

SIGMA LEASING CORPORATION LIMITED

ANNUAL REPORT 1998

OUR VISION

We shall carve a place for ourselves at the highest level of the leasing industry by providing quality service and ensuring customer satisfaction. we will go the extra mile to ensure greater profitability and value for our shareholders

OUR CYNAMICS

Professional management will be the hallmark of our organisation. We will operate with state of the art technology to achieve optimum results and develop an efficient and motivated work force with corporate pride in their company.

OUR RESOLVE

We will provide our customers modern and technology based leasing services while we ensure our shareholders security and a high rate of return on their investments.

OUR COMMITMENT

We will maintain financial discipline and adhere to professional and moral codes. In the operation of the company we will comply with all rules and regulations set down by the supervisory authorities.

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BOARD OF DIRECTORS

Mr. Asif Ali Rashid	CHAIRMAN
Mr. Ariff Ali Rashid	VICE CHAIRMAN
Mr. Muhammad Nasim Khan	CHIEF EXECUTIVE & MANAGING DIRECTOR
Mr. Ebrahim Qassim	DIRECTOR
Mr. Arfan Ali Rashid	DIRECTOR
Mr. Mohammad Saleem Adam	DIRECTOR
Mr. Iskander Sultan Khwaja	DIRECTOR
Mr. Ruhail Mohammed	DIRECTOR
Mr. Shahzad All Rashid	DIRECTOR
Mr. Haider Ali	DIRECTOR

COMPANY SECRETARY

Mr. Ruhail Mohammed

AUDITORS

Taseer Hadi Khalid and Co.
Chartered Accountants

Mansha Mohsin Dossani Khan & Co.
Chartered Accountants

LEGAL ADVISORS

Mohsin Tayebaly & Co.

BANKERS

Askari Commercial Bank Ltd.

ORIX Investment Bank Pakistan Ltd.

National Bank of Pakistan

Hongkong & Shanghai Banking Corporation Limited

Emirates Bank International

REGISTERED OFFICE

8-C, Block-6, P.E.C.H.S.

Off. Shahrah-e-Faisal, Karachi.

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Fax: (021) 4544439

Email: sigma@ khi.comsats.net.pk

HEAD OFFICE

8-C, Block-6, P.E.C.H.S.

Off. Shahrah-e-Faisal, Karachi.

SHARE DEPARTMENT

8-C, Block-6, P. E. C. H. S.

Off. Shahrah-e-Faisal, Karachi.

NOTICE OF 2nd ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the members of Sigma Leasing Corporation Limited will be held on Thursday, 29 October 1998 at 4:00 p.m. at its registered office at 8-C, Block-6, PECHS, Off. Shahrah-e-Faisal, Karachi, to transact the following business:

Ordinary Business

1. To confirm the minutes of the 1st Annual General Meeting of the company held on 9 October 1997.
2. To receive, consider and adopt the Audited Accounts together with the Directors, and Auditors' Report for the period ended 30 June 1998.
3. To appoint Auditors and fix their remuneration. The present Auditors M/s Taseer Hadi Khalid & Co., Chartered Accountants retire and being eligible offer themselves for re-appointment. M/s Mansha Mohsin Dossani Khan & Co. retire and have expressed their inability to offer themselves for re-appointment due to their other commitments.
4. Any other business with the permission of the chair.

By Order of the Board

Notes:

1. The share transfer books of the company will remain closed from 20 October 1998 to 29 October 1998 (both days inclusive).
2. A member entitled to attend, speak and vote at the meeting is entitled to appoint another member as proxy to attend, speak and vote for him/her.
3. An instrument of proxy and the power of attorney or other authority (if any) under which it signed or a notary certified copy of such power of authority, 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.

4. Members are requested to notify any change in their address immediately.

DIRECTORS REPORT

On behalf of the Board of Directors, I take pleasure in presenting the 2nd Annual Report together with the audited financial statements for the year ending 30 June, 1998.

During the period under review, lease disbursements of Rs.132.6 million were made and net investment in leases as on 30 June, 1998 amounted to Rs.137.8 million which surpassed the targets set for the year. The targets for the current year were set considering that this was the company's first full year of operations and the present economic conditions prevailing in the country. The company however expects the disbursement and net investment in leases to be substantially higher next year. We continue to maintain strict standards for evaluating lease proposals. The management has ensured that the lessors are profitable companies with sufficient cash flow generation and have good track record of timely repayments with financial institutions. Our recovery rate as on 30 June, 1998 was 100% with no over dues, defaults or rescheduling.

The lease portfolio of the company remained well diversified with investments in almost all the major sectors of the economy including Cotton textile (spinning, weaving), Apparel, Cement, Synthetics, Health Care, Pharmaceuticals, Sugar, Financial Institutions, Food & Allied, Information Technology and the Services sector (details are given in note 25 to the accounts). Our main investment has been in the apparel sector which is most value-added and export oriented sector of the economy. Besides it is one of the most labour intensive industries as well as the largest employer. The apparel sector is the single largest foreign exchange earner for our country. We feel proud in contributing to the development of this sector by financing their capital equipment requirements.

The leasing sector has also been affected with the slowdown in the economy as demand for financing of new capital equipment has fallen. However since leasing is now the only source of medium to long term financing, it has become the preferred mode of asset financing by the industry and trade. We feel confident that as the economy revives, demand for leasing will increase as well. Some positive developments in this sector have been the exemption of 3.5% with-holding tax on sale and lease back transactions and the acceptance by the tax authorities of the residual value as the purchase price (at the end of the lease) in the hands of the lessee.

During the period under review, the company generated revenues of Rs.23.6 million and after accounting for operating and financial expenses of Rs.9.3 million earned a pre-tax profit of Rs.14.3 million. The company has kept its operating expenses under strict control which has boosted its profitability. To strengthen the capital base of the company, the directors have decided not to declare any dividend this year.

The company has already arranged credit lines of over Rs.140 million major portion of which has been drawn and the balance expected to be drawn shortly. Negotiations are in progress with other institutions for further lines.

Your company will continue its efforts to grow and establish itself in the leasing industry. Efficient utilization of resources, spreading risk over a broad spectrum of clients and sectors and following a conservative and prudent approach in evaluating lease proposals shall continue to remain the policy of your company.

The present auditors M/s Taseer Hadi Khalid & Co. Chartered Accountants retire and being eligible offer themselves for re-appointment. M/s Mansha Mohsin Dossani Khan & Co. retire and have expressed their inability to offer themselves for re-appointment due to their other commitments.

The directors would like to thank the Corporate Law Authority, State Bank of Pakistan, the company's personnel and the auditors for the cooperation extended by them.

For and on behalf of the Board of Directors

Asif Ali Rashid, FCA

09 September, 1998

Chairman

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Sigma Leasing Corporation Limited as at 30 June 1998 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 30 June 1998 and of the profit and cash flows for the year then ended;
- d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980; and
- e) without qualifying our opinion, we draw attention to Note 14.2 whereby long term investments are carried at cost and no provision has been made for the decline in market value of these investments, as in the opinion of the directors the decline is temporary.

Taseer Hadi Khalid & Co.
Chartered Accountants

Mansha Mohsin Dossani Khan & Co.
Chartered Accountants

Karachi: 09 September, 1998

BALANCE SHEET AS AT 30 JUNE 1998

	Note	1998	1997
CAPITAL AND RESERVES			
Authorised Capital			
30,000,000 ordinary shares of Rs. 10 each		300,000,000	300,000,000
		=====	=====
Issued, subscribed and paid up capital	3	100,000,000	100,000,000
Statutory reserve	4	3,470,014	716,495
Unappropriated profit		13,880,055	2,865,979
		-----	-----
		117,350,069	103,582,474
LONG TERM LOANS - Secured	5	23,514,830	20,060,000

LIABILITIES AGAINST ASSETS

SUBJECT TO FINANCE LEASE	6	1,773,218	1,460,526
LONG TERM DEPOSITS	7	18,101,378	4,994,282

CURRENT LIABILITIES

Current portion of long term loans		35,899,460	--
Current portion of liabilities against assets subject to finance lease		1,081,459	540,162
Short term loan	8	25,000,000	--
Short term running finance under markup arrangement - secured	9	13,496,499	19,453,081
Accrued expenses and other liabilities	10	6,351,938	1,899,878
Provision for taxation		600,578	74,738
		-----	-----
		82,429,934	21,967,859
		-----	-----
Rupees		243,169,429	152,065,141
		=====	=====

TANGIBLE FIXED ASSETS

CAPITAL WORK IN PROGRESS	11	18,401,491	9,400,412
NET INVESTMENT IN LEASE FINANCE	12	--	2,062,886

NET INVESTMENT IN LEASE FINANCE

Installments contract receivables	13	164,546,323	31,152,805
Add: Residual value		18,961,354	4,934,282
		-----	-----
Lease contract receivables		183,507,677	36,087,087
Less: Unearned lease income		45,666,564	8,981,563
		-----	-----
Net investment in lease finance		137,841,113	27,105,524
Less: Current portion of net investment in lease finance		38,914,526	6,245,346
		-----	-----
		98,926,587	20,860,178

LONG TERM INVESTMENTS

LONG TERM DEPOSITS & DEFERRED COST	14	16,503,006	6,221,635
		-----	-----

	15	1,681,187	2,079,003
--	----	-----------	-----------

CURRENT ASSETS

Current portion of net investment in lease finance		38,914,526	6,245,346
Advances, prepayments and other receivables	16	8,293,522	2,424,073
Investments		--	13,091,250
Placements with other NBFIs	17	59,500,000	68,000,000
Cash and bank balances	18	949,110	21,680,358
		-----	-----
		107,657,158	111,441,027
		-----	-----
Rupees		243,169,429	152,065,141
		=====	=====

These accounts should be read in conjunction with the annexed notes.

PROFIT AND LOSS ACCOUNT**For the year ended 30 June 1998**

	Note	Year ended 30 June 1998	Period from 27 January 1997 to 30 June 1997
INCOME			
Lease income	19	16,061,066	872,223
Mark up on deposits/placements/ musharika arrangements etc.	20	3,363,518	7,696,159

Gain on sale of investments		89,950	2,730,045
Others	21	4,099,483	531,624
		-----	-----
		23,614,017	11,830,051
EXPENSES			
Administrative	22	7,670,287	7,534,691
Financial charges	23	1,712,486	506,473
(Reversal)/Provision for diminution in value of short term investments		(131,675)	131,675
		-----	-----
		9,251,098	8,172,839
		-----	-----
PROFIT BEFORE TAXATION		14,362,919	3,657,212
Provision for taxation			
- Current	24	600,578	74,738
- Prior		(5,254)	--
		-----	-----
		595,324	74,738
		-----	-----
NET PROFIT AFTER TAXATION		13,767,595	3,582,474
APPROPRIATION			
Transfer to statutory reserve		2,753,519	716,495
		-----	-----
		11,014,076	2,865,979
Unappropriated profit brought forward		2,865,979	--
UNAPPROPRIATED PROFIT CARRIED FORWARD		-----	-----
	Rupees	13,880,055	2,865,979
		=====	=====

These accounts should be read in conjunction with the annexed notes.

CASH FLOW STATEMENT

For the year 30 June 1998

	1998	1997
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	14,362,919	3,657,212
Adjustments for:		
Depreciation	1,621,118	1,031,720
Provision for diminution in the value of short term investments	(131,675)	131,675
Financial charges	1,712,486	506,473
Amortization of deferred cost	838,648	838,648
Gain on sale of securities	(89,950)	(2,730,045)
	-----	-----
	18,313,546	3,435,683
Net investment in lease finance	(78,066,409)	(20,860,178)
Changes in operating assets /liabilities		
(Increase) / decrease in operating assets		
Advances, prepayments and other receivables	(4,484,253)	(2,362,720)
Current portion of net investment in lease finance	(32,669,180)	(6,245,346)
Placements with other NBFIs	8,500,000	(68,000,000)
	-----	-----
	(28,653,433)	(76,608,066)
Increase/(decrease) in operating liabilities		
Short term loan	25,000,000	--
Running finance under mark up arrangement	(5,956,582)	19,453,081

Accrued expenses and other liabilities	3,659,500	1,871,115
	-----	-----
	22,702,918	21,324,196
	-----	-----
Cash used in operations	(65,703,378)	(72,708,365)
Financial charge's paid	(919,926)	(477,710)
Taxes paid	(1,454,680)	(61,353)
	-----	-----
	(2,374,606)	(539,063)
	-----	-----
Net cash used in operating activities	(68,077,984)	(73,247,428)
CASH FLOW FROM INVESTING ACTIVITIES		
Additions to fixed assets	(9,083,567)	(8,168,788)
Purchase of marketable securities including Federal Investments Bonds	(194,662,032)	(91,135,760)
Sale proceeds of investments	187,693,536	84,421,245
Capital work in progress	2,062,886	(2,062,886)
Investment made under musharika arrangement	10,000,000	(10,000,000)
Long term deposits and deferred costs	(440,832)	(2,917,651)
Lease key money deposits	12,987,096	4,934,282
Other long term deposits	120,000	60,000
	-----	-----
Net cash used in investing activities	8,677,087	(24,869,558)
CASH FLOW FROM FINANCING ACTIVITIES		
Long term loans	39,354,290	20,060,000
Issue of share capital	--	100,000,000
Payments of liabilities against assets subject to finance lease	(684,641)	(262,656)
	-----	-----
Net cash from financing activities	38,669,649	119,797,344
(Decrease)/Increase in cash and cash equivalents	(20,731,248)	21,680,358
Cash and cash equivalents at beginning of the year	21,680,358	-
	-----	-----
Cash and cash equivalent at end of the year	Rupees 949,110	21,680,358
	=====	=====

NOTES TO THE ACCOUNTS

For the year ended 30 June 1998

1. STATUS AND NATURE OF BUSINESS

The Company was incorporated on 11 April 1996 and received Certificate of Business Commencement on 27 January 1997. The company is principally engaged in the business of leasing and was listed on the Karachi Stock Exchange on 07 January 1997.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting Convention

These accounts have been prepared on the basis of the historical cost convention.

2.2 Tangible Fixed Assets

Fixed assets are stated at cost less accumulated depreciation.

Depreciation on fixed assets is charged on written down values at the (~ rates given in note 11 to the accounts.

A full year's depreciation is charged on all fixed assets capitalized during the year while no depreciation is charged in the year fixed assets are disposed off or

scrapped.

Normal repairs and maintenance are charged to income as and when incurred. Major renewals and maintenance are capitalised as and when incurred.

Gains and losses on disposal of assets, if any, are taken to profit and Losses account.

2.3 Assets subject to finance lease

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

Depreciation is charged on written down values at the rates given in note 11 to the accounts.

2.4 Investments

Long term

These are stated at cost net off provision made for decline other than temporary in value of investments, if any.

Short term

These are stated at lower of average cost and market value on an aggregate portfolio basis.

2.5 Deferred Cost

Deferred cost represents preliminary expenses and expenses related to public offering of the company. Deferred cost is being amortized over a period of three years.

2.6 Revenue Recognition

Lease income

The financing method is used in accounting for income on direct financing leases. Under this method the unearned lease income i.e. the excess of aggregate lease rentals and the estimated residual value over the net investment (cost of leased assets) is amortized to income over the term of the lease, so as to produce a constant periodic rate of return on net investment outstanding in the leases.

Fee and commissions are recognised as income when realised.

Investment income

Return on investment is recognized at the rates specified in the respective investment schemes on time proportionate basis. The income is recognised on the assumption that such investments will be held till maturity.

Dividend income

Dividend Income is recorded at the time of closure of share transfer books of the company declaring the dividend.

Gain on sale of marketable securities

Gain and loss on sale of marketable securities is taken to income in the period in which it arises.

2.7 Foreign Currencies

Transactions in foreign currencies are converted at the rates of exchange prevailing at the date of transaction. At the balance sheet date, foreign currency monetary assets and liabilities are translated at the rates of exchange ruling at that date.

Resulting exchange differences are recognized in income currently.

2.8 Taxation

Current

The charge for current taxation is based on taxable income at the current rates of

taxation after taking into account available tax credits and rebates. Income for the purposes of computing current taxation is determined under the provisions of the tax laws whereby lease rentals received or receivable are deemed to be income.

Deferred

The Company accounts for deferred taxation using the liability method on all significant timing differences. Deferred tax is not provided if it can be established with reasonable probability that these timing differences will not reverse in the foreseeable future. However, deferred tax debits are not accounted for.

	1998	1997
3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL		
10,000,000 ordinary shares of Rs. 10/- each fully paid in cash Rupees	100,000,000	100,000,000
	=====	=====
4. STATUTORY RESERVE		
Balance as at 01 July 1997	716,495	--
Transferred during the year	2,753,519	716,495
	-----	-----
Balance as at 30 June Rupees	3,470,014	716,495
	=====	=====

In accordance with the State Bank of Pakistan regulations for Non Banking Financial Institutions, the company is required to transfer 20 % of its after tax profits to statutory reserve until the reserve equals its paid up capital. Thereafter 5 % of after tax profits are required to be transferred to reserve.

5. LONG TERM LOANS- Secured

From commercial/investment Banks			
Finance A	5.10	20,060,000	20,060,000
Finance B	5.20	20,187,623	--
Finance C	5.30	19,166,667	--
		-----	-----
		59,414,290	20,060,000
Less: Maturing within one year		35,899,460	--
		-----	-----
	Rupees	23,514,830	20,060,000
		=====	=====

5.1 This represents a term finance facility obtained from an investment bank and carries mark-up at the rate of Rs.0.4219 per Rs.1,000 per day payable in quarterly installments. The principal amount is repayable in April 1999. This facility is secured by foreign currency certificate of investment of a director and a pari passu charge over book debts/leased assets of the company.

5.2 This represents profit bearing investment placed by a commercial bank for a period of three years carrying profit @ 19.25% per annum. The principal amount and mark-up for three years period is payable in eleven equal quarterly instalments of Rs. 2,330,137 each and balance of Rs. 3,404,234 as last instalment commencing from 30 June 1998. The bank has the right to set-off any outstanding liabilities which it may owe to the company.

5.3 This represents loan facility obtained from a commercial bank and carries markup @ 0.493 paisas per Rs.1,000 per day. The loan is payable in 24 equal monthly installments of Rs. 833,333 each commencing from June 1998. The facility is secured by pari passu hypothecation charge over leased assets and rentals receivable.

	1998	1997
6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Balance at beginning of the year	2,000,688	--
Assets acquired during the year/period	1,538,630	2,263,344
	-----	-----
	3,539,318	2,263,344
Less: Payments made during the year/period	684,641	262,656
	-----	-----
	2,854,677	2,000,688
Less: Current maturity	1,081,459	540,162
	-----	-----
Rupees	1,773,218	1,460,526
	=====	=====

6.1 This represents vehicles, computers and accessories acquired under five different finance lease arrangements from leasing companies. Rentals are payable in equal monthly installments. Repairs and insurance costs are to be borne by lessee. Financing rates ranging from 20.5% to 21.65% have been used as discounting factor. Purchase option can be exercised by the lessee by adjusting security deposit at the expiry of lease period.

Future lease payments including residual value under five different lease agreements for motor vehicles, computers and accessories are as detailed below:

	1998	1997
Year ending 30 June 1999	1,479,348	834,000
Year ending 30 June 2000	1,462,054	834,000
Year ending 30 June 2001	507,164	816,706
	-----	-----
	3,448,566	2,484,706
Less: Finance charges allocated to future periods	593,889	484,018
	-----	-----
Rupees	2,854,677	2,000,688
	=====	=====

		1998	1997
7. LONG TERM DEPOSITS			
From customers - Lease key money deposits	7. 1	17,921,378	4,934,282
From employees		180,000	60,000
		-----	-----
Rupees		18,101,378	4,994,282
		=====	=====

7.1 This represent sums received from lessees under lease contracts and are repayable/adjustable at the expiry of lease period.

8. SHORT TERM LOAN- SECURED

Rupees	25,000,000
	=====

8.1 Short term loan represents credit facility obtained from an investment bank carries

markup @ 52.05 paisas per Rs.1,000 per day. The facility is secured against first pari passu charge over book debts / receivables amounting to Rs. 33.3 million.

9. SHORT TERM RUNNING FINANCE UNDER MARKUP ARRANGEMENT - Secured

The running finance facility has been obtained from a commercial bank amounting to Rs. 20 million. The facility carries mark-up at the rate of Rs.0.4110 per Rs. 1,000 per day and is secured by lien over foreign currency deposit of a director and hypothecation over leased assets and receivables.

10. ACCRUED EXPENSES AND OTHER LIABILITIES

	1998	1997
Accounts payable	2,573,130	--
Accrued markup on finance lease	23,051	28,763
Accrued markup on term and running finance facilities	1,81 5,949	1,01 7,677
Accrued expenses	141,598	79,718
Advances from customers	177,392	71,881
CED payable	--	22,589
Payable to brokers	--	679,250
Payable to contractors	1,620,818	--
	-----	-----
Rupees	6,351,938	1,899,878
	=====	=====

11. TANGIBLE FIXED ASSETS - At cost less accumulated depreciation

	COST				DEPRECIATION			
	As at 01 July 1997	Additions during the year	As at 30 June 1998	Rate Percent	As at 01 July 1997	For the year	As at 30 June 1998	Written Down Value as at 30 June '98
Leasehold Land	1,800,000	--	1,800,000	--	--	--	--	1,800,000
Building on Leasehold Land	4,086,366	6,755,014	10,841,380	5	204,318	531,853	736,171	10,105,209
Vehicles	1,968,000	77,500	2,045,500	20	393,600	330,380	723,980	1,321,520
Equipments	210,917	101,500	312,417	10	21,092	29,133	50,225	262,192
Furniture & Fixtures	103,505	2,149,553	2,253,058	10	10,351	224,271	234,622	2,018,436
	-----	-----	-----		-----	-----	-----	-----
	8,168,788	9,083,567	17,252,355		629,361	1,115,637	1,744,998	15,507,357
	-----	-----	-----		-----	-----	-----	-----
LEASED ASSETS								
Vehicles	1,760,244	247,000	2,007,244	20	352,049	331,039	683,088	1,324,156
Office Equipments	503,100	1,291,630	1,794,730	10	50,310	174,442	224,752	1,569,978
	-----	-----	-----		-----	-----	-----	-----
	2,263,344	1,538,630	3,801,974		402,359	505,481	907,840	2,894,134
	-----	-----	-----		-----	-----	-----	-----
1998	Rupees	10,432,132	10,622,197	21,054,329	1,031,720	1,621,118	2,652,838	18,401,491
		=====	=====	=====	=====	=====	=====	=====
1997	Rupees	--	10,432,132	10,432,132	--	1,031,720	1,031,720	9,400,412
		=====	=====	=====	=====	=====	=====	=====

12. CAPITAL WORK IN PROGRESS

	1998	1997
Opening balance	2,062,886	--
Costs incurred during the year	6,464,281	2,062,886

	8,527,167	2,062,886
Transferred to fixed assets	(8,527,167)	--
	-----	-----
Rupees	--	2,062,886
	=====	=====

13. NET INVESTMENT IN LEASE FINANCE

The company has entered into various lease agreements with the mark-up rates ranging from 19% to 28% per annum. The agreements usually are for a three years period.

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

14. LONG TERM INVESTMENTS- AT COST

Shares of listed companies

Name of company/modaraba	No. of shares/ certificates	1998	1997
BRR Capital Modaraba	5,000	24,500	24,500
Lucky Cement Limited	75,000	741,000	741,000
Ibrahim Fibre Limited	150,000	1,051,731	475,025
Southern Electric Power Co. Limited	--	--	701,855
First Allied Bank Modaraba	44,000	298,470	298,470
Habib Arkady Limited (face value Rs. 5 per share)	52,500	337,500	337,500
AI-Ghazi Tractors Limited (face value Rs. 5 per share)	--	--	783,400
Nishat(Chunian) Mills Limited	56,500	1,128,965	628,170
Sunflo Citruss Limited	48,000	432,590	432,590
Bank AI-Habib Limited	--	--	812,750
Gadoon Textile Mills Limited	35,000	1,164,275	887,875
Adamjee Insurance Company Limited	12,500	603,000	--
Hub Power Company Limited	35,000	1,742,200	--
Faysal Bank Limited	25,000	695,500	--
Japan Power Generation Company Limited	50,000	505,200	--
Investment Corporation of Pakistan - State Enterprise Mutual Fund	50,000	1,317,275	--
Pakistan Telecommunication Company Limited	10,000	229,600	--
FFC-Jordan Fertilizer Company Limited	10,000	142,700	--
		-----	-----
		10,414,506	6,123,135
Term Finance Certificates (TFC)			
- Gatron Industries Limited	14.40	5,000,000	--
Federal Investment Bonds	14.50	1,088,500	98,500
		-----	-----
	Rupees	16,503,006	6,221,635
		=====	=====

14.1 Unless otherwise stated holdings are in ordinary shares/certificates of Rs. 10 each.

14.2 Aggregate market value as at 30 June 1998 of the investments in shares of listed companies, carrying value of Term Finance Certificates for which an application for listing has been filed and Federal Investment Bonds amounted Rs. 10,908,137. No provision for decline in market value of these investments has been made, as in the opinion of the directors this decline is temporary.

14.3 As at 30 June 1998 investments with a carrying value of Rs. 1,678,790 were not

held in the name of the company. These investments are being held with blank transfer deeds and are in the process of being transferred.

14.4 TFC's of Gatron Industries Limited bear mark-up at the rate of 18% receivable half yearly in arrears.

14.5 It represents investments made in Federal Investment Bonds required under the relevant provision of the SBP's rules for the NBFIs to maintain liquidity against certain liabilities. These bonds are redeemable within a period of five years from the date of purchase and carry markup @ 15% per annum receivable half yearly from the date of issue. The face value of these bonds is Rs. 1,100,000.

	1998	1997
15. LONG TERM DEPOSITS AND DEFERRED COST		
Long term deposits		
Lease deposits	536,638	399,706
Other- security deposits	305,900	2,000
	-----	-----
	842,538	401,706
Deferred Cost	15. 1	
Preliminary and flotation costs deferred	2,515,945	2,515,945
Less: Amortized to date	1,677,296	838,648
	-----	-----
	838,649	1,677,297
	-----	-----
Rupees	1,681,187	2,079,003
	=====	=====

15.1 Deferred cost is being amortized from the date of incorporation.

	1998	1997
16. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES		
Advance Tax	1,446,549	61,353
Advances to suppliers	4,500	--
Prepayments		
Prepaid insurance	203,305	169,178
Prepaid rent	--	15,720
	-----	-----
	203,305	184,898
Other receivables		
Insurance receivable	266,331	--
Accrued return on deposits/placements/musharika arrangements	1,127,766	1,800,946
Lease rental receivable	13,190	--
Accrued income on leases	795,881	76,876
Dividend receivable	795,000	300,000
Accounts receivable	3,521,000	--
Others	120,000	--
	-----	-----
	6,639,168	2,177,822
	-----	-----
Rupees	8,293,522	2,424,073
	=====	=====

17. PLACEMENTS WITH OTHER NBFIs

At 30 June 1998, the company has placed Rs. 59,500,000 (1997: Rs. 68,000,000) with NBFIs. These placements are usually for periods less than 180 days and carry mark-up ranging from 18.25% to 21% per annum. These placements are unsecured with the exception of one placement of Rs. 10,000,000 which is secured by second charge over lease receivables and leased assets.

	1998	1997
18. CASH AND BANK BALANCES		
Cash in hand	16	6
Cash with banks and other financial institutions		
- on current account	178,683	1,000
- on deposit accounts	770,411	594,784
- foreign currency certificates of investment with NBFIs	--	21,084,568
	-----	-----
	949,094	21,680,352
	-----	-----
Rupees	949,110	21,680,358
	=====	=====

19. LEASE INCOME

	1998	Period from 27 January 1997 to 30 June'1997
Income on lease contracts	15,346,628	872,223
Return on advance against leases	616,434	--
Cancellation charges of lease contracts	98,004	--
	-----	-----
Rupees	16,061,066	872,223
	=====	=====

20. MARK-UP ON DEPOSITS / PLACEMENTS/MUSHARIKA ARRANGEMENTS etc.

Income on local currency deposits/ placements/musharika arrangements etc.	2,443,809	6,984,631
Income on foreign currency deposits	523,183	590,886
Net Income on money market operations	20.1	396,526
	-----	-----
Rupees	3,363,518	7,696,159
	=====	=====

20.1 Net income represents the difference of income and related costs of financing money market operations.

	1998	1997
21. OTHER INCOME		
Mark-up on Term Finance Certificates	46,849	--
Dividend income	2,265,000	513,125
Mark-up on Federal Investment Bonds	124,835	6,139
Fees, commission and other charges	108,409	12,360
Exchange gain	1,554,390	--
	-----	-----
Rupees	4,099,483	531,624
	=====	=====

22. ADMINISTRATIVE AND OPERATING EXPENSES

Salaries and other benefits	22. 1	2,640,440	2,122,340
Directors fees		8,000	4,000
Rent, rates and taxes		217,013	123,280
Security vault rent and services		37,920	--
Utilities		136,787	109,948
Postage and periodicals		25,048	18,840
Fees and documentation charges		94,900	211,152
Printing and stationary		162,275	201,473
Vehicle running and maintenance		159,927	237,109
Insurance		321,917	98,483
Travelling and conveyance		27,088	461,783
Auditors' remuneration	22.2	58,850	89,775
Legal and professional charges		777,102	1,573,370
Depreciation		1,621,118	1,031,720
Entertainment		14,931	14,327
Advertisement and business promotion expenses		99,381	58,690
Telex, fax and telephone expenses		122,686-	
Repairs and maintenance		246,870	188,218
Zakat		24,845	5,247
Amortization of deferred cost		838,648	838,648
Others		34,541	146,288
		-----	-----
	Rupees	7,670,287	7,534,691
		=====	=====

22.1 Remuneration of Chief Executive and Executives

	CHIEF EXECUTIVE		EXECUTIVES	
	1998	1997	1998	1997
Managerial Remuneration	850,500	780,000	805,100	570,000
Housing and Utilities	372,000	384,000	364,812	279,000
Bonus	94,500	--	64,050	--
	-----	-----	-----	-----
Rupees	1,317,000	1,164,000	1,233,962	849,000
	=====	=====	=====	=====
Number of Persons	1	1	5	4

The Chief Executive and certain Executives are also entitled to free use of company maintained vehicles.

22.2 AUDITORS' REMUNERATION

	Taseer Hadi Khalid & Co.		Mansha Mohsin Dossani Khan & Co.		Total	
	1998	1997	1998	1997	1998	1997
Audit fee	50,000	25,000	5,000	5,000	55,000	30,000
Other services	--	54,775	--	5,000	--	59,775
	-----	-----	-----	-----	-----	-----
Rupees	50,000	79,775	5,000	10,000	55,000	89,775
	=====	=====	=====	=====	=====	=====

23. FINANCIAL CHARGES

	1998	Period from 27 January 1997 to 30 June 1997
Financial charges on lease financing	387,648	183,107

Mark-up on term finance facility	1,315,006	--
Bank charges	9,832	12,455
Exchange loss	--	287,286
Central excise duty on financing	--	23,625
	-----	-----
Rupees	1,712,486	506,473
	=====	=====

24. TAXATION

The income tax assessments of the company have been finalized upto and including assessment year 1997-98. In view of tax loss available in respect of leasing business, provision for taxation has been made on other income at normal tax rates after excluding income exempted under Income Tax Ordinance, 1979.

Deferred tax computed under the liability method is estimated at Rs. 2.7 million. No provision has been made for this liability as it is not likely to reverse in the foreseeable future.

25. 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 Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the credit worthiness of counterparties.

A sector wise breakdown of lease portfolio is as follows:

	1998	%
Apparels	30,602,050	22.20
Pharmaceuticals	5,176,426	3.75
Sugar	5,563,233	4.03
Cement	9,200,909	6.67
Textile spinning	6,354,378	4.61
Synthetic	5,175,376	3.75
Insurance	2,182,367	1.58
-- Banking and Financial Institutions	22,755,694	16.51
Textile-Weaving	20,878,738	15.15
Construction	1,237,118	0.90
Airlines and Shipping	5,702,191	4.14
Storage and distribution	7,159,311	5.20
Transportation	3,703,454	2.69
Trading Services	3,889,129	2.82
Food	2,120,354	1.55
Information Technology and Communications	6,140,385	4.45
	-----	-----
Rupees	137,841,113	100.00
	=====	=====

In addition the company has placed certain funds with other NBFIs and has invested certain funds in Federal Investment Bonds and Term Finance Certificates. For details refer Note 14 and 17.

26. FAIR VALUE OF FINANCIAL ASSETS

The estimated fair value of long term investments and book value as at 30 June 1998, is as follows:

	1998
Book value	16,503,006
Fair value	10,908,137

Fair value over book value	Rupees (5,594,869)
	=====

No provision for decline in market value has been made, as in the opinion of directors, the decline is temporary.

The fair value of all other financial assets and financial liabilities is estimated to approximate their carrying value.

27. INTEREST RATE RISK EXPOSURE

The information about company's exposures to interest rate risk based on contractual refinancing or maturity dates whichever is earlier is as follows:

	1998				
	Less than one month	One month to one year	Over one year	Non-interest bearing	Total
Financial Assets					
Net investment in lease finance	2,283,271	36,631,255	79,965,233	18,961,354	137,841,113
Long term deposits	--	--	--	1,681,187	1,681,187
Long term investments	--	--	16,503,006	--	16,503,006
Advances and other receivables	--	--	--	8,293,522	8,293,522
Placements with other NBFIs	27,500,000	32,000,000	--	--	59,500,000
Cash and bank balances	770,411	--	--	178,699	949,110
	-----	-----	-----	-----	-----
	30,553,682	68,631,255	96,468,239	29,114,762	224,767,938
	-----	-----	-----	-----	-----
Financial Liabilities					
Long term loans	833,333	35,066,127	23,514,830	--	59,414,290
Long term deposits	--	--	--	18,101,378	18,101,378
Liabilities against assets subject to finance lease	81,713	999,746	1,296,580	476,638	2,854,677
Short term loans	--	25,000,000	--	--	25,000,000
Running finance under mark up arrangements	--	13,496,499	--	--	13,496,499
Accrued expenses and other liabilities	--	--	--	6,957,770	6,957,770
	-----	-----	-----	-----	-----
	915,046	74,562,372	24,811,410	25,535,786	125,824,614
	-----	-----	-----	-----	-----
On-balance sheet gap (a)	29,638,636	(5,931,117)	71,656,829	3,578,976	98,943,324
	-----	-----	-----	-----	-----
Total interest rate sensitivity gap	Rupees 29,638,636	(5,931,117)	71,656,829	--	--
	=====	=====	=====	=====	=====

(a) The on balance sheet gap represents the net amounts of on-balance sheet items.

(b) The effective interest rates for financial assets and liabilities are as follows:

1998 Effective interest rate %

Assets

Net Investment in Lease Finance including advance against lease	23.07
Term Finance Certificates	18.00
Federal Investment Bonds	15.00
Placements with other NBFIs	19.00
Cash and bank balances	9.50

Liabilities

Long term loans	17.55
Short term loans	19.00
Running finance under mark up arrangements	15.00

28. TRANSACTIONS WITH ASSOCIATED COMPANIES

		1998	1997
Machinery purchased and services rendered for onward leasing to client with their firm commitment.	Rupees	2,666,110	1,401,000
		=====	=====
Rent and allied services	Rupees	360,000	240,000
		=====	=====

29. GENERAL

29.1 Figures have been rounded off to the nearest rupee.

29.2 Figures of the previous year have been re-arranged, wherever necessary, to facilitate comparison.

PATTERN OF SHAREHOLDING

As at 30th June 1998

Share Holding		Number of Shareholders	Total Shares Held	Percentage	
From	To				
1	-	100	0	0	
101	-	500	698	349,000	3.490
501	-	1,000	0	0	0
1,001	-	5,000	4	19,500	0.195
5,001	-	10,000	1	10,000	0.100
15,001	-	20,000	1	20,000	0.200
95,001	-	100,000	6	579,000	5.790
145,001	-	150,000	2	298,000	2.980
495,001	-	500,000	2	997,000	9.970
545,001	-	550,000	2	1,093,000	10.930
790,001	-	795,000	2	1,590,000	15.900
795,001	-	800,000	3	2,400,000	24.000
845,001	-	850,000	2	1,700,000	17.000
940,001	-	945,000	1	944,500	9.445
		-----	-----	-----	
		724	10,000,000	100.000	
		=====	=====	=====	

CATEGORIES OF SHAREHOLDERS

Particulars	Shareholders	Shareholding	Percentage
Individuals	717	4,465,500	44.66
Joint Stock Companies	7	5,534,500	55.35
	-----	-----	-----
	724	10,000,000	100.00
	=====	=====	=====