

First Fidelity Leasing Modaraba

Annual Report 1999

CONTENTS

Company Information
Directors' Report
Auditors' Report to the Certificate Holders
Balance Sheet
Profit and Loss Account
Statement of Sources and Application of Funds
Notes to the Accounts
Pattern of Certificate Holdings

COMPANY INFORMATION

Board of Directors

Chairman	Mr. Javaid B. Sheikh
Chief Executive	Mr. Wasim-UI-Haq Osmani
Directors	Mr. Masood Akbar Mr. Arshad I. Khan

Corporate Secretary Mr. Imran Hameed

Auditors Riaz Ahmad & Company
Chartered Accountants

Legal Advisor Cornelius, Lane & Mufti
Advocates & Solicitors

Bankers Muslim Commercial Bank Limited
Habib Bank A.G. Zurich
Union Bank Limited
Gulf Commercial Bank Limited

Modaraba Company Fidelity Capital Management (Private)
Limited (wholly owned subsidiary of
Fidelity Investment Bank Limited)

Principal Place of Business 97-A, Aziz Avenue, Canal Bank,
Lahore-54660

Registrars Hameed Majeed Associates
H.M. House, 7-Bank Square,
The Mall, Lahore.

DIRECTORS' REPORT

The Directors have pleasure in submitting the 8th Annual Report of the Modaraba together with the audited accounts and the auditors' report for the year ended June 30, 1999.

During the year the overall business environment continued to remain subdued. Sluggish growth in industrial production and a disappointing cotton crop thwarted all hopes of a recovery in economic growth. Real GDP growth was well below the target. Overall, financing gap of the country jumped to over Rs 3.0 billion as compared to a figure of less than Rs 1.0 billion in previous three years. All this happened after May 1998 nuclear testing. Fulfilling a conditionality of IMF, the government finally abolished the dual exchange rate mechanism by opting market based floating exchange rate from May 19, 1999. The indirect depreciation of the rupee was done to bring about an improvement in the trade account. This also provided some relief to foreign currency account holders. The Government of Pakistan investigations into IPPs started in February 1998 to weed out corrupt practices and in this particular case to reduce power tariffs have continued till now without any final result.

The investors' confidence remained at the lower web. Although KSE index improved from 880 points in June 30, 1998 to 1055 points as at June 30, 1999, the increase was on the back of few large volume blue-chips. In the near future, there is hardly any hope of a reversal in the recessionary conditions prevailing at stock market for the last five years.

Despite subdued business environment, the Modaraba during the year earned a profit after taxation of Rs 25.25 million as compared to Rs 15.01 million earned last year. The increase in profit over

last year is 68%. The leased assets have increased from Rs 105.23 million to Rs 133.53 million registering a growth of 27% over last year. Adequate provisions have been made in the accounts against doubtful lease rentals which stand at Rs 19.91 million. Similarly adequate provisions have been made against capital market portfolio which stand at Rs 13.29 million. The provision is more than enough to absorb any effects of permanent diminution in the value of investments.

FUTURE OUTLOOK

We have been saying in the past that future growth of businesses depend on economic revival in the country. Economic revival can only be achieved through continuation of good and predictable economic policies for a longer period of time. Unfortunately this has not been the case in the past and immediate present. Balance of payment deficit for the current fiscal year looms larger in view of increase in international crude oil prices and sanctions by international agencies, in view of recent military take over of the government, Although international agencies stance seems to become softened, it is not certain how far they can lend assistance to the present regime.

The measures taken by the present government for recovery of stuck-up loans and government dues, though are commendable, they will have a snow ball effect on already susceptible businesses which may be closed due to debt burden and non availability of fresh working capital loans. If this happens this will have a negative impact on economic growth. The government realising the situation is likely to announce an economic package in the middle of December 1999, One expects that to provide a real impetus to the industry not only a good package should be announced, it should also be implemented in its letter and spirit. It is hoped that issue of IPPs will also be resolved so as to bring stability in the stock market and rebuild local investors and multilateral agencies confidence. It is imperative to first rebuild local investors' confidence, since only a stable stock market can bring back foreign investors. Good cotton crop news is a silver lining in the dark and can lead a revival of textile industry the backbone of Pakistan economy.

As said earlier though growth of the Modaraba depends on an economic revival, the Modaraba is continuously trying to improve its inherent strengths through diversification. The Modaraba has focused on small borrowers to take benefit of low percentage of default by these borrowers. The Modaraba experience in this category is very good and we intend to pursue this more aggressively in the year 2000. The government loan recovery drive has also brightened chances of early recovery of stuck-up leases of Modaraba. The recoverable amount will also be invested in small and medium sized morabaha and lease finances. Modaraba has also sought long term funding lines from financial institutions. Application of corresponding amounts in business is also likely to add to Modaraba profit margins.

Y 2K PROBLEM

The Y 2K Compliance has been achieved through up-gradation/replacement of computer hardware and installation of new Computer Software. Directors are confident that the Modaraba's internal operations will not be disrupted due to this issue. A contingency plan has been made to take care of any unforeseen event at the time of Millennium changeover.

APPROPRIATION

The Board has made the following appropriations:

	<i>Rupees</i>
Net profit after taxation for the year	25,246,572
Un-appropriated profit brought forward	861,243

Profit available for appropriation	26,107,815
Transfer to special reserve as per requirement of rule 3(a) of NBF Circular No.1 dated December 05, 1991	5,049,314
Transfer to Final Dividend payable account Rs 1 per certificate	20,633,399

	25,682,713

Un-appropriated profit carried forward	425,102
	=====

DECLARATION OF DIVIDEND

The Directors are pleased to announce a final dividend of 10% i.e. Rs 1 per certificate for the year ended June 30, 1999. The Certificate Transfer Books of the Modaraba will remain closed from

January 01, 2000 to January 11, 2000 (both days inclusive) for determination of dividend entitlement.

AUDITORS

The present auditors Messrs. Riaz Ahmad & Co., Chartered Accountants, being due for retirement, have offered themselves for re-appointment for the year ending June 30, 2000. Subject to approval by the Registrar of Modaraba Companies & Modarabas, their appointment has been confirmed by the Board.

CERTIFICATE HOLDING PATTERN

A statement reflecting the pattern of certificate holding is attached to the Annual Report.

In the end, I conclude by reaffirming the Management's commitment to a prudent approach based on high standards of professional ethics and moral integrity with a note of thanks to all the staff members of the Modaraba.

**For and on behalf of the
Board of Directors**

Lahore
December 09, 1999

**JAVAI B. SHEIKH
Chairman**

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed Balance Sheet as at 30 June 1999 and the related Profit and Loss Account and Statement of Sources and Application of Funds together with the Notes to the Accounts for the year ended 30 June 1999 of **FIRST FIDELITY LEASING MODARABA** which are modaraba company's (Fidelity Capital Management [Private] Limited) representation and we state that we have obtained all the information and explanations which we required and, after due verification thereof, we report that:

(a) in our opinion, proper books of account have been kept by the modaraba company in respect of First Fidelity Leasing Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, and Modaraba Companies and Modaraba Rules, 1981; and

(b) in our opinion, the Balance Sheet and the Profit and Loss Account have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, and Modaraba Companies and Modaraba Rules, 1981; and

(c) in our opinion and to the best of our information and according to the explanations given to us;

i) the Balance Sheet and the related Profit and Loss Account and Statement of Sources and Application of Funds, which are in agreement with the books of account, exhibit respectively a true and fair view of the state of the Modaraba's affairs as at 30 June 1999 and the Profit and the Changes in the Sources and Application of Funds for the year ended on that date;

ii) zakat deductible at source under the Zakat and Ushr Ordinance, 1980, has been deducted by the Modaraba and deposited in the Central Zakat Fund established under section 7 of that Ordinance; and

iii) the business conducted, investments made and expenditure incurred by the Modaraba are in accordance with the objects, terms and conditions of the Modaraba.

LAHORE
Dated: December 10, 1999

**RIAZ AHMAD & CO.
Chartered Accountants**

BALANCE SHEET AS AT JUNE 30, 1999

	<i>Note</i>	<i>1999 Rupees</i>	<i>1998 Rupees</i>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorized capital 30,000,000 Modaraba Certificates of Rupees 10 each		300,000,000 =====	300,000,000 =====
Issued, subscribed and paid up capital	3	206,333,990	206,333,990
Reserves and surplus			
Capital reserve	4	22,744,991	17,695,677
Revenue reserve-General		5,000,000	5,000,000
Unappropriated profit		425,102	861,243
		234,504,083	229,890,910

NON-CURRENT LIABILITIES

Finance under morabaha arrangement	5	17,062,089	--
Long term deposits	6	12,106,719	11,998,053
Deferred taxation		--	1,000,000
		-----	-----
		29,168,808	12,998,053
CURRENT LIABILITIES			
Current portion of long term finance and deposits	7	5,746,375	269,300
Accrued and other liabilities	8	2,771,293	1,888,609
Provision for taxation		--	4,972,688
Dividend payable		20,633,399	23,728,409
		-----	-----
		29,151,067	30,859,006
CONTINGENCIES AND COMMITMENTS			
		--	--
		-----	-----
		292,823,958	273,747,969
		=====	=====
ASSETS			
NON-CURRENT ASSETS			
Tangible fixed assets	9	134,031,365	105,378,114
Investments	10	35,925,297	35,925,297
		-----	-----
		169,956,662	141,303,411
CURRENT ASSETS			
Finances under morabaha arrangements	11	36,618,009	42,218,009
Advances, deposits, prepayments and other receivables	12	27,724,427	28,600,652
Cash and bank balances	13	58,524,860	61,625,897
		-----	-----
		122,867,296	132,444,558
		-----	-----
		292,823,958	273,747,969
		=====	=====

The annexed notes form an integral part of these accounts.

JAVOID B. SHAIKH
Chairman

WASIMUL-OSMANI
Chief Executive

ARSHAD I. KHAN
Director

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

	<i>Note</i>	<i>1999</i> <i>Rupees</i>	<i>1998</i> <i>Rupees</i>
REVENUES			
Lease rentals		46,960,444	21,344,328
Profit on morabaha finances		7,442,404	9,766,860
Other income	14	11,537,202	11,530,520
		-----	-----
		65,940,050	42,641,708
OPERATING COST			
Depreciation on assets leased out		30,714,299	12,284,518
Administrative and general expenses	15	4,803,029	4,073,515
Financial and other charges	16	3,632,297	11,750,223
		-----	-----
		39,149,625	28,108,256
		-----	-----
		26,790,425	14,533,452
MODARABA COMPANY'S MANAGEMENT FEE		2,435,493	1,321,223
		-----	-----
PROFIT BEFORE TAXATION		24,354,932	13,212,229
PROVISION FOR TAXATION	17	891,640	1,800,000
		-----	-----
PROFIT AFTER TAXATION		25,246,572	15,012,229
UNAPPROPRIATED PROFIT BROUGHT FORWARD		861,243	2,579,869
		-----	-----
PROFIT AVAILABLE FOR APPROPRIATION		26,107,815	17,592,098
APPROPRIATIONS			

Transferred to statutory reserve	5,049,314	3,002,446
Transferred from general reserve	--	(10,000,000)
Final dividend Rs. 1.00 per certificate (1988: Rs. 1.15 per certificate)	20,633,399	23,728,409
	-----	-----
	25,682,713	16,730,855
	-----	-----
UNAPPROPRIATED PROFIT CARRIED FORWARD	425,102	861,243
	=====	=====
EARNINGS PER CERTIFICATE	19	1.22
		0.73

The annexed notes form an integral part of these accounts.

JAVAI D B. SHEIKH
Chairman

WASIM-UL-HAQ OSMANI
Chief Executive

ARSHAD I. KHAN
Director

STATEMENT OF SOURCES AND APPLICATION OF FUNDS FOR THE YEAR ENDED JUNE 30, 1999

	1999	1998
	Rupees	Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	8,286,744	12,704,008
Lease rentals	42,592,423	14,669,023
Profit paid on musharika finances	--	(332,275)
Profit paid on morabaha finances	(3,073,932)	
Profit received on morabaha finances	7,462,564	9,786,592
Income tax paid	(14,146)	(8,005,914)
	-----	-----
NET CASH FLOWS FROM OPERATING ACTIVITIES	55,253,653	28,821,434
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend received	1,073,967	457,229
Sale proceeds from sale of shares/certificates	390	6,618,297
Lessees security deposits	2,018,666	50,865
Proceeds from sale of leased assets	2,738,353	3,325,983
Proceeds from sale of own assets	1,000	815,628
Fixed assets acquired - Own use	(472,800)	--
Fixed assets acquired - Leased out	(61,761,960)	(35,493,400)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(56,402,384)	(24,225,398)
CASH FLOWS FROM FINANCING ACTIVITIES		
Finances under morabaha arrangement - Obtained	24,692,000	--
Finances under morabaha arrangement - Repaid	(4,062,836)	--
Dividend paid	(22,581,470)	(15,804)
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(1,952,306)	(15,804)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT	(3,101,037)	4,580,232
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	61,625,897	57,045,665
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR	-----	-----
	58,524,860	61,625,897
	=====	=====
	1999	1998
	Rupees	Rupees
CASH GENERATED FROM OPERATIONS		
Profit before taxation	24,354,932	13,212,229
Adjustment for non-cash charges and other items:		
Provision for diminution in the value of investments and doubtful lease rentals receivable	251,492	11,636,411
Depreciation	30,836,039	12,327,880
Profit paid on morabaha finances	3,265,649	--

Profit on musharika finance obtained	--	83,174
Dividend income	(1,073,967)	(457,229)
Profit on morabaha finances given	(7,442,404)	(9,766,860)
(Gain)/loss on sale of fixed assets	6,117	(21,042)
(Gain) on sale of shares/certificates	(390)	(698,342)
Lease rentals	(46,960,444)	(21,344,328)
Fixed assets discarded	--	12,037
Working capital changes	5,049,720	7,720,078
	-----	-----
	8,286,744	12,704,008
	=====	=====

WORKING CAPITAL CHANGES**(Increase)/decrease in operating assets**

Finances under morabaha arrangements	5,600,000	11,500,000
Advances, deposits, prepayments and other receivables	(22,850)	918,476
	-----	-----
	5,577,150	12,418,476

Increase/(decrease) in operating liabilities

Short term finances	--	(4,995,700)
Accrued and other liabilities	(527,430)	297,302
	-----	-----
	(527,430)	(4,698,398)
	-----	-----
	5,049,720	7,720,078
	=====	=====

JAVAID B. SHEIKH
Chairman

WASIM-UL-HAQ OSMANI
Chief Executive

ARSHAD I. KHAN
Director

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

1. LEGAL STATUS AND NATURE OF BUSINESS

First Fidelity Leasing Modaraba was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed thereunder and is managed by Fidelity Capital Management (Private) Limited. The Modaraba commenced its business operations from 05 December 1991. It is listed on all the stock exchanges in Pakistan.

The Modaraba is a perpetual, multi-purpose and multi-dimensional and is primarily engaged in the business of leasing, musharika and morabaha financing', investment in marketable securities and other related business.

2. SIGNIFICANT ACCOUNTING POLICIES**2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

2.2 Tangible fixed assets**2.2.1 Assets in own use and depreciation**

Operating fixed assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the reducing balance method whereby the cost of an asset is written off over its estimated useful life. Full year's depreciation is charged on additions while no depreciation is charged on assets disposed of during the year.

Maintenance and normal repairs are charged to income as and when incurred. Gain/loss on disposal of fixed assets are included in income currently.

2.2.2 Assets given on lease and depreciation

Leased assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying annuity method whereby the cost of an asset less salvage value is written off over its lease period. In respect of additions and disposals during the year, depreciation is charged proportionately to the period of the leases.

2.3 Accounts receivables

Provision for doubtful receivables is made/adjusted after a review of the outstanding portfolio at year end on the basis of Prudential Regulations for Non-Banking Financial Institutions (NBFIs) as applicable to the Modaraba and management's own judgement.

2.4 Investments

Long term investments are stated at cost. Full provision is made against permanent diminution in the value of investments. Short term investments are stated at lower of cost and market value determined on aggregate portfolio basis.

2.5 Revenue recognition

Lease rentals are recognized as income on accrual basis over the lease period. Front end fee is taken to income on receipt basis. Profit on morabaha and musharika finances is recognized on accrual basis, calculated on number of days for which funds were utilized. Profit or loss on sale of investments is accounted for in the year in which it arises. Dividend income is recognized on receipt basis. Profit on bank deposit is recognized on time proportion basis taking into account period of deposit and rate of return applicable thereon.

2.6 Taxation

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax credits receivable. The Modaraba accounts for deferred taxation on all major timing differences, using the liability method.

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

16,656,491 modaraba certificates of Rupees 10 each fully paid up in cash

	<i>1999</i> <i>Rupees</i>	<i>1998</i> <i>Rupees</i>
16,656,491 modaraba certificates of Rupees 10 each fully paid up in cash	166,564,910	166,564,910
3,976,908 modaraba certificates of Rupees 10 each issued as fully paid bonus certificates	39,769,080	39,769,080
	-----	-----
	206,333,990	206,333,990
	=====	=====

3,976,908 modaraba certificates of Rupees 10 each issued as fully paid bonus certificates

3.1 2,097,000 certificates are held by the management company.

4. CAPITAL RESERVE

This represents the statutory reserve created to comply with the Non-Banking Financial Institutions (NBFIs) prudential regulations as applicable to the Modarabas.

5. FINANCE UNDER MORABAHA ARRANGEMENT

Morabaha finance (Note 5.1)
Less: Current portion (Note 7)

Morabaha finance (Note 5.1)	20,629,164	--
Less: Current portion (Note 7)	3,567,075	--
	-----	-----
	17,062,089	--
	=====	=====

5.1 This represents finance obtained from Muslim Commercial Bank Limited under morabaha arrangement whereby purchase price of morabaha goods will be paid in equal quarterly installments over a period of five years on a specified profit margin of 18% per annum. The finance is secured against hypothecation of specific leased assets.

6. LONG TERM DEPOSITS

Lessees security deposits (Note 6.1)
Less: Current portion (Note 7)

	<i>1999</i> <i>Rupees</i>	<i>1998</i> <i>Rupees</i>
Lessees security deposits (Note 6.1)	14,286,019	12,267,353
Less: Current portion (Note 7)	2,179,300	269,300
	-----	-----
	12,106,719	11,998,053
	=====	=====

6.1 These represent the interest free security deposits (lease key money) received against lease contracts and are repayable/adjustable at the expiry/termination of the respective lease.

7. CURRENT PORTION OF LONG TERM FINANCE AND DEPOSITS

Finance under morabaha arrangement
Long term deposits

Finance under morabaha arrangement	3,567,075	--
Long term deposits	2,179,300	269,300
	-----	-----
	5,746,375	269,300
	=====	=====

8. ACCRUED AND OTHER LIABILITIES

Profit accrued on morabaha finance obtained	191,717	--
Lease rentals received in advance	147,349	75,891
Accrued and other payables	542,369	1,069,799
Unclaimed dividend	1,889,858	742,919
	-----	-----
	2,771,293	1,888,609
	=====	=====

9. TANGIBLE FIXED ASSETS

Assets leased out (Note 9.1)	133,539,386	105,230,078
Assets in own use (Note 9.3)	491,979	148,036
	-----	-----
	134,031,365	105,378,114
	=====	=====

9.1 Assets Leased Out

<i>Description</i>	<i>Cost</i>		<i>As at</i>		<i>Accumulated Depreciation</i>		<i>Book value as at 30 June 1999</i>	<i>Depreciation charge for the year</i>
	<i>As at 01 July 1998</i>	<i>Additions/ (Deletions)</i>	<i>30 June 1999</i>	<i>As at 01 July 1998</i>	<i>Adjustments</i>	<i>As at 30 June 1999</i>		
Plant and machinery	126,400,000	24,594,568 (5,000,000)	145,994,568	30,552,824	(4,500,015)	50,537,385	95,457.18	24,484.58
Vehicles	10,691,333	31,090,956 (3,158,250)	38,624,039	2,564,711	(1,165,888)	6,467,065	32,156,974	5,068,242
Office equipments	1,930,000	2,495,600 (140,000)	4,285,000	783,053	(80,274)	1,250,816	3,034,784	548,037
Household equipments	113,400	3,580,836 (205,000)	3,489,236	4,067	(18,720)	598,791	2,890,445	613,444
	-----	-----	-----	-----	-----	-----	-----	-----
1999 Rupees	139,134,733	61,761,960 (8,503,250)	192,393,443	33,904,655	(5,764,897)	58,854,057	133,539,386	30,714,299
	=====	=====	=====	=====	=====	=====	=====	=====
1998 Rupees	120,277,284	35,493,400 (16,635,951)	139,134,733	34,930,105	(13,309,968)	33,904,655	105,230,078	12,284,518
	=====	=====	=====	=====	=====	=====	=====	=====

9.2 Detail of leased out assets sold to lessees after expiry/termination of leases during the year under reference:

<i>Description</i>	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Book Value</i>	<i>Sale Proceeds</i>	<i>Particulars of Lessees</i>
Rupees					
PLANT AND MACHINERY					
Machinery	5,000,000	4,500,015	499,985	499,985	Sheik Sugar Mills Limited
VEHICLES					
Honda City (2 Nos.)	1,146,000	340,384	805,616	805,616	Lahore School of Arts and Science
Honda Civic	100,000	--	100,000	100,000	Mr. Iftikhar Ahmed
Suzuki Khyber	362,250	69,805	292,445	292,445	Lahore School of Arts and Science
Toyota Corolla	450,000	227,394	222,606	222,606	Union Bank Limited
Toyota Corolla	450,000	242,667	207,333	207,333	Union Bank Limited
Toyota Corolla	450,000	197,749	252,251	252,251	Union Bank Limited
Suzuki Khyber	200,000	87,889	112,111	112,111	Union Bank Limited
OFFICE EQUIPMENTS					
Computer	50,000	35,730	14,270	14,270	Mr. Tauqeer Masood
Computer	60,000	25,890	34,110	34,110	Mr. Hasan Ahmed
Mobile Phone	30,000	18,654	11,346	11,346	Mr. Anjum Saeed
HOUSEHOLD EQUIPMENTS					
Television	65,000	11,387	53,613	53,613	Mr. Hasan Ahmed
Television, CD Player	100,000	7,333	92,667	92,667	Mr. Raft Ahmed Khan
Television, CD Player	40,000	--	40,000	40,000	Mr. Taufiq Ahmed Khan

9.3 Assets in Own Use

<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Book value</i>	<i>Depreciation</i>
-------------	---------------------------------	-------------------	---------------------

<i>Description</i>	<i>As at 01 July 1998</i>	<i>Additions/ (Deletions)</i>	<i>As at 30 June 1999</i>	<i>As at 01 July 1998</i>	<i>Adjustment</i>	<i>As at 30 June 1999</i>	<i>as at 30 June 1999</i>	<i>Charge for the year</i>	<i>Rate %</i>
Vehicles	--	395,800	395,800	--	--	79,160	316,640	79,160	20
Computer and other Office equipments (Note 9.4)	311,248	27,000 (82,600)	255,648	242,029	(75,483)	196,244	59,404	29,698	33.33
Furniture and fixtures	115,000	50,000	165,000	36,183	--	49,065	115,935	12,882	10
1999 Rupees	426,248	472,800 (82,600)	816,448	278,212	(75,483)	324,469	491,979	121,740	
1998 Rupees	2,250,226	(1,823,980)	426,248	1,252,208	(1,017,358)	278,212	148,036	43,362	

9.4 Deletion represents the obsolete computer equipments sold through negotiation to Messrs MOD Systems, Hafiz Centre, Lahore for Rupees 1,000 against book value of Rupees 7,117.

	<i>1999</i>		<i>1998</i>	
	<i>Cost Rupees</i>	<i>Market Value Rupees</i>	<i>Cost Rupees</i>	<i>Market Value Rupees</i>
10. INVESTMENTS				
Shares/certificates of listed companies/fund (Note 10.1)	49,212,143	15,976,560	49,212,143	15,132,542
Less: Provision for the diminution in the value of investments	13,286,846	--	13,286,846	--
	35,925,297	15,976,560	35,925,297	15,132,542

10.1 Shares/Certificates of Listed Companies/Funds

	<i>1999</i>		<i>Average Cost</i>	<i>1998</i>	
	<i>Cost Rupees</i>	<i>Market Value Rupees</i>	<i>Per Share Rupees</i>	<i>Cost Rupees</i>	<i>Market Value Rupees</i>
D.G. Khan Cement Company Limited					
82,000 fully paid ordinary shares of Rupees 10 each	4,912,515	340,300	59.91	4,912,515	405,900
Nishat Mills Limited					
70,500 fully paid ordinary shares of Rupees 10 each	5,586,890	669,750	79.25	5,586,890	599,250
Muslim Commercial Bank Limited					
465,500 fully paid ordinary shares of Rupees 10 each	15,779,004	9,333,275	33.90	15,779,004	8,658,300
First Leasing Corporation Limited					
75,500 fully paid ordinary shares of Rupees 10 each	1,274,018	396,375	16.87	1,274,018	490,750
Maple Leaf Electric Company Limited					
1,300,000 fully paid ordinary shares of Rupees 10 each	20,000,000	4,745,000	15.38	20,000,000	4,550,000
ICP (S.E.M.F.) Mutual Fund					
41,000 certificates of Rupees 10 each	1,559,750	432,550	38.04	1,559,750	373,100
National Investment Trust					
6,675 units of Rupees 10 each	99,966	50,730	14.97	99,966	45,056
Bonus shares					
Askari Leasing Limited					
NIL (1998: 40) fully paid ordinary shares of Rupees 10 each	--	--	--	--	396
Al-Faysal Investment Bank Limited					
975 fully paid ordinary shares					

of Rupees 10 each	--	8,580	--	--	9,750
-------------------	----	-------	----	----	-------

National Development Leasing Corporation Limited

NIL (1998: 10) fully paid ordinary shares of Rupees 10 each

	--	--	--	--	40
	-----	-----	-----	-----	-----
	49,212,143	15,976,560		49,212,143	15,132,542
	=====	=====		=====	=====

11. FINANCES UNDER MORABAHA ARRANGEMENTS

These represent the finances provided under morabaha arrangements at profit margin ranging from 19 to 21 percent per annum. These finances are secured by pledge of shares of listed companies, bank guarantee, personal guarantees of directors, hypothecation of inventories and demand promissory notes.

	1999	1998
	Rupees	Rupees

12. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Advances to employees-Considered good	175,196	287,446
Security deposit	300,000	--
Short term prepayments	242,902	232,756
Lease rentals receivable (Note 12.1)	24,687,509	20,499,522
Profit on morabaha finances	368,472	388,632
Profit accrued on bank deposits	758,132	960,504
Income tax refundable	954,547	6,021,449
Due from management company	188,845	210,343
Miscellaneous receivables - Considered good	48,824	--
	-----	-----
	27,724,427	28,600,652
	=====	=====

12.1 Lease Rentals Receivable

Due from lessees	44,596,841	40,157,362
Less: Provision for doubtful receivables	19,909,332	19,657,840
	-----	-----
	24,687,509	20,499,522
	=====	=====

13. CASH AND BANK BALANCES

Cash in hand	26,742	27,735
Cash with banks		
Deposit accounts	55,832,735	59,213,967
PLS-Saving accounts	1,720,956	2,184,195
Current accounts (Note 13.1)	944,427	200,000
	-----	-----
	58,498,118	61,598,162
	-----	-----
	58,524,860	61,625,897
	=====	=====

13.1 This includes interest free deposit amounting to Rupees 200,000 with State Bank of Pakistan as required under the Prudential Regulations for Non-Banking Financial Institutions (NBFIs) as applicable to the Modaraba.

14. OTHER INCOME

Profit on bank deposits	10,152,048	10,217,830
Dividend income	1,073,967	457,229
Fees, commission and other charges	299,469	117,592
Mark-up on advances to employees	11,328	18,485
Gain on sale of shares/certificates	390	698,342
Gain on disposal of fixed assets	--	21,042
	-----	-----
	11,537,202	11,530,520
	=====	=====

1999	1998
-------------	-------------

Rupees **Rupees**

15. ADMINISTRATIVE AND GENERAL EXPENSES

Salaries and other benefits (Note 15.1)	3,098,361	2,567,692
Legal and professional	513,043	476,437
Printing and stationery	376,088	303,466
Travelling and vehicles' running	63,984	128,602
Insurance	85,296	88,310
Fee, subscription and taxes	281,194	315,606
Auditors' remuneration (Note 15.3)	49,380	39,380
Zakat	121,537	29,325
Advertisement	33,700	--
Miscellaneous	58,706	81,327
Depreciation on assets in own use	121,740	43,362
	-----	-----
	4,803,029	4,073,515
	=====	=====

15.1 The aggregate amount charged in the accounts for the year for remuneration, including certain benefits to the officers/employees of Modaraba is as under:

Remuneration	1,882,568	1,281,168
House rent	360,424	576,586
Other allowances and perquisites	855,369	709,938
	-----	-----
	3,098,361	2,567,692
	=====	=====

Number Number

15.2 Number of employees at the year's end	11	12
	=====	=====

Rupees **Rupees**

15.3 Auditors' Remuneration

Audit fee	45,000	35,000
Out of pocket expenses	4,380	4,380
	-----	-----
	49,380	39,380
	=====	=====

15.4 Office space, utilities and related expenditures have been borne by the management company.

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

16. FINANCIAL AND OTHER CHARGES**Financial**

Profit on morabaha finance	3,265,649	--
Profit on musharika finances	--	83,174
Bank charges, duties and commission	83,539	18,601
	-----	-----
	3,349,188	101,775

Others

Loss on sale of fixed assets	6,117	--
Fixed assets discarded	--	12,037
Provision for diminution in the value of investments and doubtful lease rentals receivable	251,492	11,636,411
Donations (Note 16.1)	25,500	--
	-----	-----
	3,632,297	11,750,223
	=====	=====

16.1 None of directors or their spouses have any interest in the donees fund.

17. PROVISION FOR TAXATION

Current year (Note 17.1)	--	2,200,000
Prior years		
Current	108,360	(4,000,000)
Deferred	(1,000,000)	--
	(891,640)	(4,000,000)
	(891,640)	(1,800,000)
	=====	=====

17.1 After amendment in clause 102E of 2nd Schedule of Part-I of Income Tax Ordinance, 1979 made through Finance Act, 1998, the Modaraba considers itself exempt from income tax application as it distributes 90 percent of its profits to certificate holders. Therefore, no provision with respect to current tax is required.

18. LEASE RENTALS RECEIVABLE

Aggregate amount of lease rentals receivable on the basis of lease agreements executed upto 30 June 1999 and as per revised terms and conditions, approximate to Rupees 194.419 million (1998: Rupees 137.294 million). The amount of future rentals and periods during which they fall due are:

	1999	1998
	Rupees	Rupees
Within one year	61,402,285	38,229,984
One year to five years	133,017,012	99,063,538

19. EARNINGS PER CERTIFICATE

There is no dilutive effect on the basic earnings per share of the company, which is based on:

		1999	1998
		Rupees	Rupees
Profit after taxation	Rupees	25,246,572	15,012,229
Number of ordinary certificates		20,633,399	20,633,399
Earnings per certificates	Rupees	1.22	0.73

20. STATEMENT OF CHANGES IN EQUITY

	Share	Capital	Revenue	Unappropriated	Total
	Capital	Reserve	Reserve	Profit	
	Rupees	Rupees	Rupees	Rupees	Rupees
Balance as at 01 July 1997	206,333,990	14,693,231	15,000,000	2,579,069	238,607,090
Net profit for the year	--	--	--	15,012,229	15,012,229
Transferred during the year	--	3,002,446	(10,000,000)	6,997,554	--
Final dividend	--	--	--	(23,728,409)	(23,728,409)
	-----	-----	-----	-----	-----
Balance as at 30 June 1998	206,333,990	17,695,677	5,000,000	861,243	229,890,910
Net profit for the year	--	--	--	25,246,572	25,246,572
Transferred during the year	--	5,049,314	--	(5,049,314)	--
Final dividend	--	--	--	(20,633,399)	(20,633,399)
	-----	-----	-----	-----	-----
Balance as at 30 June 1999	206,333,990	22,744,991	5,000,000	425,102	234,504,083
	=====	=====	=====	=====	=====

21. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

21.1 Interest/Mark-up Rate

The company's exposure to interest/mark-up rate risk and effective rates on its financial assets and financial liabilities are summarised as follows:

Financial	1999		Non-	
	Interest/Mark-up			Interest/
	Bearing			
Instruments	Within One	One Year to	Mark-up	
	Year	Five Years	Bearing	
	Rupees			

ASSETS

Finances under morabaha arrangements	36,618,009	36,618,009	--	--
--------------------------------------	------------	------------	----	----

Investments	35,925,297	--	--	35,925,297
Advances, deposits and other receivables	26,526,978	151,863	--	26,375,115
Cash and bank balances	58,524,860	58,298,118	--	226,742
	-----	-----	-----	-----
	157,595,144	95,067,990	--	62,527,154
	=====	=====	=====	=====
LIABILITIES				
Finance under morabaha arrangement	20,629,164	3,567,075	17,062,089	--
Security deposits	14,286,019	--	--	14,286,019
Accrued and other liabilities	2,771,293	--	--	2,771,293
	-----	-----	-----	-----
	37,686,476	3,567,075	17,062,089	17,057,312
	=====	=====	=====	=====
Total interest/mark-up rate sensitivity gap	119,908,668	91,500,915	(17,062,089)	45,469,842
	=====	=====	=====	=====
Cumulative interest/mark-up rate sensitivity gap	--	91,500,915	74,438,826	119,908,668
	=====	=====	=====	=====

21.2 Effective Interest/Mark-up Rates**Financial assets**

Finances under morabaha arrangements	19 to 21 percent per annum
Advances to employees	7 percent per annum
Bank balances	7 to 14 percent per annum

Financial liabilities

Finance under morabaha arrangement	18 percent per annum
------------------------------------	----------------------

21.3 Interest/Mark-up Rate

The company's exposure to interest/mark-up rate risk and effective rates on its financial assets and financial liabilities are summarised as follows:

<i>Financial Instruments</i>	<i>1998</i>			<i>Non-Interest/Mark-up Bearing</i>
	<i>Interest/Mark-up Bearing</i>			
	<i>Within One Year</i>	<i>One Year to Five Years</i>		
<i>Rupees</i>				
ASSETS				
Finances under morabaha arrangements	42,218,009	42,218,009	--	--
Investments	35,925,297	--	--	35,925,297
Advances, deposits and other receivables	22,346,447	287,446	--	22,059,001
Cash and bank balances	61,625,897	61,398,162	--	227,735
	-----	-----	-----	-----
	162,115,650	103,903,617	--	58,212,033
	=====	=====	=====	=====
LIABILITIES				
Security deposits	12,267,353	--	--	12,267,353
Accrued and other liabilities	1,888,609	--	--	1,888,609
	-----	-----	-----	-----
	14,155,962	--	--	14,155,962
	=====	=====	=====	=====
Total interest/mark-up rate sensitivity gap	147,959,688	103,903,617	--	44,056,071
	=====	=====	=====	=====
Cumulative interest/mark-up rate sensitivity gap	--	103,903,617	103,903,617	147,959,688
	=====	=====	=====	=====

21.4 Effective Interest/Mark-up Rates**Financial assets**

Finances under morabaha arrangements	19 to 21 percent per annum
Advances to employees	7 percent per annum
Bank balances	8.25 to 14 percent per annum

21.5 Fair Value of Financial Assets and Liabilities

The carrying value of financial assets and financial liabilities approximates their fair values as reflected in the financial statements except for investments stated in note No.10 at cost less provision for diminution in value.

21.6 Credit Risk Exposure

The Modarabas credit risk exposure is not much different from that shown in annual accounts. The management has developed such procedures to efficiently monitor the credit risk exposure through initial credit approvals, monitoring of clients credit exposures and limits, adopting a prudent approach for collateral policy and conservative estimates of provisions for doubtful receivables.

The Modaraba avoids undue concentration of credit risk through diversification of its lendings to different sectors of the economy. Sector-wise break-up of lease portfolio and morabaha finances is as follows:

	1999		Total	Percentage
	Lease Rentals Receivable	Morabaha Finance		
<i>Rupees</i>				
Sugar	--	14,218,009	14,218,009	8.36
Cement	21,193,305	--	21,193,305	12.46
Energy, Oil and Gas	19,954,766	--	19,954,766	11.73
Engineering and Electrical	7,172,299	--	7,172,299	4.22
Transport and Communications	4,072,788	--	4,072,788	2.39
Textiles	49,749,527	22,400,000	72,149,527	42.40
Banks and Financial Institutions	22,237,967	--	22,237,967	13.07
Education	3,152,323	--	3,152,323	1.85
Legal and Professional	2,747,484	--	2,747,484	1.61
Individuals	3,258,927	--	3,258,927	1.92
	133,539,386	36,618,009	170,157,395	100.00

	1998		Total	Percentage
	Lease Rentals Receivable	Morabaha Finance		
<i>Rupees</i>				
Sugar	1,983,669	14,218,009	16,201,678	10.99
Cement	15,593,490	--	15,593,490	10.58
Energy, Oil and Gas	19,813,283	7,500,000	27,313,283	18.52
Engineering and Electrical	11,063,770	--	11,063,770	7.50
Transport and Communications	670,407	--	670,407	0.45
Textiles	48,992,465	20,500,000	69,492,465	47.13
Banks and Financial Institutions	3,557,061	--	3,557,061	2.41
Education	2,174,161	--	2,174,161	1.47
Legal and Professional	1,124,385	--	1,124,385	0.76
Individuals	257,387	--	257,387	0.17
	105,230,078	42,218,009	147,448,087	100.00

22. CORRESPONDING FIGURES

Previous year's figures have been re-arranged, wherever necessary for the purpose of comparison.

JAVAID B. SHEIKH
Chairman

WASIM-UL-HAQ OSMANI
Chief Executive

ARSHAD I. KHAN
Director

PATTERN OF CERTIFICATE HOLDERS

Number of Certificate Holders	From Certificate	To Certificate	Total Certificate Held
887	1	100	65,689
1,098	101	500	292,168
1,164	501	1,000	923,224

1,985	1,001	5,000	3,979,710
237	5,001	10,000	1,683,976
88	10,001	15,000	1,036,767
41	15,001	20,000	733,714
30	20,001	25,000	653,296
15	25,001	30,000	410,687
13	30,001	35,000	420,059
9	35,001	40,000	332,560
11	40,001	45,000	461,690
5	45,001	50,000	235,057
4	50,001	55,000	211,100
1	55,001	60,000	55,880
1	60,001	65,000	62,910
3	65,001	70,000	204,850
1	70,001	75,000	71,040
0	75,001	85,000	0
1	85,001	90,000	88,100
0	90,001	95,000	0
1	95,001	100,000	96,700
1	100,001	105,000	101,800
0	105,001	110,000	0
1	110,001	115,000	113,090
0	115,001	150,000	0
1	150,001	155,000	151,099
1	155,001	160,000	158,322
0	160,001	440,000	0
1	440,001	445,000	444,186
0	445,001	875,000	0
1	875,001	880,000	875,431
0	880,001	2,085,000	0
1	2,085,001	2,090,000	2,087,500
0	2,090,001	2,095,000	0
1	2,095,001	2,100,000	2,097,000
0	2,100,001	2,585,000	0
1	2,585,001	2,590,000	2,585,794

5,604	TOTAL		20,633,399
=====			

CATEGORIES OF CERTIFICATE HOLDERS

<i>Category Code</i>	<i>Description</i>	<i>Number of Certificate holders</i>	<i>Certificates Held</i>	<i>Percentage of T. Capital</i>
1.	Individuals	5540	10,959,960	53.12
2.	Investment Companies	9	290,601	1.41
3.	Insurance Companies	3	1,038,253	5.03
4.	Joint Stock Companies	9	3,213,723	15.58
5.	Financial Institutions	5	2,172,560	10.53
6.	Modaraba Companies	5	144,820	0.70
7.	Foreign Investors	1	32,100	0.16
8.	Others	10	50,658	0.25
9.	Sponsors	22	2,730,724	13.23
-----				-----
	TOTAL	5,604	20,633,399	100.00
=====				=====