debit (1999: Rs. 0.184 million Debit). In the absence of reasonable certainty for realisation, debit balance on account of deferred taxation has not been recognized in books of accounts.

31. 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".

32. 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 30-06-2000

Number of Shareholders	From Shares	To Shares	Total Shares Held
165	101	500	82,500
2	501	1,000	2,000
2	1,001	5,000	4,734
0	5001	45,000	0
1	45,001	56,000	50,000
0	50,001	55,000	0
1	55,001	60,000	59,078
0	60,001	70,000	0
2	70,001	75,000	150,000
0	75,001	95,000	0
1	95,001	100,000	100,000
0	100,001	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	995,000	0
1	995,001	1,000,000	1,000,000
0	1,000,001	2,595,000	0
1	2,595,001	2,600,000	2,595,250
0	2,600,001	4,435,000	0
1	4,435,001	4,440,000	4,436,031
0	4,440,001	10,275,000	0
1	10,275,001	10,280,000	10,276,438
-----	-----	-----	-----
180			20,000,000
=====	=====	=====	=====

Categories	Number of Shareholders	Shares Held	Percentage
Individual	176	6,125,578	30.6300
Investment Companies	2	2,597,984	12.9900
Joint Stock Companies	1	10,276,438	51.3800
Financial Institutions	1	1,000,000	5.0000
-----	-----	-----	-----
	180	20,000,000	100.00
=====	=====	=====	=====