

## Saudi Pak Leasing Company Limited

Annual Report 1999

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#### CORPORATE MISSION

*Saudi Pak Leasing shall maximize the net wealth of shareholders by operating in the Financial Services sector. The Company would seek market leadership in its core business of leasing by providing superior quality service, developing innovative customer oriented solutions, and valuing people as the greatest resource.*

#### CORPORATE OBJECTIVE

*\*Extend lease finance to businesses which are expected to contribute positively to economic development;*

*\* Support enterprises that create value; and*

*\*Provide lease finance in areas that offer compatible risk and returns.*

### CORPORATE INFORMATION

#### Board of Directors

Mr. Muhammad Rashid Zahir	Chairman
Senator Ihsanul Haq Piracha	Vice Chairman
Mr. Parvez Abbasi	Director
Mr. Abdul Jabbar Kasim	Chief Executive
Mr. Faridullah Khan	Director
Mr. Nauman Ahmed Qureshi	Director
Mr. Haroon Ihsan	Director

#### Company Secretary

Mr. Shakil Akhtar Qureshi, FCA

#### Auditors

A. F. Ferguson & Co.

#### Legal Advisors

Mobsin Tayebaly & Co.

#### Bankers

Standard Chartered Bank  
Askari Commercial Bank Ltd.  
Oman International Bank S.A.O.G.  
Bank of America NT & SA  
Mashreq Bank psc  
Muslim Commercial Bank Limited  
Faysal Bank Limited

ANZ Grindlays Bank  
 The Bank of Tokyo - Mitsubishi Ltd.  
 The Bank of Khyber  
 Credit Agricole Indosuez  
 Habib Bank Limited  
 Bank Al Habib Limited

**Registrars and Share Transfer office**

THK Associates (Pvt.) Ltd.  
 Ground Floor, Sheikh Sultan Trust  
 Building # 2, Beaumont Road, Karachi.  
 Tel: 5689021, 5686658

**Registered Office**

19-B, Sindhi Muslim Co-operative  
 Housing Society, Karachi.  
 Tel: 4535611-20  
 Fax: 4522561,4556352

**Branches**

<b>Lahore</b>	<b>Islamabad</b>
131-A-E/1, Main Boulevard, Gulberg-III; Lahore.	2nd Floor, High-Rise Block, Saudi Pak Tower 61-A, Jinnah Avenue, Blue Area Islamabad
Tel: 5762644-47, 5762634 Fax : 5762633	Tel: 272652 Fax: 272657

**Faisalabad**

Standard Chartered Bank Building Railway Road, Faisalabad  
 Tel: 619056, 618056, 642013 Fax: 642012

**Universal Access Number: 111-888-999**

Karachi, Lahore and Islamabad

**FINANCIAL HIGHLIGHTS**

	(Rs. in million)				
	1999	1998	1997	1996	1995
Authorised Capital	400	400	400	200	200
Paid up Capital	220	220	200	180	150
Total Reserves	124	117	129	125	116
Net Investment in Leases	1870	1,702	1,516	1,497	1,110
Income from Leasing					
Operations	320	280	292	251	199
Profit before taxation	44	49	74	84	69
Taxation	9	8	19	14	28
Profit after taxation	35	41	55	70	41
Dividends	12.50%	15%	15% 10%*	15%, 11.11%*	20%*
Total Assets	2,342	2,076	1,816	1,793	1,570
Current Ratio	1.08	0.96	1.21	1.08	1.30
Return on average Equity	10.28%	12.17%	17.35%	24.65%	16.60%
Boob Value of Share (Rupees per Share)	15.65	15.31	16.46	16.92	17.75

\*Stock Dividend

**NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the Ninth Annual General meeting of the members of Saudi Pak Leasing Company Limited will be held at FTC Auditorium, Finance and Trade Centre, Shahrah-e-Faisal, Karachi, on November 24, 1999 at 9.30 a.m. to transact the following business:

**ORDINARY BUSINESS:**

1. To confirm the minutes of the 8th Annual General Meeting of the company held on November 03, 1998.
2. To receive, consider and adopt the audited accounts of the company for the year ended June 30, 1999, together with the Directors' and Auditors' Report thereon.
3. To approve the payment of cash dividend. The Board of Directors has recommended cash dividend @ 12.5% i.e. Rs. 1.25 per share of Rs. 10 each for the year ended June 30, 1999.
4. To appoint auditors for the year 1999-2000 and to fix their remuneration. The present Auditors, Messrs. A.F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment.
5. To consider any other business with the permission of the chair.

By Order of the Board SHAKIL AKHTAR QURESHI  
Company Secretary

Karachi: October 27, 1999

**NOTES:**

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote for him/her. A proxy must be a member of the Company.
2. An instrument of Proxy and the power of attorney or other authority (if any) under which it is signed, or notarially certified copy of such power of attorney, in order to be valid must be deposited at the registered office of the Company not less than 48 hours before the time of the meeting.

It gives me great pleasure to present before you the ninth Annual Report together with the audited accounts of Saudi Pals Leasing Company Limited for the year ended June 30, 1999.

The year 1998-99 was a year, of uncertainty and challenges. The general slackness in the economy affected the performance of financial sector. Yet by the grace of Almighty, we were able to achieve satisfactory results.

Total revenues amounted to Rs. 370 million, in 1998-99, compared to Rs. 330 million in the previous year, indicating an increase of 12.1 percent.

Tough competition and reduced business opportunities notwithstanding, Minimum Lease Payments Receivable rose to Rs. 2,161 million on June 30, 1999, from Rs. 2,011 million, on June 30, 1998. Total assets of the company were Rs. 2,011 million during the same period.

Profit Before provisions and taxation amounted to Rs. 44.0 million in 1998-99 as against Rs. 48.5 million in 1997-98.

The slight decline in profit is attributed mainly to sluggish pace of capital formation in the economy, which not only led to lower volume of business but also exerted pressures on earning spreads. Financial Expenses increased owing to relatively slow collection from the lessees in cement and textile sectors. The average cost of funds, however, showed improvement in 1998-99.

Profit after provisions and taxation amounted to Rs. 35.0 million in 1998-99 compared to Rs. 40.5 million in the last year. Reserve for deferred taxation has been created for the current year and also for the prior years to the extent of one fifth of the total liability.

The company augmented its resource base to meet the growing requirements of business. During 1998-99, an amount of Rs. 250 million, was raised through the Term Finance Certificates (TFCs). The Public issue of TFCs was well over subscribed. Medium to long-term funds were raised from the banks, to achieve an optimum mix in terms of tenure. Similar changes were also made in the portfolio of Certificates of Investment (COI). Long-term COI, increased from Rs. 698 million, 1997-98 to Rs. 763 million 1998-99. As a result the company is comfortable in its position on matching of funds.

In 1998-99, leasing companies faced a new development in the form of competition from commercial banks. With the resource quantum and cost of funds firmly in their favour, they were able to gain a strong foothold in the lease market.

To diversify the product line, the company

introduced Consumer Leasing in 1998-99. The lease asset portfolio of the company is well diversified in terms of sectoral exposure

with no single sector exposure over 25% of Net Investment in Leases. Maximum exposure is in Fuel and Energy sectors, followed by Synthetic and Chemical and Pharmaceutical sectors. We continue to invest a major portion of our funds in lease financing of plant and machinery.

We look forward to a general turnaround in the economy in the coming year. Financial sector will have to be prepared to address efficiently the needs of the marketplace and

sharpen focus on product development and satisfaction of customer needs in the new millennium. It will be essential to adapt more quickly to the changing business environment and use human and financial resources more efficiently and effectively

The company's long-term entity rating of A and short-term rating of A1 (A one), must be a source of comfort to the depositors and lenders.

Competition within the leasing sector is expected to intensify, as large sized companies will persistently pursue new strategies, to face the dimensional change in the financial sector. Under the

circumstances, our strategy will be to maintain a sustainable growth rate, develop a cutting edge on pricing, preserve the matching of funds to assets, improve asset quality, and explore new areas of business.

The company has formulated plans to enter the area of operating lease, which offers reasonable potential. We shall explore opportunities for technical collaboration to enhance our transaction capability in this field.

The internal infrastructure has been readied to address the Y2K issue, and tackle any contingent situation.

In line with the policy of judicious balance between retention and payout the Board recommends a cash dividend of 12.5 percent (Rs. 1.25) per share, for the year ended June 30, 1999.

The guidance and cooperation of regulatory authorities is acknowledged with thanks. We owe our gratitude to the banks and financial institutions, and also to our customers, depositors and lessees for their trust. Finally I would like to thank the management and staff for their hard work and dedication.

Muhammad Rashid Zahir  
Chairman  
Karachi: September 27, 1999.

## **DIRECTORS' REPORT**

The Directors have pleasure in presenting the Audited Accounts for the year ended June 30, 1999.

### **Financial Results**

### **Rupees**

Net profit for the year after charging all expenses and provision for potential lease

losses, diminution in value of investments and doubtful debts.	44,003,828
Provision for taxation	9,000,000
Profit after tax	35,003,828
Unappropriated profit brought forward	25,447
Transfer from general reserve	16,080,000
Profit available for appropriation	51,109,275
Appropriations:	
Transfer to	
-- statutory reserve	7,001,000
-- reserve for deferred taxation	16,600,000
-- proposed cash dividend	27,500,000
	51,101,000
Unappropriated profit carried forward	8,275
Earning per share	Rs. 1.59

**Dividend**

The Directors are pleased to recommend a cash dividend @ 12.5 % i.e. Rs. 1.25 per share of Rs. 10/- each.

**Pattern of shareholding**

The pattern of shareholding as on June 30, 1999 is annexed to this report.

**Auditors**

The present auditors, Messrs. A. F. Ferguson & Co., Chartered Accountants, retire and being eligible offer themselves for reappointment.

For and on behalf of the  
Board of Directors

**Muhammad Rashid Zahir**  
Chairman

**Abdul Jabbar Kasim**  
Chief Executive

**Karachi: September 27, 1999**

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed Balance Sheet of Saudi Pak Leasing Company Limited as at June 30, 1999 and the related Profit and Loss Account and Cash Flow Statement, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

(a) in our opinion proper books of account have been kept by the company as required by the companies Ordinance, 1984,;

(b) in our opinion:

(i) the Balance Sheet and Profit and Loss Account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, Profit and Loss Account and Cash Flow Statement, together with the notes forming part thereof, give the information required by the Companies

Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 1999 and of the profit and cash flows 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, 1999

A. F. FERGUSON & CO.  
Chartered Accountants

## BALANCE SHEET AS AT JUNE 30, 1999

	Note	1999 Rupees	1998 Rupees
<b>SHARE CAPITAL &amp; RESERVES</b>			
Authorised capital 40,000,000 (1998: 40,000,000) ordinary shares of Rs 10 each		400,000,000	400,000,000
Issued, subscribed and paid-up capital	3	220,000,000	220,000,000
Reserves	4	124,231,000	116,710,000
Unappropriated profit		8,275	25,447
		344,239,275	336,735,447
REDEEMABLE CAPITAL	5	277,423,557	56,942,215
LONG-TERM DEPOSITS	6	133,095,367	122,529,836
LONG-TERM CERTIFICATES OF INVESTMENT	7	519,554,084	602,450,000
<b>CURRENT LIABILITIES</b>			
Current maturity of redeemable capital	5	159,186,297	73,608,967
Current maturity of long term deposits	6	45,531,880	26,055,888
Short-term certificates of investment	7	614,187,000	511,608,500
Finances under mark-up arrangements	8	168,356,401	246,987,674
Creditors, accrued and other liabilities	9	52,083,849	65,575,762
Dividend	10	28,100,750	33,381,196
		1,067,446,177	957,217,987
CONTINGENCIES AND COMMITMENTS	11	2,341,758,460	2,075,875,485
FIXED ASSETS	12	9,708,220	10,566,198
CAPITAL WORK-IN-PROGRESS	13	1,268,363	--
<b>NET INVESTMENT IN LEASES</b>			
Minimum lease payments receivables		2,161,264,097	2,011,166,162
Add: Residual value of leased assets		252,384,409	250,905,768
Lease contracts receivable		2,413,648,506	2,262,071,930
Less: Unearned lease income		510,292,100	534,488,957
Provision for potential lease losses		34,300,000	25,914,000
		544,592,100	560,402,957
Net investment in leases		1,869,056,406	1,701,668,973
Less: Current portion of net investment in leases		699,715,994	561,277,328
		1,169,340,412	1,140,391,645
LONG-TERM LOANS	15	3,218,473	5,598,988
LONG-TERM PREPAYMENTS		465,974	922,750
DEFERRED COST	16	5,831,563	--
<b>CURRENT ASSETS</b>			
Current portion of net investment in leases		699,715,994	561,277,328
Current portion of long-term loans	15	1,057,231	1,118,624
Short-term loans	17	42,012,243	48,109,473
Advances, deposits, prepayments and other receivables	18	35,492,624	32,174,326
Short-term investments	19	299,687,572	239,104,411
Taxation		46,690,384	25,260,817
Cash and bank balances	20	27,269,407	11,350,925
		1,151,925,455	918,395,904

2,341,758,460	2,075,875,485
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The annexed notes form an integral part of these accounts.

**Muhammad Rashid Zahir**  
Chairman

**Abdul Jabbar Kasim**  
Chief Executive

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

	Note	1999 Rupees	1998 Rupees
<b>REVENUES</b>			
Income from leasing operations	21	320,125,733	280,297,674
Income on investments	22	49,180,636	48,924,141
Other income	23	1,137,668	1,006,212
		370,444,037	330,228,027
<b>EXPENSES</b>			
Financial and other charges	24	233,735,238	233,735,238
Administrative and operating expenses	25	35,782,427	36,459,949
		317,444,209	270,195,187
Operating profit before provisions		52,999,828	60,032,840
Provision for potential lease losses		8,386,000	2,814,000
Provision for doubtful loan		1,000,000	7,693,500
Provision for diminution in value of investments		(390,000)	990,000
		8,996,000	11,497,500
<b>PROFIT BEFORE TAXATION</b>		44,003,828	48,535,340
Taxation			
- for the year		7,300,000	8,000,000
- for prior years		1,700,000	--
		9,000,000	8,000,000
<b>PROFIT AFTER TAXATION</b>		35,003,828	40,535,340
Unappropriated profit brought forward		25,447	600,107
Transferred from General reserves		16,080,000	--
		51,109,275	41,135,447
<b>PROFIT AVAILABLE FOR APPROPRIATION</b>		51,109,275	41,135,447
<b>APPROPRIATIONS:</b>			
Transfer to:			
Statutory reserve		7,001,000	8,110,000
Reserve for deferred taxation		16,600,000	--
Proposed dividend 12.5 % (1998: 15%)		27,500,000	33,000,000
		51,101,000	41,110,000
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>		8,275	25,447
<b>EARNINGS PER SHARE</b>	28	1.59	1.84

The annexed notes form an integral part of these accounts.

**Muhammad Rashid Zahir**  
Chairman

**Abdul Jabbar Kasim**  
Chief Executive

### CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 1999

	Note	1999 Rupees	1998 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	29	54,914,267	79,636,325
Mark-up paid		(69,991,890)	(35,021,208)
Deposits received		30,041,523	8,638,043
Taxes paid		(30,429,567)	(41,687,873)
Net investment in leases		(175,773,433)	(188,623,123)
Decrease/(increase) in loans to employees		2,441,908	(4,955,252)
Increase in long term prepayments		(5,374,787)	(109,942)

	(249,086,246)	(261,759,355)
Net cash used in operating activities	(194,171,979)	(182,123,030)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Capital expenditure	(5,077,896)	(5,212,633)
Proceeds from sale of fixed assets	527,500	739,503
Dividend received	311,320	653,781
Net cash used in investing activities	(4,239,076)	(3,819,349)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds of redemption of capital less repayments	306,058,672	26,384,516
Increase in certificates of investment less repayments	19,682,584	56,928,000
Dividend paid	(32,780,446)	(29,847,772)
Net cash generated from financing activities	292,960,810	53,464,744
Net increase/(decrease) in cash and cash equivalents	94,549,755	(132,477,635)
Cash and cash equivalents at July 1	(235,636,749)	(103,159,114)
Cash and cash equivalents at June 30	(141,086,994)	(235,636,749)

The annexed notes form an integral part of these accounts.

**Muhammad Rashid Zahir**  
Chairman

**Abdul Jabbar Kasim**  
Chief Executive

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 1999

### 1. THE COMPANY AND ITS OPERATIONS

The company is incorporated in Pakistan and is listed on all the Stock Exchanges in Pakistan. The main business activity of the company is leasing of assets.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

#### 2.2 Staff retirement benefits

The company operates:

(i) approved funded gratuity scheme for all employees. Contributions are made annually to the scheme on the basis of actuarial recommendations at the rate of 6.16 percent per annum of basic salaries. The latest actuarial valuation was carried out as at June 30, 1999. The fair value of the scheme assets and liabilities for past services at the latest valuation date were Rs 1,822,401 and Rs 1,578,559 respectively.

Projected Unit Credit method, using the following significant assumptions is used for valuation of the scheme:

- Expected rate of increase in salary level - 13.50 percent per annum.
- Expected rate of income on investments - 15.75 percent per annum.

Gratuity is payable upon completion of prescribed qualifying period of service.

(ii) recognised provident fund scheme for all employees.

#### 2.3 Revenue recognition

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

Front-end fee, commitment fee and other commissions are taken to income when realised.

Dividends are taken to income when received.

#### 2.4 Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. In respect of additions and deletions of assets during the year, depreciation is charged proportionately from the quarter of acquisition and up to deletion respectively.

Maintenance and normal repairs are charged to income as and when incurred. Major extensions, renewals and improvements are capitalised.

Gains and losses on disposal of assets, if any, are included in income currently.

#### 2.5 Provision for potential lease losses





Repayment period	Sale price	Purchase Price	Prompt Payment rebate	Principal Outstanding		1998	
				1999	1998		
(Rupees in million)				Rupees	Rupees		
Commercial Bank	August 1995 - August 1998		100.00	144.95	16.00	--	16,666,666
Commercial Bank	June 1997- June 1999		5.00	6.07	--	--	2,500,000
Commercial Bank	July 1997- July 1999		20.00	24.28	--	2,500,000	12,500,000
Commercial Bank	December 1997 - December 2000		50.000	79.50	4.75	--	41,666,666
Commercial Bank	June 1998- June 2000		9.718	12.246	--	7,674,894	9,717,850
Commercial Bank	December 1998 - December 2001		12.270	15.463	--	11,434,960	--
Commercial Bank	June 1999- June 2001		80.00	116.405	9.205	80,000,000	--
Commercial Bank	December 1998- December 2001		75.000	109.880	--	62,500,000	--
Financial Institution note 5.2	December 1996 - December 1999		30.000	39.257	--	7,500,000	17,500,000
Investment Bank	June 1998 - June 2000		30.000	39.879	--	15,000,000	30,000,000

#### Term Finance Certificates

##### Term Finance Certificates

- note 5.3	January 1999- January 2003	250.000	352.658	--	250,000,000	--
					436,609,854	130,551,182
Less: Current' maturity shown under current liabilities:						
--Long-term finances utilised under mark-up arrangements					96,686,297	73,608,967
- Term Finance Certificates					62,500,000	--
					159,186,297	73,608,967
					277,423,557	56,942,215
					=====	=====

5.1 The facilities are secured by hypothecation of specific leased assets and related lease rentals. The facilities were utilised for disbursement against leasing contracts executed by the company

5.2 This represents balance outstanding from an associated undertaking. Under the agreement the associated company has the option to swap the long term finance with Term Finance Certificates (TFC) mode of finance.

5.3 Term finance certificates are secured by a charge on specific leased assets and related lease rentals.

#### 6. LONG-TERM DEPOSITS

	1999 Rupees	1998 Rupees
Security deposits on leases	178,627,247	148,585,724
Less: Current maturity shown under current liabilities	45,531,880	26,055,888
	-----	-----
	133,095,367	122,529,836
	=====	=====

These represent security deposits received from lessees under lease contracts and are repayable on expiry of the respective lease periods.

#### 7. CERTIFICATES OF INVESTMENT

The company has issued certificates of investment under the permission granted by the Federal Government. These certificates of investment are for periods ranging from 3 months to 5 years and return on these certificates ranges from 14.5 to 18.0 percent per annum. Current maturity of long-term certificates of investment amounting to Rs 244,283,000 (1998: Rs 95,556,000) is included under current liabilities in short-term certificates of investment.

**8. FINANCES UNDER MARK-UP ARRANGEMENTS - SECURED**

	1999 Rupees	1998 Rupees
Running finance - note 8.1	1,080,624	58,441,244
Short-term finance - note 8.2	167,275,777	188,546,430
	-----	-----
	168,356,401	246,987,674
	=====	=====

8.1 The facilities for running finance available from commercial banks amounted to Rs 100 million (1998: Rs 115 million). The rates of mark-up on these finances range from Re 0.44 to Re 0.47 per Rs 1,000 per day The purchase prices are payable on various dates by January 2000 and are renewable.

These facilities are secured by hypothecation of specific leased assets and related lease rentals.

8.2 The facilities available for short-term finance amounted to Rs 210 million (1998: Rs 200 million). The rates of mark-up range from Re 0.40 to Re 0.47 per Rs 1,000 per day These facilities are repayable on various dates by June 2000. The facilities are secured against hypothecation of leased assets and related lease rentals.

**9. CREDITORS, ACCRUED AND OTHER LIABILITIES**

	1999 Rupees	1998 Rupees
Creditors	182,292	14,483,219
Accrued liabilities	1,370,783	2,118,029
Mark-up on:		
-- redeemable capital	20,682,852	1,568,746
-- running finance	810,385	2,826,665
-- short-term finances	2,441,680	3,733,403
Return on certificates of investment	18,409,552	23,001,623
Rentals received in advance	3,152,380	3,334,285
Tax deducted at source	303,382	8,245,794
Contractors' retention money	-	10,553
Central excise duty	-	190,849
Others	4,730,543	6,062,596
	-----	-----
	52,083,849	65,575,762
	=====	=====

9.1 Amount due to associated undertakings at year end amounted to Rs. 2,276,370 (1998: Rs 810,753)

**10. DIVIDEND**

Proposed dividend	27,500,000	33,000,000
Unclaimed dividend	600,750	381,196
	-----	-----
	28,100,750	33,381,196
	=====	=====

**11. CONTINGENCIES AND COMMITMENTS**

11.1 During the year the income tax authorities have finalised the assessment for the financial year ended June 30, 1998 and have made various disallowances on account of initial and extra shift depreciation claimed by the company resulting in additional tax liability of Rs 21,604,651. The company has challenged these disallowances and has filed an appeal with the Commissioner of Income Tax. As the management is confident that the matter will ultimately be decided in favour of the company, no provision has been made in these accounts for the aforementioned amount.

11.2 Commitments for lease disbursements	57,340,000	135,000,000
Commitments in respect of "Repo" transactions:		
- Sale and repurchase agreements	50,000,000	80,000,000
- Purchase and resale agreements	2,000,000	--

**12. FIXED ASSETS**

12.1 The following is a statement of operating assets:

	Cost at July 1, 1998	Additional (deletions) during the year	Cost at June 30, 1999	Accumulated depreciation at July 1, 1998	Depreciation charge for the year/ (accumulated depreciation on deletions)	Accumulated depreciation at June 30, 1999	Written down value at June 30, 1999	Rate % per annum
R u p e e s								
Building improvements	4,130,574	--	4,130,574	2,734,299	670,149	3,404,448	726,126	20
Furniture, fixtures (4 fittin	1,475,909	135,000	1,610,909	867,868	235,742	1,103,610	507,299	20
Vehicles	9,379,896	1,432,000	10,811,896	4,131,687	1,638,556	5,726,650	4,661,246	20

		(424,000)			(43,593)			
Office equipment & appliances	8,834,968	2,242,533 (187,100)	10,890,401	5,521,295	1,693,445 (137,888)	7,076,852	3,813,549	20
	-----	-----	-----	-----	-----	-----	-----	-----
	23,821,347	3,809,533 (611,100)	27,019,780	13,255,149	4,237,892 (181,481)	17,311,560	9,708,220	
	=====	=====	=====	=====	=====	=====	=====	=====
1998	19,765,528	5,212,633 ( 1,156,814)	23,821,347	9,647,671	4,064,973 (457,495)	13,255,149	10,566,198	
	=====	=====	=====	=====	=====	=====	=====	=====

12.2 The following assets were disposed of during the year:

Description	Cost	Accumulated Depreciation	Written Down Value	Disposal Proceeds	Mode of Disposal	Particulars of purchaser
						..... Rupees .....
Vehicles	368,000	18,400	349,000	368,000	Insurance Claim	New Jubilee Insurance Co. Ltd. Karachi
	56,000	25,193	30,807	55,500	Insurance Claim	do
	-----	-----	-----	-----		
	424,000	43,593	380,407	423,500		
Office equipment & appliances	101,000	65,650	35,350	90,000	Insurance Claim	do
	23,100	9,240	13,860	11,000	Insurance Claim	do.
Items having written down value less than or equal to Rs 5,000 each	63,000	62,998	2	3,000		
	-----	-----	-----	-----		
	187,100	137,888	49,212	104,000		
	-----	-----	-----	-----		
	611,100	181,481	429,619	527,500		
	=====	=====	=====	=====		

### 13. CAPITAL WORK-IN-PROGRESS

	1999 Rupees	1998 Rupees
Advances for civil workers	1,268,363	--
	=====	=====

### 14. NET INVESTMENT IN LEASES

This includes leasing facility of Rs 220 million provided to Sui Southern Gas Company Limited in June 1998. The rentals due from associated undertakings as at June 30, 1999 amounted to Rs 764,400 (1998: Rs 1,223,040) including unearned lease income of Rs 113,449 (1998: Rs 292,275).

The maximum aggregate amount of rentals due from associated undertakings at the end of any month during the year was Rs 1,223,040 (1998: Rs 1,375,920) including unearned lease income of Rs 274,200 (1998: Rs 363,420).

### 15. LONG-TERM LOANS - considered good

	1999 Rupees	1998 Rupees
Due from - chief executive	3,304,000	3,744,000
-- executives	623,885	2,217,300
-- employees	347,819	756,312
	-----	-----
	4,275,704	6,717,612
Less: Recoverable within one year shown as current portion of long-term loans	1,057,231	1,118,624
	-----	-----
	3,218,473	5,598,988
	=====	=====

The loans have been provided to employees for purchase of motor vehicles and purchase of house and are repayable between five to twenty five years.

Maximum amount due from chief executive and executives at the end of any month during the year was Rs 3,672,000 (1998: R~ 3,993,333) and Rs 817,986 (1998: Rs 2,326,556) respectively.

### 16. DEFERRED COST

	1999 Rupees	1998 Rupees
--	----------------	----------------

Cost incurred on issue of Term Finance Certificates	6,516,204	--
Less: amortised during the year	684,641	--
	-----	-----
	5,831,563	--
	=====	=====

The above amount represents cost incurred on issue of Term Finance Certificates. This cost is being amortised over the term of these certificates as the economic benefits associated with these certificates will accrue throughout the period of their issue.

#### 17. SHORT-TERM LOANS

Loans to customers	59,443,243	64,540,473
Less: Provision for doubtful loan	17,431,000	16,431,000
	-----	-----
	42,012,243	48,109,473
	=====	=====

These represent loans to customers for a period up to one year on mark-up basis under sale and repurchase agreements.

#### 18. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	1999 Rupees	1998 Rupees
Advances		
- against assets to be leased out	--	7,955,349
- to executives - note 18.1	291,699	228,711
- to employees	119,243	114,161
to suppliers	306,500	300,000
Trade deposits	1,008,475	708,225
Prepayments	4,639,075	8,297,546
Accrued return on investments	8,915,384	7,115,456
Accrued mark-up on short-term loans and advances against assets to be leased out	6,282,914	3,560,448
Corporate asset tax recoverable	2,057,589	2,057,589
Residual value receivable	11,289,790	
Others	581,955	1,836,841
	-----	-----
	35,492,624	32,174,326
	=====	=====

18.1 The maximum amount due from executives at the end of any month during the year was Rs 468,408 (1998: Rs 426,870).

#### 19. SHORT-TERM INVESTMENTS

Federal Investment Bonds	135,379,000	153,379,000
Placement trader certificates of investment/ deposits and musharika arrangement	158,193,161	80,000,000
Shares and certificates of listed companies and modarabas - note 19.1	19,377,411	19,377,411
40,000 units of National Investment Trust (NIT)	568,000	568,000
Provision for diminution in the value of investments	(13,830,000)	(14,220,000)
	-----	-----
	6,115,411	5,725,411
	-----	-----
	299,687,572	239,104,411
	=====	=====

Aggregate market value of above investments as at June 30, 1999 was Rs 299,687,572 (1998: Rs 239,104,411).

19.1 Details of investment in listed companies/modarabas:

	1999 Number of modaraba certificates/ ordinary shares	Cost Rupees	1998 Number of Modaraba certificates/ ordinary shares	Cost Rupees
First Grindlays modaraba	128,482	4,303,875	128,482	4,303,875
Modaraba Al-Mali	159,207	3,128,640	159,207	3,128,640
Modaraba Al-Tijarah	149,806	2,111,930	149,806	2,111,930
First Hajveri Modaraba	160	365	160	365
Al-Ata Leasing Modaraba	55,671	414,014	55,671	414,014
Al-Zamin Leasing Modaraba	25,300	144,275	25,300	144,275
Sajjad Textile Mills Limited	30,700	654,555	30,700	654,555

Bankers Equity Limited	66,432	1,041,357	66,432	1,041,357
Gulistan Textile Mills Limited	75,784	7,578,400	75,784	7,578,400
		-----		-----
		19,377,411		19,377,411
		=====		=====

**20. CASH AND BANK BALANCES**

	1999	1998
	Rupees	Rupees
With State Bank of Pakistan in current account	11,117,684	10,349,491
With banks:		
- in current accounts - local currency	16,017,853	464,005
- foreign currency	29,723	49,962
- in saving accounts	53,236	432,970
Cash in hand	50,911	54,497
	-----	-----
	27,269,407	11,350,925
	=====	=====

**21. INCOME FROM LEASING OPERATIONS**

Income on lease contracts	318,821,015	273,162,700
Gain on cancellation of lease contracts	1,084,801	1,099,184
Commitment fee	--	225,000
Mark-up on advances against assets to be leased out	219,917	5,810,790
	-----	-----
	320,125,733	280,297,674
	=====	=====

**22. INCOME ON INVESTMENTS**

Mark-up on:		
- Federal Investment Bonds	23,317,406	24,527,107
- Short-term loans	10,627,998	8,785,848
Return on certificates of investment/deposits and ,nusharika placements	13,299,486	14,151,160
Income from saving accounts	1,624,426	806,245
Dividend income	311,320	653,781
	-----	-----
	49,180,636	48,924,141
	=====	=====

**23. OTHER INCOME**

Mark-up, commission and fee income	1,036,558	965,645
Gain on disposal of fixed assets	97,881	40,184
Exchange gain	3,229	383
	-----	-----
	1,137,668	1,006,212
	=====	=====

**24. FINANCIAL AND OTHER CHARGES**

Mark-up on:		
-- redeemable capital	43,488,460	16,942,824
-- bridge finance	2,475,000	--
-- running finance	5,858,053	6,112,301
-- short-term finance	33,976,480	10,232,693
Return on certificates of investment	187,343,963	192,061,760
Arrangement fee	907,740	4,909,523
Bill discounting expenses	6,440,674	3,096,321
Amortisation of deferred cost	705,474	--
Others	465,938	379,816
	-----	-----
	281,661,782	233,735,238
	=====	=====

**25. ADMINISTRATIVE AND OPERATING EXPENSES**

Salaries, allowances and benefits- note 25.1	17,894,092	17,041,734
Rent	1,983,122	1,941,229
Repairs and maintenance	824,156	1,230,596
Electricity, gas and water	847,547	962,142
Depreciation	4,237,892	4,064,973
Insurance	1,107,653	1,006,952
Vehicle running expenses	1,310,591	1,103,723
Printing and stationery	1,136,585	1,244,333
Telephone and postage expenses	1,519,122	1,783,801
Travelling, conveyance and entertainment	982,642	1,488,039
Fees and subscriptions	609,330	347,315
Charges from associated undertaking	--	555,652
Legal and professional charges	1,063,857	1,369,162
Training and development	84,138	171,795
Advertising expenses	658,850	590,757
Auditors' remuneration:		
Audit fee	165,000	150,000

Special certifications	30,000	46,000
Out of pocket expenses	14,655	15,226
	-----	-----
	209,655	211,226
Zakat	10,000	10,000
Sundry expenses	1,303,195	1,336,520
	-----	-----
	35,782,427	36,459,949
	=====	=====

25.1 Salaries, allowances and benefits include Rs 1,421,230 (1998: Rs 1,224,871) in respect of staff retirement benefits.

## 26. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

	1999 Rupees	1998 Rupees
Term Finance Certificates		
- issued during the year	25,000,000	--
- mark-up charged for the year	1,925,000	--
Long Term Finances		
- repaid during the year	10,000,000	10,000,000
- mark-up charged for the year	2,968,424	4,025,136
Certificates of investment		
- issued during the year	--	4,000,000
- encashed during the year	500,000	104,000,000
- mark-up charged for the year	116,993	14,102,917

## 27. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive		Executives		Total	
	1999	1998	1999	1998	1999	1998
Managerial remuneration	2,010,000	1,200,000	5,717,782	5,343,177	7,727,782	6,543,177
House rent	742,500	480,000	2,106,810	1,948,536	2,849,310	2,428,536
utilities	165,000	120,000	531,165	487,134	696,165	607,134
Medical expenses	26,552	16,369	330,667	301,334	357,219	317,703
Retirement benefits	165,000	108,000	500,382	454,340	665,382	562,340
Leave passage	433,725	380,000	190,000	166,000	623,725	546,000
	-----	-----	-----	-----	-----	-----
	3,542,777	2,304,369	9,376,806	8,700,521	12,919,583	11,004,890
	-----	-----	-----	-----	-----	-----
Number of persons	1	1	27	24	28	25
	=====	=====	=====	=====	=====	=====

The Chief Executive and certain executives are provided with free use of company maintained cars.

	1999 Rupees	1998 Rupees
<b>28. EARNINGS PER SHARE</b>		
Net profit for the year	35,003,828	40,535,340
	=====	=====
	Number of shares	
.Average ordinary shares in issue during the year	22,000,000	22,000,000
	=====	=====
	Rupees	
Earnings per share	1.59	1.84
	=====	=====

## 29. CASH GENERATED FROM OPERATIONS

Profit for the year before taxation	44,003,828	48,535,340
Add/(less): Adjustment for non cash charges and other items		
Depreciation	4,237,892	4,064,973
Provision for potential lease losses	8,386,000	2,814,000
Provision for doubtful loan	1,000,000	7,693,500
Provision for diminution in value of investments	(390,000)	990,000
Mark-up expenses	85,797,993	33,287,818
Dividend income	(311,320)	(653,781)
Gain on disposal of fixed assets	(97,881)	(40,184)
	-----	-----
	98,622,684	48,156,326
	-----	-----
Operating profit before working capital changes	142,626,512	96,691,666

## MOVEMENT IN WORKING CAPITAL

(Increase)/decrease in current assets

Advances, deposits, prepayments and other receivables	(3,318,298)	39,542,662
Short-term investments	(60,193,161)	(60,000,000)
Short-term loans	5,097,230	(29,880,287)
	(58,414,229)	(50,337,625)
(Decrease)/increase in creditors, accrued and other liabilities	(29,298,016)	33,282,284
	(87,712,245)	(17,055,341)
	54,914,267	79,636,325
<b>30. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	27,269,407	11,350,925
Finances under mark-up arrangements	(168,356,401)	(246,987,674)
	( 141,086,994)	(235,636,749)

**31. FINANCIAL ASSETS AND LIABILITIES**

Financial Assets	Interest/Mark-up hearing		Sub-total	Non-Interest hearing		Sub-total	Total
	Maturity upto one year	Maturity after one year		Maturity upto one year	Maturity after one year		
Net Investment in leases	699,715,994	1,169,340,412	1,869,056,406	--	--	--	1,869,056,406
Long term loans	1,057,231	3,218,473	4,275,704	--	--	--	4,275,704
Short term loans	42,012,243	--	42,012,243	--	--	--	42,012,243
Advances, deposits							
Prepayments and other receivables	--	--	--	28,795,960	--	28,795,960	28,795,960
Short term investments	293,572,161	--	293,572,161	6,115,411	--	6,115,411	299,687,572
Cash and bank balances	53,230	--	53,236	27,216,171	--	27,216,171	27,269,407
	<b>1,036,410,865</b>	<b>1,172,558,885</b>	<b>2,208,969,750</b>	<b>62,127,542</b>	--	<b>62,127,542</b>	<b>2,271,097,292</b>
<b>Financial Liabilities</b>							
Redeemable capital	159,186,297	277,423,557	436,609,854	--	--	--	436,609,854
Deposits	--	--	--	45,531,880	133,095,367	178,627,247	178,627,247
Certificates of investment	614,187,000	519,554,084	1,133,741,084	--	--	--	1,133,741,084
Finances under mark-up arrangements	168,356,401	--	168,356,401	--	--	--	168,356,401
Creditors, accrued and other liabilities	--	--	--	48,931,469	--	48,931,469	48,931,469
Dividend payable	--	--	--	28,100,750	--	28,100,750	28,100,750
	941,729,698	796,977,641	1,738,707,339	122,564,099	133,095,367	255,659,466	1,994,366,805
	94,681,167	375,581,244	470,262,411	(60,436,557)	(133,095,367)	(193,531,924)	276,730,487

**32. CONCENTRATION OF CREDIT RISK**

Out of the total financial assets of Rs 2,271.097 million the financial assets which were subject to credit risk amounted to Rs 2,271.046 million. The company's major credit risk is concentrated in the Fuel and Energy and Textile sectors. To manage credit risk the company applies credit limits to its customers. Investment in Federal Investment Bonds amounting to Rs 135.379 million is guaranteed by the Government of Pakistan.

**33. FOREIGN EXCHANGE RISK MANAGEMENT**

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. Liabilities exposed to foreign currency risks are usually covered through foreign exchange forward cover contracts on the basis of management's assessment of fluctuation in rates.

**34. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

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

**35. NUMBER OF EMPLOYEES**

Total number of employees as at the year end was 47 (1998: 51).

**36. CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified, wherever necessary, to facilitate comparison.

**Muhammad Rashid Zahir**  
Chairman

**Abdul Jabbar Kasim**  
Chief Executive

**Pattern of Shareholding**



**As of 30 June 1999**

<b>Number of Shareholders</b>	<b>Shareholding From</b>	<b>To</b>	<b>Total Shares held</b>
268	1	100	10,823
338	101	500	82,653
186	501	1000	142,400
586	1001	5000	1,230,142
78	5001	10000	563,850
32	10001	15000	361,402
9	15001	20000	166,240
12	20001	25000	269,050
5	25001	30000	138,816
2	30001	35000	63 250
2	35001	40000	72 300
2	40001	45000	82 732
1	45001	50000	45 320
2	55001	60000	116 282
1	75001	80000	75 300
1	85001	90000	86 460
2	95001	100000	196 800
2	100001	105000	207 532
2	105001	110000	220 000
1	115001	120000	120 000
3	120001	125000	366 300
2	125001	130000	253 732
1	145001	150000	146 665
2	205001	210000	413 838
1	215001	220000	220 000
1	300001	305000	300,300
1	315001	320000	316,872
1	750001	755000	750,315
2	875001	880000	1,760,000
1	915001	920000	917,400
1	1500001	1505000	1,504,102
1	1995001	2000000	1,999,124
1	2195001	2200000	2,200,000
1	6595001	6600000	6,600,000
-----			
1651			22,000,000
=====			

**Categories of Shareholders****As of 30 June 1999**

<b>Categories of Shareholders</b>	<b>Number of Shareholders</b>	<b>Shares held</b>	<b>Percentage held</b>
Individuals	1,609	7,157,009	32.53
Investment Companies	3	39,706	0.18
Insurance Companies	3	1,829,224	8.31
Joint stock Companies	18	2,550,610	11.59
Financial Institutions	12	10,079,391	45.82
Modaraba Companies	4	38,260	0.17
Leasing Companies	1	5,500	0.03
Others	1	300,300	1.37
-----			
	1,651	22,000,000	100.00
=====			