

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated on December 6, 1993 and commenced its operations on May 21, 1995. The Company is a Non Banking Finance Company (NBFC) under NBFC Rules 2003 having leasing and housing finance licences, however, leasing is the core business of the Company. The Company is listed on the Karachi Stock Exchange & Lahore Stock Exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements are prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise such International Accounting Standards (IASs) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except for those as stated in notes 2.10.2 and 2.11.

2.3 Proposed dividend and transfer between reserves

During the current year, the Company has changed its accounting policy pertaining to recognition of dividends declared subsequent to year end. The change has been consequent to the amendment made in the Fourth Schedule to the Companies Ordinance, 1984 and the new policy is in accordance with the requirements of IAS 10 (Events after the Balance Sheet Date). As per the new policy dividends declared subsequent to the balance sheet date are considered as non-adjusting events and are not recognized in the financial statements. Previously, such dividend declarations was being treated as adjusting events in the financial statements of the Company.

The change in accounting policy has been applied retrospectively and the comparative information has been restated in accordance with the benchmark treatment specified in IAS 8 (Net profit or loss for the period, fundamental errors and changes in accounting policies). Had there been no change in the accounting policy, the unappropriated profit as at June 30, 2003 and June 30, 2004 would have been lower by Rs 10 million each and the general reserves and current liabilities as at June 30, 2003 and June 30, 2004 would have been higher by Rs 10 million each respectively.

The effect of change in accounting policy has been reflected in the statement of changes in equity. The change in accounting policy has not resulted in any change in the profit for the current year.

2.4 Use of estimates

In presenting the balance sheet, management makes estimates regarding certain assets and liabilities and other matters that affect the reported amounts and disclosure in the balance sheet. Estimates, by their nature, are based on judgement and available information. Therefore, actual results could differ from the estimates.

2.5 Revenue recognition

2.5.1 Finance lease and hire purchase

The Company follows the financing method in accounting for recognition of lease income and hire purchase income. At the commencement of lease, a portion of the unearned lease income (i.e. the aggregate of lease contract receivables over cost of the leased asset), which approximates the provision for potential lease losses and the direct initial cost of writing the lease, is taken into income. The remainder of the unearned lease income is taken over the term of the lease contract so as to produce a systematic return on the net investment in leases.

2.5.2 Return on Investment Securities

- 4 Front end fee, profit on bank deposits and profit on term finance certificates are accrued when due.
- 4 Dividend income is taken into account when right to receive the dividend is established.
- 4 Return on government securities is accounted for using effective interest rate method.

2.5.3 Operating lease

Rental income from assets given on operating lease is recognized on accrual basis over the term of the lease contract.

2.6 Deferred costs and amortization

Deferred costs carried as on July 05, 2004 are written off over a period not exceeding five years in accordance with the requirements of substituted Fourth Schedule. No further deferred cost is included in these accounts.

2.7 Credit and interest rates risk management

Credit risk arises from the failure of counter party to the financial instrument to meet their obligations when due. This risk is managed by incorporating procedures and guidelines relating to evaluation of credit worthiness of the lessees/borrowers, credit approvals, limits on credit exposures, collaterals and guarantee requirements and diversification of exposure over different sectors of the economy.

Interest rates risk relates to changes in interest rates whereby rates earned on interest bearing assets may become lower than the rates payable on interest bearing liabilities. This risk is managed by matching the long term assets with long term liabilities and ensuring that borrowing rates remain below earning rates.

2.8 Provision for potential lease losses

The provision for potential lease losses is maintained at a level which, in the judgement of the Company, is sufficient to provide for any potential losses keeping in view the requirements of Prudential Regulations. Any change in the provision is set off against the income of the current period.

Developing the allowance for potential lease, installment and other loan losses is subject to numerous judgements and estimates. In evaluating the adequacy of allowance, management considers various factors, including the requirements of the prudential regulations, the nature and characteristics of the obligator, current economic conditions, credit concentrations or deterioration in pledged collateral, historical loss experience, delinquencies and present value of future cash flows expected to be received. Lease installment and other receivables are charged off, when in the opinion of Board, the likelihood of any future collection is believed to be minimal.

2.9 Net Investment in Lease Finance

Leases where the company transfers substantially all the risks and rewards incidental to ownership of an asset to the lessees are classified as finance lease. A receivable is recognised at an amount equal to the present value of the lease payments, including any guaranteed residual value.

2.10 Investments

All investments are initially recognized at cost including the acquisition charges associated with the investments. The investments are subsequently measured as follows:

2.10.1 Available for sale

These are investments which are neither held for trading nor held to maturity and are initially recognised on trade date at cost. At subsequent reporting dates, these are measured at fair value. Unrealized gains and losses are recognized directly in equity through the statement of changes in equity on aggregate portfolio basis. Gains and losses on disposal are included in income currently.

2.10.2 Held to Maturity

Held to Maturity investments are securities of fixed or determinable payments with fixed maturity periods where management has the positive intent and ability to hold these investments till maturity. These are subsequently re-measured at amortized cost less impairment losses other than temporary, if any. Pakistan Investment Bonds were previously classified as Available for Sale investments and measured at fair value, however, during the year these investments have been reclassified as Held to Maturity investment. The change in accounting policy has been accounted for retrospectively and comparative information has been restated in accordance with the benchmark treatment specified in International Accounting Standard 8, "Net Profit or Loss for the period, Fundamental Errors and changes in Accounting Policies". Had there been no change in the accounting policy, the deficit on investments as stated in equity would have been higher by Rs. 25,115,840, unappropriated profit and investments would have been lower by Rs. 214,712 and Rs. 25,330,552 respectively for the year ended June 30, 2004 and profit for the year would have been higher by Rs. 5,503,406.

2.11 Operating assets and depreciation

Operating lease and owned assets are stated at cost less accumulated depreciation. Depreciation is charged applying the straight line method at the rates specified in note 12. In respect of additions during the year, depreciation is charged from the month of acquisition. No depreciation is charged in the month of disposal. The revaluation of the office premises was carried out by an independent valuer on June 30, 2005 on the basis of prevailing market values. In previous years office premises were stated at cost less accumulated depreciation. This change has been made to reflect these assets at fair value for appropriate presentation in accordance with the requirements of International Accounting Standards. Had these assets not been revalued, the value of fixed assets would have been lower by Rs. 16,005,652.

Normal repairs and maintenance are charged to income as and when incurred. Major renewals and maintenance are capitalized as and when incurred. Profit or loss on disposal of fixed assets are included in income currently.

2.12 Compensated absences

The Company accounts for accumulated absences of employees in the period in which these absences are earned.

2.13 Staff retirement benefits

2.13.1 Defined Benefit Plan

During the year the Company had obtained approval from the Commissioner of Income Tax for Employees' Gratuity Fund. Previously the Company was operating an unfunded gratuity scheme. Employees eligible are those who have completed minimum qualifying period of service as per the laid down rules. Contributions are made monthly to this scheme on the basis of actuarial recommendations. Last actuarial valuation was carried out as at June 30, 2005 and contributions are being made at the rates recommended by the actuary. Actuarial gains / losses exceeding 10% of the higher projected benefit obligation and fair value of plan assets are amortized over average future service of the employees. The significant actuarial assumptions are stated in note 14.

2.13.2 Defined Contribution Plan

The Company operates a defined contribution i.e. provident fund scheme for all its permanent employees. Equal monthly contributions are made to the fund in accordance with the laid down policy of the Company.

2.14 Foreign currency translations

Monetary assets and liabilities in foreign currencies are translated into rupees at the rate of exchange prevailing at the balance sheet date. Transactions in foreign currencies are converted into Pakistan rupees at the rates of exchange prevailing at the transaction date. Exchange gains or losses are taken to income currently.

2.15 Off-setting

A financial asset and a financial liability is off set and the net amount reported in the balance sheet if the Company has a legal enforceable right to set-off the transactions and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.16 Taxation

Current

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax credits, rebates and exemptions available, if any, or one-half of one percent of turnover, whichever is higher and in accordance with the presumptive tax regime, where applicable, of the Income Tax Ordinance 2001.

Deferred

Deferred taxation is accounted for using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization on settlement of the carrying amount of assets and liabilities using the tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.17 Related parties transactions

All transactions with related parties, if any, are recorded at an arm's length price.

2.18 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

2.19 Impairment

The carrying amounts of the Company's assets are reviewed at balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated and impairment losses are recognized in the profit and loss account. Reversal of impairment loss if any is restricted to the original cost of assets.

2.20 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash with banks on current accounts and are presented net of running finance.

	Note	2005 Rupees	2004 Rupees
3. BALANCES WITH BANKS			
Balance with State Bank of Pakistan		133,728	235,793
Balances with other banks-current accounts		22,894,707	11,324,954
		<u>23,028,435</u>	<u>11,560,747</u>
4. INVESTMENTS - Available for sale			
LISTED SECURITIES			(Restated)
Term finance certificates	4.1	126,284,378	115,253,905
Closed end mutual funds	4.2	88,186,970	38,896,970
Equity investments	4.3	421,388,135	112,594,300
		<u>635,859,483</u>	<u>266,745,175</u>
OPEN END MUTUAL FUNDS	4.4	60,418,608	84,630,600
UNLISTED SECURITIES			
Term finance certificates	4.5	35,736,606	33,393,000
Preference shares	4.6	10,000,000	10,000,000
		<u>45,736,606</u>	<u>43,393,000</u>
Carrying Value		742,014,697	394,768,775
Unrealised Gain / (loss) on revaluation	24	(54,098,624)	(11,808,501)
Fair Market Value		<u>687,916,073</u>	<u>382,960,274</u>

LISTED SECURITIES

No. of shares / units June 30,		Profit rate %	Name of Company / Institution	Cost as at June 30,		Market value as at June 30,	
2005	2004			2005 Rupees	2004 Rupees	2005 Rupees	2004 Rupees

4.1 Term finance certificates

2,000	2,000	8.00	Al - Zamin Leasing Modaraba	10,000,000	10,000,000	9,863,000	10,075,000
136	136	12.00	Crescent Leasing Corporation Limited - II	740,000	740,000	683,400	761,600
6,080	6,080	10.50	First Oil & Gas Securitisation Company Limited	14,962,394	25,364,303	15,817,441	26,784,160
1,902	1,902	10.00	Ittehad Chemicals Limited	9,587,420	9,591,225	9,787,464	10,029,037
-	818	11.50	KASB Leasing Limited	-	4,251,964	-	4,343,886
746	746	15.25	Maple Leaf Cement Limited	2,315,981	3,558,817	2,629,840	3,386,728
18	18	16.25	Network Leasing Corporation Limited	22,473	67,419	23,120	70,612
600	600	13.00	Nishat Mills Limited	971,310	2,470,110	760,641	2,428,056
338	338	10.50	Crescent Standard Investment Bank Ltd (Formerly: Pacific Leasing Corp. Ltd)	1,407,770	1,689,662	1,411,289	1,715,007
4,000	4,000	9.75	Pakistan Services Limited	19,988,000	19,996,000	20,213,864	20,895,820
-	230	13.00	Quetta Textiles Limited	-	1,201,743	-	1,293,225
1,869	1,869	12.00	Securetel SPV Limited	2,430,880	5,545,880	2,380,172	5,751,075
2,895	2,895	9.50	Trust Leasing Limited	13,710,297	14,434,047	13,909,570	15,080,235
-	2,587	5.75	Union Bank Limited - II	-	12,935,000	-	12,935,000
600	600	12.25	World Call Communications Limited	2,551,103	3,407,735	2,200,461	3,223,065
5000	-	9.08	Chanda Oil & Gas Securitization	25,000,000	-	25,062,500	-
4,565	-	11.18	Naimat Basal Oil & Gas Securitization	22,596,750	-	22,664,540	-
				<u>126,284,378</u>	<u>115,253,905</u>	<u>127,407,302</u>	<u>118,772,506</u>

4.2 Closed end mutual funds

3,889,697	3,889,697		ABAMCO Composite Fund	38,896,970	38,896,970	26,838,909	36,563,152
1,895,000	-		Meezan Balance Fund	18,950,000	-	15,539,000	-
359,000	-		Atlas Fund of Funds	3,590,000	-	3,554,100	-
2,675,000	-		Pakistan Strategic Allocation Fund	26,750,000	-	25,813,750	-
				<u>88,186,970</u>	<u>38,896,970</u>	<u>71,745,759</u>	<u>36,563,152</u>

No. of shares / units June 30,		Note	Name of Company / Institution	Cost as at June 30,		Market value as at June 30,	
2005	2004			2005 Rupees	2004 Rupees	2005 Rupees	2004 Rupees

4.3 Equity investments

160,000	125,000		Engro Chemicals Limited	21,447,301	12,822,415	18,440,000	12,187,500
2,150,000	900,000		The Hub Power Company Limited	73,929,869	36,830,000	56,760,000	29,070,000
-	225,000		PICIC Growth Fund	-	11,541,000	-	10,631,250
-	301		Meezan Bank Limited	-	2,820	-	5,267
130,000	80,000		Pakistan Oil Fields Ltd	38,534,748	17,572,800	36,582,000	16,680,000
70,000	110,000		Pakistan State Oil Company Ltd	30,684,416	31,697,765	27,020,000	28,242,500
305,000	50,000		Pakistan Telecommunication Company Ltd	22,719,068	2,127,500	20,114,750	2,107,500
1,000,000	-		Chakwal Cement Company Ltd	8,892,682	-	7,450,000	-
25,000	-		Shell Pakistan Ltd	13,709,701	-	13,847,500	-
2,406,000	-		First National Equities Ltd	29,218,811	-	43,428,300	-
1,000,000	-		First Habib Modaraba	9,375,559	-	8,000,000	-
225,000	-		Dewan Salman Fibre Ltd	5,719,834	-	3,791,250	-
1,000,000	-		Dewan Hattar Cement Ltd	12,886,367	-	9,250,000	-
250,000	-		Lucky Cement Ltd	12,523,946	-	11,375,000	-
375,000	-		Pakistan International Airlines Corporation Ltd	4,632,062	-	3,206,250	-
201,250	-		Fauji Fertilizer Company Ltd	27,667,228	-	24,421,687	-
250,000	-		Oil & Gas Development Company Ltd	31,275,628	-	26,325,000	-
400,000	-		Sui Northern Gas Pipeline Ltd	28,979,051	-	24,520,003	-
747,000	-		International Housing Finance Ltd	9,337,500	-	6,723,000	-
925,000	-		Telecard Ltd	13,422,991	-	11,238,750	-
550,000	-		Kot Addu Power Company Ltd	25,454,212	-	20,762,500	-
25,000	-		Callmate Telips Telecom Ltd	977,161	-	975,000	-
				<u>421,388,135</u>	<u>112,594,300</u>	<u>374,230,990</u>	<u>98,924,017</u>

4.4 OPEN END MUTUAL FUNDS

41,424	40,000		Atlas Income Fund	20,712,500	20,000,000	22,614,190	20,758,400
-	47,823		Dawood Money Market Fund	-	5,000,000	-	5,122,919
100,755	300,000		Faysal Bank Growth Fund	10,075,508	30,000,000	11,375,250	29,577,000
227,288	200,000		Meezan Islamic Fund	9,996,000	9,996,000	17,287,496	12,370,000
392,000	392,000		Pakistan Sovereign Fund	19,634,600	19,634,600	17,518,480	17,479,280
				<u>60,418,608</u>	<u>84,630,600</u>	<u>68,795,416</u>	<u>85,307,599</u>

UNLISTED SECURITIES

4.5 Term finance certificates

1	1	4.5.1	Dewan Cement Limited (Formerly: Pakland Cement Ltd)	30,736,606	33,393,000	30,736,606	33,393,000
1000	-	4.5.2	Dewan Farooq Spinning Mills Ltd	5,000,000	-	5,000,000	-
				<u>35,736,606</u>	<u>33,393,000</u>	<u>35,736,606</u>	<u>33,393,000</u>

4.6 Preference Shares

1,000,000	1,000,000	4.6.1	Jamshoro Joint Venture Limited	10,000,000	10,000,000	10,000,000	10,000,000
			Total	<u>742,014,697</u>	<u>394,768,775</u>	<u>687,916,073</u>	<u>382,960,274</u>

- 4.5.1 The above TFCs have been issued against the amount due from Pakland Cement Limited (PCL). As per scheme of arrangement arrived at by the creditors with PCL and approved by the Honourable High Court, Sindh, Karachi, the outstanding exposure has been converted into TFCs. These are secured by a pari passu charge / mortgage over the assets and securities of PCL created in favour of the Trustees appointed on behalf of the TFC holders / creditors. The management of the above company has been changed and now taken over by Dewan Mushtaq Group. The new management has requested restructuring of the terms of the TFCs and waiver of certain liabilities. As per the revised terms, in respect of the TFCs Series 'A' will be repaid in seven years in semi annual installments commencing from July 15, 2004 to July 15, 2011. The mark-up / return will be paid at six months ASK KIBOR plus 2.5 percent per annum.
- 4.5.2 These represent privately placed Term Finance Certificates (PPTFC's) issued for a term of five years. The principal repayment will be made in 8 equal half - yearly installments with a grace period of eighteen months. Mark-up will be paid on half yearly basis at 6 months KIBOR plus 3.75%. These PPTFC's are secured by way of hypothecation over the present and future fixed assets of the issuer created in favour of the Trustees appointed on behalf of the TFC holders.
- 4.6.1 These represent unlisted privately placed redeemable cumulative preference shares of Rs.10 each issued on August 20, 2004. The Company has been granted specific approval by the Securities and Exchange Commission of Pakistan vide their letter No. SC/NBFC(1)-R/JJVL/2004/281 dated May 06, 2004 for investment in these shares. These preference shares carry preferred right to dividend @ 15% on par value. In case the Company is unable to payout dividends in any year, the said dividends would be accumulated with a minimum rate of 17.5% for the preference shareholders. The redemption would be made upon completion of 5 years from date of issue at par alongwith cumulative dividend payable if any.

	Note	2005 Rupees	2004 Rupees
5. SHORT TERM FINANCES			
Financing under Musharika arrangements-secured	5.1	17,741,862	7,201,415
Short term placements-unsecured	5.2	21,000,000	45,000,000
Morabaha finance-secured	5.3	21,235,915	-
Current maturity of long term finance	10	1,000,000	-
Current maturity of house loan	10	79,081	-
		<u>61,056,858</u>	<u>52,201,415</u>

- 5.1 This represents financing under Musharika facility to various customers. The rate of return on these facilities range from 10.00% to 12.00%. The repayment of these facilities is due between July 10, 2005 and September 15, 2005. These are secured by way of equitable mortgage on properties, pledge of shares and charge over certain fixed assets.
- 5.2 This represents finance provided under mark-up at the rate of 15.00% per annum. This finance is repayable on September 15, 2005.
- 5.3 This represents financing under Morabaha facility to various customers. The rate of return on these facilities range from 9.80% to 10.06% linked with six months KIBOR Ask side applicable at the date of disbursement of facility. The repayment of these facilities is due between July 25, 2005 and September 15, 2005.

	Note	2005 Rupees	2004 Rupees
6. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advances - considered good			
executives	6.1	61,000	244,630
other employees		<u>128,272</u>	<u>163,223</u>
		189,272	407,853
Current portion of long term deposits	9	477,841	32,800
Prepayments		3,496,904	1,021,949
Advance against leases	6.2	20,902,675	11,533,715
Advance for purchase of shares		18,686,890	-
Advance for purchase of office		37,715,233	-
Accrued return on investments		7,352,673	20,274,034
Advance to suppliers		620,500	29,868,698
Advance to financial institution	6.3	22,750,000	-
Operating lease rentals receivable		1,938,659	1,696,658
Advance tax		-	1,173,585
Other receivables	6.4	<u>11,980,059</u>	<u>3,860,972</u>
		126,110,706	69,870,264
Less: Provision against accrued return on investments	6.5	<u>-</u>	<u>13,357,320</u>
		<u>126,110,706</u>	<u>56,512,944</u>

6.1 Maximum aggregate amount due from the executives at the end of any month during the year was Rs.706,445 (2004: Rs. 1,200,000).

6.2 This represents advances given to suppliers on behalf of lessees in respect of assets to be leased. Lessees are being charged with average rate of mark-up @ 14.76% against such advances.

6.3 This represent amount paid to a financial institution amounting to Rs. 22,750,000 for underwriting twenty five memberships of a DA Country & Golf Club. These memberships have been subsequently sold for Rupees 1,000,000/- each.

6.4 This includes receivable from an associated company Rs. 111, 550 (2004: 93,550)

6.5 This represented provision against accrued return on investment in TFCs of Pakland Cement Limited (PCL). During the year, the management of PCL has been changed and now taken over by Dewan Mushtaq Group. The new management has requested restructuring of the terms of the TFCs and waiver of certain liabilities. As per the revised terms, the amount of accrued return and the provision thereto has been written off during the year.

	2005 Rupees	2004 Rupees
7. NET INVESTMENT IN LEASES		
Minimum lease rentals receivable	2,009,723,219	1,341,562,706
Residual value	<u>529,186,678</u>	<u>335,761,150</u>
Lease contracts receivable	2,538,909,897	1,677,323,856
Less: Unearned income	<u>229,067,529</u>	<u>148,268,398</u>
Net investment in leases	2,309,842,368	1,529,055,458
Less: Provision for potential lease losses	<u>49,500,000</u>	<u>42,000,000</u>
	<u>2,260,342,368</u>	<u>1,487,055,458</u>

The above investment is due as follows:

	2005			2004		
	Lease contracts receivable	Unearned finance income	Net investment in leases	Lease contracts receivable	Unearned finance income	Net investment in leases
 R u p e e s					
Less than one year	998,237,012	161,968,533	836,268,479	614,396,847	99,801,244	514,595,603
More than one year and less than five years	1,468,973,580	65,351,764	1,403,621,816	1,023,541,479	47,897,057	975,644,422
More than five years	71,699,305	1,747,232	69,952,073	39,385,530	570,097	38,815,433
Total	2,538,909,897	229,067,529	2,309,842,368	1,677,323,856	148,268,398	1,529,055,458

7.1 Long term net investment in leases is stated net off provision for potential lease losses.

7.2 These investments carry mark-up rates ranging from 7% to 26% per annum.

	Note	2005 Rupees	2004 Rupees
8. DEFERRED COSTS			
Term finance certificates - privately placed	8.1	1,595,100	2,075,000
Preference shares - Class A	8.2	1,929,778	2,436,600
Loan arrangement expenses	8.3	1,025,000	1,325,000
		<u>4,549,878</u>	<u>5,836,600</u>

8.1 Term finance certificates - privately placed

Trustee fee	150,000	150,000
Arrangement fee	1,500,000	1,500,000
Legal & professional charges	150,000	150,000
Stamp duty	450,000	450,000
	<u>2,250,000</u>	<u>2,250,000</u>
Less: Amortization to-date	654,900	175,000
	<u>1,595,100</u>	<u>2,075,000</u>

8.2 Preference shares - Class A

Capital enhancement fee	375,200	375,200
Advisory fee	750,000	750,000
Underwriting commission	1,500,000	1,500,000
Legal fee	40,000	40,000
Share issue expenses	181,742	181,742
Listing fee	255,536	289,286
	<u>3,102,478</u>	<u>3,136,228</u>
Less: Amortization to-date	1,172,700	699,628
	<u>1,929,778</u>	<u>2,436,600</u>

8.3 Loan arrangement expenses

Arrangement fee	1,500,000	1,500,000
Less: Amortization to-date	475,000	175,000
	<u>1,025,000</u>	<u>1,325,000</u>

	Note	2005 Rupees	2004 Rupees
9. LONG TERM DEPOSITS			
Deposits - against leases		477,841	598,241
Deposits - others		475,700	428,200
		<u>953,541</u>	<u>1,026,441</u>
Less than one year		477,841	32,800
More than one year		475,700	993,641
		<u>953,541</u>	<u>1,026,441</u>
10. LONG TERM FINANCE - secured			
House loan to staff	10.1	1,710,320	-
Less: current maturity		79,081	-
		<u>1,631,239</u>	<u>-</u>
Term finances - secured	10.2	20,000,000	-
Less: current maturity		1,000,000	-
		<u>19,000,000</u>	<u>-</u>
		<u>20,631,239</u>	<u>-</u>

10.1 This represents house loans given to employees for purchase, construction and renovation purposes. The loan is repayable in 20 years and carries a variable mark-up rate based on average cost of funds of the Company. The loan is secured by way of equitable mortgage and title documents are kept by the Company.

10.2 This represents term finance facilities provided to customers on mark-up basis, in the normal course of business. The mark-up on these finances is linked to 3 months KIBOR plus 5.85% to 6%. The repayment of these facilities will be made in quarterly and bi-annual installments with a grace period of 18 months, during which only mark-up will be received. The principal amount is receivable between February 27, 2008 to September 27, 2010. These finances are secured by way of pari-passu charge over the fixed assets.

	No. of Units 2005	No. of Units 2004	2005 Rupees	2004 Rupees (Restated)
11. LONG TERM INVESTMENTS - held to maturity				
Pakistan Investment Bonds	5	4	<u>290,235,310</u>	<u>229,246,654</u>

These comprises Pakistan Investment Bonds (PIB's) which will mature in the year 2012 and 2013. PIB's amounting to Rs 250 million are given as collateral by the Company to different commercial banks against short term finance facilities (refer note 15.3). The coupon payment is receivable semi-annually at the rates ranging from 8% to 11% (2004: 8%) per annum.



**Security Leasing
Corporation Limited**

12. OPERATING ASSETS

Description	Cost / Revalued amounts			Depreciation			Written down value as at June 30, 2005	Depreciation rate %	
	As at July 1, 2004	Additions (deletions) during the year	Surplus/ on Revaluation	As at June 30, 2005	As at July 1, 2004	Charge for the year/ (Transfers/disposal)			As at June 30, 2005
	Rupees								
OWNED									
Office premises - Leasehold	12,126,560	-	16,005,652	28,132,212	3,800,388	606,324	4,406,712	23,725,500	5
Leasehold improvements	2,888,879	47,338	-	2,936,217	2,047,554	138,675	2,186,229	749,988	15
Furniture and fixtures	4,805,719	480,715 (261,875)	-	5,024,559	2,315,479	716,332 (250,979)	2,780,832	2,243,727	20
Office equipment	1,604,625	181,350 (66,600)	-	1,719,375	917,413	364,272 (62,760)	1,218,925	500,450	36
Computer equipment	2,467,380	407,260	-	2,874,640	2,045,486	331,207	2,376,693	497,947	36
Generator and airconditioners	1,281,397	357,000 (104,714)	-	1,533,683	1,172,092	92,093 (104,714)	1,159,471	374,212	20
Vehicles	10,047,260	6,676,765 (2,128,900)	-	14,595,125	3,693,452	3,067,581 (1,380,880)	5,380,153	9,214,972	24-30
	<u>35,221,820</u>	<u>8,150,428</u> <u>(2,562,089)</u>	<u>16,005,652</u>	<u>56,815,811</u>	<u>15,991,864</u>	<u>5,316,484</u> <u>(1,799,333)</u>	<u>19,509,015</u>	<u>37,306,796</u>	
LEASED ASSETS									
Vehicles	5,654,397	- (1,204,000)	-	4,450,397	3,132,680	1,140,496 (650,320)	3,622,856	827,541	24
OPERATING LEASED ASSETS									
Generators	32,740,000	18,894,000	-	51,634,000	2,483,166	4,382,682	6,865,848	44,768,152	10
Machinery	3,500,000	1,900,000	-	5,400,000	498,957	251,041	749,998	4,650,002	10
Commercial vehicles	4,325,000	28,325,178	-	32,650,178	146,250	1,803,827	1,950,077	30,700,101	10
Motor vehicles	6,899,391	18,046,035	-	24,945,426	827,740	3,521,118	4,348,858	20,596,568	24
Furniture & fixtures	4,080,000	12,030,000	-	16,110,000	98,667	2,493,666	2,592,333	13,517,667	20
Equipment	-	23,691,549	-	23,691,549	-	2,882,261	2,882,261	20,809,288	20
	<u>51,544,391</u>	<u>102,886,762</u>	<u>-</u>	<u>154,431,153</u>	<u>4,054,780</u>	<u>15,334,595</u>	<u>19,389,375</u>	<u>135,041,778</u>	
June 30, 2005	<u>92,420,608</u>	<u>111,037,190</u> <u>(3,766,089)</u>	<u>16,005,652</u>	<u>215,697,361</u>	<u>23,179,324</u>	<u>21,791,575</u> <u>(2,449,653)</u>	<u>42,521,246</u>	<u>173,176,115</u>	
June 30, 2004	<u>50,571,830</u>	<u>42,462,768</u> <u>(613,990)</u>	<u>-</u>	<u>92,420,608</u>	<u>14,539,853</u>	<u>8,952,444</u> <u>(312,973)</u>	<u>23,179,324</u>	<u>69,241,284</u>	

12.1 Office premises have been revalued as at June 30, 2005 by an independent valuer, Messers Joseph Lobo (Pvt.) Limited. Had there been no revaluation, the cost, accumulated depreciation and book value of office premises would have been as follows as on June 30, 2005:

	Cost	Accumulated depreciation	Book value
	Rupees		
Office premises - Leasehold	<u>12,126,560</u>	<u>4,406,712</u>	<u>7,719,848</u>

12.2 Disposal of Assets

Description	Cost	Book Value	Sale Proceeds	Gain / (Loss) on Disposal	Mode of Disposal	Buyer
	Rupees					
Vehicle	1,115,900	624,900	624,900	-	Terms of employment	M. Rahmatullah - Company employee
Vehicle	360,000	14,400	36,000	21,600	Terms of employment	M. Tahir Bhatti - Company employee
Vehicle	604,000	108,720	108,720	-	Terms of employment	Salman Hameed - Company employee
Vehicle	49,000	-	23,500	23,500	Negotiation	Batla Autos
Air Conditioners	104,714	-	9,000	9,000	Negotiation	Shaheen Iqbal Khan
Equipment	60,000	-	4,500	4,500	Negotiation	Shirazi Trading
Equipment	6,600	3,840	3,840	-	Insurance Claim	EFU General Insurance
Furniture & fixtures	90,625	-	-	-	Terms of employment	M. Khalid Ali - Company employee
Furniture & fixtures	171,250	10,896	10,896	-	Terms of employment	M. Rahmatullah - Company employee
June 30, 2005	<u>2,562,089</u>	<u>762,756</u>	<u>821,356</u>	<u>58,600</u>		
June 30, 2004	<u>354,000</u>	<u>239,350</u>	<u>325,000</u>	<u>85,650</u>		

	Note	2005 Rupees	2004 Rupees
13. ACCRUED EXPENSES AND OTHER LIABILITIES			
Accrued liabilities		389,106	249,579
Accrued mark-up on secured loans		18,953,413	7,518,087
Accrued markup on unsecured loans		11,468,296	1,349,406
Advance against leases		19,322,053	14,054,604
Unclaimed dividend		616,012	567,314
Payable to Gratuity Fund	14	4,310,600	-
Accrued employees benefits		479,209	93,165
Provision for taxation		678,778	-
Other liabilities		8,360,812	3,137,713
Dividend payable		13,650,000	10,256,148
		<u>78,228,279</u>	<u>37,226,016</u>

14. STAFF RETIREMENT BENEFIT

The gratuity scheme benefit is payable on the basis of last drawn salary for each year of eligible service or part thereof in accordance with the rules of the gratuity scheme.

The obligations under the scheme were determined through an actuarial valuation using Projected Unit Credit method. The significant assumptions of the valuations were:

- Discount rate 10 % (2004: Nil) per annum compound.
- Expected rate of increase in salaries 10 % (2004: Nil) per annum.
- Expected rate of return on investment 7.00% (2004: Nil) per annum.

The amounts recognized in balance sheet are as follows:

	2005 Rupees	2004 Rupees
Present value of defined benefit obligation	7,589,600	-
Fair value of plan assets	(2,100,000)	-
	<u>5,489,600</u>	<u>-</u>
Unrecognized actuarial losses	(754,000)	-
Transitional liability not yet recognised	(425,000)	-
	<u>4,310,600</u>	<u>-</u>
Movement in liability is as follows:		
Opening	5,035,600	-
Expense recognized	1,435,000	-
Contributions made	(2,160,000)	-
Closing net liability	<u>4,310,600</u>	<u>-</u>

The following amounts have been charged in the profit and loss account in respect of these benefits:

	2005 Rupees	2004 Rupees
Current service cost	828,000	-
Interest cost	501,000	-
Expected return on assets	-	-
Recognised transitional liability	106,000	-
	<u>1,435,000</u>	<u>-</u>
Actual return on plan assets	<u>-</u>	<u>-</u>

	Note	2005 Rupees	2004 Rupees
15. SHORT TERM FINANCE			
- Current portion of finance under Musharika arrangements	20	450,000	-
- Running finance - secured	15.1	99,803,585	-
- Short term facilities - unsecured	15.2	440,000,000	152,640,000
- Facility against repurchase agreement - secured	15.3	250,000,000	200,000,000
		789,803,585	352,640,000
		<u>790,253,585</u>	<u>352,640,000</u>

15.1 This represents running finance utilized against aggregate facility of Rupees 245 million from banks. The mark-up rate on these facilities range from Rupee 0.31 to Rupee 0.33 per diem per day and are secured by first charge on certain specific assets leased out and related lease rentals receivable and is payable between October 31, 2005 to May 30, 2006 which is further extendable with mutual agreement.

15.2 This represents finances obtained under mark-up arrangements and carry mark-up at the average rate of 10.08% per annum. These finances are repayable between July 7, 2005 and August 24, 2005.

15.3 This represents borrowing from commercial banks under repo-arrangements against Pakistan Investment Bonds of Rs. 250 million. These facilities carry mark-up at the average rate of 8.56% per annum and are repayable between July 5, 2005 and August 29, 2005.

16. LONG TERM FINANCES

LONG TERM LOANS - secured	Repayment commencement date	Mode of repayment	2005 Rupees	2004 Rupees
<u>Term Finance</u>				
National Bank of Pakistan	24-Sep-2003	16 quarterly installments	49,999,000	74,999,000
National Bank of Pakistan	2-Dec-2006	5 half yearly installments	300,000,000	300,000,000
Muslim Commercial Bank Ltd	18-Dec-2005	4 half yearly installments	100,000,000	100,000,000
Muslim Commercial Bank Ltd	18-Feb-2006	4 half yearly installments	50,000,000	-
The Bank of Punjab	7-July-2005	20 quarterly installments	100,000,000	-
			599,999,000	474,999,000
<u>Morabaha Finance</u>				
Faysal Bank Ltd	15-Oct-2006	6 half yearly installments	75,000,000	75,000,000
Faysal Bank Ltd	13-Nov-2006	6 half yearly installments	75,000,000	75,000,000
Meezan Bank Ltd	6-Sep-2006	Lumpsum on maturity	50,000,000	50,000,000
			200,000,000	200,000,000
			<u>799,999,000</u>	<u>674,999,000</u>
Payable within one year			107,500,000	75,000,000
Payable between one to five years			692,499,000	599,999,000
			<u>799,999,000</u>	<u>674,999,000</u>

The above facilities are secured by first charge on certain specific assets leased out and related lease rentals receivable. Mark-up rates on these facilities range from 8.25 % to 11.33% per annum.

17. CERTIFICATE OF INVESTMENTS	Note	2005 Rupees	2004 Rupees
Payable within one year			
- From commercial banks	17.1	475,000,000	230,000,000
- From other financial institutions	17.1	75,000,000	30,000,000
- Others	17.1	48,100,000	250,000
		598,100,000	260,250,000

17.1 These represent deposits on profit and loss sharing basis under the scheme of certificates of investment introduced with the permission of the Securities and Exchange Commission of Pakistan. These are repayable between July 13, 2005 and December 29, 2005. These arrangements carry mark-up at the average rate of 10.33% per annum.

18. OBLIGATION UNDER FINANCE LEASES

Lease rentals payable under various lease agreements for motor vehicles are as detailed below:

	2005 Rupees	2004 Rupees
Minimum lease payments		
- within one year	1,207,889	1,592,412
- between one to five years	-	1,665,125
	1,207,889	3,257,537
Financial charges allocated to future period		
- within one year	29,793	199,869
- between one to five years	-	49,022
	29,793	248,891
	1,178,096	3,008,646
Present value of minimum lease payments		
- within one year	1,178,096	1,392,543
- between one to five years	-	1,616,103
	1,178,096	3,008,646

The Company accounts for fixed assets acquired under finance leases by recording the assets and the related liability. These amounts are determined at the inception of lease, on the basis of the lower of the fair value and the present value of minimum lease payments. Financial charges are allocated to the accounting period in a manner so as to provide a constant rate of charge on the outstanding liability. Depreciation is charged to income applying the same basis as for owned assets.

Under the agreement lease rentals are payable in 48 monthly installments. Taxes, repairs, replacement and insurance costs, if any, are borne by the Company. The financing carries a rate of 11% (2004: 11%) per annum approximately which has been used as a discounting factor. The Company has option to purchase the asset upon completion of the lease period. The related leased assets are shown under operating assets those as stated in note 12.

19. REDEEMABLE CAPITAL	Note	2005 Rupees	2004 Rupees
Privately placed Term Finance Certificates	19.1	300,000,000	300,000,000
Privately placed Term Finance Certificates (2nd Issue)	19.2	200,000,000	-
		500,000,000	300,000,000
Payable within one year		40,064,000	-
Payable between one to four years		459,936,000	300,000,000
		500,000,000	300,000,000

19.1 These represent privately placed Term Finance Certificates (PPTFCs) issued by the Company to financial institutions in April 2004 amounting to Rs. 300 million. Profit on these PPTFCs is payable on semi-annual basis at an expected rate of 10.46% calculated on the basis of 6 months KIBOR. TFCs are redeemable in 4 years including 2 years grace period and are secured by a first charge on certain specific assets leased out and related lease rentals receivable. The Company can exercise call option after the expiry of 18 months from the issue date by giving 60 days notice for the same.

19.2 These represent privately placed Term Finance Certificates (PPTFCs) issued by the Company to financial institutions in June 2005 amounting to Rs. 200 million. Transfer of certificates to the lenders has been made on August 16, 2005. Profit on these PPTFCs is payable on quarterly basis at an expected rate of 10.31% calculated on the basis of 3 months KIBOR. TFCs are redeemable in 3 years including six months grace period and are secured by a first charge on certain specific assets leased out and related lease rentals receivable. The Company can exercise call option after the expiry of 12 months from the issue date by giving 90 days notice for the same.

20. MUSHARIKA FINANCE-unsecured	2005 Rupees	2004 Rupees
Payable within one year	450,000	-
Payable after one year	-	450,000
	<u>450,000</u>	<u>450,000</u>

This represents financing arrangements and carry mark up rate of 4.75% per annum. The facility is repayable on October 31, 2005.

21. LONG TERM DEPOSITS	2005 Rupees	2004 Rupees
Security deposits on leases	<u>517,087,639</u>	<u>323,669,885</u>
Payable/adjustable within one year	92,482,932	24,536,220
Payable/adjustable between one to five years	394,068,004	282,384,540
Payable/adjustable over five years	30,536,703	16,749,125
	<u>517,087,639</u>	<u>323,669,885</u>

These represent interest free security deposits received against lease contracts and are refundable/adjustable at the expiry/termination of the respective leases.

22. DEFERRED LIABILITY	Note	2005 Rupees	2004 Rupees
Provision for gratuity	14	-	<u>5,035,600</u>

During the year the Company had obtained approval from the Commissioner of Income Tax for Employees' Gratuity Fund. Previously the Company was operating an unfunded gratuity scheme.

23. SHARE CAPITAL & RESERVES	2005 Rupees	2004 Rupees
Authorised capital		
50,000,000 (2004: 25,000,000) ordinary shares of Rs. 10 each	500,000,000	250,000,000
50,000,000 (2004: 25,000,000) preference shares of Rs. 10 each	500,000,000	250,000,000
	<u>1,000,000,000</u>	<u>500,000,000</u>
Issued, subscribed and paid up capital		
10,000,000 ordinary shares of Rs. 10 each fully paid in cash	100,000,000	100,000,000
6,500,000 ordinary shares of Rs. 10 each issued as fully paid bonus shares	65,000,000	-
15,000,000 preference shares-Class A of Rs. 10 each fully paid in cash	150,000,000	150,000,000
	<u>315,000,000</u>	<u>250,000,000</u>

The Company raised additional equity of Rs. 150 million through right issue of 15 million non-convertible and non-cumulative Preference Shares - Class A of Rs. 10 each in September 2003. These Preference Shares carry preferred right to dividend computed @ 35% of profit after tax and statutory reserves subject to a maximum profit of Rs. 39 million. The Preference shareholders have the right to exercise the redemption option after a period of 45 months of the date of issue by giving three months written notice to the Company. The redemption would be made in four equal annual tranches. The Company has the option to redeem these shares after 12 months from the date of the issue.

	Note	2005 Rupees	2004 Rupees
24. RESERVES			
Statutory reserves	24.1	47,000,000	32,100,000
Unappropriated profit		38,769,055	68,038,371
Unrealised (loss)/gain on remeasurement of available for sale investments to fair value	4	(54,098,624)	(11,808,501)
		<u>31,670,431</u>	<u>88,329,870</u>

24.1 This represents transfer of after tax profits as required under the relevant provision of the Securities & Exchange Commission of Pakistan's Non-Banking Finance Companies.

	2005 Rupees	2004 Rupees
25. SURPLUS ON REVALUATION OF FIXED ASSETS		
Balance as at June 30	<u>16,005,652</u>	<u>-</u>

This represents surplus over book values resulting from revaluation of leasehold-office premises carried out by Joseph Lobo (Private) Limited as at June 30, 2005. The revaluation conducted is on the basis of prevailing market prices. The surplus has been worked out as follows:

	2005 Rupees	2004 Rupees
Revalued amount	23,725,500	-
Cost	12,126,560	-
Accumulated depreciation	4,406,712	-
Book value	7,719,848	-
Surplus	<u>16,005,652</u>	<u>-</u>

26. CONTINGENCIES & COMMITMENTS		
Commitments for lease disbursements	<u>96,400,000</u>	<u>46,700,000</u>
Commitments for purchase of office premises-Karachi	<u>28,100,000</u>	<u>-</u>

26.1 Taxation

Assessments have been finalized upto the tax year 2003. Return for tax year 2004 is deemed to be assessment order passed by the Commissioner of Income Tax under section 120 of Income Tax Ordinance, 2001. For the assessment years 2000-2001 to 2002-2003 appeals have been filed by the Company before ITAT on the issues of the disallowance of certain expenses. For the assessment year 1999-2000 department filed appeal before ITAT. For tax year 2003 appeal has been filed with CIT (Appeals) for the rectification of certain mistakes. There is no tax liability in respect of finalized assessments and the Company is confident of the favourable outcome of its appeal.

	Note	2005 Rupees	2004 Rupees
27. INCOME FROM LEASING OPERATIONS			
Income from finance lease contracts		159,528,203	118,736,096
Hire purchase contracts		2,014,473	903,456
Operating lease		40,859,335	12,499,188
Front end fee & additional lease rentals		689,072	1,894,080
		<u>203,091,083</u>	<u>134,032,820</u>
28. OTHER INCOME			(Restated)
Profit from banks under cash management scheme		740	4,034
Mark-up on term finance certificates		12,426,566	12,993,943
Mark-up on government securities		15,363,717	10,691,423
Mark-up on musharika		1,996,714	373,541
Mark-up on house finance		56,021	-
Profit on Morabaha		1,157,249	-
Profit on long term advances		1,203,669	-
Profit on placements		2,266,495	2,735,065
Dividend income		29,219,903	7,713,580
Fees, commissions and other charges		7,314,172	1,229,603
Gain on disposal of listed securities		38,260,690	36,445,237
Gain on disposal of other investments		2,687,759	1,243,550
Gain/(Loss) on disposal of fixed assets		58,600	145,650
		<u>112,012,295</u>	<u>73,575,626</u>
29. ADMINISTRATIVE AND OPERATING EXPENSES			
Directors' fee	29.1	230,000	167,500
Salaries, allowances and benefits	29.2	38,477,704	22,891,714
Gratuity	14	1,435,000	1,853,680
Staff training and development		142,025	183,703
Telephone and fax		1,230,491	911,375
Postage and courier		60,403	50,877
Electricity		675,796	580,824
Office maintenance		833,143	700,839
Software maintenance		301,037	173,840
Security guards charges		139,000	128,400
Insurance		123,456	190,018
Business promotion expenses		1,098,879	844,033
Canteen expenses		275,911	179,109
Vehicle running expenses		3,048,426	2,252,578
Vehicle insurance		690,178	665,589
Travelling and conveyance		826,424	329,634
Advertisement expenses		517,350	350,843
Printing and stationery		591,744	397,612
Central Depository charges		240,435	81,950
Subscriptions and listing fees		653,968	343,964
Legal and professional charges	29.3	1,330,583	1,532,584
Statutory filing fees		53,750	205,800
Credit rating charges		209,955	190,000
Depreciation		6,456,980	5,197,664
Rent, Rates and taxes		327,708	233,922
Donations	29.4	233,172	25,000
Miscellaneous		115,324	20,232
		<u>60,318,842</u>	<u>40,683,284</u>

29.1 Directors' fee

This includes amount of Rs.120,000 (2004: Rs. 120,000) remuneration paid to the non-executive directors of the Company for attending the meetings of executive, audit committee and board of directors.

29.2 Remuneration of Chief Executive and Executives

	2005		2004	
	Chief Executive	Executives	Chief Executive	Executives
R u p e e s			
Managerial remuneration	1,020,000	13,292,755	1,020,000	7,836,860
Housing and utilities	540,489	4,018,770	572,088	2,882,667
Medical and other perquisites	202,942	803,462	233,096	814,576
Provident fund contribution	-	730,685	-	661,356
	<u>1,763,431</u>	<u>18,845,672</u>	<u>1,825,184</u>	<u>12,195,459</u>
No. of persons	<u>1</u>	<u>5</u>	<u>1</u>	<u>4</u>

In addition, the chief executive and certain executives were also provided with free use of Company cars and certain household items in accordance with their terms of employment. All executives were also provided with medical insurance cover.

29.3 Auditors' remuneration

These include auditors' remuneration, as follows:

	2005 Rupees	2004 Rupees
Annual audit	125,000	75,000
Other services	83,500	-
Out-of-pocket expenses	11,805	9,367
	<u>220,305</u>	<u>84,367</u>

29.4 The directors and their spouses do not have any interest in the donee institutions.

29.5 Salaries, allowances and benefits include provident fund contribution of Rs. 1,216,595 (2004 : Rs. 983,124)

30. FINANCIAL CHARGES

	2005 Rupees	2004 Rupees
Mark-up on long term finance	46,032,681	14,480,472
Mark-up on short term finance	35,461,383	20,574,811
Mark-up on running finance	1,273,515	479,306
Mark-up on certificates of investment	35,255,302	10,411,566
Financial charges on leased assets	185,780	344,525
Mark-up on term finance certificates	20,080,203	30,585,500
Brokerage fee	475,557	354,489
Documentation & other charges	109,190	611,300
Excise duty and bank charges	1,271,537	352,215
	<u>140,145,148</u>	<u>78,194,184</u>

	2005 Rupees	2004 Rupees
31. DIRECT COST OF LEASES - operating lease		
Maintenance contracts	6,966,337	2,852,328
Depreciation on operating lease assets	15,334,598	3,754,778
Insurance	1,969,426	650,828
Others	951,193	714,439
	<u>25,221,554</u>	<u>7,972,373</u>

32. TAXATION

Current

This represents the provision for minimum tax under section 113 of the Income Tax Ordinance, 2001. The Company has sufficient tax losses, therefore, no provision has been made using the normal tax rates.

Deferred

The net deferred tax asset of Rs. 41,457,509 (2004: Rs. 29,258,102) arising principally on account of accumulated tax losses has not been recognised in these financial statements in accordance with accounting policy as stated in note 2.16.

	2005 Rupees	2004 Rupees
Reconciliation between accounting profit and tax expense:		
Accounting profit	<u>80,664,862</u>	<u>53,331,695</u>
Tax @ 35% (2004:35%)	28,232,702	18,666,093
Tax effect of:		
-exempt income	(13,391,242)	(12,755,833)
-income taxed at reduced rates	(10,226,966)	(7,713,580)
-amortisation of deferred cost	438,540	763,735
Others	1,331,144	3,491,560
	<u>6,384,178</u>	<u>2,451,975</u>
Taxation:		
- current	4,748,863	2,451,975
- prior	<u>1,635,315</u>	-
	<u>6,384,178</u>	<u>2,451,975</u>

33. EARNINGS PER SHARE-basic and diluted

Profit after tax	74,280,684	50,879,720
Minimum dividend attributable to preference shareholders	13,650,000	12,156,148
Profit attributable to ordinary shareholders	<u>60,630,684</u>	<u>38,723,572</u>
Number of ordinary shares issued	<u>16,500,000</u>	<u>16,500,000</u>
Earnings Per Share	<u>3.67</u>	<u>2.35</u>

Basic earnings per share has been calculated by dividing the net profit for the year attributable to the ordinary shareholders outstanding at the year end by the weighted average number of shares outstanding during the year. There is no dilutive effect on the earnings.

34. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Net investment in leases amounts to Rs 2,309.842 million (2004:Rs 1,529.055 million). The sector-wise break up is given below:

Sector	2005		2004	
	Rupees	%	Rupees	%
Textile	474,441,622	21	231,193,185	15
Transport & communication	366,110,015	16	325,535,907	21
Engineering	179,705,736	8	179,052,394	12
Food & Beverages	176,933,925	8	158,715,957	10
Oil & Gas	133,739,873	6	75,382,434	5
Travel & tourism	128,889,204	6	45,260,042	3
Consumer leases	122,883,614	5	67,890,062	4
Cement	102,557,001	4	7,645,277	1
Sugar	90,776,805	4	55,351,808	4
Glass & ceramics	51,278,501	2	13,455,688	1
Plastic	48,737,674	2	25,688,132	2
Pharmaceutical	43,425,037	2	31,345,637	2
Health care	41,577,163	2	50,000,113	3
Publications	36,726,494	2	44,954,230	3
Auto & allied	26,563,187	1	19,724,815	1
Energy	20,095,629	1	26,452,659	2
Others	265,400,888	11	171,407,117	11
Total	2,309,842,368	100	1,529,055,458	100

35. FAIR VALUE OF FINANCIAL ASSETS

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

	Note	2005 Rupees	2004 Rupees
36. CASH AND CASH EQUIVALENTS			
Balances with banks	3	23,028,435	11,560,747
Running finance	15	(99,803,585)	-
		<u>(76,775,150)</u>	<u>11,560,747</u>

37. INTEREST RATE RISK EXPOSURE

	2005					Total Rupees
	Interest Bearing				Non Interest Bearing Rupees	
	Upto three months Rupees	Three months to one year Rupees	One year to five years Rupees	Over five years Rupees		
Assets						
Balance with banks	-	-	-	-	23,028,435	23,028,435
Investments	6,352,296	27,925,844	138,865,768	-	514,772,165	687,916,073
Short Term Finances	59,977,777	1,079,081	-	-	-	61,056,858
Advances and other receivables	43,652,675	-	-	-	22,559,004	66,211,679
Net investment in leases	206,332,257	551,285,623	943,803,769	29,734,041	529,186,678	2,260,342,368
Long Term Finance	-	-	20,631,239	-	-	20,631,239
Long term Investments	-	-	-	290,235,310	-	290,235,310
	<u>316,315,005</u>	<u>580,290,548</u>	<u>1,103,300,776</u>	<u>319,969,351</u>	<u>1,089,546,282</u>	<u>3,409,421,962</u>
Liabilities						
Accrued and other liabilities	-	-	-	-	77,549,501	77,549,501
Short term finances	789,803,585	450,000	-	-	-	790,253,585
Certificate of investments	445,000,000	153,100,000	-	-	-	598,100,000
Obligation under finance lease	296,441	881,655	-	-	-	1,178,096
Long term loans	11,250,000	96,250,000	692,499,000	-	-	799,999,000
Redeemable capital	40,000	40,024,000	459,936,000	-	-	500,000,000
Deposits on Lease Contracts	-	-	-	-	517,087,639	517,087,639
	<u>1,246,390,026</u>	<u>290,705,655</u>	<u>1,152,435,000</u>	<u>-</u>	<u>594,637,140</u>	<u>3,284,167,821</u>
On-balance sheet gap (a)	<u>(930,075,021)</u>	<u>289,584,893</u>	<u>(49,134,224)</u>	<u>319,969,351</u>	<u>494,909,142</u>	<u>125,254,141</u>
June 30, 2004	<u>70,058,610</u>	<u>210,175,832</u>	<u>(223,616,398)</u>	<u>-</u>	<u>217,317,041</u>	<u>273,935,085</u>
Total interest rate sensitivity gap	<u>(930,075,021)</u>	<u>289,584,893</u>	<u>(49,134,224)</u>	<u>319,969,351</u>	<u>-</u>	<u>-</u>
June 30, 2004	<u>70,058,610</u>	<u>210,175,832</u>	<u>(223,616,398)</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

(b) The effective interest/ mark-up rates for monetary financial assets and liabilities are mentioned in the respective notes to the financial statements.

38. MATURITIES OF ASSETS AND LIABILITIES

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. To guard against the risk, the Company has diversified funding resources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The maturity profile is monitored to ensure adequate liquidity is maintained.

The table below summarises the maturity profile of the Company's assets and liabilities based on remaining period to the repayment date:

	2005				Total
	Upto three months	Three months to one year	One year to five years	Over five years	
	-----Rupees-----				
Assets					
Balances with banks	23,028,435	-	-	-	23,028,435
Investments	521,124,461	27,925,844	138,865,768	-	687,916,073
Short Term Finances	59,977,777	1,079,081	-	-	61,056,858
Advances, prepayments and other receivables	115,185,760	10,924,946	-	-	126,110,706
Net investment in leases	284,982,856	551,285,623	1,403,621,816	20,452,073	2,260,342,368
Deferred costs	1,000,000	500,000	3,049,878	-	4,549,878
Long term deposits	-	-	475,700	-	475,700
Long Term Finances	-	-	20,631,239	-	20,631,239
Long term investments	-	-	-	290,235,310	290,235,310
Tangible fixed assets	7,928,625	24,785,875	133,935,027	6,526,588	173,176,115
	<u>1,013,227,914</u>	<u>616,501,369</u>	<u>1,700,579,428</u>	<u>317,213,971</u>	<u>3,647,522,682</u>
Liabilities					
Accrued and other liabilities	33,912,606	44,315,673	-	-	78,228,279
Short term finance	789,803,585	450,000	-	-	790,253,585
Certificate of investments	445,000,000	153,100,000	-	-	598,100,000
Obligation under finance lease	296,441	881,655	-	-	1,178,096
Long term loans	11,250,000	96,250,000	692,499,000	-	799,999,000
Redeemable capital	40,000	40,024,000	459,936,000	-	500,000,000
Deposits on Lease Contracts	21,746,648	70,736,284	394,068,004	30,536,703	517,087,639
	<u>1,302,049,280</u>	<u>405,757,612</u>	<u>1,546,503,004</u>	<u>30,536,703</u>	<u>3,284,846,599</u>
Net Assets	<u>288,821,366</u>	<u>210,743,757</u>	<u>154,076,424</u>	<u>286,677,268</u>	<u>362,676,083</u>

39. TRANSACTIONS WITH RELATED PARTIES

The transactions with related parties apart from those as stated in respective notes are as follows:

	2005 Rupees	2004 Rupees
Lease rentals	<u>3,255,240</u>	<u>2,870,515</u>
Statutory expenses of Security Capital Services	<u>15,000</u>	<u>15,000</u>

All transactions with related parties are recorded at an arm's length price.

40. MANPOWER

	2005	2004
As at year end	<u>34</u>	<u>34</u>

41. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET

The Board of Directors in its meeting held on September 19, 2005 has proposed dividend in respect of the year ended June 30, 2005 of Rs. 1 per share (2004 : Rs1 per share). The appropriation will be approved in the forthcoming annual general meeting. The financial statements for the year ended June 30, 2005 does not include the effect of proposed dividend which will be accounted for in the financial statements for the year ending June 30, 2006.

42. GENERAL

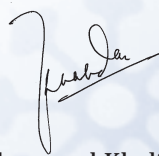
Certain prior year's figure have been reclassified, wherever necessary. However, there were no material re-classifications to report except for those as are stated in notes 2.3 and 2.10.2.

43. DATE OF AUTHORIZATION

These financial statements were authorized for issue on September 19, 2005 by the Board of Directors of the Company.



M R Khan
Chairman & Chief Executive



Mohammed Khalid Ali
Managing Director