

ESCORTS
BANK

ESCORTS INVESTMENT BANK LIMITED

ANNUAL REPORT 2004

VISION

“Value addition for our stakeholders through enhanced business activity and emphasis on better Risk Identification and Management as opposed to Risk Avoidance.”

MISSION

“To build Escorts Investment Bank Limited into an elite institution comparable with, if not better than any top quality local or foreign financial institution operating in Pakistan, in terms of a progressive corporate culture and an autonomous, committed and dedicated Executive Management with *An Eye On The Future!*”

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman	Bashir Ahmed
President & Chief Executive	Rashid Mansur
Directors	Abdul Latif Uqaili (nominee Investment Corporation of Pakistan)
	Bairam Qureshy
	Darakhshan Bashir
	Farrukh Ahmad Kamran
	Mutahir Ahmed
	Qaim Mehdi
	Shazia Bashir
	Syed Asad Ali Shah
	Tajammal Hussain Bokharee (nominee National Bank of Pakistan)
Company Secretary	Farooq Hameed Khawaja

AUDIT COMMITTEE

Chairman	Bashir Ahmed
Members	Abdul Latif Uqaili Syed Asad Ali Shah
Secretary	Arsalan Baig

EXECUTIVE MANAGEMENT

President & Chief Executive	Rashid Mansur
Chief Operating Officer / Head of Marketing & Credits Division	Muhammad Naeem Khan
Executive Director	Shazia Bashir
Chief Financial Officer / Head of Structured Finance Division	Farooq Hameed Khawaja
Head of Capital Markets Division	Azhar A. Batla
Head of Treasury Division	Arshad I. Khan
Head of Internal Audit Division	Arsalan Baig

AUDITORS

Ebrahim & Co.
Chartered Accountants

LEGAL ADVISORS	Mandviwalla & Zafar Advocates and Legal Consultants
TAX CONSULTANTS	KPMG Taseer Hadi Khalid & Co. Chartered Accountants
SHARE REGISTRARS	Hameed Majeed Associates (Pvt) Ltd
BANKERS	PICIC Commercial Bank Limited Muslim Commercial Bank Limited The Bank of Khyber Limited
HEAD OFFICE & LAHORE BRANCH	Escorts House 26 – Davis Road, Lahore Tel: (042) 637 1931-34 Fax: (042) 637 5950 Email: mailmanager@escortsbank.net Web site: www.escortsbank.net
BRANCH OFFICES	<p>Karachi Office: Ground Floor, Bharia Complex I Moulvi Tamizzudin Khan Road Tel: (021) 561 0448, 561 1221 Fax: (021) 561 0538 Email: karachi@escortsbank.net</p> <p>Islamabad Office: 15 – E, Mezzanine Floor Rehmat Center, Blue Area Tel: (051) 287 4601- 03 Fax: (051) 287 4604 Email: islamabad@escortsbank.net</p>
INVESTMENT SERVICES CENTERS (BROKERAGE)	<p>Main - Lahore: Ground Floor State Life Building Davis Road, Lahore Tel: (042) 630 0757 - 630 0758 Fax: (042) 630 7168</p> <p>LSE: Room No. M-3 & M-6, Lahore Stock Exchange Building, 19-Khayaeban-e-Iqbal, Lahore Tel: (042) 630 7163-68 Fax: (042) 630 7168</p> <p>KSE:: Room No. 53 & 53-A, Karachi Stock Exchange Building, Stock Exchange Road, Karachi Tel: (021) 247 2370 - 73 Fax: (021) 247 2374</p> <p>Islamabad: 15 - E, Mezzanine Floor Rehmat Center, Blue Area, Islamabad Tel: (051) 287 4601- 03 Fax: (051) 287 4604</p>

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 9th Annual General Meeting of the Shareholders of ESCORTS INVESTMENT BANK LIMITED ("the Company") will be held on Saturday, October 30, 2004 at 1130 hours at the registered office of the Company at Escorts House, 26-Davis Road, Lahore to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the 8th Annual General Meeting held on October 29, 2003;
2. To receive, consider and adopt the Audited Accounts of the Company together with the Auditors' and Directors' Reports for the year ended June 30, 2004;
3. To approve the payment of dividend @ Rs 1.50 per share (15%) for the year ended June 30, 2004 as recommended by the Board of Directors;
4. To appoint the auditors and to fix their remuneration. The present auditors M/s Ebrahim & Co., Chartered Accountants have completed five years' term and in accordance with the Code of Corporate Governance are not eligible for reappointment. The Board endorses recommendation of the Audit Committee for the appointment of M/s Taseer Hadi Khalid & Co. Chartered Accountants as Statutory Auditors in place of retiring auditors for the year ending June 30, 2005;

SPECIAL BUSINESS

5. To consider and approve the proposed amendments in Memorandum and Articles of Association and, if thought fit, to pass with or without modification, subject to the approval of Securities and Exchange Commission of Pakistan, the annexed (annexure I) resolutions as Special Resolutions;
6. To consider and approve reduction in number of directors from 11 (eleven) to 8 (eight) and, if thought fit, to pass with or without modification, the following resolution as Special Resolution:

"RESOLVED THAT the number of directors be and is hereby reduced to 8 (eight)."

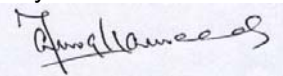
7. To consider and approve placing of quarterly financial statements on the Company's website instead of sending the same through post to the members, subject to permission of the Securities and Exchange Commission of Pakistan and, if thought fit, to pass with or without modification, the following resolution as Special Resolution:

"RESOLVED THAT the Company is hereby authorized to place its quarterly financial statements on its website instead of sending the same to the members by post."

OTHER BUSINESS

8. To transact any other business with the approval of the chair.

By order of the Board



Farooq Hameed Khawaja
Company Secretary

Lahore
October 08, 2004

ALTERATION IN THE MEMORANDUM OF ASSOCIATION

RESOLVED THAT:

1. the sub – clauses No.1, 2.1, 3.3, 3.4, 3.6 and 4.2 under Clause III of the Memorandum of Association be and are hereby substituted as follows:

- | | |
|------------|--|
| Clause 1 | To carry on business as a Non–Banking Finance Company (“NBFC”) as prescribed under the Companies (Second Amendment Ordinance) 2002 and under the Non–Banking Finance (Establishment and Regulations) Rules, 2003 and be liable to engage in one or more forms of businesses including asset management services, discounting services, leasing, housing finance services, investment advisory services, venture capital investment, investment finance services and any form of businesses which the Federal Government may, by notification in the Official Gazette specify from time to time, subject to acquiring the appropriate licenses for each business activity as may be required. |
| Clause 2.1 | To issue certificates of deposits or short term paper of its own or investments of not less than thirty days maturity subject to the conditions prescribed by these rules and any other conditions that may be specified by the Commission from time to time. |
| Clause 3.3 | To underwrite stocks and shares, short and long term participation term certificates and other negotiable term obligations of corporations and financial institutions, acting singly or jointly as manager, underwriter and distributor of such issues and taking an active part in all stages of preparation for such issues either public issues or private placement. |
| Clause 3.4 | To manage portfolios of stocks and shares, pension and provident funds, participation term certificates and other negotiable and debt instruments for both individual and institutional clients on a discretionary as well as non – discretionary basis. |
| Clause 3.6 | To offer cash management accounts, security management accounts and to facilitate clients so that they are able to select various available investment alternatives at their discretion. |
| Clause 4.2 | To guarantee and counter–guarantee loans and obligations, including establishment of documentary credits. |

2. the sub – clauses 4.2A, 5.7A, 5.7B, 7A, 7B, 7C, 7D and 7E under Clause III (Objects) of the Memorandum of Association be and are hereby inserted as follows:

- | | |
|-------------|---|
| Clause 4.2A | To open letter of credit for their corporate clients for the import of machinery for installation, expansion, balancing, modernization and replacement; |
| Clause 5.7A | To act as custodians for securities owned or held by clients pursuant to their instructions and provide each or any of the following services; custody of securities, placing or executions of orders for purchase or sale of securities, receipt of dividend and other income on securities, execution of voting and other rights in connection with securities, holding the securities in the name of |

the investment finance companies on behalf of their clients, and transacting aforesaid activities through nominees, agents or attorneys;

- Clause 5.7B To act as nominees, agent, attorney, administrator, executor or trustee for clients;
- Clause 7A To act as authorized seller for securities and certificates, denominated in local or foreign currency, issued by the Federal Government, statutory bodies, and state owned corporations, including instruments of National Saving Scheme (NSS);
- Clause 7B To provide safe deposit vaults to clients;
- Clause 7C To handle payments and collections for clients;
- Clause 7D To undertake following business activities relating to housing finance services subject to the terms and conditions that may be specified by the Securities and Exchange Commission from time to time;
- i) To provide long term finance for the purpose of constructing, purchasing or making any additions, alterations or improvement to or in any property;
 - ii) To lease and rent on hire purchase basis buildings for residential and commercial purposes;
 - iii) To establish and manage housing schemes without engaging in real estate business or work as subsidiary or holding company or as joint venture of construction business;
 - iv) To carry out surveys and valuations of land and properties;
 - v) To arrange for the insurance of pledged property from the present approved insurance companies;
 - vi) To manage mortgage investments as agents;
 - vii) To manage public or private sector projects, in the housing and urban development sectors;
 - viii) To make loans and advances for house building or non – residential properties to individuals, corporate, project and housing companies;
 - ix) To finance against existing property by way of mortgage, provided that the same property shall not be accepted as security unless the facility extended is settled;
 - x) To raise funds, in addition to share capital from
 - a) Commercial paper, any security and deposits of not less than thirty days maturity approved by the Commission;
 - b) Foreign debentures, both short and long term;

- c) Issuance of redeemable capital;
- d) Lines of credit;
- e) Re-discount facilities;
- f) Loans on mark up to other NBFCs providing housing finance services;
- g) Making investments in government securities, approved securities and such other approved modes as may be allowed to NBFCs from time to time.

Clause 7E To undertake any other businesses under NBFC (Establishment and Regulation) Rules, 2003 allowed currently or as may be allowed in the future.

3. the sub – clauses No.3.7 and 6 under Clause III (Objects) of the Memorandum of Association be and are hereby deleted:

Clause 3.7 To provide safe custody services to open and close end Mutual Funds and investors in stocks, shares, TFCs, listed and non - listed securities;

Clause 6 To carry on any other investment finance business specially allowed by the Controller of Capital Issues with the exception of the banking and insurance business as defined in the Banking Companies Ordinance 1962 (LVII of 1962) and the Insurance Act, 1938 (IV of 1938), respectively and in this connection the Company will neither issue cheque books nor accept deposits;

ALTERATION IN THE ARTICLES OF ASSOCIATION

RESOLVED THAT

1. part (o) of article No. 2 (Interpretation) be and is hereby substituted as follows:

“Chief Executive Officer” means a person appointed by the Board of Directors from time to time in accordance with section 199 and 200 of the Companies Ordinance, 1984 and the word “Managing Director” shall be substituted by “Chief Executive Officer” wherever appearing in the Articles of Association.

2. para 1 of article No. 3 (Investment Policy) of the Articles of Association be and is hereby substituted as follows:

Article 3 The Company’s investment policy will be determined by its Board of Directors in accordance with the provisions of Non–Banking Finance Companies (Establishment and Regulation) Rules, 2003 and as amended from time to time. It will be reviewed periodically in response to the changing investment and economic environment. Additionally, its investment policy shall be:

3. in accordance with the amendment in section 158(1) of the Companies Ordinance, 1984, the word “six” shall be substituted by “four” in article 33(b) (Annual General Meeting) of the Articles of Association.

4. in accordance with the amendment in section 160(2) of the Companies Ordinance, 1984, the word “five” shall be substituted by “ten” in article 39 (Quorum) of the Articles of Association.
5. the number “500” shall be substituted by “2,000” in article 69 (Remuneration of Directors) of the Articles of Association.
6. “and 245” shall be inserted after “236” in article 103 (Compliance with Ordinance) of the Articles of Association.

“**FURTHER RESOLVED** that the above mentioned amendments to the Memorandum and Articles of Association of the Company are subject to approval of the SECP and any alterations proposed by it in this respect. The Chief Executive Officer of the Company be and is hereby authorized to procure the approval of SECP and implementation of the modifications to the Memorandum and Articles of Association of the Company.”

STATEMENT UNDER SECTION 160(1)(b) & (c) OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts pertaining to the special business to be transacted at the Annual General Meeting of the Company to be held on October 30, 2004.

Item 5

Alteration to the Memorandum and Articles of Association of the Company are required in accordance with Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and amendments in the Companies Ordinance, 1984. The proposed amendments have been approved by the Board of Directors of the Company to bring in line the Memorandum and Articles of Association with NBFC Rules, 2003 and amendments in the Companies Ordinance 1984. Further, the Board has recommended increase in fee for attending the Board meeting from Rs. 500 to Rs. 2,000.

- i) The Directors of the Company have no interest in this special resolution except in capacity as directors of the Company. All the directors except for the CEO and the Executive Director are interested to the extent of fee for attending the meeting.
- ii) A copy of the proposed alterations along with a copy of Memorandum and Articles of Association of the Company is available for inspection at the registered office of the Company from 9:00 AM to 5:00 PM on Monday to Friday.

Item 6

Reduction in the number of directors is required to comply with Non Banking Finance Companies (Establishment and Regulation) Rules, 2003. The said rules prohibit a NBFC to appoint more than 25% of its Directors from the same family. Currently, 27% of the Directors are from the same family. The following directors have tendered their resignation to facilitate compliance with the said rules:

- i) Mrs. Darakshan Bashir
- ii) Mr. Qaim Mehdi
- iii) Mr. Farrukh Ahmad Kamran

The Directors of the Company have no interest in this special resolution except to the extent in the capacity as directors of the Company.

Item 7

The Securities and Exchange Commission of Pakistan (SECP) vide its circular No.19 of 2004 dated April 14, 2004 has allowed the listed companies to place their quarterly accounts on their websites instead of sending the same to each shareholder by post. This would ensure prompt disclosure of information to the shareholders in addition to saving costs associated with the printing and dispatch of the quarterly accounts by post.

The Company maintains a website (www.escortbank.net) and the latest accounts may be placed there for information of the shareholders and general public. However, approval of the SECP would be sought for transmitting the accounts on the website after the approval of the shareholders. The Company, however, will make available printed copies of the quarterly accounts to the shareholders, free of charge on their demand to their registered address within one week of receiving such request.

The Directors of the Company have no interest in the special resolution except to the extent in capacity as directors of the Company.

Notes:

- i) The share transfer books of the Company will remain closed from October 23, 2004 to October 29, 2004 (both days inclusive). Transfers received at Hameed Majeed Associates (Private) Limited, H.M House, 7 Bank Square, Lahore, by the close of business hours on October 22, 2004 will be treated in time for the purpose of the entitlement of cash dividend.
- ii) 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 of the meeting.
- iii) CDC shareholders entitled to attend and vote at this meeting are requested to bring his/her original NIC or attested copy of the NIC for identification purposes.
- iv) Shareholders are requested to promptly notify the change in address, if any.

FINANCIAL HIGHLIGHTS

EIGHT YEARS OF ESCORTS BANK AT A GLANCE

(Rupees in '000')

SUMMARY	2004	2003	2002	2001	2000	1999	1998	1997
OPERATING RESULTS								
Markup Income	140,700	158,680	111,799	87,150	90,554	88,342	68,601	34,706
Non-Markup Income	98,734	75,215	35,994	10,653	4,031	1,044	1,233	273
Gross Income	239,434	233,895	147,793	97,803	94,585	89,386	69,834	34,979
Markup Expense	85,142	115,310	88,004	63,406	58,870	48,227	25,258	9,004
Operating & Other Expenses	71,678	45,215	32,438	24,924	21,215	19,829	24,240	15,530
Provision against non-performing loans	6,159	1,306	8,068	3,650	2,450	–	–	–
Profit before Tax	76,456	72,064	19,283	5,823	12,050	21,330	20,336	10,445
Profit after Tax	73,622	57,562	12,283	688	8,150	14,330	13,442	6,741
Dividends (%)	15.00	15.00	6.00	NIL	5.00	10.00	NIL	NIL
BALANCE SHEET								
Shareholders' Equity	369,817	241,195	213,632	213,350	212,662	214,512	220,183	206,741
Reserves	37,363	22,639	11,126	8,670	8,532	6,902	4,037	1,348
Deposits	1,129,757	692,668	731,582	316,200	423,969	513,351	309,527	423,800
Borrowings from Financial Institutions	1,060,029	777,900	310,000	175,000	58,000	–	–	–
Total Liabilities	2,368,842	1,692,905	1,179,613	521,206	523,308	559,942	323,131	433,115
Tangible Fixed Assets	23,220	13,208	13,398	7,464	6,328	6,184	8,022	9,111
Intangible Fixed Assets	42,420	7,170	–	–	–	–	–	–
Financing - Net of Provision	481,396	375,654	207,014	123,551	99,348	104,197	137,228	263,134
Investments & Placements	1,899,916	1,427,863	938,660	498,876	523,619	490,611	356,248	319,726
Total Assets	2,742,118	2,026,831	1,412,104	735,256	735,970	774,454	543,314	639,856
FINANCIAL RATIOS								
Earning per Share (Rs.)	3.045	2.686	0.614	0.034	0.407	0.716	0.672	0.477
Market Value per Share (Rs.)	14.90	9.40	7.75	5.00	5.50	11.50	3.35	N/A
Net Asset Value per Share (Rs.)	12.44	16.70	11.62	10.70	10.63	10.73	11.01	10.34
Price Earning ratio	4.89	3.50	12.62	147.06	13.51	16.06	4.99	N/A
Profit Before Tax ratio (%)	31.93	30.81	13.05	5.95	12.74	23.86	29.12	29.86
Return on Capital Employed (%)	24.10	25.31	5.75	0.32	3.82	6.59	6.30	4.26
Total Assets to Gross Income ratio	11.45	8.67	9.55	7.52	7.78	8.66	7.78	18.29
Cost to Income ratio (%)	65.50	68.63	81.49	90.31	84.67	76.14	70.88	70.14
Revenue to Expenses (Times)	1.53	1.46	1.23	1.11	1.18	1.31	1.41	1.43
Advances to Deposits (Times)	0.43	0.54	0.28	0.39	0.23	0.20	0.44	0.62
Gross Spread ratio (%)	39.49	27.33	21.28	27.24	34.99	45.41	63.18	74.06
Return on Average Assets (%)	3.09	3.35	1.14	0.09	1.08	2.17	2.27	1.79
Borrowings to Equity (Times)	2.87	3.23	1.45	0.82	0.27	–	–	–
Total Liabilities to Equity (Times)	6.41	7.02	5.52	2.44	2.46	2.61	1.47	2.09

CHAIRMAN'S MESSAGE

It gives me great pleasure to comment on the Annual Accounts of Escorts Investment Bank for the Financial Year 2003 – 2004.

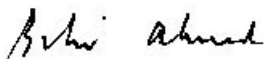
What has pleased me most also happens to be the overwhelming feature of this year's Accounts i.e. the pattern of robust growth, yielding above market returns for the shareholders, has been sustained. This had seemed to be a formidable task, given that the last year's Accounts had shown a year - on - year increase of 383 % in Profit after Tax. An increase of 28 % in Profit after Tax has been achieved over the last year's figure. Accordingly the Board of Directors has been pleased to once again recommend a Cash Dividend at the rate of 15 %. Thus the total Cash Dividend recommended/disbursed for the last three years comes to 36 %. I have also been pleased to note that there has been considerable growth under all heads, such as, Share Holders' Equity, Deposits (Certificates of Investment), Morabaha Financing and the Balance Sheet size. The level of Diversification of Revenues has improved (and will continue to improve, because of the new businesses added) which reduces volatility in the Bank's future profitability. All in all, we can safely conclude that our Bank has closed another good year and the prospects for our business look very encouraging.

I would take this opportunity to thank all the individual and institutional clients and business partners of the Bank for their continued support.

I would also like to commend and facilitate the Executive Management and Staff of the Bank for their professionalism, dedication and relentless hard work.

Special thanks are also due to Dr. Tariq Hassan, Chairman, Securities and Exchange Commission of Pakistan, for being kind enough to inaugurate our new Investment Services Centre at Lahore on May 25, 2004 and to Dr. Ishrat Husain, Governor, State Bank of Pakistan for, taking out time, from his very compelling schedule, to address our Board of Directors on July 14, 2004.

I look forward to sharing with you, year after year, the sustained growth of our Bank.



Bashir Ahmed
Chairman

CHIEF EXECUTIVE'S REVIEW

An Eye On The Future!

Our Strategy Moves On!

Last year I began my Review by saying that it was a very exciting and satisfying moment for me as I briefed you on the performance of Escorts Investment Bank. Exciting because the period under review was my first full financial year as the President and CEO of the Bank; Satisfying because the New Strategy, *Escorts Beyond 2001* that we had designed, and started implementing, for the required *Repositioning for Growth* had completely transformed our Bank into a vibrant, proactive, progressive and a very profitable institution. Well, another full year has now passed and you will certainly be glad to know that neither the excitement, nor the satisfaction has receded. If anything, the reasons I had quoted last year are much more potent and valid today than they were last year.

The following Financial Highlights are a good reflection of the overall progress made:

Financial Highlights (As at June 30, 2004)

Rupees in Million

Sr.#	Description	June 2004	June 2003	Growth	Growth %
1	Profit before Tax	83	73	10	13.7
2	Profit after Tax	74	58	16	28
3	Shareholders' Equity	370	241	129	54
4	Deposits	1,130	693	437	63
5	Morabaha Financing	481	376	105	28
6	Investment in Government Securities	478	814	336	(41)
7	Total Assets	2,742	2,027	715	35
8	Earnings Per Share Rs.	3.05	2.69	0.36	13.4
9	Dividend (Recommended by BOD)%	15	15	0	0

The above figures show that our business is in good shape, the prospects are improving steadily, and we have a *Winning Proposition*.

Our Bank has continued to make progress both in *Quantitative* as well as in *Qualitative* terms. Higher standards, as I have emphasized in all my Reviews, is a phrase that reflects our Bank's commitment to the idea that in every circumstance there is an opportunity to raise the bar. Last year we promised, and delivered, higher standards of performance, for our customers and shareholders. We produced strong revenue and net income gains in all our major business lines, demonstrating *Operational Efficiency* and a sound *Organic Growth Strategy*.

In terms of *Value Addition* we generated Rs.197 Million out of which 22.80 % has been recommended by the Board to be distributed to the Shareholders, representing Cash Dividend at the rate of Rs.1.5 per share of Rs.10.- After this appropriation Rs. 29 million will also be retained in business.

We also responded decisively to the State Bank of Pakistan's (SBP) and Securities and Exchange Commission's (SECP) call to the Financial Sector for raising standards of governance, demonstrating our commitment to ethical conduct and our core values of adhering to *Best Business Practices*.

Taking Capital Markets to the People!

Our strategic focus, in essence, represents a transformation from Pseudo Commercial Banking to genuine Investment Banking activities. This transformation shall enable our Bank to establish itself as a Model NBFC as designed and regulated by the Securities and Exchange Commission of Pakistan.

Moving steadily in this direction we have set up fully equipped Investment Services (Brokerage) Centers at Lahore, Karachi and Islamabad.

Our Investment Services Center at Lahore was inaugurated by Dr. Tariq Hasan, Chairman Securities and Exchange Commission on May 25, 2004 and the latest one at Karachi on July 14, 2004 when the Governor State Bank of Pakistan, Dr. Ishrat Husain addressed our Board of Directors. The presence of the two top regulators on these occasions was a source of great encouragement for the Management of Escorts Bank and was seen, by the market, as an endorsement of the Bank's strategy of *Taking Capital Markets to the People*. The Bank's role as a responsible corporate citizen, in the context of good corporate governance was also appreciated.

Future Outlook

Moving forward, the competition is expected to remain intense, partially fuelled by welcome changes in the regulatory environment, aimed at making financial products more transparent and easier for consumers to compare. This competition makes us all better and stronger as the Financial Sector becomes more sophisticated.

We are continuing to invest in new business activities. The benefit from cost efficiencies across the enlarged business portfolio have just started to accrue. The share of Fee-Based Income in total revenues is steadily increasing. Our income statements for the forthcoming periods shall amply display this diversification of revenue streams. We will continue to leverage innovative business models that add value for our customers and shareholders.

There are two more areas we shall continue to focus upon, namely, building quality Human Resource and a thorough review of major work processes, seeking to rationalize supporting Procedures, Internal Controls and Automation.

Achieving excellent results year after year becomes an ever greater challenge, particularly, in today's competitive financial markets. The clear sense of motivation, purpose, discipline and involvement shown by the Bank's staff and executives, together with their pride in their work and loyalty to their profession and institution, remains our greatest asset. It gives me the confidence that Escorts Bank will continue to make good progress. I would just like to add one more guiding principle for myself and my colleagues, and that is, "*Humility is a great virtue.*" This guiding principle should also be implicit in our approach, at all times.

I take this opportunity to thank the Chairman and the Board of Directors of our Bank for their guidance and support, and the SBP and SECP for providing the necessary enabling environment.

Sincerely,



Rashid Mansur
President & CEO

Lahore : September 27, 2004

DIRECTORS' REPORT

The Board of Directors is pleased to present the Annual Report and audited financial statements for the year ended 30 June 2004.

Performance

Gross revenue during the year amounted to Rs. 239.434 million as compared to Rs. 233.895 million of the previous year. Administrative expenses during the year amounted to Rs. 71.215 million. Provision against non-performing loans amounts to Rs. 6.159 million. The operating (pre-tax) profit increased to Rs. 76.456 million from Rs. 72.064 million last year, an increase of 6%. During the year 2003-2004, the Bank earned an after tax profit of Rs. 73.622 million, up by 28%.

Total assets as at 30 June 2004 stood at Rs. 2.742 billion as against Rs. 2.027 billion at the last year end, reflecting an improvement in the balance sheet size by 35% over 30 June 2003.

Appropriations

During the year, Bank earned an after-tax profit of Rs. 73.622 million. Allocations proposed by the Board out of the profit available for appropriations are as follows:

Operating Results	Rs in '000'
Profit after Tax	73,622
Un-appropriated profit B/F	18,556
Profit available for appropriations	92,178
Appropriated as follows:	
Transferred to statutory reserve	14,724
Cash Dividend at Rs. 1.50 per share (15%)	45,000
Un-appropriated profit C/F	32,454

Earnings Per Share

In line with profitability, earnings per share of the Bank have risen from Rs. 2.686 during 2002-2003 to Rs. 3.045 during 2003-2004 showing an increase of 13%.

Corporate Governance

The Bank has taken measures to comply with the listing regulations regarding the Code of Corporate Governance, details of which are contained in the annexure to this report. The directors hereby confirm the following as required by clause (xxix) of the Code of Corporate Governance.

- a) The financial statements prepared by the management of the company present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- b) Proper books of accounts of the company have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International accounting standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.

- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts upon the company's ability to continue as a going concern.
- g) There is no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) During the year ended June 30, 2004 the directors, CEO, CFO/Company Secretary acquired Right shares of the Bank. Other than this acquisition, there was no other movement in shares. The detail of above acquisition is as under:

Name	Designation	No. of Right Shares acquired
Mr. Bashir Ahmed	Chairman	1,068,015
Mr. Rashid Mansur	CEO	150,000
Mrs. Darakhshan Bashir	Director	571,000
Ms. Shazia Bashir	Director	898,082
Ms. Maryam Bashir	Director (Retired)	735,000
Mr. Mutahir Ahmed	Director	50,000
Mr. Qaim Mehdi	Director	250
Mr. Farrukh Ahmed Kamran	Director	25,000
Mr. Bairam Qureshy	Director	250
Mr. Farooq Hameed Khawaja	Company Secretary & CFO	18,825

- i) Statements regarding the following are annexed:
 - Key financial data for the last eight years.
 - Pattern of share holding.

Credit Rating

As a witness to our performance, JCR-VIS has updated our long term rating to A-, while the short term is maintained at A-2. These ratings denote good credit quality, sound liquidity factors and company fundamentals, adequate protection factors and good certainty of timely payment. The management is striving to further improve the above ratings.

Board of Directors

The Board comprises of two executive and nine non-executive directors. During the year ended 30 June 2004, Mr. Khalid Sherwani and Ms. Maryam Bashir retired due to their personal reasons. The Board records its appreciation of the valuable services rendered by them during their tenure of office as Directors of the Bank. Mr. Syed Asad Ali Shah and Mr. Tajammal Hussain Bokharee filled the casual vacancies thus created. During the year, four meetings of the Board of Directors were held and the following is the detailed of attendance by the Directors:

Directors	Held during Tenure	Attended
Mr. Bashir Ahmed	4	4
Mr. Rashid Mansur	4	4
Mr. Abdul Latif Uqaili	4	4
Ms. Shazia Bashir	4	3
Mr. Tajammal Hussain Bokhari (appointed during the year)	3	3
Mr. Asad Ali Shah (appointed during the year)	2	2
Mr. Bairam Qureshy	4	2
Mrs. Darakhshan Bashir	4	1
Mr. Farrukh Ahmad Kamran	4	1
Ms. Maryam Bashir (resigned during the year)	1	1
Mr. Khalid Sherwani (resigned during the year)	Nil	Nil
Mr. Qaim Mehdi	4	Nil
Mr. Mutahir Ahmed	4	Nil

Leave of absence was granted to directors who could not attend some of the Board meetings.

Value of Provident Fund Investment

The Bank operates a contributory provident fund for all its permanent employees. Equal monthly contributions are made, both by the Bank and the employee to the fund @ 10% of basic salary. The audit of the accounts of Provident Fund Trust is under process, however the value of its investments as at 30 June 2004 works out to Rs. 6.089 million.

Pattern of Shareholding

There were 186 shareholders of the Bank as of 30 June 2004. The pattern of shareholding, disclosing the aggregate number of shares held by various categories of shareholders, appears at the end of this annual report.

Auditors

The present auditors, M/s Ebrahim & Co., Chartered Accountants, retire in accordance with the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan. The Board records its appreciation of the valuable services rendered by M/s Ebrahim & Co. during their tenure of office as external auditors of the Bank.

The Audit Committee has suggested name of M/s KPMG Taseer Hadi Khalid & Co., Chartered Accountants as statutory auditors for the Financial Year 2004-2005. The directors endorse recommendation of the Audit Committee.


Future Outlook

The Bank will continue to look for business simplification opportunities for reducing costs and will remain alert to the fast-changing economic environment. Whilst focus on core investment banking activities will continue, there are opportunities for extending the product portfolio which will be explored so as to ensure growth in the longer term for the Bank and thereby the returns to the stakeholders.

Personnel

The Board would like to take this opportunity to express its appreciation to the employees of the Bank for their commitment, hard work and co-operation throughout the year. The Bank recognizes and records its gratitude for all their efforts.

For and on behalf of the Board



Rashid Mansur
Chief Executive



Shazia Bashir
Director

Lahore: September 27, 2004

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance (“the Code”) contained in listing regulations of stock exchanges where the Company’s shares are listed, for the purpose of establishing a framework of good 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 nine non-executive directors including two independent directors. The Company has on its Board two director representing minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including Escorts Bank.
3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFC or being a member of a stock exchange, has been declared a defaulter by that stock exchange.
4. During the year ended June 30, 2004, Mr. Khalid Sherwani and Ms. Maryam Bashir resigned from the Board and the Board of Directors appointed Mr. Tajammal Hussain Bokharee and Mr. Asad Ali Shah to fill the casual vacancies thus created within the prescribed period.
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 Bank. 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 decision on material transactions including appointment and determination of remuneration and terms and conditions of employment of the CEO and Executive Director have been taken by the Board.
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 meeting along with agenda and working papers were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.

9. The Board has approved appointment of the CFO and the Company Secretary including their remuneration, terms and conditions of employment as determined by the CEO.
10. 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.
11. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
12. 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.
13. The Company has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors including the chairman of the committee.
15. 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.
16. The Board has set up an effective internal audit function.
17. 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 and all its 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 Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
19. We confirm that all other material principles contained in the Code have been complied with.



Rashid Mansur
Chief Executive



Shazia Bashir
Director

Lahore: September 27, 2004



AUDITORS' 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 **ESCORTS INVESTMENT BANK LIMITED** to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange and Chapter XIII of the Lahore Stock Exchange 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 provision 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 as applicable to the Company for the year ended June 30, 2004.

Karachi
Dated: September 27, 2004.

EBRAHIM & COMPANY
CHARTERED ACCOUNTANTS



STATEMENT OF ETHICS AND BUSINESS PRACTICES

The following core values have been incorporated in our System to promote ethical business practices while producing quality products.

Business Practices

Escorts Bank recognizes responsibility in the following areas:

Shareholders: To protect shareholders investment and to provide them maximum return on these investments. We focus on maximizing long-term shareholders' value through strong financial performance and returns, disciplined and profitable expansion.

Customers: To provide them with the best investment opportunities and financial products that can cater to changing economic environment. Our focus is on building enduring relationships with our clients to help meet their financial goals, providing friendly, caring, seamless service and excellent value through a wide range of products and services. Prompt, efficient attention to complaints is integral to our client care commitment.

Employees: To provide our employees with a friendly and congenial environment to work in and to provide them an equal opportunity to prosper and grow. There are job opportunities available for the most deserving candidates depending on their professional achievements and skills in their chosen departments. We feel that strong relationship with employees is vital to our future success. Each employee plays an important role in advancing our reputation and is required to be fully familiar with our code of conduct. We are focused on providing leading-edge workplace practices, opportunities for continuous learning, and challenging and satisfying careers to our employees.

Society: To conduct business as a good corporate citizen of the society, while respecting and complying with the prevalent laws as a financial entity.

Business Integrity

Escorts Bank believes in the following five principles to be applied in all aspects of their business:

- Personal Responsibility
- Integrity
- Honesty
- Teamwork
- Diversity

All business transactions on behalf of Escorts Investment Bank Limited must be reflected accurately and fairly in the accounts of the Company in accordance with established procedures and should be subject to audit.

Reliability and Reporting

All transactions and contracts are fully documented and are available for review of the concerned quarters. Escorts Bank complies with the International Accounting Standards (as applicable in Pakistan) and all applicable laws and regulations, whereby its financial statements present a true picture of the underlying transactions.

Economic Principles

Maximization of profitability is essential for any financial institution, as this is used as a yardstick to determine efficiency. Also, it is necessary to allocate resources in a manner that will result in profitability. Escorts Bank allocates resources including Capital, Management Time, Human Resources and Information Technology according to a range of factors, such as size and complexity of the operation, growth prospects and contribution made by each area.

Political Activities

Escorts Bank believes in staying detached from all political activities.

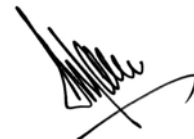
Health and Safety

The maintenance of appropriate health and safety standards throughout Escorts Bank is a key responsibility of all managers. Escorts Bank's objective is to identify, remove, reduce or control material risks of fire and of accidents or injuries to employees and visitors.

STATEMENT OF COMPLIANCE WITH BEST PRACTICES ON TRANSFER PRICING FOR THE YEAR ENDED JUNE 30, 2004

The Company has fully complied with the best practices on Transfer Pricing as contained in the Listing Regulations of the stock exchanges where the Company's shares are listed.

For and on behalf of the Board



Rashid Mansur
Chief Executive

Lahore: September 27, 2004

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **ESCORTS INVESTMENT BANK LIMITED** as at June 30, 2004 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;
 - 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, 2004 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
Dated: September 27, 2004

EBRAHIM & COMPANY
CHARTERED ACCOUNTANTS

**BALANCE SHEET
AS AT JUNE 30, 2004**

	Note	2004 Rupees	2003 Rupees
ASSETS			
Cash and bank balances	4	60,503,764	68,446,192
Placements	5	769,093,424	323,093,425
Investments	6	1,130,823,021	1,104,770,424
Morabaha financing	7	481,396,304	375,653,895
Other assets	8	234,661,158	134,489,582
Membership cards	9	42,420,000	7,170,000
Fixed assets	10	23,220,356	13,207,575
		2,742,118,027	2,026,831,093
LIABILITIES			
Borrowings from financial institutions	11	1,060,029,319	777,900,000
Certificates of investments	12	1,129,757,482	692,667,583
Subordinated loans		—	84,030,171
Liabilities against assets subject to finance lease	13	1,032,002	3,235,381
Creditors, accrued and other liabilities	14	89,218,606	18,831,898
Provision for taxation	15	38,762,083	36,262,083
Dividends	16	45,059,779	30,045,002
Deferred tax liability	17	4,982,521	49,932,547
		2,368,841,792	1,692,904,665
Net assets		373,276,235	333,926,428
Represented by :			
Share Capital	18	300,000,000	200,000,000
Reserves	19	37,363,397	22,638,911
Unappropriated profits		32,453,589	18,555,643
		369,816,986	241,194,554
Surplus on revaluation of securities	20	3,459,249	92,731,874
		373,276,235	333,926,428
Contingencies and commitments	21		

The annexed notes form an integral part of these accounts.



Rashid Mansur
Chief Executive



Shazia Bashir
Director

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2004**

	Note	2004 Rupees	2003 Rupees
INCOME			
Profit on morabaha financing		43,419,734	41,378,249
Profit on placements		14,302,720	40,338,196
Return on investments		81,299,668	69,978,252
Gain on repurchase transactions		34,304,545	13,622,079
Profit on sale of investments		46,868,039	59,174,598
Profit on bank deposits		1,677,488	6,985,408
Fees and commission	22	17,039,680	2,077,839
Other income		522,357	340,225
		<u>239,434,231</u>	<u>233,894,846</u>
EXPENDITURE			
Cost/return on deposits, borrowings etc.		85,142,191	115,310,205
Administrative and other operating expenses	23	71,214,931	44,514,515
Financial charges	24	462,664	699,830
		<u>156,819,786</u>	<u>160,524,550</u>
		82,614,445	73,370,296
OPERATING PROFIT			
Provision against non-performing morabaha financing	7.3	6,158,787	1,305,879
OPERATING PROFIT BEFORE TAXATION		<u>76,455,658</u>	<u>72,064,417</u>
PROVISION FOR TAXATION			
Current year 25		2,500,000	14,500,000
Prior year		-	2,310
Deferred		333,226	-
		<u>2,833,226</u>	<u>14,502,310</u>
PROFIT AFTER TAXATION		73,622,432	57,562,107
UNAPPROPRIATED PROFIT BROUGHT FORWARD		18,555,643	2,505,957
PROFIT AVAILABLE FOR APPROPRIATIONS		<u>92,178,075</u>	<u>60,068,064</u>
APPROPRIATIONS			
Transferred to statutory reserve	19	14,724,486	11,512,421
Proposed dividend 15% (2003: 15%)		45,000,000	30,000,000
		<u>59,724,486</u>	<u>41,512,421</u>
UNAPPROPRIATED PROFIT CARRIED FORWARD		<u>32,453,589</u>	<u>18,555,643</u>
EARNINGS PER SHARE		26	
		<u>Rs. 3.045</u>	<u>Rs. 2.686</u>

The annexed notes form an integral part of these accounts.



Rashid Mansur
Chief Executive



Shazia Bashir
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2004

	Note	2004 Rupees	2003 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		76,455,658	72,064,417
Adjustments for non cash charges			
Depreciation	10.1	4,935,967	3,151,232
Provision against non performing financing	7.3	6,158,787	1,305,879
(Gain)/loss on sale of fixed assets	10.1	(303,599)	9,550
Fixed assets written off		45,815	-
		10,836,970	4,466,661
Decrease/(Increase) in operating assets			
Others assets		(80,900,728)	2,956,798
Morabaha financing		(111,901,196)	(169,946,221)
Placements		(445,999,999)	14,130,000
		(638,801,923)	(152,859,423)
(Decrease)/Increase in operating liabilities			
Certificates of investment		437,089,899	(38,913,913)
Borrowings from financial institutions		282,129,319	467,900,000
Creditors, accrued and other liabilities		70,386,708	4,824,827
		789,605,926	433,810,914
		238,096,631	357,482,569
Income tax paid		(19,270,847)	(28,780,312)
Net cash inflow from operating activities		218,825,784	328,702,257
CASH FLOW FROM INVESTING ACTIVITIES			
Additions to fixed assets		(13,309,888)	(3,281,697)
Capital work in progress		(1,863,216)	-
Intangible assets under development		(698,437)	-
Proceeds from sale of fixed assets		1,180,576	311,394
Investments (net)		(160,608,474)	(379,527,533)
Purchase of membership card		(35,250,000)	(7,170,000)
Net cash outflow from investing activities		(210,549,439)	(389,667,836)
CASH FLOW FROM FINANCING ACTIVITIES			
Subordinated loans		(84,030,171)	-
Payment of lease obligation under finance leases		(2,203,379)	(1,887,338)
Dividend paid		(29,985,223)	(11,998,366)
Received against right shares		100,000,000	-
Net cash outflow from financing activities		(16,218,773)	(13,885,704)
Net (decrease) in cash and cash equivalents		(7,942,428)	(74,851,283)
Cash and cash equivalents at the beginning of the year		68,446,192	143,297,475
Cash and cash equivalents at the end of the year	4	60,503,764	68,446,192

The annexed notes form an integral part of these accounts.



Rashid Mansur
Chief Executive



Shazia Bashir
Director

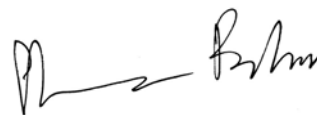
**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2004**

	Share capital	Statutory reserve	Unappropriated Profit	Total
	R u p e e s			
Balance as on July 01, 2002	200,000,000	11,126,490	2,505,957	213,632,447
Net profit for the year ended June 30, 2003	–	–	57,562,107	57,562,107
Transfer to statutory reserve	–	11,512,421	(11,512,421)	–
Proposed dividend	–	–	(30,000,000)	(30,000,000)
Balance as at June 30, 2003	200,000,000	22,638,911	18,555,643	241,194,554
Received against right shares	100,000,000	–	–	100,000,000
Net profit for the year ended June 30, 2004	–	–	73,622,432	73,622,432
Transfer to statutory reserve	–	14,724,486	(14,724,486)	–
Proposed dividend	–	–	(45,000,000)	(45,000,000)
Balance as at June 30, 2004	300,000,000	37,363,397	32,453,589	369,816,986

Note: The annexed notes form an integral part of these accounts.



**Rashid Mansur
Chief Executive**



**Shazia Bashir
Director**

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2004

1. LEGAL STATUS AND NATURE OF BUSINESS

Escorts Investment Bank Limited is a public limited company incorporated in Pakistan under the Companies Ordinance, 1984. The Company is listed on the Karachi and Lahore Stock Exchanges. The Company was incorporated in Pakistan on May 15, 1995 and started its commercial operation on October 16, 1996. Escort Investment Bank Limited is licensed to carry out all investment finance services as a Non-Banking Finance Company under Section 282C of the Companies Ordinance, 1984 and Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (previously it was licensed to carry out all investment finance activities described under SRO 585(1)/(87) dated July 13, 1987, issued by the Ministry of Finance). The registered office of the Company is situated at Escort House, 26 Davis Road, Lahore.

The Company is a member of Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited.

Based on the financial results for the year ended June 30, 2003, JCR-VIS Credit Rating Company Limited upgraded the long-term credit rating of Escorts Investment Bank Limited to 'A-' (Single A minus) and maintained the short-term rating at 'A2' (A two).

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards (IASs) 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 (SECP) differ with requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for certain available for sale investments, which are measured at fair value.

3.2 Investments

The Company classifies its investments as held to maturity, available for sale or held for trading.

- **Held to maturity**

Investments with fixed maturity where management has both the intent and ability to hold to maturity are classified as held to maturity.

- **Available for sale**

Investments intended to be held for an unidentified period of time, which may be sold in response to needs for liquidity or changes to interest rates, exchange rates or equity prices are classified as available for sale.

- **Held for trading**

Investments that are acquired principally for the purpose of generating profit from short-term fluctuations in price or dealer's margin are classified as held for trading.

All investments are initially recognized at cost, being the fair value of the consideration given.

Subsequent to initial recognition, in accordance with the requirements of BSD Circular No.20 dated August 4, 2000 issued by State Bank of Pakistan, securities for which ready quotes are available on Reuters page (PKRV) or Stock Exchange are valued at market value and the resulting surplus/(deficit) kept in a separate account and is shown in the balance sheet below the shareholders' equity. At the time of disposals the respective surplus or deficit is transferred to income currently.

3.3 Lendings / borrowings from financial institutions

The Company also enters into transactions of sale and repurchase / purchase and resale at contracted rates for a specified period of time. These are recorded as under:

- **Sale under repurchase obligations:**

Where the securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received. The charges arising from the differential in sale and repurchase value are accrued on a pro-rata basis and recorded as expense.

- **Purchase under resale obligations:**

Securities purchased under a commitment to resale are not recognized on the balance sheet and the consideration paid is recorded as an asset. The differential of the contracted price and resale price is amortized over the period of the contract and recorded as income.

3.4 Provision for doubtful financing

The Company provides for doubtful financing in accordance with NBFC's Prudential Regulations issued by the Securities and Exchange Commission of Pakistan. Once a financial asset is classified, income is not recognized on that asset.

3.5 Membership cards

These are stated at cost less impairment, if any. The carrying amounts are reviewed at each balance sheet date to assess whether these are recorded in excess of their recoverable amounts, and where carrying value is in excess of recoverable amount, these are written down to their estimated recoverable amount.

3.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged using reducing balance method. Gains or losses on deletion of fixed 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.

3.7 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment, if any. Amortisation is recorded when these assets are available for use using straight line method whereby the cost of an intangible asset is written off over its estimated useful life.

3.8 Assets subject to finance leases

The Company accounts for assets acquired under finance 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.

3.9 Taxation

Current

Provision for current taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any.

Deferred

Provision for deferred taxation is made on all timing differences at the balance sheet date, between the tax base of the assets and liabilities and their carrying amounts for the financial reporting purposes. Debit balances on account of deferred taxation is recognized only if there is reasonable certainty for realization.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates that have been enacted at the balance sheet date.

3.10 Staff retirement benefits

The Company operates a recognized provident fund scheme for all its permanent employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at 10% of basic salary.

3.11 Compensated absences

Liability in respect of accumulated compensated absences of employees is accounted for in the period in which these absences are earned.

3.12 Financial Instruments

- **Financial assets**

Financial assets are cash and bank balances, placements, investments, Morabaha financing, advances, deposits and other receivables. Morabaha financing are stated at their nominal value as reduced by provision for doubtful financing, while other financial assets are stated at cost except for investments and foreign currency balances, which have been revalued as per accounting policy.

- **Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include loans, borrowings, creditors, accrued expenses and other payables. Interest bearing loans and borrowings are recorded at gross proceeds received. Other liabilities are stated at their nominal value. Financial charges are accounted for on accrual basis.

- **Recognition and derecognition**

All the financial assets and financial liabilities are recognized at the time when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the Company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished - that is, when the obligation specified in the contract is discharged, cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

- **Offsetting of financial assets and financial liabilities**

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has legally enforceable right to setoff the recognized amount and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.13 Currency translation

Transactions in foreign currencies are translated into rupees at the rates of exchange approximating those prevailing at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at exchange rate prevailing on the balance sheet date except those covered by forward exchange contracts. Exchange differences on translations during the year are taken to profit and loss account.

3.14 Revenue recognition

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

Dividend income is recognized when the right to receive is established. Fee and commission income is recorded on actual receipt basis except guarantee commission received in advance, which is deferred over the guarantee period.

Consultancy and corporate advisory fee income is recognized using percentage of completion method.

Income on debt securities is recognized according to repayment schedule.

3.15 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalent consists of cash in hand and balances with banks net of borrowings not considered to be in the nature of financing activities.

3.16 Transactions with related parties

Transactions with associated undertakings/related parties i.e. staff retirement fund, directors and key management personnel are entered into at prices determined on an arms length basis using the comparable uncontrolled price method.

	Note	2004 Rupees	2003 Rupees
4. CASH AND BANK BALANCES			
Cash with banks			
Current accounts with			
State Bank of Pakistan		9,744,568	8,170,865
Others		603,794	590,164
		<u>10,348,362</u>	<u>8,761,029</u>
Savings accounts	4.1	50,155,402	59,685,163
		<u>60,503,764</u>	<u>68,446,192</u>

4.1 The rate of return on these accounts range from 1.30% to 3.00% per annum (2003: 3.00% to 4.50% per annum).

5. PLACEMENTS

Considered good			
Unsecured	5.1	234,093,424	323,093,425
Secured under reverse purchase agreements	5.2	535,000,000	—
		<u>769,093,424</u>	<u>323,093,425</u>

5.1 These represent placements with financial institutions at mark-up rates ranging from 4.25% to 10.00% per annum (2003: 5.10% to 12.50% per annum).

5.2 Securities held as collateral

Pakistan Investment Bonds		500,000,000	—
Quoted Shares		35,000,000	—
		<u>535,000,000</u>	<u>—</u>

These represent placements for terms ranging from 1 month to 6 months at mark-up rates ranging from 1.80% to 8.50% per annum (2003: Nil).



6. INVESTMENTS

Note	2004 Rupees				2003 Rupees				
	Held by Bank	Repo	Reverse repo	Total	Held by Bank	Repo	Reverse repo	Total	
Held to maturity									
Musharika Investment	-	-	-	-	21,000,000	-	-	21,000,000	
Available for sale									
Pakistan Investment Bonds	6.1	-	977,925,000	500,000,000	477,925,000	231,699,000	530,000,000	-	761,699,000
Term Finance Certificates	6.2	151,299,493	-	-	151,299,493	79,822,908	54,704,000	-	134,526,908
Wapda Bonds		-	-	-	-	52,250,000	-	-	52,250,000
Listed Shares / certificates / units	6.3	481,598,528	35,000,000	35,000,000	481,598,528	135,294,516	-	-	135,294,516
Unlisted Mutual Fund Units	6.4	20,000,000	-	-	20,000,000	-	-	-	-
		652,898,021	1,012,925,000	535,000,000	1,130,823,021	499,066,424	584,704,000	-	1,083,770,424
		652,898,021	1,012,925,000	535,000,000	1,130,823,021	520,066,424	584,704,000	-	1,104,770,424

6.1 Pakistan Investment Bonds

These have been issued by the Government of Pakistan and carry profit at rates ranging from 10% to 12% (2003: 9% to 13%) per annum.

6.2 Particulars of Term Finance Certificates

Number of Certificates		Name	2004 Rupees		2003 Rupees	
2004	2003		Cost	Market value	Cost	Market value
Sugar and Allied						
18,742	31,238	Al-Noor Sugar Mills Limited	1,874,250	2,024,190	3,123,750	3,396,041
66,640	99,960	Shahmurad Sugar Mills Limited	6,664,000	6,885,911	9,996,000	10,680,726
Chemical and Pharmaceutical						
43,964	43,982	Engro Chemical Limited – 2 nd Issue	4,396,480	4,484,410	4,398,240	4,948,020
99,960	100,000	Ittehad Chemicals Limited	9,996,000	9,996,000	10,000,000	10,000,000
427,150	–	Pharmagen Limited	42,715,000	42,715,000	–	–
Synthetic & Rayon						
24,960	212,225	Dewan Salman Fibre Limited – 2 nd Issue	2,496,000	2,695,680	21,600,748	23,101,293
Oil & Gas Exploration Companies						
171,079	–	First Oil & Gas Securities Limited	17,107,920	17,450,078	–	–
Cement						
166,600	199,960	Maple Leaf Cement Company Limited – 1 st Issue	16,660,000	17,992,800	19,996,000	22,935,412
Investment Companies & Banks						
24,979	41,633	Atlas Investment Bank Limited	2,498,000	2,722,819	4,163,333	4,579,666
Leasing						
100,000	–	Al-Zamin Leasing Limited	10,000,000	10,000,000	–	–
–	49,980	Crescent Leasing Corporation Limited	–	–	4,998,000	5,897,640
99,960	100,000	KASB Leasing Limited	9,996,000	10,038,983	10,000,000	10,880,000
50,000	50,000	Orix Leasing Company Limited – 2 nd Issue	5,000,000	5,398,000	5,000,000	5,675,000
49,990	50,000	Pacific Leasing Company Limited	4,999,000	5,045,491	5,000,000	5,000,000
1,747	5,244	Pakistan Industrial Leasing Corporation Limited	188,926	178,286	538,506	529,755
–	50,000	Paramount Leasing Limited	–	–	5,000,000	5,250,000
31,299	41,733	Saudi Pak Leasing Limited – 1 st Issue	3,129,998	3,380,085	4,173,330	4,684,563
–	49,985	Securities Leasing Corporation Limited	–	–	5,260,974	5,823,253
99,920	99,960	Union Leasing Limited	9,992,000	10,291,760	9,996,000	11,145,540
			147,713,574	151,299,493	123,244,881	134,526,908



Other particulars of Term Finance Certificates

Name	Certificates Denomination Rupees	Rate	Profit payment	Redemption terms
Sugar and Allied				
Al-Noor Sugar Mills Limited	5,000	2.50% over SBP discount rate with 16.6% per annum as floor and 18.50% per annum as ceiling	Semi-annually	Five years from November 2000
Shahmurad Sugar Mills Limited	5,000	15.50% per annum subject to a maximum prompt payment bonus of 2.00% with floor at 15.50% per annum and ceiling at 17.50% per annum	Semi-annually	Five years from May 2002
Chemical and Pharmaceutical				
Engro Chemical Limited – 2 nd Issue	5,000	1.10% over the weighted average yield of last three cut-off rates of five years PIBs with 11% per annum as floor and 15% per annum as ceiling	Semi-annually	Four equal semi-annual installments with grace period of 36 months
Ittehad Chemicals Limited	5,000	2.50% over SBP discount rate with 7% per annum as floor and 12% per annum as ceiling	Semi-annually	Five years from June 2003 with call option exercisable from eighteenth months with a 60 days advance notice
Pharmagen Limited	5,000	2.50% over the weighted average rate of the last three cut off rates of five years Pakistan Investment Bonds with 8.50% per annum as floor and 11.50% per annum as ceiling.	Semi-annually	Five years from October 2003
Synthetic and Rayon				
Dewan Salman Fibre Limited – 2 nd Issue	5,000	16.00% per annum	Quarterly	Four years from June 2001
Oil and Gas Exploration Companies				
First Oil and Gas Securities Limited	5,000	2.50% over SBP discount rate with 10.50% per annum as floor and 14.50% per annum as ceiling	Monthly	Thirty six months from September 2003 with grace period of 3 months



Name	Certificates Denomination Rupees	Rate	Profit payment	Redemption terms
Cement				
Maple Leaf Cement Company Limited – 1 st Issue	5,000	2.50% over the weighted average yield of last three cut-off rates of five years PIBs with 15.25% per annum as floor and 17.75% per annum as ceiling	Semi annually	Six equal semi-annual installments with grace period of 12 months
Investment Companies and Banks				
Atlas Investment Bank Limited	5,000	18.00% per annum	Semi annually	Five years from December 1999
Leasing				
Al-Zamin Leasing Limited	5,000	8.00% per annum	Semi annually	Five years from December 2003
KASB Leasing Limited	5,000	2.25% over the weighted average rate of the last three cut-off rates of five-years Pakistan Investment Bonds with 11.50% per annum as floor and 14.50% per annum as ceiling	Semi annually	Call option exercisable anytime after twenty four months from date of issue with three months advance notice at premium of 0.50% on the outstanding amount
Orix Leasing Company Limited – 2 nd Issue	5,000	2% over SBP discount rate with 10% per annum as floor and 13% per annum as ceiling	Semi annually	Four years from July 2002
Pacific Leasing Company Limited	5,000	2% over SBP discount rate with 10.50% per annum as floor and 13.50% per annum as ceiling	Semi annually	Four years from July 2003 with call option exercisable from eighteenth month till the expiry of thirty-sixth month with 60 days advance notice at premium of 0.50% on outstanding balance
Pakistan Industrial Leasing Corporation Limited	5,000	18% per annum	Semi annually	Five years from December 21, 1999
Saudi Pak Leasing Limited – 1 st Issue	5,000	18.25% per annum	Semi annually	Five years from January 18, 1999
Union Leasing Limited	5,000	2.25% over SBP discount rate with 14.50% per annum as floor and 16.75% per annum as ceiling	Semi-annually	Two equal semi-annual installments with grace period of 24 months

6.3 Particulars of Listed Shares/Certificates/Units

All shares/certificates/units have face value of Rs. 10 each except for Faysal Balanced Growth Fund (Rs. 100 each) and Atlas Income Fund (Rs. 500 each).

Number of Shares/ Certificates/Units		Name	2004 Rupees		2003 Rupees	
2004	2003		Cost	Market value	Cost	Market value
Insurance Companies						
150,400	86,000	Adamjee Insurance Company Limited	10,061,760	10,106,880	5,129,900	5,151,400
15,500	–	Askari General Insurance Limited	323,950	323,950	–	–
10,000	–	New Jubilee Life Insurance Limited	260,000	260,000	–	–
Commercial Banks						
708,500	100,500	The Bank of Punjab	37,019,125	36,992,925	1,934,625	1,989,900
2,000	–	Askari Commercial Bank Limited	128,000	127,800	–	–
363,500	–	Faysal Bank Limited	13,074,635	13,011,825	–	–
332,000	51,000	Muslim Commercial Bank Limited	16,799,200	16,799,200	1,915,050	1,915,050
104,600	325,000	National Bank of Pakistan	6,955,900	6,955,400	8,965,000	8,872,500
–	350	PICIC Commercial Bank Limited	–	–	5,431	6,791
1,500	–	Trust Commercial Bank	16,950	16,950	–	–
Investment Banks & Investment Companies						
392,000	–	Crescent Standard Investment Bank Limited	3,699,800	3,684,800	–	–
24,000	–	Pakistan Venture Capital Fund	204,300	234,000	–	–
3,000	–	Security Investment Bank Limited	42,300	42,300	–	–
Modarabas						
186,000	–	Prudential Modaraba	781,200	781,200	–	–
Oil and Gas Exploration Companies						
695,000	–	Oil and Gas Development Company Limited	44,827,500	44,827,500	–	–
19,000	–	Pakistan Oil Fields Limited	4,059,940	3,961,500	–	–
Oil and Gas Marketing Companies						
135,000	90,000	Pakistan State Oil Company Limited	35,261,301	34,661,250	20,539,363	20,551,500
357,500	400,000	Sui Northern Gas Pipelines Company Limited	23,201,750	23,130,250	13,200,000	13,240,000
520,000	18,000	Sui Southern Gas Company Limited	17,030,000	17,047,475	378,900	378,900

Number of Shares/ Certificates/Units		Name	2004 Rupees		2003 Rupees	
2004	2003		Cost	Market value	Cost	Market value
Refinery						
1,000	500	Attock Refinery Limited	88,500	91,500	47,775	47,775
514,000	–	Bosicor (Pakistan) Limited	12,774,040	11,796,300	–	–
Sugar						
16,000	–	Bawany Sugar Mills Limited	112,800	112,800	–	–
20,000	–	Pangrio Sugar Mills Limited	84,000	84,000	–	–
30,000	–	Sakrand Sugar Mills Limited	160,500	160,500	–	–
Cement						
32,000	–	Chakwal Cement Limited	246,400	246,400	–	–
674,500	400,000	D.G. Khan Cement Company Limited	38,648,850	38,697,750	12,360,000	12,340,000
446,000	50,000	Fauji Cement Limited	7,795,000	7,269,800	423,550	365,000
338,000	30,000	Lucky Cement Limited	13,249,600	13,228,400	541,500	541,500
387,500	75,000	Maple Leaf Cement Company Limited	14,899,375	14,734,900	1,218,750	1,226,250
10,000	–	Saadi Cement Limited	165,500	165,500	–	–
100,000	–	Zeal Pak Cement Limited	1,215,000	1,240,000	–	–
Fertilizer						
1,000	–	Dawood Hercules Chemicals Limited	180,700	180,700	–	–
–	47,000	Engro Chemicals (Pakistan) Limited	–	–	4,077,250	4,081,950
170,584	–	Fauji Fertilizer Bin Qasim Limited	3,218,175	3,219,973	–	–
–	20,000	Fauji Fertilizers Company Limited	–	–	1,719,612	1,741,000
–	600,000	Fauji Jordan Fertilizer Company Limited	–	–	8,130,000	8,070,000
Automobile Parts and Accessories						
16,000	–	General Tyres Company Limited	895,950	736,000	–	–
Automobile Assembler						
277,000	–	Dewan Farooq Motors Limited	6,841,900	6,851,900	–	–
Power Generation and Distribution						
1,021,000	625,000	Hub Power Company Limited	35,531,674	32,981,800	23,655,515	23,687,500
10,000	500,000	Karachi Electricity Supply Corporation Limited	75,800	74,000	3,300,000	3,300,000
50,000	–	Kohinoor Energy Limited	1,714,925	1,740,000	–	–
638,000	135,000	Southern Electric Power Company Limited	11,198,479	9,761,400	2,315,250	2,301,750

Number of Shares/ Certificates/Units		Name	2004 Rupees		2003 Rupees	
2004	2003		Cost	Market value	Cost	Market value
Technology and Communication						
1,495,000	300,000	Pakistan Telecommunication Company Limited	63,928,718	63,014,250	8,550,000	8,535,000
103,000	-	TRG Pakistan Limited	831,750	686,750	-	-
129,500	75,000	World Call Limited	2,023,401	1,837,475	1,140,000	1,140,000
Textile Composite						
237,500	200,000	Nishat Mills Limited	12,409,375	12,467,125	7,020,000	7,010,000
10,000	-	Taj Textile Mills Limited	58,500	58,500	-	-
Mutual Fund – Open End						
20,000	-	Atlas Income Fund	10,000,000	10,377,000	-	-
50,000	-	Faysal Balanced Growth Fund	5,000,000	5,000,000	-	-
Mutual Fund – Closed End						
11,500	-	ICP SEMF	513,800	513,800	-	-
50,000	35,000	Pak Premier Fund	764,666	960,000	528,000	497,000
40,000	-	PICIC Investment Fund	720,000	720,000	-	-
2,500,000	-	ABAMCO Composite Fund	25,000,000	23,500,000	-	-
Chemicals						
-	25,000	ICI Pakistan Limited	-	-	1,343,750	1,342,500
255,000	-	Nimir Industrial Chemical Limited	1,670,250	1,670,250	-	-
Transport						
-	275,000	Pakistan International Airlines Corporation	-	-	3,465,000	3,451,250
Synthetic and Rayon						
37,500	200,000	Dewan Salman Fiber Limited	849,375	849,375	3,510,000	3,510,000
Miscellaneous						
94,500	-	Macpac Films Limited	3,744,989	3,605,175	-	-
			490,359,603	481,598,528	135,414,221	135,294,516

6.4 This includes investment in 190,105 units (2003: nil) of Dawood Money Market Fund (Open end fund).

	Note	2004 Rupees	2003 Rupees
7. MORABAHA FINANCING			
Secured			
Considered good and performing			
Associated company	7.1	3,391,036	20,000,000
Executives	7.1	4,037,255	925,110
Others		449,897,265	320,459,494
		457,325,556	341,384,604
Considered doubtful and non performing			
Others		45,703,079	49,742,835
Less: Provisions for doubtful morabaha financing	7.3	21,632,331	15,473,544
		24,070,748	34,269,291
		481,396,304	375,653,895

7.1 The maximum balance outstanding at the end of any month during the year was:

Associated company		
Escorts Pakistan Limited	3,391,000	20,000,000
Executives	4,037,255	1,641,000

7.2 Morabaha financing facilities are secured by hypothecation of or charge on assets, mortgage of property, lien over bank deposits and pledge of stocks. The expected rates of return range from 7.50% to 16% per annum (2003: 5.25% to 18.00% per annum).

7.3 Particulars of provision against non-performing advances are as follows:

Opening balance	15,473,544	14,167,665
Charge for the year	6,158,787	1,305,879
Closing balance	21,632,331	15,473,544

	Note	2004 Rupees	2003 Rupees
8. OTHER ASSETS			
Unsecured			
Executives	8.2	1,866,196	1,503,652
Other employees		1,552,862	97,148
		3,419,058	1,600,800
Income Tax		90,435,546	71,164,699
Others		250,000	83,859
		90,685,546	71,248,558
		95,407,687	74,203,756
Security deposits		18,719,850	1,574,932
Prepayments			
Office rent		6,747,510	4,003,955
Others		792,914	418,591
		7,540,424	4,422,546
Other receivables (considered good)			
Receivables against sale of shares		85,970,506	27,511,450
Accrued markup on investments and morabaha financing	8.3	19,332,762	20,693,388
Income tax refundable		5,808,854	5,808,854
Club membership receivable	8.4	1,350,000	–
Others		531,075	274,656
		112,993,197	54,288,348
		234,661,158	134,489,582
8.1	This is secured against equitable mortgage of property and carries mark-up at 7% per annum (2003: 7% per annum).		
8.2	The maximum amount due from Executives at the end of any month during the year was Rs. 3.365 million (2003: Rs. 1.398 million).		
8.3	These include a balance due from an associated company amounting to Rs. 0.030 million (2003: Rs. 0.483 million). Maximum amount due from the associated company at the end of any month during the year was Rs. 0.030 million (2003: Rs. 1.026 million).		
8.4	This represents amounts paid by the Company in respect of club membership fees of Chairman and Chief Executive which are recoverable from them.		
9. MEMBERSHIP CARDS			
Corporate membership of Karachi and Lahore Stock Exchanges-At cost		42,420,000	7,170,000
10. FIXED ASSETS			
Tangible			
Operating fixed assets	10.1	20,658,703	13,207,575
Capital work in progress	10.3	1,863,216	–
		22,521,919	13,207,575
Intangible			
Computer software under development	10.4	698,437	–
		23,220,356	13,207,575

10.1 TANGIBLE FIXED ASSETS

(Amount in Rupees)

PARTICULARS	C O S T				RATE %	D E P R E C I A T I O N				WRITTEN DOWN VALUE AS AT 30-06-2004
	AS AT 01-07-2003	ADDITIONS/ DISPOSALS	ADJUSTMENT	AS AT 30-06-2004		AS AT 01-07-2003	ADJUSTMENT/ DISPOSAL	For the Year	AS AT 30-06-2004	
Owned assets										
Leasehold improvements	4,480,462	2,425,920 (100,700)	45,007	6,850,689	20	2,529,342	8,551 (59,453)	880,571	3,359,011	3,491,678
Office furniture and fixtures	2,806,067	1,001,094 (6,635)	(45,007)	3,755,519	10	666,973	(8,551) (2,067)	309,916	966,271	2,789,248
Computer equipment	2,392,244	2,060,775	–	4,453,019	33.33	1,117,512	–	1,111,724	2,229,236	2,223,783
Office equipment	2,053,086	1,998,441	–	4,051,527	10	813,586	–	323,794	1,137,380	2,914,147
Vehicles	7,936,892	5,823,658 (2,125,200)	3,122,400	14,757,750	20	4,998,158	1,426,912 (1,248,223)	1,916,181	7,093,028	7,664,722
	19,668,751	11,077,353	3,122,400	33,868,504		10,125,571	117,169	4,542,186	14,784,926	19,083,578
Leased assets										
Vehicles	6,198,815	–	(3,122,400)	3,076,415	20	2,534,421	(1,426,912)	393,781	1,501,290	1,575,125
Total Rupees – 2004	25,867,566	11,077,353	–	36,944,919		12,659,992	(1,309,743)	4,935,967	16,286,216	20,658,703
Total Rupees – 2003	23,539,989	6,105,272	(3,777,695)	25,867,566		10,141,935	(633,176)	3,151,232	12,659,991	13,207,575



10.2 The following assets were disposed off during the year :

PARTICULARS	COST (Rupees)	ACCUMULATED DEPRECIATION (Rupees)	WRITTEN DOWN VALUE (Rupees)	SALE PROCEEDS (Rupees)	Gain/(Loss)	MODE OF DISPOSAL	PARTICULARS OF PURCHASER
Improvements on leasehold premises	100,700	59,453	41,247	-	-	Written off	
Office furniture and fixture	6,635	2,067	4,568	-	-	Written off	
Vehicles	693,800	577,399	116,401	420,000	303,599	By negotiation	Mr. Saqib Mahmood
	675,000	398,520	276,480	276,480	-	By negotiation	Mr. Suleman Malik, (Executive)
	756,400	272,304	484,096	484,096	-	By negotiation	Mr. Shauzab Ali, (Ex-employee)
	2,125,200	1,248,223	876,977	1,180,576	303,599		
Total	2,232,535	1,309,743	922,792	1,180,576	303,599		

2004
Rupees

2003
Rupees

10.3 Capital work in progress

Leasehold improvements	1,863,216	-
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10.4 This represents cost incurred on development of accounting software.



	Note	2004 Rupees	2003 Rupees
11. BORROWINGS FROM FINANCIAL INSTITUTIONS			
From Banks and Non Banking Financial Institutions			
Unsecured	11.1	125,000,000	150,000,000
Secured	11.2	935,029,319	627,900,000
		<u>1,060,029,319</u>	<u>777,900,000</u>

11.1 These borrowings carry markup at rates ranging from 4.50% to 4.90% per annum (2003: 3.75% to 11.00% per annum).

11.2 These represent borrowings against repurchase transactions and carry markup at rates ranging from 0.50% to 5.50% per annum (2003: 2.10% to 3.25% per annum). The borrowings are secured against related investments (Note 5).

11.3 The unutilized running finance facility in respect of running finance under mark-up arrangements from a commercial bank amounts to Rs. 45 million (2003: Nil). The facility carries mark-up at the rate of 5.00% per annum. The facility is secured by pledge of Term Finance Certificates having cost of Rs. 73.148 million.

12. CERTIFICATES OF INVESTMENTS

Financial institutions	312,251,250	57,251,250
Others	817,506,232	635,416,333
	<u>1,129,757,482</u>	<u>692,667,583</u>
12.1 Due with in one year	990,730,027	528,638,305
Due after one year	139,027,455	164,029,278
	<u>1,129,757,482</u>	<u>692,667,583</u>

12.2 Certificates of Investments are issued for periods ranging from one month to five years. The expected rate of return payable on these Certificates of Investments (COIs) range from 3.50% to 12.50% per annum (2003: 3.90% to 15.00% per annum).

13. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2004 Rupees			2003 Rupees		
	Within One year	More than one year	Total	Within one year	More than one year	Total
Minimum lease payments	1,076,141	–	1,076,141	1,574,332	2,004,622	3,578,954
Less: Financial charges allocated to future periods	44,139	–	44,139	288,584	54,989	343,573
Present value of minimum lease payments	<u>1,032,002</u>	–	<u>1,032,002</u>	<u>1,285,748</u>	<u>1,949,633</u>	<u>3,235,381</u>

At the end of lease period, the ownership of assets shall be transferred to the Company on payment of residual value. The cost of operating and maintaining the leased assets is borne by the Company.

This liability represents the unpaid balance of the total of minimum lease payments and the residual value payable at the end of lease period discounted at rates ranging from 16% to 19% per annum (2003: 16% to 22.5% per annum).

	2004	2003
	Rupees	Rupees
14. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Customers credit balances	66,661,109	3,918,179
Accrued return on Certificates of Investment	12,244,101	9,104,203
Accrued mark-up on subordinated loans	-	966,922
Accrued mark-up on unsecured borrowings	1,572,262	609,589
Accrued return on repurchase transactions	2,804,863	1,274,500
Accrued expenses	5,476,948	2,175,073
Unearned fee income	459,323	783,432
	<u>89,218,606</u>	<u>18,831,898</u>

15. PROVISION FOR TAXATION

15.1 Tax rate

The Company has used income tax rates applicable to listed companies (other than banking companies) in computing the tax liabilities for all the years upto tax year 2004.

In the initial assessments made by Deputy Commissioner of Income Tax (DCIT), the rate applicable to banking companies had been used for the assessment years 1997-98 to 2000-2001, for which the Company had filed appeals with the Commissioner of Income Tax (Appeals).

Commissioner of Income Tax (Appeals) directed the DCIT to apply the rates applicable to listed companies for assessment years 1997-98, 1998-99 and 1999-2000 against which the department preferred appeals before Income Tax Appellate Tribunal (ITAT). ITAT has rejected these appeals against which Commissioner of Income Tax has filed a reference application before the ITAT, who have referred the case to the Honorable Lahore High Court for their authoritative resolution. The management is confident that the outcome of the case will be decided in their favor.

15.2 Taxability of dividend income

The ITAT has referred the matter of taxability of dividend income as separate block of income instead of business income for assessment year 1997-98 to 1998-1999 to the Honorable Lahore High Court for their authoritative resolution. The management is confident that the outcome of the case will be decided in their favor.

15.3 Withholding tax

In the assessments for the assessment years 1999-2000 and 2000-2001 no disallowances were made by the DCIT on the issue for non-deduction of tax on return on inter bank deposits from financial institutions, on the grounds that Company has been assigned the status of a banking company. This treatment, however, is subject to the decision of an appeal filed by the department in the Honorable Lahore High Court against the decision of ITAT on the same issue for previous assessment years (see 15.1 above). The management is of the opinion that these amounts are clean borrowings from the banks/NBFIs and not deposits and, therefore, withholding tax provisions do not apply.

15.4 Pending appeals

Appeal for the assessment year 1999-2000 is pending before the Income Tax Appellate Tribunal and assessment year 2000-2001 is pending before the Commissioner of Income Tax (Appeals).

	Note	2004 Rupees	2003 Rupees
16. DIVIDENDS			
Unclaimed		59,779	45,002
Proposed		45,000,000	30,000,000
		<u>45,059,779</u>	<u>30,045,002</u>
17. DEFERRED TAX LIABILITY			
Taxable temporary differences on fixed assets		333,226	—
Taxable temporary differences on surplus on revaluation of securities	20	4,649,295	49,932,547
		<u>4,982,521</u>	<u>49,932,547</u>
18. SHARE CAPITAL			
Authorized capital			
50,000,000 ordinary shares of Rs. 10 each		500,000,000	500,000,000
Issued, subscribed and paid-up capital			
30,000,000 (2003: 20,000,000) ordinary shares of Rs. 10 each fully paid in cash		300,000,000	200,000,000
19. RESERVES			
Balance brought forward		22,638,911	11,126,490
Transferred from profit and loss account		14,724,486	11,512,421
Balance carried forward		<u>37,363,397</u>	<u>22,638,911</u>
This represents statutory reserves created in compliance of Rule 2 of Part III of Prudential Regulation for Non Banking Finance Companies issued by Securities and Exchange Commission of Pakistan.			
20. SURPLUS ON REVALUATION OF SECURITIES			
Government securities		13,283,700	131,502,100
Term finance certificates		3,585,919	11,282,027
Shares of listed companies		(8,761,075)	(119,706)
		8,108,544	142,664,421
Less: Related deferred tax liability			
Prior year		—	6,600,503
Current year		4,649,295	43,332,044
		<u>4,649,295</u>	<u>49,932,547</u>
		<u>3,459,249</u>	<u>92,731,874</u>

21. CONTINGENCIES AND COMMITMENTS

21.1 Contingencies

a. **Guarantees**

Outstanding guarantees as on balance sheet date were Rs. 203.767 million (2003: Rs.75.561 million).

b. **Taxation**

In the event of unfavourable decisions in pending tax matters detailed in Note: 15, the Company would be faced with maximum tax liability of Rs. 8.619 million (2003: Rs. 8.619 million) and maximum charge against profits in respect of provisions not made amounting to Rs. 27.071 million (2003: Rs. 27.071 million).

	2004 Rupees	2003 Rupees
21.2 Commitments		
Forward sale contracts	<u>50,000,000</u>	<u>50,000,000</u>
Forward purchase contracts	<u>250,000,000</u>	<u>-</u>
Capital expenditure	<u>1,554,421</u>	<u>-</u>

22. FEES AND COMMISSION

Guarantee commission	2,094,654	1,137,894
Processing fee	225,046	218,065
Consultancy and corporate advisory fee	973,433	300,000
Brokerage commission	13,684,047	309,380
Underwriting commission	62,500	112,500
	<u>17,039,680</u>	<u>2,077,839</u>

23 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Directors fees	10,000	-
Salaries, wages, other benefits and allowances	35,739,469	20,412,578
Staff training and welfare	124,197	92,204
Advertisement and business promotion	459,890	1,019,381
Rent, rates and taxes	5,627,935	3,874,375
Travelling and subsistence	1,492,692	1,316,404
Utilities	2,074,442	1,593,660
Auditors remuneration		
Audit fee	125,000	125,000
Review of half yearly accounts	62,500	35,000
Audit fee of Provident Fund Trust	-	8,000
Certification and consultancy charges	54,200	170,000
Out of pocket expenses	69,323	16,362
	<u>311,023</u>	<u>354,362</u>

	2004	2003
	Rupees	Rupees
Telephone charges	2,942,927	1,255,723
Vehicle running and maintenance	1,867,537	1,436,590
Entertainment	1,824,064	761,286
Printing and stationery	1,630,660	599,870
Brokerage and commission	1,006,254	3,040,856
Insurance premium	979,556	688,156
Repairs and maintenance – office	1,369,314	1,435,366
Repairs and maintenance – equipment	191,244	93,627
Fees and subscriptions	1,431,264	1,128,564
Legal and professional charges	1,746,809	1,371,635
Books and periodicals	104,841	58,639
Postage and courier service	270,651	139,022
Terminal activation and services charges	3,349,783	115,287
Charges paid to CDC and NCCPL	1,466,734	-
Depreciation	4,935,967	3,151,233
Penalty paid to State Bank of Pakistan	-	486,500
Loss on sale of fixed assets	-	9,550
Fixed assets written off	45,815	-
Miscellaneous expenses	211,863	79,647
	<u>71,214,931</u>	<u>44,514,515</u>

23.1 This includes Company's contribution to provident fund amounting to Rs. 1.400 million (2003: Rs. 0.911 million).

24. FINANCIAL CHARGES

Mark-up on finance lease	279,792	600,544
Bank and other charges	182,872	99,286
	<u>462,664</u>	<u>699,830</u>

	2004	2003
	%	%
25. NUMERICAL RECONCILIATION BETWEEN THE AVERAGE EFFECTIVE TAX RATE AND THE APPLICABLE TAX RATE		
Applicable tax rate	35.00	35.00
Tax effect of amounts that are:		
(Taxable)/not deductible for tax purposes	3.94	(0.53)
Chargeable to tax at lower rates	(3.37)	(0.31)
Effect of exempt income	(32.30)	(14.04)
	(31.73)	(14.88)
Average effective tax rate charged to Profit and loss account	3.27	20.12

	2004	2003
26. EARNINGS PER SHARE – BASIC		
Profit for the period after taxation (Rupees)	73,622,432	57,562,107
Weighted average number of ordinary share	24,176,125	21,428,571
Earnings per share (Rupees)	3.045	2.686

26.1 Basic earnings per share for the current and the previous years has been adjusted for right shares issued during the current year.

26.2 Diluted

No figure for diluted earnings per share has been presented as the Company has not issued any instrument which would have an impact on its earnings per share when exercised.

27. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

The related parties and associated undertakings comprise local associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel under the terms of employment are as follows:

	2004	2003
	Rupees	Rupees
Transaction during the year		
Return on morabaha financing received	1,427,598	3,926,982
Guarantee commission earned	964,592	500,480
Profit paid on Certificates of Investment	8,765,872	5,225,351
Markup on subordinated debt	4,945,117	11,764,220
Contribution to staff retirement benefits plan	1,400,188	910,801
Fixed assets sold	484,096	307,894

	2004 Rupees	2003 Rupees
Balance at the year end		
Advances outstanding	9,464,425	23,306,406
Letters of guarantee outstanding	143,940,000	25,024,000
Certificates of Investment outstanding	124,704,002	70,469,631
Subordinated loans outstanding at year end	—	84,030,171
Club membership receivable	1,350,000	—

28. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND OTHER EXECUTIVES

	Chief Executive		Director		Executives	
	2004	2003	2004	2003	2004	2003
	Rupees		Rupees		Rupees	
Managerial Remuneration	3,463,708	2,540,748	1,016,400	847,200	10,832,376	5,924,633
House rent allowance	—	—	—	—	2,871,375	1,859,766
Utilities	346,369	254,076	101,640	84,720	1,287,820	1,056,636
Bonus	—	251,707	92,400	77,000	2,010,065	644,384
Leave encashment	377,560	302,048	—	—	567,354	165,858
Retirement benefits	340,070	254,076	—	—	936,371	565,359
Other benefits	1,173,714	527,706	194,040	84,480	890,752	142,656
	5,701,421	4,130,361	1,404,480	1,093,400	19,396,113	10,359,292
	1	1	1	1	33	18

- i) In addition to above the Chief Executive, Executive Director and twelve Executives were provided with use of the Company maintained cars and reimbursement of medical expenses.
- ii) Fees amounting to Rs. 10,000 was paid to one Director for attending the audit committee and board meetings.
- iii) Chairman secretariat expenses have been reimbursed.

29. LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Company has diversified its funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The maturity profile is monitored on regular basis at ALCO to ensure that adequate liquidity is maintained. The table below summarizes the maturity profile of the Company's assets and liabilities:

Description	Total	Within one year	More than one year and upto five years	Above five years
	(Rupees)			
As at June 30, 2004				
Assets				
Cash and bank balances	60,503,764	60,503,764	-	-
Placements	769,093,424	701,870,000	67,223,424	-
Investments	1,130,823,021	1,130,823,021	-	-
Morabaha financing	481,396,304	313,179,804	168,216,500	-
Other assets	234,661,158	210,674,686	4,342,763	19,643,709
Membership cards	42,420,000	-	-	42,420,000
Fixed assets	23,220,356	-	-	23,220,356
	2,742,118,027	2,417,051,275	239,782,687	85,284,065
Liabilities				
Borrowings from financial institutions	1,060,029,319	1,060,029,319	-	-
Certificates of Investments	1,129,757,482	990,730,027	139,027,455	-
Liabilities against assets subject to finance lease	1,032,002	1,032,002	-	-
Creditors, accrued and other liabilities	89,218,606	89,218,606	-	-
Provision for taxation	38,762,083	38,762,083	-	-
Dividends	45,059,779	45,059,779	-	-
Deferred tax liability	4,982,521	4,982,521	-	-
	2,368,841,792	2,229,814,337	139,027,455	-
Net assets	373,276,235	187,236,938	100,755,232	85,284,065
Represented by:				
Share capital and reserves	369,816,986			
Surplus on revaluation of investments	3,459,249			
	<u>373,276,235</u>			



Description	Total	Within one year	More than one year and upto five years	Above five years
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(Rupees)

As at June 30, 2003

Assets

Cash and bank balances	68,446,192	68,446,192	–	–
Placements	323,093,425	255,870,000	67,223,425	–
Investments	1,104,770,424	1,104,770,424	–	–
Morabaha financing	375,653,895	289,756,381	85,897,514	–
Other assets	134,489,582	129,682,793	2,328,679	2,478,110
Membership cards	7,170,000	–	–	7,170,000
Fixed assets	13,207,575	–	–	13,207,575
	<u>2,026,831,093</u>	<u>1,848,525,790</u>	<u>155,449,618</u>	<u>22,855,685</u>

Liabilities

Borrowings from financial institutions	777,900,000	777,900,000	–	–
Certificates of Investments	692,667,583	528,638,305	164,029,278	–
Subordinated loan	84,030,171	84,030,171	–	–
Liabilities against assets subject to finance lease	3,235,381	1,949,633	1,285,748	–
Creditors, accrued and other liabilities	18,831,898	18,831,898	–	–
Provision for taxation	36,262,083	36,262,083	–	–
Dividends	30,045,002	30,045,002	–	–
Deferred tax liability	49,932,547	49,932,547	–	–
	<u>1,692,904,665</u>	<u>1,527,589,639</u>	<u>165,315,026</u>	<u>–</u>

NET ASSETS	<u>333,926,428</u>	<u>320,936,151</u>	<u>(9,865,408)</u>	<u>22,855,685</u>
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Represented by:

Share capital and reserves	241,194,554
Surplus on revaluation of investments	92,731,874
	<u>333,926,428</u>

30. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The management attempts to control credit risk through monitoring credit exposures, limiting transactions with specific counter parties, and continuous assessing of the credit worthiness of counter parties.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicate the relative sensitivity of a Company's performance to developments affecting a particular industry.

Breakdown of credit risk exposure by class of business as at June 30, 2004 is as follows:

Class of business	Morabaha Financing		Certificates of Investment		Letter of Guarantee	
	2004 Percentage	2003	2004 Percentage	2003	2004 Percentage	2003
Chemicals and pharmaceuticals	1.79	2.56	–	–	–	–
Agribusiness	2.98	3.83	–	–	–	–
Textile spinning	2.98	3.87	–	–	–	–
Sugar	15.31	20.45	–	–	–	–
Financial	6.56	13.78	27.17	8.27	–	–
Insurance	–	–	0.27	0.43	–	–
Electronic and electric appliances	–	5.11	0.88	–	70.64	33.12
Production and transmission of energy	3.18	5.02	10.97	0.46	–	–
Steel and allied products	–	–	–	–	–	1.39
Individuals	35.98	17.03	39.91	59.89	–	–
Engineering	–	5.06	–	–	13.39	36.12
Sports	–	–	6.73	11.02	–	–
Communications	–	–	0.44	0.26	4.83	–
NGOs	–	–	2.04	0.43	–	–
Others	31.22	23.29	11.59	19.24	11.14	29.37
Total	100.00	100.00	100.00	100.00	100.00	100.00

31. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is exposed to interest rate risk as a result of mismatches or gaps in the amounts of financial assets and liabilities that mature or reprice in a given period.

The Company's exposure to interest rate risk on its financial assets and financial liabilities is summarized as follows:

Description	Total	Within one year	More than one year and upto five years	Above five years	Not exposed to interest rate risk
	Rupees				
As at June 30, 2004					
Financial assets					
Cash and bank balances	60,503,764	50,155,402	–	–	10,348,362
Placements	769,093,424	701,870,000	67,223,424	–	–
Investments	1,130,758,021	1,130,758,021	–	–	–
Morabaha financing	481,396,304	313,179,804	168,216,500	–	–
Other assets	130,876,334	110,160	413,847	923,859	129,428,468
Membership cards	42,420,000	–	–	–	42,420,000
Total	2,615,047,847	2,196,073,387	235,853,771	923,859	182,196,830
Financial liabilities					
Borrowing from financial institutions	1,060,029,319	1,060,029,319	–	–	–
Certificate of investment	1,129,757,482	990,730,027	139,027,455	–	–
Liabilities against assets subject to finance lease	1,032,002	1,032,002	–	–	–
Creditors, accrued and other liabilities	89,218,606	–	–	–	89,218,606
Dividends	45,059,779	–	–	–	45,059,779
Total	2,325,097,188	2,051,791,348	139,027,455	–	134,278,385
Total interest rate sensitivity gap		144,282,039	96,826,316	923,859	
Cumulative interest rate sensitivity gap		144,282,039	241,108,355	242,032,214	



Description	Total	Within one year	More than one year and upto five years Rupees	Above five years	Not exposed to interest rate risk
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As at June 30, 2003

Financial assets

Cash and bank

balances	68,446,192	59,685,163	–	–	8,761,029
Placements	323,093,425	255,870,000	67,223,425	–	–
Investments	1,104,770,424	1,104,770,424	–	–	–
Morabaha financing	375,653,895	289,756,381	85,897,514	–	–
Other assets	53,093,516	63,032	388,188	903,178	51,739,118
Membership cards	7,170,000	–	–	–	7,170,000
	<u>1,932,227,452</u>	<u>1,710,145,000</u>	<u>153,509,127</u>	<u>903,178</u>	<u>67,670,147</u>

Financial liabilities

Borrowing from

financial institutions	777,900,000	777,900,000	–	–	–
Certificate of investment	692,667,583	528,638,305	164,029,278	–	–
Subordinated loan	84,030,171	84,030,171	–	–	–
Liabilities against assets subject to finance lease	3,235,381	1,949,633	1,285,748	–	–
Creditors, accrued and other liabilities	18,831,898	–	–	–	18,831,898
Dividends	30,045,002	–	–	–	30,045,002
	<u>1,606,710,035</u>	<u>1,392,518,109</u>	<u>165,315,026</u>	<u>–</u>	<u>48,876,900</u>

Total interest rate

sensitivity gap	<u>317,626,891</u>	<u>(11,805,899)</u>	<u>903,178</u>
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Cumulative interest rate

sensitivity gap	<u>317,626,891</u>	<u>305,820,992</u>	<u>306,724,170</u>
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Effective interest rates are mentioned in the respective notes to the accounts.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying values and the fair value estimates.

The carrying value of financial assets and financial liabilities approximate their fair values as reflected in the financial statements.

33. NUMBER OF EMPLOYEES

The total number of employees at year end was 77 (2003: 40).

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. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 27, 2004 by the Board of Directors of the Company.

33. GENERAL

Figures have been rounded off to the nearest rupee.



Rashid Mansur
Chief Executive



Shazia Bashir
Director

**PATTERN OF SHARE HOLDING
AS ON JUNE 30, 2004**

Number of Shareholders		Shareholdings		Total Shares Held	
2	From	1	To	100	21
29	From	101	To	500	12,948
51	From	501	To	1000	49,000
46	From	1001	To	5000	133,750
14	From	5001	To	10000	103,250
5	From	10001	To	15000	68,750
5	From	15001	To	20000	88,575
1	From	20001	To	25000	21,000
1	From	25001	To	30000	26,750
2	From	30001	To	35000	63,000
2	From	35001	To	40000	74,500
1	From	45001	To	50000	47,737
1	From	50001	To	55000	55,000
1	From	65001	To	70000	67,117
2	From	70001	To	75000	149,500
3	From	95001	To	100000	300,000
1	From	105001	To	110000	108,000
1	From	120001	To	125000	122,250
2	From	145001	To	150000	300,000
1	From	150001	To	200000	188,000
1	From	220001	To	225000	220,500
2	From	295001	To	300000	600,000
1	From	500001	To	505000	505,000
1	From	640001	To	645000	641,601
1	From	845001	To	850000	850,000
1	From	860001	To	865000	862,000
1	From	995001	To	1000000	1,000,000
1	From	1000001	To	1005000	1,000,500
1	From	1065001	To	1070000	1,066,250
1	From	1710000	To	1715000	1,713,000
1	From	2200001	To	2205000	2,203,500
1	From	2450001	To	2455000	2,451,502
1	From	3200001	To	3205000	3,204,046
1	From	11700001	To	11705000	11,702,953
186					30,000,000

Categories of Shareholders			
Particulars	Number of Shareholders	Shares Held	Percent
Individuals	156	14,261,254	47.5375
Investment Companies	1	641,601	2.1387
Joint Stock Companies	18	11,788,908	39.2964
Financial Institutions	10	3,288,237	10.9608
Modaraba Companies	1	20,000	0.0667
	<u>186</u>	<u>30,000,000</u>	<u>100.0000</u>



PATTERN OF SHARE HOLDING AS ON JUNE 30, 2004
INFORMATION AS REQUIRED BY CODE OF CORPORATE GOVERNANCE

Particulars	Number of Shareholders	Shares held	Percent
Directors, Chief Executive Officer, and their spouse and minor children			
Mr. Bashir Ahmad	1	3,204,046	10.68
Ms. Shazia Bashir	1	2,451,502	8.17
Mrs. Darakshan Bashir	1	1,713,000	5.71
Mr. Rashid Mansur	1	150,000	0.50
Mr. Mutahir Ahmed	1	150,000	0.50
Mr. Farrukh Ahmed Kamran	1	74,500	0.25
Mr. Bairam Qureshi	1	750	0.00
Mr. Qaim Mehdi	1	750	0.00
Mr. Asad Ali Shah	1	500	0.00
Associated Companies, Undertakings and related parties			
M/S ESSEM Power (Pvt) Ltd.	1	11,702,953	39.01
Executive	1	18,825	0.06
ICP	1	641,601	2.14
Banks Deleopment Financial Institutions, Non Banking Financial Institutions			
	5	2,078,500	6.93
Insurance Companies			
	—	—	—
Modarabas and Mutual Funds			
	6	1,229,737	4.10
Share holders holding 10%			
Mr. Bashir Ahmad	1	3,204,046	10.68
M/S ESSEM Power (Pvt) Ltd.	1	11,702,953	39.01
General Public			
Local	146	6,497,381	21.66
Others	17	85,955	0.29



PROXY FORM

I/We _____
of _____ (full address)
member(s) of Escorts Investment Bank Limited, hereby appoint(s) _____
_____ of _____
_____ (full address) or failing him/her
_____ of _____

as my/our Proxy to attend and vote for me/us and on my/our behalf at the 9th Annual General Meeting to be held on October 30, 2004 at 11:30 A.M. and at any adjournment thereof.

As witness my/our hand this _____ day of _____ 2004.

Signed by _____

in the presence of _____

Signature and address of witness

Please affix
Revenue
Stamp

Signature of Member(s)

Share Folio No. _____ Number of Shares held _____

A member entitled to attend and vote at a General Meeting is entitled to appoint a proxy to attend and vote instead of him/her.

The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorized in writing, if the appointer is a corporation, under its common seal or the hand of an officer or attorney duly authorised. A proxy need not be a member.

The instrument appointing a proxy, together with the Power of Attorney, if any, under which it is signed or a notarially certified copy thereof, should be deposited at the Registered Office no less than 48 hours before the time of holding the Meeting.