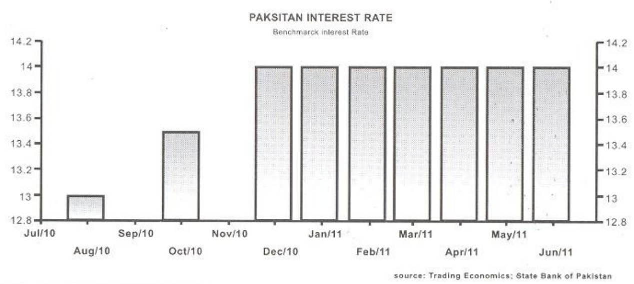
DIRECTOR'S REPORT TO THE SHAREHOLDERS

Dear Shareholders,

Your directors are pleased to present the 18th Annual Report of Pak-Gulf Leasing Company Limited (PGL) including financial statements, along with the Auditors' Report, for the year ended June 30, 2011.

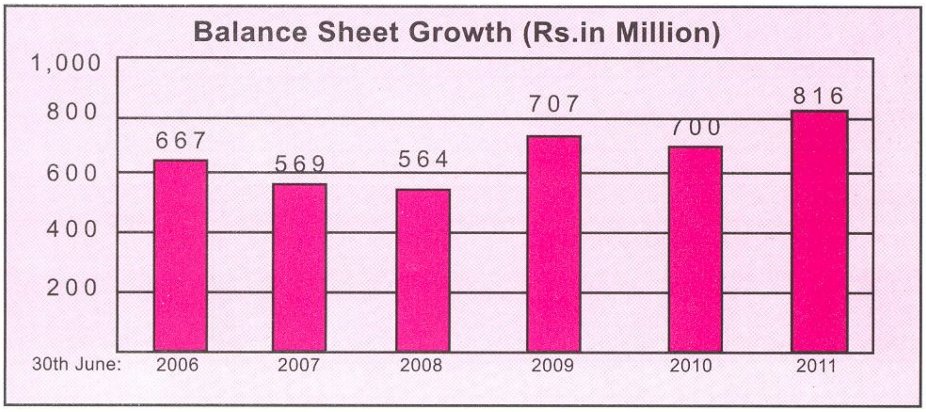
Review of Operational Environment

A paradoxical phenomenon was observed during the Financial Year 2010-11. While the cost of capital constantly increased, the availability of credit for the Private Sector witnessed a squeeze, on the part of commercial banks. This resulted in an increased demand for borrowings by businesses and industry, on non-banking financial institutions (NBFIs), including modarabas and leasing companies, for filling the gap between the supply and demand for credit. With the commercial banking sector investing a major portion of their liquidity in high-yield and secure Sovereign Risk, comprising of Treasury Bills and Government of Pakistan Investment Bonds, it became increasingly difficult for the NBFIs too, to obtain credit lines for funding their enhanced levels of lending opportunities. NBFIs were consequently left with only two options to raise liquidity for their needs: either to mobilize funds by offering high rates of return on their Certificates of Investment and Musharaka; or to concentrate on timely recovery of earlier advances and to manage their respective cash flow positions in a highly professional and vigilant manner. PGL chose to follow the second option, which was by far the more difficult, but the safest and most prudent method to fund your Company's liquidity requirements, during the year. Your directors are pleased to report that they were not only able to restrict PGL's bank borrowings to the minimum, during the year, but were also successful in increasing your Company's business to newer heights, in spite of some tough competition offered by a number of leasing companies and modarabas, sponsored and backed by major commercial banks.

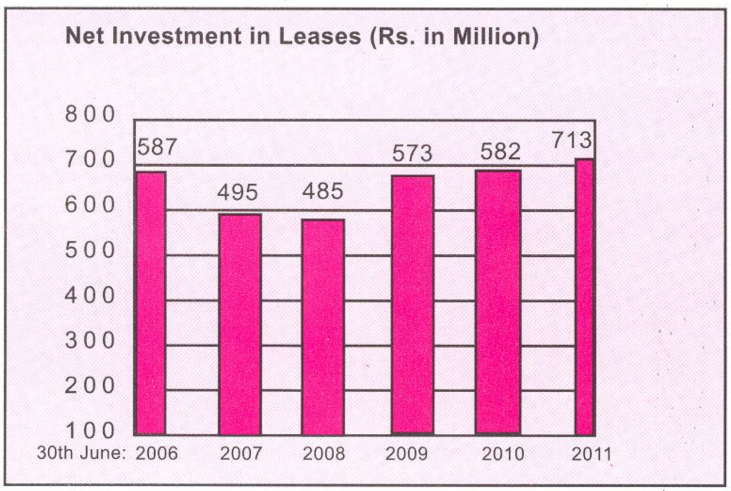


Financial Achievements

Your directors consider it to be an honor and a privilege for them to report that your Company has crossed a new milestone, in our pursuit for growth and achievement; by writing the highest amount of new leasing business, ever achieved in your Company's entire history, during a single year. It is with our utmost pleasure that your directors would like to inform our valued Shareholders, that their Company was successful in writing 81 new leases of Rs.393 million in the Financial Year 2010-11, as compared to the new leases of Rs.247 million written in the preceding year: showing an increase of 59.11%. During the same year, the Balance Sheet footing of your Company touched an all-time high figure of Rs.816 million, as on June 30, 2011, in contrast to Rs.700 million, as at June 30, 2010. This year-on-year increase of 16.57%, in the Total Assets of your Company, signifies a tremendous improvement in your Company's financial position. These are remarkable achievements for any leasing company in Pakistan, under the prevailing economic and market conditions



After accounting for the leases that matured, during the Financial Year 2010-11, the Lease Portfolio of your Company stood at Rs.832 million (2010: Rs.667 million), as on June 30, 2011.



Profitability Performance

It is matter of great satisfaction for your directors to report that your Company has shown a consistency in maintaining its profitability performance. After-tax Profit for the Financial Year (2010-11) was recorded at Rs15.53 million, as against Rs.21.25 million, attained in the corresponding period last year (2009-10). Gross Revenue, for the period under review, stood at Rs.69.20 million, remaining almost at the same level as it was for the last year i.e.2009-10. Administrative Expenses were kept under a tight control, during the financial year under review. The only extra-ordinary increase, during the year, related to the recognition of the emoluments, due to your Company's CEO, which were not booked earlier, at the request of the CEO himself, to allow your Company time to accumulate the requisite financial strength to bear that cost. Your directors would like to place their appreciation on record for this act of total commitment and rising beyond the call of his duties, on the part of your Company's CEO, Mr. Sohail Inam Ellahi.

Your directors are of the view, that in order to further facilitate an expansion in the operations of your Company and for the purpose of maintaining an adequate Equity base, it would be necessary for your Company to retain its Net of Tax Profits for the year under review. Consequently, no Dividend is proposed for your Company's Financial Year ended June 30, 2011.

Comparative Analysis of Profitability Performance For the year ended 30th June	2011	2010
	(Rupees in Million)	
Profit before taxation	**33.90**	32.27
Provision for taxation(including deferred tax of Rs.15.51 million)	**18.37**	11.02
Profit after taxation	**15.53**	21.25
Un-appropriated profit brought forward	**55.38**	48.45
Transferred form surplus on revaluation to un appropriated profit	**2.61**	2.61
Profit available for appropriation	**73.52**	72.31
Appropriations:		
Transfer to statutory reserve	**3.10**	4.25
Interim cash dividend	-	12.68
Total appropriations	**3.10**	16.93
Un-appropriated profit carried forward	**70.42**	55.38
Earning Per Share (In Rupees)	**0.61**	0.84

Economic Scenario

Pakistan has been in the grips of an economic recession for the past several years. Unfortunately, the cost push has continuously seemed to have been tackled by adopting fiscal measures better known for handling the demand push. What the Country really needed was an invigoration of the economy by increasing Public Sector spending on development projects, coupled by expansion of credit in the Private Sector, at reduced rates of interest. By following this strategy, it would have been possible to generate more employment opportunities, thereby enabling the populace, at large, to economically sustain itself, leaving some space for diverting the monetary spill-over into savings and investments. This could not be done, on account of the pressure on the State Bank of Pakistan for maintaining a respectable value for the Pak Rupee, against mainly the US Dollar. Budgetary deficit has continued to mount due to ever-increasing spending, by the government of the day, on non-development expenditure and on servicing the humongous Domestic, as well as Foreign, Debt, which has attained a historically high level. Unmanageable energy shortages and the deteriorating law and order situation have hit the productivity levels hard, leaving the Country's economic growth to creep at snail's pace. Hefty expenditure on Defense, given the background of the seemingly never-ending terrorism, in the North of the Country, along the Afghan borders, has hardly left any funds with the Government to spend on Public Welfare projects, causing political dissatisfaction and lack of stability. The resultant uncertainty has created economic insecurity among the entrepreneurs, who have found it viable to monopolize businesses and create industrial cartels to protect their vested interests, leading the prices of commodities to soar high, beyond the reach of the common man.

Leasing companies, which for years until 2007, had fueled the demands of the consumer and the industrial sectors, as members of the quasi-banking sector in the form of NBFIs, have been left high and dry, with respect to liquidity, by the ever increasing capital adequacy requirements enforced by the regulators and the escalating interest rates scenario. The general down-turn in the economy having hit hard the lease finance servicing capability of their customers, the very viability of the leasing companies has been rendered doubtful. To make the matters worse, these companies were offered stiff competition by the major commercial banks, sponsoring their own leasing companies and modarabas, having access to cheaper funds and resultantly greater ability to fund and mobilize leasing business. A good majority of the smaller leasing companies have either opted for mergers with stronger financial institutions or have taken the path for closing down business by choosing voluntary liquidation.

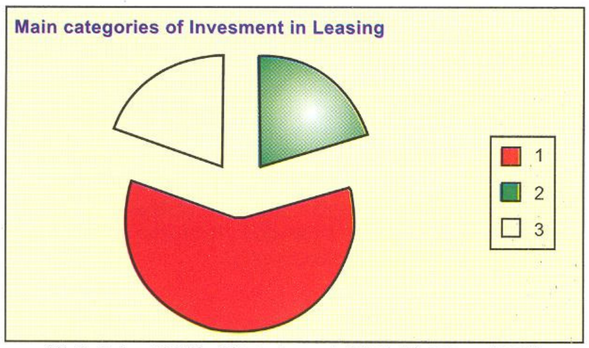
Only nine (9) hard-core leasing companies, including your own Company, were left operating in the markets in Pakistan, by the end of 30th June, 2010, according to official data conveyed by the NBFIs & Modaraba Association of Pakistan. Only three (3), which fortunately include PGL, were showing a positive bottom line, as per the aforesaid information.

Pakistan's economy grew at an officially stated, but unconfirmed rate of 2.4%, in the current year, after witnessing a modest growth from 1.2% in 2008-09. The recovery, as already discussed in the preceding paragraphs, is highly questionable and fragile. It would need concerted efforts to arrive at a stabilization of the projected rate of growth to ensure that the gains attained, over the past two difficult years, no matter how modest, are not entirely lost.

Analysis of PGL's Performance in 2011

Investment in Leasing:

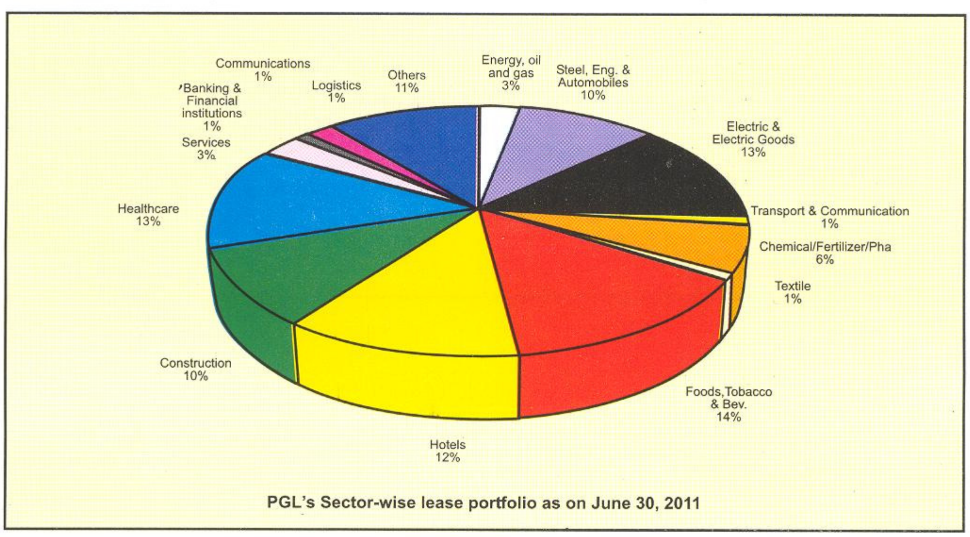
The assets-wise distribution of your Company's Investment in Leasing, during the year under review has been well diversified, keeping in view the available tax advantages and the security associated with the relative forced sale values of those assets, in the event of delinquencies or defaults. The following Chart gives a visual picture of the break-down of PGL's Investment in Leasing, during FY 2010-11:



(1) Vehicles (20%) (2) Equipment (61%) (3) Others (20%)

Sector-wise Composition of the Lease Portfolio:

Proper criteria, for an efficient and prudent Risk Management, were exercised in spreading your Company's exposure to varying sectors of business and industry, keeping the behavior of the domestic economy in mind. The following Chart describes, in graphical details, the manner in which the Sector-wise Composition of PGL's Lease Portfolio has been evolved:



PGL's Sector-wise lease portfolio as on June 30, 2011

Future Prospects

Assets-backed financing, particularly Leasing, relies heavily on the ability of the borrowers'/lessees' cash flow generation capacity to ensure prompt and punctual servicing of their respective liabilities. None of the financial institutions is in the business, either of initiating foreclosures, or managing the businesses, of its defaulting borrowers. A sound economic environment is a must for any business to prosper and progress. All business must have the ability to enjoy adequate profit margins, leaving them with enough room, in terms of liquidity needed to promptly and punctually honor their repayment commitments, towards their lenders or financiers. It is an established fact that, for the present at least, the capacity of businesses to service their debts is impaired by diminishing profit margins, resulting from an escalating cost of inputs. Lack of support from commercial banks in advancing credit to the Private Sector is further eroding the propensity of businesses for undertaking much needed BMR initiatives for improving their efficiency and output. This scenario is leading more and more entrepreneurs to seek financial support through leasing transactions, which are relatively expensive to afford, but do carry the advantage of the repayments being spread over a longer period of time, in addition to holding some tax benefits for the lessees.

Leasing companies are now faced with the situation of an increase, in both the number and the financial demands of prospective lessees, but at the same time finding the commercial banks shy in supporting them with the required amount of liquidity for funding this increased demand. Moreover, using the increased returns on investment in Government securities, as the bench-mark, the spread being demanded by commercial banks for lending to leasing companies is showing a steep rise. Leasing companies are, therefore, faced with the dilemma of having to raise funds on tougher terms and at higher interest for financing the requirements of their lessees at rates, which might make it difficult for such lessees to afford. This situation is causing lessees to operate at uneconomical terms which are likely to lead to defaults, on their part, in servicing their lease liabilities.

SECP has also introduced new capital requirements, along with more stringent provisioning regulations for delinquent accounts. This is a double-edged sword: as on the one side it demands the existing sponsors of the leasing companies to cough out fresh funds, in the form of additional investment in the equity of their companies; but on the other, reduces their ability to get adequate returns on their investment by the increased provisioning requirements. Devolution of recovery of Sales Tax to the Provincial Governments, by the Federation, has caused the Provincial Governments, particularly in Sindh, to apply that Tax on almost all categories of services offered by the financial services sector in the Province.

The prudence exercised by your Company, in previous years, by owning its office premises; by restricting the size of funds mobilized through its CoIs; and by concentrating on recovery, have helped PGL to be in a much better position, as compared to others in its peer group, to raise funds from the commercial banks, at competitive rates. Vigilance exercised in vetting the lessees' credentials and track-record of their businesses and selectively choosing the assets to be leased, has kept your Company going without endangering its financial viability. These very policies are intended to be followed, in the future as well. More emphasis is intended to be assigned to operating in such a safe and secure manner, that PGL's Ratings profile continues to improve, simultaneously with the quality of services offered by the Company, against a minimal increase in the Administrative Costs. As far as possible, the bank borrowings of the Company shall be maintained at the least possible levels, with a stress on rolling over the recovered rentals, as efficiently and profitably, as possible, for making profit. Those leasing companies, which can stay liquid, under the current economic crisis, shall have the capability of reaping the rewards of better operating conditions in the future, by profitably and safely applying their liquidity in only the best among the leasing opportunities offered to them in the market.

Human Resource and Technical Support:

With a view to inducting the most professional and up-to-date support in protecting the interests of your Company, and all its Stakeholders, and for providing better services to its Customers, the Company hired, on a contractual basis, the services of Mr. Khalil Anwer Hassan, as Chief Manager, Financial Planning, Business Promotion and Corporate Development in August, 2010. Mr. Hassan, who has had over 45 years of domestic and international experience in the financial sector has added value to the system already is place in the Company. In collaboration with Messers Siddiqui & Raza, Barristers & Legal Consultants, the entire legal documentation of the Company was totally revamped and brought in line with the legal realities of the day.

Addition of a highly experienced & qualified Manager, Information Technology and a well-qualified Systems Administrator to the Information Technology Department, have enabled the Company to improve and organize both its hardware and software capabilities, under the guidance of Messers Pearl Soft, a firm carrying out IT consulting services.

Messers Riaz, Saqib, Gohar & Company, Chartered Accountants were also engaged during the year, as Tax Consultants to your Company, on a retainer, for ensuring that the Company was operated in a most tax efficient environment. They were also assigned the responsibility for introducing total automation of the HR Management Systems and the Staff Provident Management System.

In order to meet the ever-changing requirements of business and to keep PGL in competition with other market players in the field of information technology, your directors have decided to shift from out-dated fox-pro-based lease management system to Oracle Financial. The new management system is in its final testing phase and will be fully implemented soon. This will result in catering to the business needs of the Company and our customers in a more efficient and effective manner.

Corporate Governance

The company has implemented the "The Code of Corporate Governance" (the 'Code') in its letter and spirit. The Review Report of the External Auditors to the Members, on the Statements in Compliance with the Best Practices of the Code of Corporate Governance is appended to this Report.

Audit Committee

The Board of Directors, in compliance with the Code of Corporate Governance, has established an Audit Committee consisting of the following directors:

*	Mr.Rizwan Humayun	Chairman
*	Air Marshal (R) Syed Masood Hatif	Vice Chairman
*	Mr. Pervez Inam	Member/Secretary
*	Mr.Shaheed H Gaylani	Member

Credit Rating

It should be a matter of great satisfaction for the Company's Shareholders to note, that JCR-VIS have, once again, upgraded your Company's Entity Rating to BBB+ (from BBB in the preceding year) for the Medium to Long-term, in addition to reaffirming the Short-term Rating at A-3. The Outlook for the Company has been revised to Stable.

Auditors

The retiring Auditors: Messers KPMG Taseer Hadi & Co., Chartered Accountants, being eligible for reappointment, have offered themselves for reappointment as Auditors of your Company. The Board of Directors wishes to place, on record, their appreciation for the high standards of professionalism, integrity and ethics maintained by the said Auditors: Messers KPMG Taseer Hadi & Co., Chartered Accountants.

Acknowledgements

The Board would like to place on record its appreciation for the management team of your Company and each and every member of its staff for the hard work and dedication by exhibiting a highly satisfactory performance, in a difficult year. We, the Members of the Board, as representatives of the Shareholders of the Company, assure the management and staff of the Company of our continued support and commitment towards strengthening the Company. We are confident, that the management and the staff will continue to serve the customers of the Company with the same zeal, as demonstrated by them in all the previous years, enabling your Company to further improve its reputation in the financial services sector of Pakistan.

The Board also acknowledges the cooperation and guidance extended to the Company by the Securities and Exchange Commission of Pakistan (SECP), the State Bank of Pakistan and other regulatory authorities. Their role is critical in developing the Financial Services Sector and we hope that their actions will continue to strengthen this sector. The Board would also like to praise the NBFI's & Modaraba Association for its assistance and support in professionally safe-guarding your Company's interest, particularly in the matter of Sales Tax., before the concerned authorities.

At the end, we would like to thank our valued Shareholders, Customers, Bankers, Investors and other Stakeholders for their valuable support during the year. We look forward to reinforcing and building this relationship further in the years to come.

Statements in Compliance with the Code of Corporate governance

The Board of Directors has reviewed the Code of Corporate Governance and confirms the correctness of the following statements to the best of our knowledge and belief:

* Financial statements prepared by the management of the Pak-Gulf Leasing Company Limited, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

* Proper books of account of the listed company have been maintained.

* Appropriate accounting policies have been consistently applied in preparation of the financial statements and the accounting estimates presented in the report are based on reasonable and prudent judgment.

* International Accounting Standards (IAS), as applicable in Pakistan, have been followed in preparation of the financial statements, and there has been no departure from them.

* The system of internal control is sound in design, and has been effectively implemented and monitored.

* There is no significant doubt upon the Company's ability to continue as a going concern.

* There was no trade in shares of the Company, carried out by its directors, CEO, CFO, Company Secretary and their spouses and minor children.

* There has been no material departure from best practices of corporate governance, as detailed in the listing regulations.

Pattern of Shareholding

Pattern of Share-holdings, as required by the Code of Corporate Governance, as at June 30, 2011, is appended at the end of this Report.

Significant deviations from the last year, in the operating results, have been highlighted at the beginning of this Report, along with reasons thereof.

Key Operating and Financial Data for the last six (6) years 2006 - 2011

	2011	2010	2009	2008	2007	2006
		------------ Rupees ------------------------				
Operational Results:						
Revenues	69,197,688	69,383,320	59,198,876	50,620,517	51,169,516	54,893,665
Lease revenue	64,474,169	64,157,818	53,666,448	49,767,447	49,243,427	53,425,096
Profit before taxation	33,900,240	32,272,693	23,022,809	12,163,778	500,389	8,024,600
Profit after taxation	15,528,757	21,249,408	16,055,008	10,848,668	2,660,483	9,416,239
Finance cost	5,548,263	9,650,487	9,621,569	9,591,157	20,719,037	22,495,317
Provision for potential lease losses	(1,792,732)	7,505,698	7,378,303	10,362,393	4,995,228	3,948,112
Dividend/(stock) %		5 %		-	8%	5.50%
Balance Sheet						
Shareholders Equity	364,805,885	346,117,010	334,943,418	256,702,410	246,667,370	241,944,930
Surplus on revaluation of assets	41,205,380	43,814,496	46,423,612	24,871,032	24,562,394	25,902,161
Reserves	110,556,883	92,419,010	81,245,418	63,004,410	52,969,370	62,594,930
Fixed assets	73,977,505	77,531,795	82,709,719	47,894,065	51,530,224	55,201,141
Working capital	166,683,772	179,305,685	135,443,949	77,929,799	115,509,916	52,306,505
Long- term liabilities	288,463,703	235,872,082	227,756,845	151,143,864	157,981,518	210,574,741
Long-term loans	58,333,332	25,000,000	71,666,667	8,581,857	54,020,456	51,937,119
Investments	4,676,315	4,444,271	1,457,955	2,842,605	3,347,595	7,722,671
Financial Ratios						
Income / expense ratio	1.86	2.34	2.05	1.80	1.12	1.28
Earning per share (In Rupees)	0.61	0.84	0.69	0.56	0.14	0.49
Debt / Equity ratio	14.28	6.02	15.81	0.02	0.17	0.32
Current ratio	2.37	3.41	2.39	1.59	1.82	1.28

Board Mettings

Four (04) Board Meetings were held during the year under review. Details of attendance are as follows:

	Name of Director	No. of Meetings Attended
1.	Mr.Sohail Inam Ellahi	4
2.	Shaikh Aftab Ahmad	2
3.	Mr.Shaheed H Gayalani	-
4.	Air Marshal® Syed Masood Hatif	4
5.	Mr.Pervez Inam	4
6.	Mr.Shoaib Salim Malik	3
7.	Brig. Naveed Nasar Khan(R)	4
8.	Mr.Rizwan Humayun	3

No Statutory Payment on account of taxes, duties, levies and/or charges was outstanding against the Company as on June 30, 2011.

Value of investments of the Staff Provident Fund stood at Rs. 3,197,151 as at June 30, 2011. This represents funds placed with a rated commercial bank at special rates and investment in the Registered Units of the National Investment Trust.

Karachi: October 06, 2011

Director

Director