PGL

# ANNUAL REPORT 2014

Pak-Gulf Leasing Company Limited

بسم الله الرحمن الرحيم

Pak-Gulf Leasing Company Limited

## CONTENTS

Pak-Gulf Leasing Company Limited

# COMPANY INFORMATION

### Board of Directors

| | |
|---|---|
| Mr. Sohail Inam Ellahi | Chairman |
| Air Marshal (R) Syed Masood Hatif | Vice Chairman |
| Mr. Fawad Salim Malik | Non-Executive Director |
| Mr. Shaheed H. Gaylani | Non-Executive Director |
| Brig. (R) Naveed Nasar Khan | Non-Executive Director |
| Mr. Rizwan Humayun | Non-Executive Director |
| Mr. Pervez Inam | Non-Executive Director |
| Lt. Col.(R) Saleem Ahmed Zafar | Executive Director |
| Mr. Mahfuz-ur-Rahman Pasha | Chief Executive Officer |

### Company Secretary

Ms. Mehreen Usama

### Audit Committee

| | |
|---|---|
| Mr. Rizwan Humayun | Chairman |
| Air Marshal (R) Syed Masood Hatif | Vice Chairman |
| Brig. (R) Naveed Nasar Khan | Member |
| Mr. Shaheed H. Gaylani | Member |

### Human Resource & Remuneration Committee

| | |
|---|---|
| Air Marshal (R) Syed Masood Hatif | Chairman |
| Brig. (R) Naveed Nasar Khan | Vice Chairman |
| Mr. Pervez Inam | Member |
| Mr. Sohail Inam Ellahi | Member |
| Lt. Col.(R) Saleem Ahmed Zafar | Member |

### Senior Management

| | |
|---|---|
| Mr. Mahfuz-ur-Rahman Pasha | Chief Executive Officer |
| Mr. Khalil Anwer Hassan | Chief Manager |
| Lt. Col.(R) Saleem Ahmed Zafar | Chief Operating Officer |
| Ms. Mehreen Usama | Chief Financial Officer |
| Ms. Farah Farooq | Internal Auditor |
| Major (R) Arifullah Lodhi | Manager Administration |

### Credit Rating Agency

JCR-VIS Credit Rating Company Limited

### Entity Rating:

- A- for medium to long term
- A-2 for short term
- Outlook: stable

### Auditors

M/s. KPMG Taseer Hadi & Co.
Chartered Accountants
Shaikh Sultan Trust Building,
Beaumont Road,
Karachi - 74000

### Legal Advisors

M/s. Mohsin Tayebaly & Company
2nd Floor, Dime Centre,
BC-4, Block # 9, Kehkashan, Clifton,
Karachi.
Tel # : 35838077, 35872690
Fax # : 35870240, 35870468

### Shariah Advisor

Mufti Muhammad Ibrahim Essa

### Bankers

Albaraka Bank (Pakistan) Limited
Askari Commercial Bank Limited
Bank Al-Falah Limited
Bank Al-Habib Limited
MCB Bank Limited
National Bank of Pakistan Limited
NIB Bank Limited
Silk Bank Limited
Soneri Bank Limited

### Registered Office

Pak-Gulf Leasing Company Limited
THE FORUM:
Room # 125-127, First Floor,
G-20, Block # 9, Main Khayaban-e-Jami,
Clifton, P.O.Box # 12215, Karachi-75600.
Tel #: 35820301, 35820965-6
35824401, 35375986-7
Fax #: 35820302, 35375985
E-mail: pgl@cyber.net.pk
Website: www.pakgulfleasing.com

### Registrar / Share Transfer Office

THK Associates (Pvt) Limited
Ground Floor, State Life Building - 3,
Dr. Ziauddin Ahmed Road,
Karachi - 75530
P. O. Box No. 8533.
Tel # : 92 (21) 111-000-322
Fax # : 92 (21) 35655595

## Mission Statement

*The Company will:*

- Aim to gain the confidence of all its stakeholders by earning a credible reputation for being an innovative enterprise that is prepared to change in the best interests of its stakeholders.

- Continually monitor structural changes in the various sectors of the economy, and accordingly alter the Company's business strategy to benefit from the emerging opportunities.

- Focus on changing customer needs and strive to improve tangible and intangible returns to its customers by providing service and satisfaction at par with the best in the industry, which would be reflected in prompt risk evaluation and facility disbursement procedures and practices.

- Consciously share, and remain part of all initiatives by the leasing industry to play a positive role in the evolution of small and medium-size enterprises to expand the country's industrial base and support economic growth, higher employment, and a better future for all.

Pak-Gulf Leasing Company Limited

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 21st Annual General Meeting of Pak-Gulf Leasing Company Limited, will be held at the Company's Registered Office, THE FORUM, Room Nos. 125 - 127, First Floor, G-20, Block # 9, Main Khayaban-e-Jami, Clifton, Karachi-75600, on October 23, 2014 at 4:00 p.m.to transact the following business.

**Ordinary Business**

1. To read and confirm the minutes of the 20th Annual General Meeting held on October 24, 2013.

2. To receive, consider and adopt the audited financial statements of the Company for the year ended June 30, 2014 together with Directors' and Auditors' Report thereon.

3. To appoint Auditors for the year 2014 - 2015 and fix their remuneration.

4. To transact any other business with the permission of the Chair.

By Order of the Board

**Mehreen Usama**
Company Secretary

Karachi: October 01, 2014.

**Notes:**

**1.** The Register of Members of the Company shall remain closed from October 17, 2014 to October 23, 2014 (both days inclusive).

**2.** A Member entitled to attend and vote at the General Meeting of Members is entitled to appoint a proxy to attend and vote on his/her behalf.

**3.** The instrument appointing a proxy and the power of attorney or other authority under which it is signed or a notarially certified copy of the power of attorney must be deposited at the registered office of the Company at least 48 hours before the time of the meeting. A form of proxy is enclosed.

**4.** CDC account holders will further have to follow the under mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan.

**A. For attending the meeting:**

**(i)** In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the regulations, shall authenticate his/her identity by showing his/her original CNIC or original passport at the time of attending the meeting.

**(ii)** In case of corporate entity, the Board of Directors resolution / power of attorney with specimen signature of the nominees shall be produced (unless it has been provided earlier) at the time of the meeting.

**B. For appointing proxies:**

**(i)** In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form accordingly.

**(ii)** The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

**(iii)** Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

**(iv)** The proxy shall produce his/her original CNIC or original passport at the time of meeting.

**(v)** In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

**5.** Shareholders are requested to notify any change of address, if any immediately.

**Dear Shareholders,**

Your directors are pleased to present the 21st Annual Report of Pak-Gulf Leasing Company Limited (PGL), including financial statements and the Auditors' Report, for the year ended June 30, 2014.

## OPERATIONAL OVERVIEW

Notwithstanding the restrictive operational environment, under which your Company was required to perform during the financial year under review, PGL's growth could easily be termed as fairly impressive.

During the year under review, your Company maintained the prudent and well tested policy of undertaking repeat business with some of PGL's most consistently performing and well established lessees, adding at the same time a few fresh client relationships having a good market standing. Wherever the quantum of exposure to a lessee necessitated mitigation of risk, additional collateral securities were obtained from the lessees, other than those covered by the assets being leased. This approach to beefing up the underlying security package for assets based financing is unique to your Company as most leasing companies in the market choose to restrict the security for leasing finance only to the relative assets being leased.

New business relationships are considered by PGL, provided the related financials of the prospective lessee, its market reputation and historical track record, in addition to other risk evaluation factors justify the viability of the financing proposition offered to the Company. All approvals are subject to an independent survey and valuation of the assets needing to be leased.

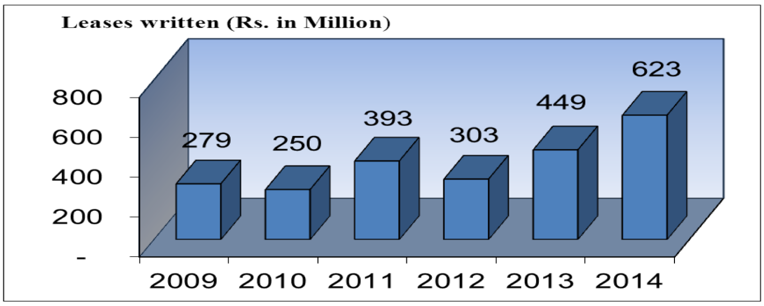
It has been a cornerstone of PGL's fund management philosophy to rely on internally generated financial resource for funding the Company's business. Consequently, your Company must focus on timely and regular repayments from the lessees under all leasing commitments. It is a matter of pride to state that your Company for the past couple of years has been reporting a Recovery Rate of over 99%. For the year under review this Rate has gone up to 99.9%.

The exceptionally high growth in business, during FY-2014, despite the outstanding performance with respect to Recoveries, required your Company to finance its increased business through Short Term Borrowings from commercial banks, in addition to heavily relying on subvention on the part of the Sponsors of PGL in the form of their enhanced investment in the Company's CoI Scheme, besides a short term clean placement from an Associated Undertaking. The Sponsors of your Company must be thanked, for their timely contribution to meet the Company's funding requirements and for the trust and confidence reposed by them in the management of your Company's affairs.

## ANALYSIS OF PGL's OPERATIONAL AND FINANCIAL PERFORMANCE IN FY-2014

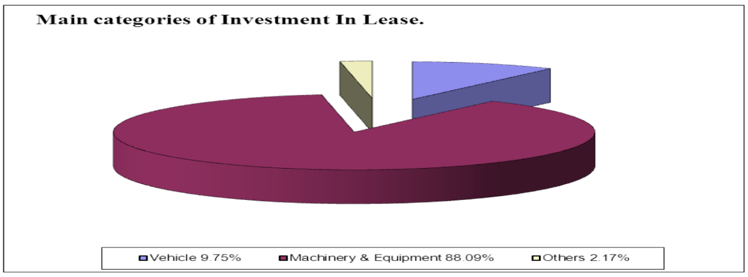
### Lease Written

50 new leases (inclusive of Shariah-compliant Ijarahs) of Rs. 622.85 million were written, during FY-2014, as compared to an equal number of leases of Rs. 449.05 million in the FY-2013, translating into a growth of 33% in the lease portfolio. Shariah-compliant Ijarah, a product which was introduced by PGL towards the end of the preceding financial year, amounted to a total of three (03) Ijarahs of Rs. 22.93 million written in FY-2014 (FY-2013: Rs. 3.56 million). Each Ijarah requires the approval of your Company's Shariah Adviser, who has been appointed from an Approved Panel of Advisers notified by the SECP and the NBFIs & Modaraba Association of Pakistan. The growth in Leases written by your Company, over the past 6 years, is shown by the following Chart:



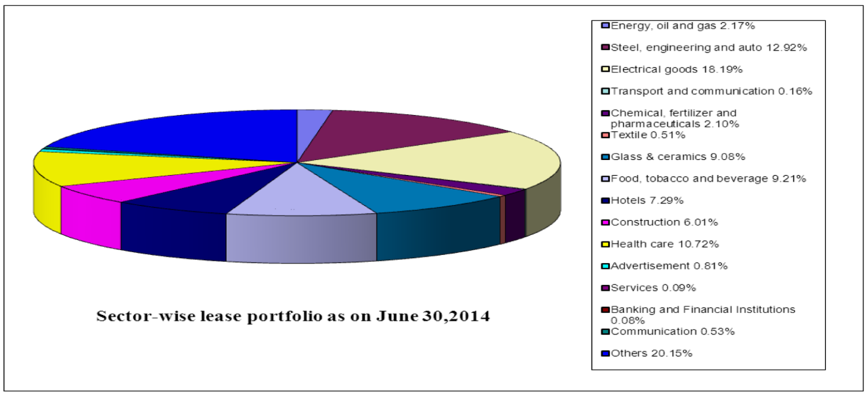

## Categories of Investment in Lease

The assets-wise distribution of your Company's Investment in Leasing, during FY-2014, has been kept well diversified. Some of the more defining factors to the Assets Diversification Policy of PGL have been the tax advantages available to PGL with respect to the assets being leased; besides the security associated with the relative forced sale values of those assets and marketability thereof, in the unlikely event of any foreclosure. The Chart below gives a visual picture of the breakdown of PGL's Assets-wise Investment in Leasing, during FY-2014:



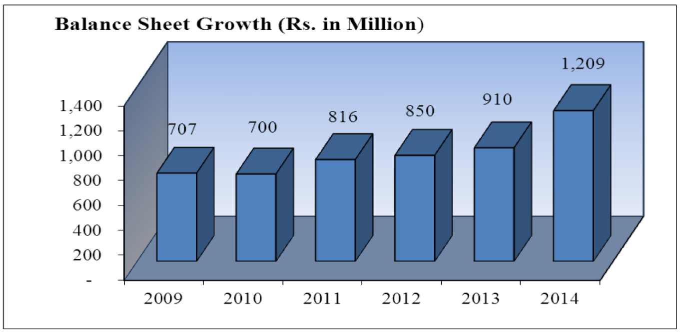

## Sector-wise Composition of the Lease Portfolio

Rationally justifiable criteria, for an efficient and prudent Risk Management, were exercised in spreading over your Company's exposure to varying secure sectors of business and industry, keeping in mind the behavior of individual sectors, collectively comprising the domestic economy. A Chart describing, in graphical details, the manner in which the Sector-wise composition of PGL's Lease Portfolio has been evolved, is as under:

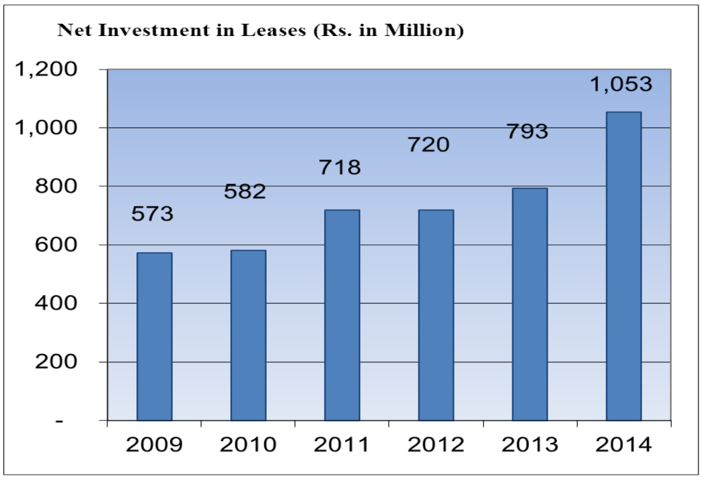


**Financial Achievements**

A notable financial achievement, during FY-2014, was for your Company to cross the coveted milestone of Rupees One Billion in terms of its Balance Sheet footings, which stood at Rs. 1,209.13 million as on June 30, 2014 (FY-2013: Rs. 910.21 million). This year-on-year increase of 32.84%, in the Total Assets of your Company, signifies a remarkable improvement, when compared with the performance of the few remaining profitable leasing companies, presently operating in Pakistan. The Balance Sheet growth of PGL is depicted in the following Chart:




Gross Investment in Leases, stood at Rs. 1,204 million as on June 30, 2014 (FY-2013: Rs. 907 million), representing a year-on-year increase of 33% (FY-2013: 10.2%). Net Investment in Leases, after deduction of Unearned Income (Rs. 150 million), Mark-up held in Suspense (Rs. 0.11 million) and a Provision for Potential Lease Losses (Rs. 0.93 million), amounted to Rs. 1,052.63 million at the end of FY-2014, showing an increase of 32.75 % over the previous year's corresponding figure of Rs. 792.93 million as at June 30, 2013. The Net Investment in Leases of the Company during the last six (6) years is shown in the Chart below:




**Profitability Performance**

It is noted with satisfaction, by your directors, that your Company has been consistent with its profitability performance, specifically with respect to its After-tax Profit which, for the Financial Year 2013-14, was recorded at Rs. 29.22 million, as against Rs. 27.28 million, attained during the corresponding period last year FY-2013, showing an annual increase of 7.11 %.

EPS for FY-2014 has shown an improvement by rising to Rs. 1.15, as compared to Rs. 1.08 for FY-2013.

Gross Revenue for the period under review (FY-2014), was 22.87 % higher at Rs. 94.65 million, as compared to Rs. 77.03 million, for the corresponding period in FY-2013.

A quantum increase in leases written during FY-2014 of Rs. 622.85 million, as opposed to the amount of leases written in FY-2013 of Rs. 449.05 million (a phenomenal rise of 38.7%), is due to have a meaningful impact on Income from Leasing Operations in FY-2015, as over 69 % of the leases, during FY-2014, were written in the last quarter of that year. Despite their minimal contribution to the Pre-tax Income for FY-2014, the benefits accruing in your Company's favor, on account of the increased lease writing during the year, are already reflected in the Income Statement for FY-2014, in the form of their contribution towards restricting PGL's Tax Charge for FY-2014, to the lowest possible level.

Due to inflationary impact on all operational inputs there was an increase of 17.03 % in the Operating Expenses of the Company, over the preceding year (Rs. 37.09 million in FY-2014 as against Rs. 31.7 in FY-2013). Financial charges for the FY-2014 increased by 52.79%, from Rs. 5.52 in FY-2013 to Rs. 8.37 million, due to a substantial increase in financial liabilities, during FY-2014, for meeting increased requirements for funding a phenomenal rise in Lease Writing.

With the view to facilitating a continuing expansion in the operations of your Company, and for the purpose of attaining the prescribed Minimum Equity Requirements, your directors are of the opinion that the After-tax Profit for FY-2014 be retained in the business of the Company. Hence, they would not propose for a Dividend to be declared for the Financial Year ended June 30, 2014.

| **Comparative Analysis of Profitability Performance For the year ended 30th June** | **2014** | 2013 | **Change %** |
|---|---|---|---|
| | **(Rupees in Million)** | | + or (-) |
| Income | **94.65** | 77.03 | + 22.87 |
| Administrative Expenses | **37.09** | 31.70 | +17.03 |
| Financial Charges | **8.37** | 5.42 | +52.79 |
| Profit before Taxation | **47.68** | 46.70 | +02.10 |
| Provision for Taxation (including Deferred Tax of Rs.17.49 million ) | **18.46** | 19.42 | (-) 04.95 |
| Profit after Taxation | **29.22** | 27.28 | + 07.11 |
| Un-appropriated Profit Brought Forward | **115.37** | 91.02 | + 26.75 |
| Transferred from Surplus on Revaluation to Un-appropriated Profit | **2.23** | 2.52 | (-)11.63 |
| Profit Available for Appropriation | **146.82** | 120.82 | + 21.51 |
| **Appropriations** | | | |
| Transfer to Statutory Reserve | **5.84** | 5.46 | + 07.11 |
| Dividend | **-** | - | - |
| Total Appropriations | **5.84** | 5.46 | + 07.11 |
| Un-appropriated Profit Carried Forward | **140.97** | 115.37 | + 22.19 |
| Earnings Per Share (In Rupees) | **1.15** | 1.08 | + 06.48 |

**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 desperately 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 market driven 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, mainly against the US Dollar.

Budgetary deficit has continued to mount due to ever-increasing spending, by the government, 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, after nose-diving to abysmally low rates of growth in the preceding years. If it were not for the inward remittances from Overseas Pakistanis, which have been annually increasing in quantum terms, not discounting the grant of Rs.1.5 billion from Saudi Arabia, it would have been impossible for the country to avert a default on its foreign currency borrowings. Seen in the light of the current Economic Policy, which is heavily reliant on both domestic and foreign borrowings, for making both ends meet, the inherent risk of the country defaulting on its financial commitments can not be totally ruled out, in the short to medium term.

Pakistan, which is entirely dependent for fuel supplies from abroad, has continuously found its fuel bills multiplying, with a direct impact on its foreign exchange resources, most of which consist of borrowing. As a result, it has not been without a cost that the Government has been able to maintain the Pak Rupee at a steady level. The dominoes effect, predicted in the Report for FY-2013, has already come into play, whereby higher cost of imports and increased requirement for debt servicing have failed to have been offset by increasing taxes and removal of subsidies, contributing to shortages and to inflation. As reported earlier, this situation is being exacerbated by the consequential escalation in the cost of essential inputs, in almost all areas of economic and industrial activity, which may lead to defaults by businesses, besides causing an already diminishing propensity to save going further downhill. The resultant increase in unemployment and adverse impact on the liquidity of commercial banks and other financial services providers and intermediaries are likely to restrict their ability to provide much needed credit to private businesses. In addition to the Circular Debt (which has once again started building up in the Power Sector), a similar situation causing a huge gap between the receivables and payables in all sectors of the economy, including Private Sector enterprises, has already started setting in.

Leasing Companies which, for several 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 rising capital adequacy requirements, enforced by the regulators, the unwillingness of commercial banks to lend a helping hand by providing credit at acceptable terms and the escalating cost of doing business. The general downturn 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. A good majority of the smaller leasing companies has either opted for mergers with stronger financial institutions, or have taken the path of closing down their doors to customers by choosing voluntary liquidation. Currently there are only a few leasing companies operating in Pakistan which are also finding it hard to survive.

PGL would need to closely watch and constantly monitor the emerging position of the economy, under the political instability, for your Company to withstand the pressures caused by the situation taking an adverse turn. Caution has been the hall mark of PGL, throughout its operations, over the years. The Company might need to exercise that attribute to the maximum extent in the period to come.

**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 businesses 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 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 some tax benefits for the lessees.

Leasing companies are now faced with the situation of an increase, in terms both in the number of prospective lessees, as well as the quantum of their financial demands. At the same time, these companies are finding the commercial banks increasingly shy in supporting them with the required amount of liquidity for funding the quantitative rise in demand for leasing finance. Moreover, using the increasing rate of return on their substantial investment in Government Securities, as the benchmark, the Spread being demanded by commercial banks for lending to leasing companies, is showing a steep rise. To make the matter worse, the lending banks are also looking for collateral securities, before undertaking any credit commitment for the Leasing Sector. Leasing companies are, therefore, faced with the dilemma of having to raise funds on tougher terms and at higher interest rates 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.

To make the matter even worse for the Leasing Companies, commercial banks (particularly, Islamic Banks or Islamic Banking Divisions of commercial banks) have become exceedingly active in offering the Islamic equivalent mode of leasing namely, Ijarah to the public. With their low cost of funds, such banks can write leases at rates, which are hard to match by the leasing companies.

A leasing company is required to maintain, at all times, minimum equity of Rs. 700 million and most leasing companies have faced problems in complying with this requirement. The Securities and Exchange Commission of Pakistan on the recommendation of NBF Sector Reform Committee is currently reviewing the overall regulatory regime of NBFI sector. The recommendations include an extension, up to 30th June 2018, for increasing the minimum equity of your Company to Rs.700 million. Further, w.e.f. from FY 2013 the provisioning regulations for delinquent accounts have become stringent. However, based on PGL's trend to maintain client relationship with entities having sound repayment history with the Company, it is expected that the impact of credit related losses would remain to be minimal on the Company's profitability.

**Taxation**

The Federal Board of Revenue (FBR), despite a number of representations made by your Company, even at the level of the Finance Minister, has remained oblivious to the predicaments of the Leasing Sector, as a whole, with respect particularly to privately-owned leasing companies. Leasing is all about Tax Management. In the absence of an enabling and conducive taxation regime, it is almost impossible for a leasing company to maintain its profitability profile.

Recently, FBR has undertaken two adverse tax measures from the standpoint of leasing companies. To begin with Initial Depreciation Allowance admissible for a first time use of assets in Pakistan has been halved to 25% from the originally available rate of 50%. This has in one sharp blow curtailed the ability of leasing companies to enjoy temporary Tax Losses arising from Depreciation on leased assets, thereby reducing their appetite for financing larger amounts of Plant & Equipment.

The second discouraging step taken under The Federal Finance Act 2014 has been the introduction of an Alternate Corporate Tax (ACT) at 17%, which shall be retrospectively applied on Accounting Income, starting from current Tax Year 2014. This is likely to increase the tax burden on leasing companies, as compared to other financial institution engaged in a similar business activity, such as banks and modarabas.

**The Way Forward**

The prudence exercised by your Company, in previous years, by owning its office premises; by restricting the size of funds mobilised 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. 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 secured manner, that PGL's Ratings Profile continues to improve. The accomplishment of this target is visible from the most recently awarded credit rating assigned to PGL that of A- for Medium to Long-term and A2 for Short-term, simultaneously with the quality of services offered by the Company. 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 enhancing your Company's profitability.

**MINIMUM EQUITY REQUIREMENT (MER) - Auditors' Comments**

With respect to the Auditors' comments on Minimum Equity Requirements, your directors recognise that the matter relates to the entire leasing sector. The SECP also appreciates, that given the prevailing economic conditions, where investors are reluctant to undertake additional investments in any Sector, without exception, it would be difficult to expect PGL, or any other leasing company facing a similar situation, to fulfill the MER by the dates stipulated under the existing NBFC Regulations. That explains, as already mentioned in the preceding paragraphs, the extension in the date for this purpose until 2018 under the NBF Sector Reforms Committee Report, submitted by the SECP to the Government of Pakistan. Notwithstanding the said position, your Board is fully prepared to make alternate arrangements for coming up to the expectations of the SECP, with respect to the minimum equity requirements, for your Company.

**CORPORATE GOVERNANCE**

Your Company has fully implemented the "The Code of Corporate Governance" (the 'Code') in both letter and spirit. The Review Report of the External Auditors to the Members, represented by the Statements in Compliance with the Best Practices of the Code of Corporate Governance, is appended to this Report.

**Human Resource and Remuneration Committee (HR & R)**

In keeping with the requirements of The Code of Corporate Governance, your directors have reconstituted the Human Resource and Remuneration Committee of the Board of Directors of your Company as shown below:

| S.No. | Name of Member | Designation |
|---|---|---|
| 1. | Air Marshal ( R) Syed Masood Hatif | Chairman |
| 2. | Brigadier (R) Naveed Nasar Khan | Vice Chairman |
| 3. | Mr. Pervez Inam | Member |
| 4. | Mr. Sohail Inam Ellahi | Member |
| 5. | Lt. Col. (R) Saleem Ahmed Zafar | Member * |

* Appointed on February 27, 2014

**Recent Developments**

The following changes were undertaken in the Board of Directors and Executive management of the Company during the period under review:

**Chief Executive Officer:**

Mr. Mahfuz-ur-Rehman Pasha was appointed as the new Chief Executive Officer of the Company, with effect from July 19, 2013, in place of the outgoing CEO, Mr. Sohail Inam Ellahi. Mr. Pasha is a seasoned bureaucrat, who has served the Federal Government in various senior positions in FBR and the Ministry of Finance & Economic Affairs, Government of Pakistan.

**Board of Directors:**

Mr. Sohail Inam Ellahi was re-inducted on the Board of Directors of the Company to fill in the Casual Vacancy created through his resignation on unanimous desire of all the employees of PGL of his involvement in and association with the affairs of the Company, in a meaningful manner. Mr. Sohail Inam Ellahi has contributed towards the progress of PGL not only in his capacity as the outgoing CEO for the last 6 years, but also as one of the Directors of the Company, since PGL's very inception.

Further, Mr. Sohail Inam Ellahi assumed the position of Chairman w.e.f. October 25, 2013 offered by the Board in the meeting held on October 24, 2013.

The Board members with consensus and approval of SECP co-opted Lt. Col. Saleem Ahmed Zafar (Retd.), as an Executive Director who has been working with PGL as Chief Operating Officer. This step was undertaken to fill in the Casual Vacancy arising as a result of the sad demise of Sheikh Aftab Ahmed, a long serving Non-Executive Member of the Board.

**Chief Financial Officer & Company Secretary:**

Ms. Mehreen Usama, a Chartered Accountant is currently working as the Company Secretary and the Chief Financial Officer of PGL. She was appointed during the year after obtaining the requisite approval from the Board and intimation of her appointment to the SECP.

**Audit Committee**

The Board of Directors, in compliance with the Code of Corporate Governance, has established an Audit Committee consisting of the following directors. During the year under review four (4) meetings of the Audit Committee were held at which the attendance details of the Members are given below:

| S.No. | Name of Member | Designation | No. of Meetings Attended |
|---|---|---|---|
| 1. | Mr. Rizwan Humayun | Chairman | 4 |
| 2. | Air Marshal (R) Syed Masood Hatif | Vice Chairman | 4 |
| 3. | Brigadier (R) Naveed Nasar Khan | Member | 4 |
| 4. | Mr. Shaheed H Gaylani | Member | 2 |
| 5. | Ms. Farah Farooq | Secretary | 4 |

**Credit Rating**

It should be a matter of great satisfaction for the Company's Shareholders to note, that JCR-VIS, following a detailed analysis and evaluation of your Company's performance, during the Year, have upgraded Company's Entity Rating; Medium to Long-term Rating from **BBB+** to **A-**, and the Short-term Rating from **A-3** at **A-2**. The Outlook for the Company has been marked as **Stable**.

**Auditors**

The retiring auditors - Messers KPMG Taseer Hadi & Co., Chartered Accountants, have completed statutory period of five years of their appointment as auditors of PGL.

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 their hard work and dedication, which has been reflected in a consistently maintained and highly satisfactory performance of your Company, in yet again a very difficult year, in terms of the prevailing economic and political environment. 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 and leading it to maintain its growth and performance. 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 with a heavy heart informs you that Mr. Shaikh Aftab Ahmed; an honorable Director on the Board of Pak-Gulf Leasing Company Limited departed to his heavenly abode on January 15, 2014. The Board eulogizes the services rendered by the deceased for the wellbeing of the Company and its employees, and prays that his soul may rest in peace and may God give the bereaved family and the staff members of PGL, courage and fortitude to bear this irreparable loss.

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 of Pakistan for its assistance and support in professionally safe-guarding your Company's interest.

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 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 Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departures there from has been adequately disclosed and explained.
- 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, COO, CFO, Company Secretary, Head of Internal Audit 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 Shareholdings, as required by the Code of Corporate Governance, as at June 30, 2014, 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 2009 - 2014**

| Year ended 30th June | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| **Operational Results:** | ------------------------ **Rupees** ------------------------ | | | | | |
| Revenues | 94,648,511 | 77,029,731 | 84,405,724 | 69,197,688 | 69,383,320 | 59,198,876 |
| Lease Revenue | 89,270,252 | 70,897,873 | 77,359,593 | 64,474,169 | 64,157,818 | 53,666,448 |
| Profit before Taxation | 47,678,901 | 46,699,898 | 48,102,092 | 33,900,240 | 32,272,693 | 23,022,809 |
| Profit after Taxation | 29,220,611 | 27,280,001 | 22,504,643 | 15,528,757 | 21,249,408 | 16,055,008 |
| Finance Cost | 8,372,942 | 5,479,981 | 10,633,657 | 5,548,263 | 9,650,487 | 9,621,569 |
| Provision for Potential Lease Losses | 1,420,902 | (6,883,301) | (2,592,026) | (1,792,732) | 7,505,698 | 7,378,303 |
| Dividend/(Stock) % | - | - | - | - | 5.00 % | - |
| **Balance Sheet:** | | | | | | |
| Shareholders Equity | 452,496,423 | 420,278,122 | 389,817,560 | 364,805,885 | 346,117,010 | 334,943,418 |
| Surplus on Revaluation of Assets | 42,326,603 | 44,554,319 | 38,596,264 | 41,205,380 | 43,814,496 | 46,423,612 |
| Reserves | 196,919,786 | 165,471,459 | 135,670,642 | 110,556,883 | 92,419,010 | 81,245,418 |
| Working Capital | 83,786,321 | 172,425,843 | 208,856,017 | 166,683,772 | 179,305,685 | 135,443,949 |
| Non-current Liabilities | 334,515,596 | 287,278,921 | 304,498,443 | 288,463,703 | 235,872,082 | 227,756,845 |
| Long-term Loans | - | - | 25,000,000 | 58,333,332 | 25,000,000 | 71,666,667 |
| Investments | 23,935,647 | 5,273,569 | 4,592,869 | 4,676,315 | 4,444,271 | 1,457,955 |
| **Financial Ratios:** | | | | | | |
| Income / Expense Ratio | 2.08 | 2.07 | 2.17 | 1.86 | 2.34 | 2.05 |
| Earning per Share (in Rs) | 1.15 | 1.08 | 0.89 | 0.61 | 0.84 | 0.69 |
| Debt / Equity Ratio | NIL | NIL | 6.02 | 14.28 | 6.02 | 15.81 |
| Current Ratio | 1.22 | 2.09 | 2.78 | 2.37 | 3.41 | 2.39 |

**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** | 3 |
| 2. | Shaikh Aftab Ahmad*** | - |
| 3. | Mr. Shaheed H Gayalani | 2 |
| 4. | Air Marshal(R)Syed Masood Hatif | 4 |
| 5. | Mr. Pervez Inam | 4 |
| 6. | Brigadier (R) Naveed Nasar Khan | 4 |
| 7. | Mr. Rizwan Humayun | 4 |
| 8. | Mr. Fawad Saleem | 1 |
| 9. | Lt. Col (R) Saleem Ahmed Zafar**** | 1 |
| 10. | Mr. Mahfuz-ur-Rehman Pasha***** | 4 |

** Re-inducted on the Board on September 30, 2013.
*** Casual vacancy on January 15, 2014.
**** Co-opted on February 27, 2014.
***** Appointed as the CEO of PGL on w.e.f. July 19, 2013.

Statutory Payment of Rs. 1,712,864 on account of taxes, duties, levies and/or charges was outstanding against the Company as on June 30, 2014.

Value of investments of the Staff Provident Fund stood at Rs. 3,580,575 as at June 30, 2014. This represents funds placed with a rated commercial bank and investment in the Registered Units of the National Investment Trust.

**Chairman** **Chief Executive Officer**
26 September, 2014
Karachi

# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2014

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 35 of listing regulations of Karachi, Lahore and Islamabad Stock Exchanges respectively for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the CCG in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes:

| Category | Names |
|---|---|
| Independent Directors | Brig. (R) Naveed Nasar Khan<br>Mr. Rizwan Humayun |
| Executive Directors | Lt. Col. (R) Saleem Ahmed Zafar<br>Mr. Mahfuz-ur-Rahman Pasha |
| Non-Executive Directors | Mr. Sohail Inam Ellahi<br>Air Marshal (R) Syed Masood Hatif<br>Mr. Fawad Salim Malik<br>Mr. Pervez Inam<br>Mr. Shaheed H. Gaylani |

The independent directors meet the criteria of independence under clause (i) (b) of the CCG. During the year Mr. Pervez Inam resigned as the Chairman of the Board and Mr. Sohail Inam Ellahi was appointed as the Chairman of the Board. Further during the year, Mr. Sohail Inam Ellahi resigned as CEO of the Company and Mr. Mahfuz-ur-Rahman Pasha was appointed as CEO in his place.

2. The Directors have confirmed that none of them is serving as a Director on more than seven listed companies, including this Company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. During the year two casual vacancies occurred in the Board on 18 July 2013 and 15 January, 2014. These were filled on 30 September 2013 and 27 February 2014, respectively.

5. The Company has prepared a 'Code of Conduct' and the same is placed on the Company's website to disseminate it throughout the company.

6. The board has developed a vision / mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors have been taken by the Board. During the year new CEO was appointed by the Board and remuneration and other terms and conditions of CEO's employment were duly approved by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The directors have been provided with the copies of the listing regulations, Company's memorandum and articles of association and the Code of Corporate Governance and they are well conversant with their duties and responsibilities. During the year no specific training was arranged for the directors, however the domestic and international business environment and regulatory changes were discussed in each BOD meetings. Although none of the directors have the required certification under the Directors Training Course from Pakistan Institute of Corporate Governance (PICG), however the Company plans to train certain directors during next year and all directors by 30 June 2016, to comply with the requirement.

10. The Company's new CFO and Company Secretary was appointed on 17 February 2014 after having approval from the Board.

11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.

12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The company has complied with all the corporate and financial reporting requirement of the CCG.

15. The Board has formed an Audit Committee. It comprises of four members, all are non-executive directors and the chairman of the committee is an independent director.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has formed an HR and Remuneration Committee. It comprises of five members including three non-executive directors, one executive director and one independent director. The chairman of the committee is a non-executive director.

18. The Board has set up an effective internal audit function and the internal auditor is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchanges.

22. Material/price sensitive information has been disseminated among all the participants at once through stock exchanges.

23. We confirm that all other material principles enshrined in the CCG have been duly complied with.

**Chief Executive Officer** **Director**
26 September, 2014
Karachi

KPMG

**KPMG Taseer Hadi & Co.**
Chartered Accountants
Sheikh Sultan Trust Building No. 2
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Karachi, 75530 Pakistan

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**Review Report to the Members on Statement of Compliance With Best Practices of Code of Corporate Governance**

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of Pak-Gulf Leasing Company Limited ("the Company") for the year ended 30 June 2014 to comply with Listing Regulation No.35 of the Karachi, Islamabad and Lahore Stock Exchange, where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended 30 June 2014.

Further, we highlight following instance of non-compliance with the requirement of the Code as reflected in paragraph 9 in the Statement of Compliance with respect to Directors' certification process under "Directors' Training Program (DTP)" of the Pakistan Institute of Corporate Governance and the Company's plan to comply with the requirement.

**Date: 26 September 2014**

**KPMG Taseer Hadi & Co.**
**Chartered Accountants**

**Karachi**

## Shariah Advisor's Report

بسم الله الرحمن الرحيم

Pak-Gulf Leasing Company Limited (PGL) established an Islamic Division on 1st March 2013. PGL, in consultation with the undersigned, developed and executed a Shariah-complaint Ijarah product.

By the grace of Allah, the year under review was the second year of Islamic financing at Pak-Gulf Leasing Company Limited. During the year a number of Shariah-compliant transactions have been carried out by PGL with valuable clients.

In the capacity of PGL's Shariah Advisor, I have reviewed the Legal documents of Ijarah (Vehicle & Machinery) and supervised the above mentioned transactions.

I confirm that the Ijarah transactions, executed by PGL, are Shariah-compliant and the Legal Agreement(s) have been executed on the formats as approved by the Shariah Advisor and all the related conditions have been met.

I certify that the treasury function and accounting treatment of the referred product are in conformity to Shariah requirements.

Alhamdulillah, PCL is still working sincerely on the development and refinement of its Islamic product to make it more attractive to the interested clients. May Allah make us successful in this regard and accept our efforts. In addition to this, I would like to take this opportunity to offer praise to Almighty Allah and seek His Guidance and Blessings and to express my best wishes for further progress, development and prosperity of **Pak-Gulf Leasing Company Limited (PGL)** and of Islamic Finance.

Mufti Ibrahim Essa
**Shariah Advisor**
**Pak-Gulf Leasing Company Limited**

KPMG Taseer Hadi & Co.
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Sheikh Sultan Trust Building No. 2
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## Auditors' Report to the Members

We have audited the annexed balance sheet of **Pak-Gulf Leasing Company Limited** ("the Company") as at 30 June 2014 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by the management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion:

   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2014 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

We draw attention to note 1.2 to the financial statements which discusses the matter relating to the minimum equity requirements as required by the Non Banking Finance Companies and Notified Entities Regulations, 2008. Our opinion is not qualified in this respect.

**Date: 26 September 2014**

**Karachi**

KPMG Taseer Hadi & Co.

**KPMG Taseer Hadi & Co.**
**Chartered Accountants**
**Mazhar Saleem**

Pak-Gulf Leasing Company Limited

# BALANCE SHEET
## AS AT JUNE 30, 2014

| | NOTE | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | ---------- Rupees | ---------- |
| **Current assets** | | | |
| Cash and bank balances | 4 | **18,734,373** | 17,908,585 |
| Short term investments | 5 | **3,072,837** | 2,302,863 |
| Other receivables - net | 6 | **5,873,261** | 4,960,196 |
| Advances to employees | | **81,914** | 140,924 |
| Accrued mark-up / return on investments | | **1,044,514** | 115,790 |
| Prepayments | | **717,925** | 1,006,355 |
| Current portion of net investment in finance lease | 7 | **429,472,999** | 300,775,024 |
| Taxation recoverable - net | 8 | **4,579,176** | 3,314,836 |
| **Total current assets** | | **463,576,999** | 330,524,573 |
| **Non-current assets** | | | |
| Net investment in finance lease | 7 | **623,154,313** | 492,150,412 |
| Long-term investments | 9 | **20,862,810** | 2,970,706 |
| Long-term deposits | | **109,500** | 209,500 |
| Operating fixed assets | 10 | **100,976,272** | 83,755,693 |
| Intangible assets | 11 | **449,406** | 599,208 |
| **Total non-current assets** | | **745,552,301** | 579,685,519 |
| **Total assets** | | **1,209,129,300** | 910,210,092 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **10,061,629** | 6,496,044 |
| Accrued mark-up | 13 | **3,438,338** | 2,770,071 |
| Certificates of investment - unsecured | 14 | **137,107,176** | 59,834,426 |
| Short term borrowings | 15 | **99,922,571** | 37,132,211 |
| Short term loan from a related party - unsecured | 16 | **22,000,000** | - |
| Current portion of advance rental against Ijarah leasing | 18 | **3,191,362** | 474,669 |
| Current portion of long term deposits | 17 | **104,069,602** | 51,391,309 |
| **Total current liabilities** | | **379,790,678** | 158,098,730 |
| **Non-current liabilities** | | | |
| Long-term deposits | 17 | **204,525,380** | 176,344,956 |
| Advance rental against Ijarah leasing | 18 | **1,562,773** | - |
| Deferred taxation - net | 19 | **128,427,443** | 110,933,965 |
| **Total non-current liabilities** | | **334,515,596** | 287,278,921 |
| **Total liabilities** | | **714,306,274** | 445,377,651 |
| **NET ASSETS** | | **494,823,026** | 464,832,441 |
| **Financed by:** | | | |
| Share capital | 20 | **253,698,000** | 253,698,000 |
| Reserves | 21 | **196,919,786** | 165,471,459 |
| | | **450,617,786** | 419,169,459 |
| Surplus on revaluation of available for sale investments | 5 | **1,878,637** | 1,108,663 |
| Total equity | | **452,496,423** | 420,278,122 |
| Surplus on revaluation of operating fixed assets - net of tax | 22 | **42,326,603** | 44,554,319 |
| | | **494,823,026** | 464,832,441 |
| **Contingencies and commitments** | 23 | | |

The annexed notes 1 to 39 form an integral part of these financial statements.

Chief Executive Officer

Director

# PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED JUNE 30, 2014

| | NOTE | 2014 | 2013 |
|---|---|---|---|
| | | ----------- Rupees ----------- | |
| **INCOME** | | | |
| Income from leasing operations | 24 | **89,270,252** | 70,897,873 |
| **Other Operating Income** | | | |
| Profit on bank accounts / return on investments | 25 | **5,329,285** | 5,648,281 |
| Other income | 26 | **48,974** | 483,577 |
| | | **5,378,259** | 6,131,858 |
| | | **94,648,511** | 77,029,731 |
| **OPERATING EXPENSES** | | | |
| Administrative and operating expenses | 27 | **37,094,949** | 31,695,847 |
| Finance cost | 28 | **8,372,942** | 5,479,981 |
| Other charges | | **80,817** | 37,306 |
| | | **45,548,708** | 37,213,134 |
| **Operating Profit before provision** | | **49,099,803** | 39,816,597 |
| Reversal / (provision) for potential lease losses | 7.3 | **833,597** | (542,283) |
| (Provision) / reversal against lease receivable held under litigation | 6.3 | **(823,807)** | 7,425,584 |
| Provision against insurance premium and other receivables | 6 | **(1,430,692)** | - |
| **Profit before Taxation** | | **47,678,901** | 46,699,898 |
| **Taxation** | 29 | **18,458,290** | 19,419,897 |
| **Profit after taxation** | | **29,220,611** | 27,280,001 |
| **Earning per share-basic and diluted** | 30 | **1.15** | 1.08 |

The annexed notes 1 to 39 form an integral part of these financial statements.

Chief Executive Officer

Director

Pak-Gulf Leasing Company Limited

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2014

| | NOTE | **2014** | 2013 |
|---|---|---|---|
| | | ----------- **Rupees** ----------- | |
| Profit for the year | | **29,220,611** | 27,280,001 |
| **Other Comprehensive Income** | | | |
| *Items to be reclassified to income statement in subsequent periods:* | | | |
| Surplus on revaluation of available for sale investments | *5* | **769,974** | 659,745 |
| **Total comprehensive income for the year** | | **29,990,585** | 27,939,746 |

The annexed notes 1 to 39 form an integral part of these financial statements.

Chief Executive Officer

Director

# CASH FLOW STATEMENT
## FOR THE YEAR ENDED JUNE 30, 2014

| | NOTE | 2014 | 2013 |
|---|---|---|---|
| | | ----------- Rupees ----------- | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before taxation | | **47,678,901** | 46,699,898 |
| **Adjustment for:** | | | |
| Depreciation | | **8,113,692** | 5,322,710 |
| Amortisation | | **149,802** | 149,802 |
| Finance cost | | **8,372,942** | 5,479,981 |
| Amortisation income on PIB | | **17,133** | (20,954) |
| Reversal / (provision) for potential lease losses | | **(833,597)** | 542,283 |
| (Provision) / reversal against insurance premium and other receivable | | **823,807** | - |
| (Provision) / reversal against lease receivable held under litigation | | **1,430,692** | (7,425,584) |
| Gain on disposal of fixed asset | | **(2,450)** | (299,400) |
| | | **18,072,021** | 3,748,838 |
| **Operating profit before working capital changes** | | **65,750,922** | 50,448,736 |
| **Movement in working capital** | | | |
| **(Increase) / decrease in current assets** | | | |
| Advances to employees | | **59,010** | (42,061) |
| Accrued mark-up / return on investments | | **(928,724)** | (476) |
| Other receivables - net | | **(3,167,564)** | 11,576,350 |
| Long tem deposits | | **100,000** | - |
| Prepayments | | **288,430** | (645,482) |
| | | **(3,648,848)** | 10,888,331 |
| **Increase in current liabilities** | | | |
| Trade and other payables | | **3,565,585** | 1,519,375 |
| **Cash generated from operations** | | **65,667,659** | 62,856,442 |
| Finance cost paid | | **(7,704,675)** | (6,407,977) |
| Tax paid | | **(2,229,152)** | (2,295,353) |
| Deposits received from / (paid) to lessees | | **80,858,717** | (40,422,021) |
| Advance rental (Ijarah) received from lessees | | **4,279,466** | - |
| Increase in net investment in lease finance - net | | **(258,868,279)** | (73,865,763) |
| | | **(183,663,923)** | (122,991,114) |
| **Net cash outflow on operating activities** | | **(117,996,264)** | (60,134,672) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Capital expenditure | | **(25,370,971)** | (5,208,491) |
| Proceeds from disposal of asset | | **39,150** | 390,000 |
| Long-term deposit | | **-** | (3,000) |
| Long-term investment | | **(17,909,237)** | - |
| **Net cash outflow on investing activities** | | **(43,241,058)** | (4,821,491) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from certificates of investment - net | | **77,272,750** | 27,828,813 |
| Short term loan - related party | | **22,000,000** | - |
| Repayment of long-term financing | | **-** | (25,000,000) |
| **Net cash inflow from financing activities** | | **99,272,750** | 2,828,813 |
| **Net decrease in cash and cash equivalents** | | **(61,964,572)** | (62,127,350) |
| Cash and cash equivalents at the beginning of the year | | **(19,223,626)** | 42,903,724 |
| **Cash and cash equivalents at the end of the year** | *34* | **(81,188,198)** | (19,223,626) |

The annexed notes 1 to 39 form an integral part of these financial statements.

Chief Executive Officer Director

Pak-Gulf Leasing Company Limited

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2014

| | Share capital | Reserves | | | | (Deficit) / Surplus on revaluation of available for sale Investments | Total equity |
|---|---|---|---|---|---|---|---|
| | | Capital | | Revenue | | | |
| | | Statutory reserve | Reserve for issue of bonus shares | Unappropriated profit | Sub Total | | |
| | Rupees | | | | | | |
| **Balance as at 30 June 2012** | 253,698,000 | 40,245,974 | 4,402,000 | 91,022,668 | 135,670,642 | 448,918 | 389,817,560 |
| *Total comprehensive income for the year ended 30 June 2013* | | | | | | | |
| Profit after taxation | - | - | - | 27,280,001 | 27,280,001 | - | 27,280,001 |
| *Other comprehensive income* | | | | | | | |
| Surplus on revaluation of available for sale investments | - | - | - | - | - | 659,745 | 659,745 |
| | - | - | - | 27,280,001 | 27,280,001 | 659,745 | 27,939,746 |
| Transfer from surplus on revaluation of operating fixed assets to unappropriated profit - net of deferred tax | - | - | - | 2,520,816 | 2,520,816 | - | 2,520,816 |
| Transfer to statutory reserve (note 21.1) | - | 5,456,000 | - | (5,456,000) | - | - | - |
| **Balance as at 30 June 2013** | 253,698,000 | 45,701,974 | 4,402,000 | 115,367,485 | 165,471,459 | 1,108,663 | 420,278,122 |
| *Total comprehensive income for the year ended 30 June 2014* | | | | | | | |
| Profit after taxation | - | - | - | 29,220,611 | 29,220,611 | - | 29,220,611 |
| *Other comprehensive income* | | | | | | | |
| Surplus on revaluation of available for sale investments | - | - | - | - | - | 769,974 | 769,974 |
| | - | - | - | 29,220,611 | 29,220,611 | 769,974 | 29,990,585 |
| Transfer from surplus on revaluation of operating fixed assets to unappropriated profit - net of deferred tax | - | - | - | 2,227,716 | 2,227,716 | - | 2,227,716 |
| Transfer to statutory reserve (note 21.1) | - | 5,844,122 | - | (5,844,122) | - | - | - |
| **Balance as at 30 June 2014** | **253,698,000** | **51,546,096** | **4,402,000** | **140,971,690** | **196,919,786** | **1,878,637** | **452,496,423** |

The annexed notes 1 to 39 form an integral part of these financial statements.

Chief Executive Officer                                                            Director

## 1. STATUS AND NATURE OF BUSINESS

**1.1** Pak-Gulf Leasing Company Limited ("the Company") was incorporated in Pakistan on 27 December 1994 as a public limited company under the Companies Ordinance, 1984 and commenced its operations on 16 September 1996. The Company is principally engaged in the business of leasing and is listed on all three Stock Exchanges of Pakistan, namely, the Karachi Stock Exchange (Guarantee) Limited, the Lahore Stock Exchange (Guarantee) Limited and the Islamabad Stock Exchange (Guarantee) Limited. The registered office of the Company is situated at the Forum, Rooms 125 - 127, First floor, Main Khayaban-e-Jami, Clifton, Karachi.

**1.2** Regulation 4 of Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations 2008) requires a leasing company to maintain, at all times, minimum equity of Rs. 700 million. The equity of the Company as at 30 June 2014 is Rs. 452.5 million which is Rs. 247.5 million short of the minimum capital requirement. SECP is reviewing the overall regulatory regime including the minimum equity requirements for NBFCs. For this purpose, SECP has issued NBF-Reform Committee Report for comments of the stakeholders which includes among other measures, extension in time for minimum equity requirements whereby a leasing company is required to meet minimum equity requirements of Rs.700 million by 30 June 2018.

## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board as are notified under the Companies Ordinance, 1984, Islamic Financial Accounting Standard - 2 Ijarah (IFAS-2) issued by Institute of Chartered Accountants of Pakistan (ICAP), provisions of and directives issued under the Companies Ordinance, 1984, and Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). In case requirements differ, provision or directives of the Companies Ordinance, 1984, and Non-Banking Finance Companies and Notified Entities Regulations, 2008 shall prevail.

### 2.2 Basis of Measurement

These financial statements have been prepared under the historical cost convention, except that certain operating fixed assets are stated at revalued amount and investments classified as 'available for sale' are marked to market and carried at fair value.

### 2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Company.

### 2.4 Standards, interpretations and amendments not yet effective

During the year certain amendments to Standards and new interpretations became effective; however, they did not have any material affect on these financial statements of the Company.

- IFRIC 21- Levies ‘an Interpretation on the accounting for levies imposed by governments’ (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation is not likely to have an impact on Company's financial statements.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not likely to have an impact on Company's financial statements.

- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 1 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.

- Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria.

- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortisation for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Company's financial statements.

- IFRS 10 'Consolidated Financial Statements' - (effective for annual periods beginning on or after 1 January 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements.

- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now called joint operations. Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after 1 January 2016.

- IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, into one place.

- IFRS 13 'Fair Value Measurement' effective for annual periods beginning on or after 1 January 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction.

Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:

- IFRS 2 ‘Share-based Payment’. IFRS 2 has been amended to clarify the definition of ‘vesting condition’ by separately defining ‘performance condition’ and ‘service condition’. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.

- IFRS 3 ‘Business Combinations’. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.

- IFRS 8 ‘Operating Segments’ has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment’s assets to the entity assets is required only if this information is regularly provided to the entity’s chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

- Amendments to IAS 16 ‘Property, plant and equipment’ and IAS 38 ‘Intangible Assets’. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset.

- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

**2.5 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires management to exercise judgment in application of the Company's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgement about the carrying value of assets and liabilities that are not readily apparent from other sources, actual results may differ from those estimates.

These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

i) Classification and valuation of investments (notes 3.1, 5 and 9).
ii) Provision for current and deferred taxation (notes 3.11, 19 and 29).
iii) Recognition and measurement of deferred tax assets and liabilities (notes 3.11, 19 and 29).
iv) Classification and provision of net investment in finance lease (notes 3.5, 3.6 and 7).
v) Determination and measurement of useful life and residual value of operating fixed assets (notes 3.7 and 10).
vi) Determination and measurement of useful life and residual value of intangible assets (notes 3.8 and 11).
vii) Measurement of leasehold premises carried at revalued amount. (notes 3.7, 10.1 and 22).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the periods presented in these financial statements.

**3.1 Financial assets**

**3.1.1 Classification**

The Company classifies its financial assets in the following categories: loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

**a) Loans and receivables**

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

b) **Held-to-maturity**

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Company has a positive intent and ability to hold to maturity.

c) **Available for sale**

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or financial assets at fair value through profit or loss.

**3.1.2 Initial recognition and measurement**

Financial assets are initially recognised at fair value plus any related transaction costs directly attributable to the acquisition.

**3.1.3 Subsequent measurement**

Subsequent to initial recognition, financial assets designated by the management as loans and receivables, held to maturity and available for sale are valued as follows:

a) **Loans and receivables**

Loans and receivables are carried at amortised cost.

b) **Held to maturity**

Subsequent to initial measurement, held to maturity investments are carried at amortised cost.

c) **Available for sale**

Subsequent to initial measurement, available for sale investments are revalued and are remeasured to fair value.

Surplus or deficit arising on changes in fair value of available for sale financial assets are taken to equity until these are derecognised. At this time, the cumulative surplus or deficit previously recognised directly in equity is transferred to the profit and loss account.

**3.1.4 Impairment**

The carrying value of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

**3.1.5 Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership attached to such financial assets.

**3.2 Financial liabilities**

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

**3.3 Offsetting of financial assets and liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

**3.4 Cash and cash equivalents**

Cash and cash equivalents comprise of cash balances and bank deposit, and other short-term highly liquid investments with original maturities of three months or less. short- term running finance facilities that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

**3.5 Net investment in finance lease**

Leases where the company transfers substantially all the risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases.

The leased asset is derecognised and the present value of the lease receivable (net of initial direct costs for negotiating and arranging the lease) is recognised on the balance sheet. The difference between the gross lease receivables and the present value of the lease receivables is recognised as unearned finance income.

A receivable is recognised at an amount equal to the present value of the minimum lease payments under the lease agreements, including guaranteed residual value, if any.

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognised in the profit and loss account on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivables.

Initial direct costs incurred by the company in negotiating and arranging finance leases are added to finance lease receivables and are recognised as an expense in the profit and loss account over the lease term on the same basis as the finance lease income.

**3.6 Provision for potential lease losses and provision for terminated leases**

Calculating the provision for net investment in finance lease losses and provision for terminated leases is subject to numerous judgments and estimates. In evaluating the adequacy of provision, management considers various factors, including the requirements of the NBFC Regulations, 2008 issued by Securities and Exchange Commission of Pakistan The nature and characteristics of the obligor, current economic conditions, credit concentrations, historical loss experience and delinquencies. Lease receivables are charged off, when in the opinion of management, the likelihood of any future collection is believed to be minimal.

**3.7 Operating fixed assets**

These are stated at cost less accumulated depreciation and impairment losses, if any, except for leasehold premises which is stated at revalued amount less accumulated depreciation and impairment losses.

Subsequent costs are included in the assets' carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other subsequent costs including repairs and maintenance are charged to the profit and loss account as and when incurred.

Depreciation is charged using the straight line method, whereby the depreciable amount of an asset is written off over its estimated useful life at the rates specified in note 10.1 after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged from the month the assets are put to use while no depreciation is charged in the month in which the assets are disposed off.

Any surplus arising on revaluation of operating fixed assets is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amounts of assets do not differ materially from the fair value of such assets. To the extent of the incremental depreciation charged on the revalued assets, the surplus on revaluation of operating fixed assets (net of deferred taxation) is transferred directly to unappropriated profit.

Gains or losses on sale of assets are charged to the profit and loss account in the period in which they arise, except that the related surplus on revaluation of assets (net of deferred taxation) is transferred directly to accumulated profit.

**Ijarah assets**

Rental from Ijarah arrangements are recognised in profit and loss on accrual basis as and when rental become due. Costs including depreciation, incurred in earning the Ijarah income are recognised as expense. Initial direct costs incurred specifically to earn revenues from Ijarah are recognised as an expense in the period in which they are incurred. Assets leased out are depreciated over the period of lease term on a straight line basis.

**3.8 Intangible assets**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. These are amortised using the straight line method reflecting the pattern in which the economic benefits of the asset are consumed by the Company as mentioned in note 11.

**3.9 Other receivables**

Other receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when considered irrecoverable.

**3.10 Other provisions**

Provisions are recognised when the company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

**3.11 Taxation**

**3.11.1 Current**

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any. The charge for current taxation also includes adjustments where necessary, relating to prior years which arise from assessments framed / finalised during the year.

Taxable income for the purpose of computing current taxation is determined under the provisions of the tax laws whereby lease rentals received and receivable are deemed to be the income of the Company.

Provision for taxation is thus based on taxable income determined in accordance with the requirements of such laws, and is made at the current rates of taxation in the Income Tax Ordinance, 2001.

**3.11.2 Deferred**

Deferred tax is recognised, using the balance sheet liability method, on all temporary differences arising between the tax base of assets and liabilities and their carrying amount. Deferred tax is calculated using the rates that are expected to apply to the period when the differences reverse based on the tax rates that have been enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences, whereas deferred tax assets are recognised for all deductible temporary differences. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits or taxable temporary differences will be available against which the asset 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. In addition, the Company also recognises deferred tax liability on the surplus on revaluation of tangible fixed assets which is adjusted against the related surplus in accordance with the requirements of International Accounting Standard 12 (IAS 12), 'Income Taxes'.

**3.12 Trade and other payables**

Liabilities for trade and other payables are recognised initially at fair value and subsequently carried at amortised cost.

**3.13 Staff retirement benefits**

**Defined contribution plan**

The Company operates an approved defined contributory provident fund for all its permanent employees. Monthly contributions are made to the fund equally by the company and the employees in accordance with the rules of the fund. The contributions are recognised as employee benefit expense when they become due.

Staff retirement benefits are payable to employees on completion of the prescribed qualifying period of service under the scheme.

**3.14 Employees' compensated absences**

The Company accounts for the liability in respect of employees' compensated absences in the year in which these are earned. Provision to cover the obligations under the scheme is made based on the current leave entitlements of the employees and by using the current salary level of the employees.

**3.15 Currency translation**

**Foreign currency transactions**

Items included in financial statements are measured using the currency of the primary economic environment in which the Company operates.

Transactions in foreign currencies are translated to Pakistani Rupees at the foreign exchange rates prevailing on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees at the rates of exchange approximating those prevailing on the balance sheet date. Exchange differences are taken to the profit and loss account.

**3.16 Revenue recognition**

*Finance lease income*

The Company follows the finance lease method in accounting for the recognition of lease income. Under this method, the unearned lease income i.e. the excess of gross lease rentals and the estimated residual value over the cost of the leased assets is deferred and taken to income over the term of the lease contract, so as to produce a systematic return on the net investment in finance lease. Unrealised lease income is held in suspense account, where necessary, in accordance with the requirements of the NBFC Regulations.

Documentation charges, late payment charges and processing fee are taken to income when realised.

*Rental Income from Ijarah*

Rental from Ijarah arrangements are recognised in profit and loss on accrual basis as and when rentals become due.

*Mark-up / return on investments*

Mark-up income on debt securities is recognised on time proportion basis using the effective yield on instruments and return on equity securities is accounted for on accrual basis.

*Dividend income*

Dividend income from investment is recognised when the Company`s right to receive dividend is established.

*Interest income*

Interest income on bank deposits is recognised on time proportion basis using the effective interest method.

*Gain or losses on sale of investments*

Capital gain or losses arising on sale of investments are taken to income in the period in which they arise.

**3.17 Earnings per share**

The Company presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary share holders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of all dilutive potential ordinary shares, if any.

**3.18 Dividend distribution and transfer between reserves**

Dividend distribution (including stock dividend) to the Company's shareholders and transfer between reserves, except appropriations which are required under law, are recognised in the financial statements in the period in which such dividends are declared or such transfers between reserves are made.

**3.19 Segment reporting**

Segment results that are reported to the Company's CEO (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items, if any, comprise corporate assets and tax assets and liabilities. Management has determined that the Company has a single reportable segment and therefore it has only presented entity wide disclosures.

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **4.** | **CASH AND BANK BALANCES** | | | |
| | | | ----------- Rupees | ----------- |
| | Cash in hand | | **5,076** | 15,734 |
| | Balance with banks: | | | |
| | - in current accounts | | **16,829,807** | 13,369,464 |
| | - in saving accounts | *4.1* | **1,899,490** | 4,523,387 |
| | | | **18,734,373** | 17,908,585 |

**4.1** These carry mark-up rate ranging from 6.5% to 9% (2013: 6% to 8.5%) per annum.

| | | | 2014 | 2013 |
|---|---|---|---|---|
| **5.** | **SHORT TERM INVESTMENT** | | | |
| | **Available for sale investments** | | | |
| | **Cost** | | | |
| | 54,300 units of National Investment (Unit) Trust (2013: 54,300) | | **1,194,200** | 1,194,200 |
| | **Revaluation surplus / (deficit)** | | | |
| | As at 1 July | | **1,108,663** | 448,918 |
| | Surplus/ (deficit) for the year | | **769,974** | 659,745 |
| | As at 30 June | | **1,878,637** | 1,108,663 |
| | | | **3,072,837** | 2,302,863 |
| **6.** | **OTHER RECEIVABLES - NET** | | | |
| | Lease receivable held under litigation | *6.1* | **28,581,952** | 28,511,189 |
| | Insurance premium and other receivable | *6.2* | **7,051,098** | 3,954,297 |
| | | | **35,633,050** | 32,465,486 |
| | Provision against lease receivable held under litigation | *6.3* | **(25,600,250)** | (24,776,443) |
| | Mark-up held in suspense against lease receivable held under litigation | | **(2,728,847)** | (2,728,847) |
| | Provision against insurance premium and other receivable | | **(1,430,692)** | - |
| | | | **5,873,261** | 4,960,196 |

**6.1** This includes net investment in finance lease for cases terminated by the Company and where litigation has commenced.

**6.2** This includes insurance premium receivable from lessees for leased assets insured on their behalf by the Company. These amounts are recovered either during the lease period or on termination / maturity of the lease contracts.

| 6.3 Movement of provision against terminated leases | Note | 2014 | 2013 |
|---|---|---|---|
| | | ----------- Rupees ----------- | |
| Balance as at 1 July | | **24,776,443** | 32,202,027 |
| Charge for the year | | **823,807** | 1,681,130 |
| Reversal during the year | | **-** | (9,106,714) |
| | | **823,807** | (7,425,584) |
| Balance as at 30 June | | **25,600,250** | 24,776,443 |

## 7. NET INVESTMENT IN FINANCE LEASES

| | Note | 2014 | 2013 |
|---|---|---|---|
| Net investment in finance leases | *7.1* | **1,052,627,312** | 792,925,436 |
| Current portion shown under current assets | *7.1* | **(429,472,999)** | (300,775,024) |
| | | **623,154,313** | 492,150,412 |

### 7.1 Net investment in Finance Leases

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Not later than one year** | **Later than one year and less than five years** | **Total** | Not later than one year | Later than one year and less than five years | Total |
| | ----- Rupees ----- | | | | | |
| Minimum lease payments | **413,632,492** | **481,428,550** | **895,061,042** | 322,834,189 | 356,094,410 | 678,928,599 |
| Residual value of leased assets (note 7.2) | **104,069,602** | **204,525,380** | **308,594,982** | 51,391,309 | 176,344,956 | 227,736,265 |
| Gross investment in leases | **517,702,094** | **685,953,930** | **1,203,656,024** | 374,225,498 | 532,439,366 | 906,664,864 |
| Unearned lease income | **(87,192,451)** | **(62,799,617)** | **(149,992,068)** | (71,531,143) | (40,195,746) | (111,726,889) |
| Mark-up held in suspense | **(105,975)** | **-** | **(105,975)** | (248,273) | - | (248,273) |
| | **(87,298,426)** | **(62,799,617)** | **(150,098,043)** | (71,779,416) | (40,195,746) | (111,975,162) |
| | **430,403,668** | **623,154,313** | **1,053,557,981** | 302,446,082 | 492,243,620 | 794,689,702 |
| Provision for potential lease losses (note 7.3) | **(930,669)** | **-** | **(930,669)** | (1,671,058) | (93,208) | (1,764,266) |
| Net investment in finance leases | **429,472,999** | **623,154,313** | **1,052,627,312** | 300,775,024 | 492,150,412 | 792,925,436 |

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

**7.2** These represent interest free security deposits received against lease contracts and are refundable / adjustable at the expiry / termination of the respective leases. The amount is net of security deposit held against matured leases amounting to Rs. 65.375 million (2013: Rs. 59.725 million).

**7.3 Provision for potential lease losses**

| | 2014 | 2013 |
|---|---|---|
| | ----------- Rupees ----------- | |
| Balance at beginning of the year | **1,764,266** | 1,221,983 |
| (Reversal) / charge for the year | **(833,597)** | 542,283 |
| Balance at end of the year | **930,669** | 1,764,266 |

**7.4** The net investment in finance lease portfolio includes Rs. 0.93 million (2013: Rs. 2.602 million) which has been placed under non-performing status.

**7.5** The Company has entered into various lease agreements for periods ranging from one to five years (2013: one to five years). Security deposits ranging from 5% to 71.42% (2013: 10% to 45.17%) are obtained at the time of entering into the lease arrangement. The rate of return implicit in the leases ranges from 12.86% to 22.36% (2013: 9.49% to 22.36%) per annum.

**8 TAXATION RECOVERABLE - NET**

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | ----------- Rupees ----------- | |
| Balance as at 1 July | | **3,314,836** | 1,422,687 |
| Advance tax paid | | **2,229,152** | 2,295,352 |
| Charge for the year | *29* | **(964,812)** | (403,203) |
| Balance as at 30 June | | **4,579,176** | 3,314,836 |

**9. LONG TERM INVESTMENT - Held to maturity**

| | 2014 | 2013 |
|---|---|---|
| **Government Security** | | |
| Pakistan Investment Bonds | **20,862,810** | 2,970,706 |

As per the requirements of Regulations 14(4)(i) of the Non Banking Finance Companies and Notified Entities Regulations, 2008, the Company is required to invest at least 15% of its outstanding funds raised through issue of certificates of investment in the Government securities. As at 30 June 2014, the Company had 15.35% of its funds raised through certificate of investment invested in Pakistan Investment Bonds (PIBs). It carries interest rate @ 11.5% per annum and has maturity date ranging from 3 September 2014 to 18 July 2018. The market value of investment as at 30 June 2014 amounted to Rs. 20.548 million (2013: Rs.3.081 million).

**10. OPERATING FIXED ASSETS**

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | ----------- Rupees ----------- | |
| Fixed assets - own use | *10.1* | **77,754,130** | 80,411,501 |
| Fixed assets - Ijarah finance | *10.3* | **23,222,142** | 3,344,192 |
| | | **100,976,272** | 83,755,693 |

### 10.1 Fixed Assets - own use

2014

| Description | COST / REVALUED AMOUNT | | | | ACCUMULATED DEPRECIATION | | | | Net book value as at 30 June 2014 | Depreciation rate % per annum |
|---|---|---|---|---|---|---|---|---|---|---|
| | As at 1 July 2013 | Addition / (deletion) | Surplus on revaluation | As at 30 June 2014 | As at 1 July 2013 | Charge for the year | On disposal | As at 30 June 2014 | | |
| | Rupees | | | | | | | | | |
| Leasehold premises | 77,220,004 | - | - | 77,220,004 | 963,023 | 3,861,000 | - | 4,824,023 | 72,395,981 | 5 |
| Leasehold improvements | 670,981 | - | - | 670,981 | 670,981 | - | - | 670,981 | - | 33.33 |
| Furniture & fittings | 1,815,037 | 15,400 | - | 1,830,437 | 1,653,475 | 27,895 | - | 1,681,370 | 149,067 | 10 |
| Office equipment | 1,634,999 | 290,826 | - | 1,925,825 | 1,540,367 | 45,726 | - | 1,586,093 | 339,732 | 20 |
| Vehicles | 8,052,420 | 1,709,100 | - | 9,761,520 | 4,430,903 | 856,628 | - | 5,287,531 | 4,473,989 | 20 |
| Computer equipment | 2,372,498 | 424,405 | - | 2,796,903 | 2,095,689 | 305,853 | - | 2,401,542 | 395,361 | 33.33 |
| | 91,765,939 | 2,439,731 | - | 94,205,670 | 11,354,438 | 5,097,102 | - | 16,451,540 | 77,754,130 | |

2013

| Description | COST / REVALUED AMOUNT | | | | ACCUMULATED DEPRECIATION | | | | Net book value as at 30 June 2013 | Depreciation rate % per annum |
|---|---|---|---|---|---|---|---|---|---|---|
| | As at 1 July 2012 | Addition / (deletion) | Surplus on revaluation | As at 30 June 2013 | As at 1 July 2012 | Charge for the year / (accomulated depreciation on deletion) | On disposal | As at 30 June 2013 | | |
| | Rupees | | | | | | | | | |
| Leasehold premises | 82,368,004 | - | (5,148,000) | 77,220,004 | 15,100,800 | 4,054,640 | (18,192,417) | 963,023 | 76,256,981 | 5 |
| Leasehold improvements | 670,981 | - | - | 670,981 | 670,981 | - | - | 670,981 | - | 33.33 |
| Furniture & fittings | 1,792,137 | 22,900 | - | 1,815,037 | 1,612,622 | 40,853 | - | 1,653,475 | 161,562 | 10 |
| Office equipment | 1,571,744 | 63,255 | - | 1,634,999 | 1,493,338 | 47,029 | - | 1,540,367 | 94,632 | 20 |
| Vehicles | 6,971,125 | 1,534,295 | - | 8,052,420 | 4,251,044 | 542,259 | - | 4,430,903 | 3,621,517 | 20 |
| | | (453,000) | | | | | (362,400) | 2,095,689 | 276,809 | |
| Computer equipment | 2,345,998 | 26,500 | - | 2,372,498 | 1,675,109 | 420,580 | - | | | 33.33 |
| | 95,719,989 | 1,646,950 | (5,148,000) | 91,765,939 | 24,803,894 | 5,105,361 | (18,192,417) | 11,354,438 | 80,411,501 | |
| | | (453,000) | | | | | (362,400) | | | |

**10.2** The Company follows the revaluation model for its leasehold premises. The leasehold premises of the Company were revalued as at 1 November 2005, 27 October 2008 and 01 April 2013 by M/s. Akbani & Javed Associates, independent valuation consultants, based on active market prices and relevant inquiries and information as considered necessary, adjusted for any difference in nature and location. The revaluations resulted in a net surplus of Rs. 41.224 million, Rs. 39.057 million and Rs. 13.044 million over the written down values of Rs. 9.731 million, Rs. 43.311 million and Rs. 64.178 million respectively. Out of the revaluation surplus, an amount of Rs. 65.118 million remains undepreciated as at 30 June 2014 (2013: Rs. 68.545 million). Had there been no revaluation, the book value of leasehold premises would have been Rs. 7.278 million (2013: Rs. 7.712 million).

**10.3 Fixed assets - Ijarah finance**

**2014**

| | COST | | | ACCUMULATED DEPRECIATION | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 1 July 2013 | Addition / (deletions) | As at 30 June 2014 | As at 1 July 2013 | Charge for the year | As at 30 June 2014 | Net book value as at 30 June 2014 | Depreciation rate % per annum |
| | Rupees | | | | | | | |
| Vehicles | 2,131,541 | 2,231,240<br>(44,041) | 4,318,740 | 177,627 | 1,964,926<br>(7,341) | 2,135,212 | 2,183,528 | 33.33 to 100 |
| Machinery | 1,430,000 | 20,700,000 | 22,130,000 | 39,722 | 1,051,664 | 1,091,386 | 21,038,614 | 33 |
| | 3,561,541 | 22,931,240<br>(44,041) | 26,448,740 | 217,349 | 3,016,590<br>(7,341) | 3,226,598 | 23,222,142 | |

2013

| | COST | | | ACCUMULATED DEPRECIATION | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 1 July 2012 | Addition / (deletions) | As at 30 June 2013 | As at 1 July 2012 | Charge for the year | As at 30 June 2013 | Net book value as at 30 June 2013 | Depreciation rate % per annum |
| | Rupees | | | | | | | |
| Vehicles | - | 2,131,541 | 2,131,541 | - | 177,627 | 177,627 | 1,953,914 | 33.33 to 100 |
| Machinery | - | 1,430,000 | 1,430,000 | - | 39,722 | 39,722 | 1,390,278 | 33 |
| | - | 3,561,541 | 3,561,541 | - | 217,349 | 217,349 | 3,344,192 | |

**10.4** The detail of fixed asset - Ijarah finance / own assets disposed off during the year is as follow:

| | Original Cost | Accumulated depriciation | Written down value | Sale proceeds | Gain / (Loss) on disposal | Mode of disposal | Particulars of buyer |
|---|---|---|---|---|---|---|---|
| | Rupees | | | | | | |
| **30 June-14** | | | | | | | |
| **Vehicle:** Vehicle - (KBY-0361) | **44,041** | **7,341** | **36,700** | **39,150** | **2,450** | **Insurance Claim** | **Pak Qatar General Takaful Ltd.** |
| 30 June-13 | 453,000 | 362,400 | 90,600 | 390,000 | 299,400 | | |

## 11. INTANGIBLE ASSETS

**2014**

| | COST | | | ACCUMULATED AMORTISATION | | | Net book value as at 30 June 2014 | Amortisation rate % per annum |
|---|---|---|---|---|---|---|---|---|
| | As at 1 July 2013 | Addition | As at 30 June 2014 | As at 1 July 2013 | Charge for the year | As at 30 June 2014 | | |
| | Rupees | | | | | | | |
| Computer Software | 749,010 | - | 749,010 | 149,802 | 149,802 | 299,604 | 449,406 | 20 |

**2013**

| | COST | | | ACCUMULATED AMORTISATION | | | Net book value as at 30 June 2013 | Amortisation rate % per annum |
|---|---|---|---|---|---|---|---|---|
| | As at 1 July 2012 | Addition | As at 30 June 2013 | As at 1 July 2012 | Charge for the year | As at 30 June 2013 | | |
| | Rupees | | | | | | | |
| Computer Software | - | 749,010 | 749,010 | - | 149,802 | 149,802 | 599,208 | 20 |

## 12. TRADE AND OTHER PAYABLES

| | | 2014 | 2013 |
|---|---|---|---|
| | | Rupees | |
| Accrued liabilities | | **4,661,483** | 2,643,426 |
| Unclaimed Dividend | | **180,544** | 180,544 |
| Sundry Creditors - Lease | | **4,036,258** | 3,063,170 |
| Other liabilities | | **1,183,344** | 608,904 |
| | | **10,061,629** | 6,496,044 |

## 13. ACCRUED MARKUP

| | | 2014 | 2013 |
|---|---|---|---|
| Accrued mark-up on: | | | |
| Certificates of Investment | | **3,222,670** | 2,770,071 |
| Running Finance Facility | | **208,333** | - |
| Short Term Loan from a related party | | **7,335** | - |
| | | **3,438,338** | 2,770,071 |

## 14. CERTIFICATES OF INVESTMENT - unsecured

| | | 2014 | 2013 |
|---|---|---|---|
| Opening balance | | **59,834,426** | 32,005,613 |
| Certificates issued during the year | *14.1* | **154,684,709** | 59,834,426 |
| Rolled over during the year | | **(75,711,959)** | (20,534,426) |
| Payments made during the year | | **(1,700,000)** | (11,471,187) |
| Closing balance | | **137,107,176** | 59,834,426 |

**14.1** These represent certificates of investment issued by the Company for periods ranging from 3 to 12 months and carries mark-up rates ranging from 10% to 11% (2013: 11% to 13%) per annum.

## 15. SHORT TERM BORROWING - secured

| | | 2014 | 2013 |
|---|---|---|---|
| **From banking company** | | | |
| Running finance under mark-up arrangements | *15.1* | **99,922,571** | **37,132,211** |

15.1 The Company has availed short-term running finance facility from a commercial bank amounting to Rs. 100 million (2013: Rs. 50 million). The facility carries mark-up at the rate 3 months KIBOR plus 2.5% per annum. The facility will expire on 21 December 2014 and is secured by hypothecation charge over specified leased assets and lease rentals receivable.

| | | **2014** | 2013 |
|---|---|---|---|
| **16. SHORT TERM LOAN FROM A RELATED PARTY - unsecured** | | ----------- Rupees | ----------- |
| Short term loan | *16.1* | **22,000,000** | - |

16.1 The amount represent unsecured short term finance availed from a related party. This carries mark-up at the rate of 6 months KIBOR plus 2% per annum and will mature on 20 July 2014. The loan has been repaid on maturity.

**17. LONG-TERM DEPOSITS**

| | | | |
|---|---|---|---|
| Long-term security deposits | *17.1* | **308,594,982** | **227,736,265** |
| Current portion shown under current liabilities | *17.1* | **(104,069,602)** | **(51,391,309)** |
| | | **204,525,380** | **176,344,956** |

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

**18. ADVANCE RENTAL AGAINST IJARAH LEASING**

| | | |
|---|---|---|
| Advance rental against Ijarah leasing | **4,754,135** | **474,669** |
| Current portion shown under current liabilities | **(3,191,362)** | **(474,669)** |
| | **1,562,773** | **-** |

**19. DEFERRED TAXATION - Net**

19.1 *Taxable temporary difference arising in respect of:*

| | | |
|---|---|---|
| Surplus on revaluation of fixed assets | **22,791,248** | 23,990,787 |
| Accelerated tax depreciation | **3,186,234** | 463,139 |
| Investment in finance lease and tax book value of assets given on finance lease | **123,274,775** | 122,374,810 |
| Long-term investments | **-** | 19,693 |
| *Deductible temporary difference arising in respect of:* | | |
| Carried forward tax losses | **(10,695,110)** | (26,307,892) |
| Provision against potential lease losses | **(325,734)** | (617,493) |
| Provision against other receivable | **(9,460,830)** | (8,671,755) |
| Long-term investments | **(65,517)** | - |
| Provision for leave encashment | **(277,623)** | (317,324) |
| | **128,427,443** | 110,933,965 |

**19.2 Movement in temporary differences is as follows:**

| | Balance as at 1 July 2013 | Recognised in profit and loss account | Recognised in equity | Balance as at 30 June 2014 |
|---|---|---|---|---|
| | Rupees | | | |
| Surplus on revaluation of fixed assets | 23,990,787 | (1,199,539) | - | 22,791,248 |
| Excess of accounting WDV over Tax WDV | 463,139 | 2,723,095 | - | 3,186,234 |
| Long-term investments | 19,693 | (85,210) | - | (65,517) |
| Investment in finance lease and tax book value of assets given on finance lease | 122,374,810 | 899,965 | - | 123,274,775 |
| Recognised tax losses | (26,307,892) | 15,612,782 | - | (10,695,110) |
| Provision against potential lease losses | (617,493) | 291,759 | - | (325,734) |
| Provision against other receivable | (8,671,755) | (789,075) | - | (9,460,830) |
| Provision for leave encashment | (317,324) | 39,701 | - | (277,623) |
| | 110,933,965 | 17,493,478 | - | 128,427,443 |

**20. SHARE CAPITAL**

Authorised capital

| 2014 | 2013 | | 2014 | 2013 |
|---|---|---|---|---|
| (Number of shares) | | | Rupees | |
| 50,000,000 | 50,000,000 | Ordinary shares of Rs. 10 each | 500,000,000 | 500,000,000 |

Issued, Subscribed and paid-up share capital

| 2014 | 2013 | | 2014 | 2013 |
|---|---|---|---|---|
| 10,000,000 | 10,000,000 | Ordinary shares of Rs.10 each fully paid in cash | 100,000,000 | 100,000,000 |
| 2,369,800 | 2,369,800 | Ordinary shares of Rs. 10 each issued as fully paid bonus shares | 23,698,000 | 23,698,000 |
| 13,000,000 | 13,000,000 | Ordinary shares of Rs. 10 each issued as fully paid Right shares | 130,000,000 | 130,000,000 |
| 25,369,800 | 25,369,800 | | 253,698,000 | 253,698,000 |

**20.1** As at 30 June 2014, 9,282,522 shares (2013: 9,259,175 shares) of the Company were held by related parties.

**21. RESERVES**

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Capital reserve** | | | |
| Statutory reserve | *21.1* | **51,546,096** | 45,701,974 |
| Reserve for issue of bonus shares | | **4,402,000** | 4,402,000 |
| **Revenue reserve** | | | |
| Unappropriated profit | | **140,971,690** | 115,367,485 |
| | | **196,919,786** | 165,471,459 |

**21.1** In accordance with the requirements of the NBFC Regulations, an amount of not less than 20 percent of after tax profits shall be transferred to statutory reserve till such time when the reserve equals the amount of paid-up capital, and thereafter a sum of not less than 5 percent shall be transferred. Consequently, during the current year the Company has transferred an amount of Rs. 5.844 million (2013: Rs. 5.456 million) to its statutory reserve.

## 22. SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS - net of deferred tax

| | 2014 | 2013 |
|---|---|---|
| | Rupees | |
| Surplus on revaluation of leasehold premises as at 1 July | **68,545,106** | 59,378,867 |
| Surplus arising on revaluation during the year | **-** | 13,044,417 |
| Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax | **(2,227,716)** | (2,520,816) |
| Related deferred tax liability of incremental depreciation charged during the year | **(1,199,539)** | (1,357,362) |
| | **(3,427,255)** | (3,878,178) |
| Surplus on revaluation of operating fixed asset as at 30 June | **65,117,851** | 68,545,106 |
| - Related deferred tax liability at the beginning of the year | **23,990,787** | 20,782,603 |
| - Deferred tax liability on surplus arising on revaluation during the year | **-** | 4,565,546 |
| - Related to incremental depreciation charged during the year | **(1,199,539)** | (1,357,362) |
| | **22,791,248** | 23,990,787 |
| | **42,326,603** | 44,554,319 |

## 23. CONTINGENCIES AND COMMITMENTS

### 23.1 Contingency

**23.1.1** The Company was issued a notice by Federal Board of Revenue (FBR) under section 14 of the Federal Excise Act, 2005, alleging that the Company has not paid Federal Excise Duty (FED) amounting to Rs.19.612 million for the periods from July 2007 to June 2010. The Company filed an appeal before Commissioner Inland Revenue (Appeals) "CIR (A)" against the said order who vide appellate order no. 92 of 2012 dated 30 April 2012 constituted that the duty so charged is constitutionally valid under FED Act, 2005. The Company challenged the decision of CIR (A) before Appellate Tribunal Inland Revenue (ATIR). The Appellate Tribunal Inland Revenue (ATIR) in due course issued an order dated 13 July 2013 where in the appeal matter was decided in favour of the Company.

**23.1.2 Commitment**

| | 2014 | 2013 |
|---|---|---|
| | Rupees | |
| Commitments for finance lease | **40,936,652** | - |

## 24. INCOME FROM LEASING OPERATIONS

| | | 2014 | 2013 |
|---|---|---|---|
| | | ----------- Rupees ----------- | |
| Finance Income | | **84,548,966** | 73,437,760 |
| Loss on lease termination | | **(143,633)** | (4,503,683) |
| Late payment charges | | **899,067** | 413,064 |
| Processing fee | | **827,500** | 943,250 |
| Documentation charges | | **310,000** | 238,400 |
| Income from Ijarah operations | | **2,828,352** | 369,082 |
| | | **89,270,252** | 70,897,873 |

## 25. PROFIT ON BANK ACCOUNTS / RETURN ON INVESTMENT

| | | | |
|---|---|---|---|
| Profit on Bank Accounts | | **3,967,138** | 5,092,277 |
| Income from Pakistan Investment Bonds | | **1,158,521** | 365,954 |
| Dividend Income - NI(U)T Units | | **203,626** | 190,050 |
| | | **5,329,285** | 5,648,281 |

## 26. OTHER INCOME

| | | | |
|---|---|---|---|
| **Income from financial assets** | | **9,175** | 11,200 |
| **Income from non-financial assets** | | | |
| Gain on disposal of fixed assets | *10.4* | **2,450** | 299,400 |
| Others | | **37,349** | 172,977 |
| | | **48,974** | 483,577 |

## 27. ADMINISTRATIVE AND OPERATING EXPENSES

| | | | |
|---|---|---|---|
| Directors' fee | *31* | **310,000** | 300,000 |
| Salaries, allowances and benefits | *27.1 & 27.2* | **18,762,164** | 16,255,928 |
| Depreciation | *10.1 & 10.3* | **8,113,692** | 5,322,710 |
| Amortisation | *11* | **149,802** | 149,802 |
| Office utilities | | **1,198,344** | 1,002,403 |
| Legal and professional | | **2,089,879** | 2,403,284 |
| Auditors' remuneration | *27.4* | **525,000** | 500,000 |
| Postage, subscription, printing and stationary | | **1,209,964** | 824,303 |
| Vehicle running and maintenance | | **1,255,245** | 1,443,162 |
| Office repair and general maintenance | | **956,284** | 852,761 |
| Worker welfare fund | | **974,162** | 949,854 |
| Insurance | | **487,114** | 461,167 |
| Advertisement | | **151,856** | 202,460 |
| Travelling and conveyance | | **182,793** | 290,353 |
| General | | **728,650** | 737,660 |
| | | **37,094,949** | 31,695,847 |

**27.1** This includes salary of Rs. 4.6 million (2013: Rs. 2.4 million) paid to the Chief Executive Officer and Executive Director.

**27.2** Salaries and benefits include Rs. 351,694 (2013: Rs. 372,682) in respect of Company's contribution to provident fund.

**27.3** The total number of employees at as 30 June 2014 are 24 (2013: 22).

**27.4 Auditors' remuneration**

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | Rupees | |
| Audit fee | | **335,000** | 315,000 |
| Review report on the statement of compliance with the Code of Corporate Governance | | **50,000** | 50,000 |
| Half yearly review fee | | **110,000** | 110,000 |
| Out of pocket expenses | | **25,000** | 25,000 |
| | | **520,000** | 500,000 |

## 28. FINANCE COST

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Markup on:** | | | |
| - Running finance | | **417,366** | 1,961,112 |
| - Certificate of investment - unsecured | | **7,908,921** | 3,491,269 |
| - Short term loan from related party | | **7,335** | - |
| Bank charges | | **39,320** | 27,600 |
| | | **8,372,942** | 5,479,981 |

## 29. TAXATION

| | Note | 2014 | 2013 |
|---|---|---|---|
| Current | | **964,812** | 403,203 |
| Deferred | *19.2* | **17,493,478** | 19,016,694 |
| | | **18,458,290** | 19,419,897 |

**29.1** Numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as company is subject to the provisions of taxation under Section 113 of the Income Tax Ordinance, 2001 (Ordinance). Movement in deferred tax is mainly due to excess of carrying value of net investment in finance lease over WDV of leased assets amounting to Rs. 352 million (2013: Rs. 350 million).

**29.2** The returns of income have been filed upto and including tax year 2013 corresponding to financial year ended 30 June 2013 under self assessment scheme. However, the return may be selected for which an amendment within six years from the end of the respective tax year and within five years from the end of financial year in which assessment order is issued as treated to have been issued for that tax years to the Company, respectively.

| | 2014 | 2013 |
|---|---|---|
| **30. EARNINGS PER SHARE - BASIC AND DILUTED** | ------------- Rupees ------------- | |
| Profit after taxation attributable to ordinary shareholders | **29,220,611** | 27,280,001 |
| | (Number of shares) | |
| Weighted average number of outstanding ordinary shares | **25,369,800** | 25,369,800 |
| | (Rupees) | |
| Earning per share - basic and diluted | **1.15** | 1.08 |

**30.1** There were no convertible dilutive potential ordinary shares in issue as at 30 June 2014.

## 31. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Chief Executive** | **Non Executive Directors** | **Executives & Executive Director** | Chief Executive | Non Executive Directors | **Executives** |
| | | | ------- Rupees ------- | | | |
| Managerial remuneration | **1,548,384** | **310,000** | **6,164,469** | 1,548,384 | 300,000 | 5,735,308 |
| Housing and utilities | **851,616** | **-** | **3,634,079** | 851,616 | - | 3,307,694 |
| Provident Fund contribution | **-** | **-** | **166,546** | - | - | 117,192 |
| | **2,400,000** | **310,000** | **9,965,094** | 2,400,000 | 300,000 | 9,160,194 |
| Number of persons | **1** | **7** | **9** | 1 | 7 | 4 |

**31.1** The executives of the Company are also entitled to free use of Company owned and maintained vehicles.

**31.2** The amount charged in the financial statements for the fee of directors for attending a Board of Directors meeting was Rs 25,000 (2013: Rs 10,000) per meeting.

## 32. TRANSACTIONS WITH RELATED PARTIES

**The Company has related party relationships with the companies with common directorship, directors of the company, key management personnel and employee's contribution plan (Provident Fund).**

**Contributions to the Provident Fund are made in accordance with the terms of employment. Salaries and allowances of the key management personal are in accordance with the terms of employment. Other transactions are at agreed terms.**

**Details of transactions with related parties / connected persons and balances with them during and as at the year end, other than those which have been specifically disclosed elsewhere in this financial statements are as follows:**

| | 2014 Director | 2014 Close relatives of a director | 2013 Director | 2013 Close relatives of a director |
|---|---|---|---|---|
| | Rupees | | | |
| Certificates of investment | **62,475,000** | **63,926,952** | 25,000,000 | 30,534,426 |
| Accrued mark-up on above certificates of investment | **204,155** | **2,921,099** | 22,603 | 2,795,094 |
| Certificates of investment issued during the year | **62,475,000** | **63,926,952** | 25,000,000 | 30,534,426 |
| Certificates of investment matured during the year | **27,475,000** | **33,926,952** | 5,500,000 | 18,236,613 |
| Financial charges on above certificates of investment for the year | **2,931,553** | **3,912,151** | 22,603 | 2,795,094 |

| | Director(s) 2014 | Director(s) 2013 | Associatedundertaking(s) 2014 | Associatedundertaking(s) 2013 |
|---|---|---|---|---|
| | Rupees | | | |
| Opening balance of rentals receivable related to finance leases | **691,896** | **1,009,015** | 2,802,500 | 327,446 |
| Finance leases disbursed during the year | **1,753,500** | **-** | 2,550,540 | 2,850,000 |
| Rental received | **(465,380)** | **(317,119)** | (1,080,108) | (374,946) |
| Closing balance of rentals receivable related to finance leases | **1,980,016** | **691,896** | 4,272,932 | 2,802,500 |

**Employee provident fund**

| | 2014 | 2013 |
|---|---|---|
| Contribution during the year | **703,388** | 745,364 |

Any receivable from related parties was not overdue at 30 June 2014. Particulars of remuneration to chief executive, directors and executives are disclosed in note 31 to these financial statements.

**33. PROVIDENT FUND DISCLOSURE**

The Company operates approved Funded contributory provident fund for both its management and non-management employees. Details of net assets and investments of the fund is as follows:

| | 2014 | 2013 |
|---|---|---|
| | Rupees | |
| Size of the fund - Net assets | **3,580,575** | 4,582,201 |
| Cost of investments made | **252,000** | 252,000 |
| Percentage of the investments made | **7** | 5 |
| Fair value of the investments made | **462,284** | 346,447 |

The breakup of the fair value of the investments is:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Rupees** | **%** | Rupees | % |
| Mutual Funds | **462,284** | **100** | **346,447** | 100 |

The management, based on the unaudited financial statements of the fund, is of the view that the investments out of provident fund have been made in accordance with the provisions of section 227 of the Companies Ordinance, 1984 and Rules formulated for this purpose.

| **34.** | **CASH AND CASH EQUIVALENTS** | **Note** | **2014** | 2013 |
|---|---|---|---|---|
| | | | ------------- Rupees | ------------- |
| | Cash and cash equivalents comprise of the following items: | | | |
| | Cash and bank balances | *4* | **18,734,373** | 17,908,585 |
| | Short term borrowings | *15* | **(99,922,571)** | (37,132,211) |
| | | | **(81,188,198)** | (19,223,626) |

## 35. FINANCIAL RISK MANAGEMENT

**Introduction and overview**

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

### 35.1 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the companies risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### 35.2 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss to the Company. The risk is generally limited to principal amounts and accrued interest thereon, if any, and arises principally from the Company's receivables from customers and balances with the banks.

### 35.2.1 Management of credit risk

The Company's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the NBFC Rules and Regulations. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continually assessing the credit worthiness of counter parties.

### 35.2.2 Exposure to credit risk

In summary, compared to the maximum amount included in the balance sheet, the maximum exposure to credit risk as at 30 June 2014 is as follows:

| | **30 June 2014** | | 30 June 2013 | |
|---|---|---|---|---|
| | **Balance Sheet** | **Maximum exposure** | Balance Sheet | Maximum exposure |
| | **Rupees** | | | |
| Cash and bank balances | **18,734,373** | **18,729,297** | 17,908,585 | 17,908,585 |
| Investments | **23,935,647** | **3,072,837** | 5,273,569 | 2,302,863 |
| Advances to employees | **81,914** | **81,914** | 140,924 | 140,924 |
| Accrued markup / return on investment | **1,044,514** | **-** | 115,790 | - |
| Net Investment in finance lease | **1,052,627,312** | **744,032,330** | 792,925,436 | 565,189,171 |
| Other receivable - net | **5,873,261** | **5,873,261** | 4,960,196 | 4,960,196 |
| Long term deposits | **109,500** | **109,500** | 209,500 | 209,500 |
| | **1,102,406,521** | **771,899,139** | 821,534,000 | 590,711,239 |

Differences in the balances as per balance sheet and maximum exposures in investments and investment in finance lease were due to the fact that investments of Rs. 20.862 million (2013: Rs. 2.971 million) relates to investments in government securities and investment in finance lease includes Rs. 308.595 million (2013: Rs. 227.736 million) relating to security deposit which are not considered to carry credit risk.

**35.2.3** *Credit ratings and Collaterals*

Details of the credit ratings of balances with the banks as at 30 June were as follows:

| Ratings | 2014 | 2013 |
|---|---|---|
| AA+ | **0.86%** | 0.04% |
| AAA | **0.09%** | 0.09% |
| AA | **20.63%** | 3.27% |
| A | **72.30%** | 70.88% |
| AA- | **0.54%** | 0.56% |
| A- | **5.58%** | 25.16% |
| | **100.00%** | 100.00% |

**35.2.4 Description of Collaterals held**

The Company's leases are secured against assets leased out and post dated cheques. In a few leases additional collateral is also obtained.

**35.2.5 Aging analysis of net investment in finance lease**

| | 2014 | | | |
|---|---|---|---|---|
| | Carrying Amount | Amount on which no impairment recognised | Amount on which impairment recognised | Impairment recognised |
| Past due | Rupees | | | |
| Neither over due not impaired | 1,015,948,274 | 1,015,948,274 | - | - |
| 1 - 89 days * | 36,647,825 | 36,647,825 | - | - |
| 90 days - 1 year * | 31,213 | 31,213 | - | - |
| 1 year - 2 years | - | - | - | - |
| 2 years - 3 years | - | - | - | |
| More than 3 years | 930,669 | - | 930,669 | 930,669 |
| | 1,053,557,981 | 1,052,627,312 | 930,669 | 930,669 |

| | 2013 | | | |
|---|---|---|---|---|
| | Carrying Amount | Amount on which no impairment recognised | Amount on which impairment recognised | Impairment recognised |
| Past due | Rupees | | | |
| Neither over due not impaired | 744,085,472 | 744,085,472 | - | - |
| 1 - 89 days * | 48,002,600 | 48,002,600 | | |
| 90 days - 1 year * | 1,116,490 | - | 1,116,490 | 279,123 |
| 1 year - 2 years | - | - | - | - |
| 2 years - 3 years | - | - | - | - |
| More than 3 years | 1,485,140 | - | 1,485,140 | 1,485,140 |
| | 794,689,702 | 792,088,072 | 2,601,630 | 1,764,263 |

Impairment is recognised by the company in accordance with NBFC Regulations, 2008 and subjective evaluation of investment portfolio is carried out on an ongoing basis.

* These have not been impaired as finance lease do not meet the criteria for provisioning requirements under NBFC Regulations, 2008.

### 35.2.6 Concentration of credit risk - gross investment in finance lease

The Company seeks to manage its credit risk through diversification of financing activities to avoid undue concentration of credit risk with individuals or groups of customers in specific locations or business sectors.

The management of the Company follows two sets of guidelines. Internally, it has its own operating policy duly approved by the Board of Directors whereas externally it adheres to the regulations issued by the SECP. The operating policy defines the extent of exposures with reference to a particular sector or group of leases.

Details of the composition of gross investment in finance lease portfolio of the Company are given below:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Rupees** | **Percentage** | Rupees | Percentage |
| Energy, oil and gas | **27,567,975** | **2.17** | 7,380,245 | 0.76 |
| Steel, engineering and auto | **163,969,546** | **12.92** | 88,103,146 | 9.12 |
| Electrical goods | **230,819,826** | **18.19** | 84,367,624 | 8.73 |
| Transport and communication | **1,967,945** | **0.16** | 3,532,417 | 0.37 |
| Chemical, fertilizer and pharmaceuticals | **26,640,140** | **2.10** | 73,346,079 | 7.59 |
| Textile | **6,415,519** | **0.51** | 4,981,893 | 0.52 |
| Glass & ceramics | **115,165,750** | **9.08** | 100,323,924 | 10.38 |
| Food, tobacco and beverage | **116,863,731** | **9.21** | 135,309,092 | 14.00 |
| Hotels | **92,467,580** | **7.29** | 116,566,326 | 12.06 |
| Construction | **76,236,009** | **6.01** | 39,428,599 | 4.08 |
| Health care | **136,016,277** | **10.72** | 97,281,645 | 10.07 |
| Advertisement | **10,265,281** | **0.81** | 6,346,089 | 0.66 |
| Publication | **-** | **-** | 221,112 | 0.02 |
| Services | **1,178,088** | **0.09** | 4,695,104 | 0.49 |
| Packing | **-** | **-** | 365,416 | 0.04 |
| Banking and Financial Institutions | **1,047,601** | **0.08** | 1,748,523 | 0.18 |
| Communication | **6,678,685** | **0.53** | 17,095,375 | 1.77 |
| Lubricants | **-** | **-** | 10,377,475 | 1.07 |
| Others | **255,730,833** | **20.15** | 174,919,440 | 18.10 |
| | **1,269,030,786** | **100.00** | 966,389,524 | 100.00 |

### 35.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due.

### 35.3.1 Management of liquidity risk

The Company manages liquidity risk by following the internal guidelines of the management such as monitoring maturities of financial liabilities, continuously monitoring its liquidity position and ensuring availability of the funds by maintaining flexibility in funding by keeping committed credit lines available, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation

### 35.3.2 Maturity analysis for financial liabilities

The table below summarizes the maturity profile of the Company's liabilities.

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| Non derivative financial liabilities | Total | Contractual cash flow | Upto three months | More than three months and upto one year | More than One year | Over five years |
| | Rupees | | | | | |
| Trade and other payables | 10,061,629 | 10,061,629 | 10,061,629 | - | - | - |
| Advance rental against Ijarah | 4,754,135 | 4,754,135 | 390,693 | 1,172,080 | 3,191,362 | - |
| Accrued mark-up | 3,438,338 | 3,438,338 | 3,438,338 | - | - | |
| Certificates of investment - unsecured | 137,107,176 | 143,074,107 | 31,299,993 | 111,774,114 | - | - |
| Short term borrowing | 99,922,571 | 99,922,571 | 99,922,571 | - | - | - |
| Short term loan - related party | 22,000,000 | 22,146,707 | 22,146,707 | - | - | - |
| Long-term deposits | 308,594,982 | 308,594,982 | 12,355,000 | 91,714,602 | 204,525,380 | - |
| | 585,878,831 | 591,992,469 | 179,614,931 | 204,660,796 | 207,716,742 | |

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| Non derivative financial liabilities | Total | Contractual cash flow | Upto three months | More than three months and upto one year | More than One year | Over five years |
| | Rupees | | | | | |
| Trade and other payables | 6,970,713 | 6,970,713 | 6,970,713 | - | - | - |
| Advance rental against Ijarah | 474,669 | 474,669 | 118,667 | 356,002 | - | - |
| Accrued mark-up | 2,770,071 | 2,770,071 | 2,770,071 | - | - | - |
| Certificates of investment - unsecured | 59,834,426 | 63,933,564 | 20,560,640 | 43,372,924 | - | - |
| Short term borrowing | 37,132,211 | 37,132,211 | 37,132,211 | - | - | - |
| Long-term deposits | 227,736,265 | 227,736,265 | 2,777,490 | 48,613,819 | 176,344,956 | - |
| | 334,918,355 | 339,017,493 | 70,329,792 | 92,342,745 | 176,344,956 | - |

**35.3.3** The contractual cash flow relating to the above financial liabilities have been determined on the basis mark-up rates effective at year end. The rates of mark-up have been disclosed in notes 14 and 16 to theses financial statements.

### 35.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Company's income or the value of its holdings of financial instruments.

### 35.4.1 Management of market risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Company manages the market risk by monitoring exposure on marketable securities by following internal risk management policies and regulations laid down by the Securities and Exchange Commission of Pakistan.

The Company is exposed to interest rate and other price risk only.

### 35.4.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises on investment in finance lease, investment in government securities, bank balances and borrowing from banks. The Company carries a mix of fixed and floating rate financial instruments.

At 30 June, details of the interest rate profile of the Company's interest bearing financial instruments were as follows:

| | Carrying amount | |
|---|---|---|
| | **2014** | 2013 |
| **Fixed rate instruments** | ------------- Rupees | ------------- |
| Financial assets | **22,762,300** | 7,494,093 |
| Financial liabilities | **137,107,176** | 59,834,426 |
| **Variable rate instruments** | | |
| Financial assets | **1,052,627,312** | 792,925,436 |
| Financial liabilities | **121,922,571** | 37,132,211 |

### 35.4.2.1 Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect profit and loss account.

### 35.4.2.2 Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bps) in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

| | Profit and loss 100 bp increase | Profit and loss 100 bp decrease |
|---|---|---|
| | Rupees | |
| **As at 30 June 2014** | | |
| Cash flow sensitivity - variable rate instruments | **9,307,047** | **(9,307,047 )** |
| As at 30 June 2013 | | |
| Cash flow sensitivity - variable rate instruments | 6,665,135 | **(6,665,135 )** |

The sensitivity analysis prepared as of 30 June 2014 is not necessarily indicative of the impact on the Company's net assets of future movements in interest rates and profit for the year and assets / liabilities of the Company.

**35.4.2.3** Yield / interest rate sensitivity position for on balance sheet financial instruments based on the earlier of contractual repricing or maturity date is as follows:

| | Effective mark-up/ interest/ profit rate | Total | 2014 Exposed to mark-up / Interest / profit rate risk: Upto three months | More than three months and upto one year | More than One year | Over five years | Not exposed to mark-up/ Interest / profit rate risk |
|---|---|---|---|---|---|---|---|
| | Percent | Rupees | | | | | |
| **Financial assets** | | | | | | | |
| Cash and bank balances | 6.5 - 9 | 18,734,373 | 1,899,490 | - | - | - | 16,834,883 |
| Short term investments | - | 3,072,837 | - | - | - | - | 3,072,837 |
| Other receivables - net | - | 5,873,261 | - | - | - | - | 5,873,261 |
| Loans and advances to employees - considered good | - | 81,914 | - | - | - | - | 81,914 |
| Accrued mark-up / return on investments | - | 1,044,514 | - | - | - | - | 1,044,514 |
| Net investment in finance lease | 12.86 - 22.36 | 1,052,627,312 | 33,346,416 | 396,126,583 | 623,154,313 | - | - |
| Long term Investments | 11.5 | 20,862,810 | 2,996,270 | - | 17,866,540 | - | - |
| Long term deposits | - | 109,500 | - | - | - | - | 109,500 |
| | | 1,102,406,521 | 38,242,176 | 396,126,583 | 641,020,853 | - | 27,016,909 |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | - | 10,061,629 | - | - | - | - | 10,061,629 |
| Accrued mark-up | - | 3,438,338 | - | - | - | - | 3,438,338 |
| Certificates of investment - unsecured | 10 - 11 | 137,107,176 | 31,299,993 | 105,807,183 | - | - | - |
| Short-term borrowings | 12.67 | 99,922,571 | 99,922,571 | - | - | - | - |
| Short-term loan - related party | 12.17 | 22,000,000 | 22,000,000 | - | - | - | - |
| Advance rental against Ijarah leasing | - | 4,754,135 | - | - | - | - | 4,754,135 |
| Long-term deposits | - | 308,594,982 | - | - | - | | 308,594,982 |
| | | 585,878,831 | 153,222,564 | 105,807,183 | - | - | 326,849,084 |
| **On balance sheet gap** | | 516,527,690 | (114,980,388) | 290,319,400 | 641,020,853 | | (299,832,175) |

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Effective mark-up/ interest/ profit rate | Total | Exposed to mark-up / Interest / profit rate risk: Upto three months | More than three months and upto one year | More than One year | Over five years | Not exposed to mark-up/ Interest / profit rate risk |
| **Financial assets** | Percent | Rupees | | | | | |
| Cash and bank balances | 6 - 8.5 | 17,908,585 | 4,523,387 | - | - | - | 13,385,198 |
| Short term investments | - | 2,302,863 | - | - | - | - | 2,302,863 |
| Other receivables - net | - | 4,960,196 | - | - | - | - | 4,960,196 |
| Loans and advances to employees - considered good | - | 140,924 | - | - | - | - | 140,924 |
| Accrued mark-up / return on investments | - | 115,790 | - | - | - | - | 115,790 |
| Net investment in finance lease | 9.49 - 22.36 | 792,925,436 | 183,499,914 | 609,425,522 | - | - | - |
| Long term Investments | 11.5 | 2,970,706 | 2,970,706 | - | - | - | |
| Long term deposits | - | 206,500 | - | - | - | - | 206,500 |
| | | 821,531,000 | 190,994,007 | 609,425,522 | - | - | 21,111,471 |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | - | 6,496,044 | - | - | - | - | 6,496,044 |
| Accrued mark-up | 11 - 13 | 2,770,071 | - | - | - | - | 2,770,071 |
| Certificates of investment - unsecured | 13.5-15.3 | 59,834,426 | 21,034,426 | 38,800,000 | - | - | - |
| Short-term borrowings | 11.58 | 37,132,211 | 37,132,211 | - | - | - | - |
| Advance rental against Ijarah leasing | - | 474,669 | - | - | - | - | 474,669 |
| Long-term deposits | - | 227,736,265 | - | - | - | - | 227,736,265 |
| | | 334,443,686 | 58,166,637 | 38,800,000 | - | - | 237,477,049 |
| **On balance sheet gap** | | 487,087,314 | 132,827,370 | 570,625,522 | - | - | (216,365,578) |

### 35.5 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Company is not exposed to equity securities price risk as the Company does not hold any equity securities as at 30 June 2014.

However, the Company holds National Investment Trust (NIT) units, exposing the Company to cash flow market risk. In case of one percent increase / decrease in the net assets value of such units as on 30 June 2014, with all other variables held constant, the net assets of the Company and net income for the year would have been higher / lower by Rs. 30,728 (2013: Rs. 23,029).

## 36 CAPITAL RISK MANAGEMENT

The Company's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce its cost of capital.

Capital requirements applicable to the Company are set out and regulated by the Securities and Exchange Commission of Pakistan (SECP). These requirements are put in place to ensure sufficient solvency margins. The Company manages its capital requirements by assessing its capital structure against the required capital level on regular basis. SECP extended the minimum equity requirement as per NBFC regulations, 2008 vide SRO 764(I)/2009 dated 2 September, 2009 wherein the Company is required to meet the minimum equity requirements of Rs. 350 million, Rs. 500 million and Rs. 700 million by 2011, 2012 and 2013, respectively. The

Company's equity as at 30 June 2014 amounts to Rs. 452.5 million as mentioned in note 1.2.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital employed:

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | Rupees | |
| Total debt | | **259,029,747** | 59,834,426 |
| Total equity | | **452,496,423** | 420,278,122 |
| Total capital employed | | **711,526,170** | 480,112,548 |
| **Gearing ratio** | | **36.40%** | 12.46% |

**36.1 Financial risk management objectives and policies**

The Company finances its operations through equity, borrowings and management of its working capital with a view to maintaining an appropriate mix between various sources of finance to minimise liquidity risk. Taken as a whole, the Company's risk arising from financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments.

**37. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying values of the financial assets and financial liabilities approximate their fair values except for investments held to maturity and leases at fixed rate of return. The fair value of leases at fixed rate return cannot be reasonably estimated due to absence of market for such leases. The fair value of held-to-maturity investments is disclosed in Note 9.

The Company's accounting policy on fair value measurements is discussed in note 3.1.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

As at 30 June 2014, all short term investments - available for sale were categorised in level 1.

**38. GENERAL**

Figures have been rounded off to the nearest rupee.

**39. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on 26 September 2014 by the Board of Directors of the Company.

Chief Executive Officer　　　　Director

# PATTERN OF SHAREHOLDING AS OF JUNE 30, 2014

| No. of Share Holders | Having Shares From | To | Share Held | Percentage % |
|---|---|---|---|---|
| 47 | 1 | 100 | 443 | 0.0017 |
| 13 | 101 | 500 | 4673 | 0.0184 |
| 25 | 501 | 1000 | 19178 | 0.0756 |
| 26 | 1001 | 5000 | 69304 | 0.2732 |
| 6 | 5001 | 10000 | 48510 | 0.1912 |
| 3 | 10001 | 15000 | 35981 | 0.1418 |
| 4 | 15001 | 20000 | 73475 | 0.2896 |
| 2 | 20001 | 25000 | 49690 | 0.1960 |
| 2 | 25001 | 30000 | 50736 | 0.2000 |
| 1 | 45001 | 50000 | 49950 | 0.1969 |
| 4 | 55001 | 60000 | 229241 | 0.9036 |
| 1 | 90001 | 95000 | 94080 | 0.3708 |
| 1 | 100001 | 105000 | 100831 | 0.3974 |
| 1 | 115001 | 120000 | 116787 | 0.4603 |
| 1 | 120001 | 125000 | 122127 | 0.4814 |
| 1 | 125001 | 130000 | 128560 | 0.5067 |
| 1 | 155001 | 160000 | 159116 | 0.6272 |
| 2 | 195001 | 200000 | 399800 | 1.5759 |
| 1 | 390001 | 395000 | 392622 | 1.5476 |
| 1 | 580001 | 585000 | 582007 | 2.2941 |
| 1 | 795001 | 800000 | 799899 | 3.1530 |
| 1 | 810001 | 815000 | 813885 | 3.2081 |
| 1 | 1145001 | 1150000 | 1148770 | 4.5281 |
| 1 | 1285001 | 1290000 | 1286994 | 5.0729 |
| 1 | 1365001 | 1370000 | 1367554 | 5.3905 |
| 1 | 1495001 | 1500000 | 1499785 | 5.9117 |
| 1 | 1660001 | 1665000 | 1663524 | 6.5571 |
| 1 | 2450001 | 2455000 | 2451090 | 9.6614 |
| 1 | 2585001 | 2590000 | 2585840 | 10.1926 |
| 1 | 4220001 | 4225000 | 4223584 | 16.6481 |
| 1 | 4800001 | 4805000 | 4801764 | 18.9271 |
| **154** | | **Company Total** | **25,369,800** | **100** |

Pak-Gulf Leasing Company Limited

# CATEGORIES OF SHAREHOLDERS
## AS AT JUNE 30, 2014

| | Categories of shareholder | Number | Share Held | Total Share holding | Percentage |
|---|---|---|---|---|---|
| | **Associated companies, undertaking and related Parties** | | | | |
| 1 | Unibro Industries Ltd | | 1,499,785 | | |
| 2 | Mid East Agencies (Pvt) Ltd | | 1,286,994 | | |
| | **Total** | **2** | | **2,786,779** | **10.98** |
| | **NIT and ICP** | - | - | - | - |
| | **Director, chief executive & their spouse and minor children** | | | | |
| 1 | Mr.Sohail Inam Ellahi | | 2,451,090 | | |
| 2 | Mr.Pervez Inam | | 2,585,840 | | |
| 3 | Mr.Fawad S. Malik | | 1,348,670 | | |
| 4 | Mrs. Atteqa Fawad | | 75,005 | | |
| 5 | Air Marshal (R) Syed Masood Hatif | | 4,047 | | |
| 6 | Brig. Naveed Nasar Khan (R) | | 500 | | |
| 7 | Rizwan Humayun | | 600 | | |
| 8 | Mr.Shaheed H Gayalni | | 24,845 | | |
| 9 | Lt. Col. (R) Saleem Ahmed Zafar | | 5,146 | | |
| | **Total** | **9** | | **6,495,743** | **25.60** |
| | **Executive** | - | - | - | - |
| | **Public Sector Companies** | | - | - | - |
| | **Banks, DFIs, NBFCs, Insurance Companies, Modarba and Mutual Funds** | | | | |
| | Bank of Punjab Ltd. | 1 | 799,899 | 799,899 | 3.15 |
| | **Foreign Companies** | | | | |
| | Kraftex Limited | 1 | 4,223,584 | 4,223,584 | 16.65 |
| | Individual's | 137 | 11,059,891 | 11,059,891 | 43.59 |
| | Others | 4 | 3,904 | 3,904 | 0.02 |
| | **Total** | **154** | **25,369,800** | **25,369,800** | **100** |
| | **Holding 5% or more** | | | | |
| 1 | Mr.Inam Ellahi Shaikh | | 4,801,764 | | 18.93% |
| 2 | Kraftex Ltd. | | 4,223,584 | | 16.65% |
| 3 | Unibro Industries Ltd. | | 1,499,785 | | 5.91% |
| 4 | Mid East Agenceis (Pvt.) Ltd. | | 1,286,994 | | 5.07% |
| 5 | Habib Inam | | 1,367,554 | | 5.39% |
| 6 | J. Tayyab | | 1,663,524 | | 6.56% |
| 7 | Sohail Inam | | 2,451,090 | | 9.66% |
| 8 | Pervez Inam | | 2,585,840 | | 10.19% |
| 9 | Fawad S. Malik | | 1,348,670 | | 5.32% |
| | **Total** | | | **21,228,805** | **83.68%** |

Pak-Gulf Leasing Company Limited

# Proxy Form

I/We ________________________________________________ of

________________________________________________ being member(s) of

**PAK-GULF LEASING COMPANY LIMITED** holding __________ ordinary shares as per Registered

Folio No./CDC A/c No. (for members who have shares in CDS)____________________

hereby appoint ________________________________________ of

________________________________________ or failing him/her

________________________________________ of

as my/our Proxy to attend and vote for me/us and on my/our behalf at the 21st Annual General Meeting

to be held on Thursday, October 23, 2014 and at any adjournment thereof.

As witness my/our hand this day of ____________ 2014.

Signed by ____________________ in presence of____________________

Please affix
Rs. 5/- Revenue
Stamp

| | |
|---|---|
| Signature and address of witness | Signature of Member(s) |
| Share Folio No. | Share Folio No. |

A member entitled to attend, speak and vote at a General Meeting is entitled to appoint a proxy to attend, speak and voter for him/her. A proxy must be a member of the Company.

The instrument appointing a proxy shall be in writing under the hand of the appointer of this attorney duly authorised in writing if the appointer is a corporation under its common seal or the hand of an officer or attorney duly authorised.

The instrument appointing a proxy together with the Power of Attorney if any under which it is signed or a notarially certified copy thereof, should be deposited at the Company's Registered Office not later than 48 hours before the time of holding the meeting.