



FIRST CAPITAL EQUITIES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2003



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COMPANY INFORMATION

Board of Directors

Mian Ehsan ul Haq
Chairman & Chief Executive Officer

Khurram Hanif
Ali Nayyar
Akbar Naqi
Ahsan Zia
Mazhar Abbas
Muhammad Zubair Khalid

Chief Financial Officer

Mazhar Abbas

Audit Committee

Ali Nayyar (Chairman)
Mian Ehsan ul Haq
Akbar Naqi

Company Secretary

Akbar Naqi

Auditors

Nasir Javaid Maqsood
Chartered Accountants

Legal Advisers

Tasawur Ali Hashmi
Advocates, Karachi.

Registered Office

103-C/II, Gulberg-III,
Lahore, Pakistan.
Tel. # (042) 5757591 - 4
Fax. # (042) 5757590, 5877920

Corporate Office

4th Floor, Block B, C & D,
Lakson Square Building No. 1,
Sarwar Shaheed Road, Karachi.
Tel: (021) 111 226 226
Fax: (021) 5656710, 5656725

Registrar and Shares Transfer Office

Corplink (Pvt.) Limited
Wings Arcade, 1-K, Commercial
Model Town, Lahore.
Tel. # (042) 5839182

Bankers

Muslim Commercial Bank Limited
Standard Chartered Bank
Prime Commercial Bank Limited
PICIC Commercial Bank Limited
ABN AMRO Bank N.V
Askari Commercial Bank Limited



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 8th Annual General Meeting of the Shareholders of First Capital Equities Limited (“the Company”) will be held on 30 October 2003 at 12:30 p.m. at the Registered Office of the Company, 103-C/II, Gulberg-III, Lahore to transact the following business:

Ordinary business

1. To receive, consider and adopt the financial statements of the Company for the year ended 30 June 2003 together with the Directors’ and Auditors’ reports thereon;
2. To appoint Auditors for the year ending 30 June 2004 and fix their remuneration;

Special business

3. To consider and if deemed fit, pass the following “Special Resolutions” with or without modification:

“**RESOLVED THAT** the Chief Executive of the Company be and is hereby authorized to take all necessary steps to make long term investments in the share capital of the following companies (“Investee Companies”) in accordance with the provisions of section 208 of the Companies Ordinance, 1984:

| | |
|-----------------------------------|---------------------|
| WorldCALL Communications Limited | Upto Rs. 50 million |
| Shaheen Insurance Company Limited | Upto Rs. 35 million |

This authority shall remain in force until revoked by the shareholders.”

4. To consider and if deemed fit, pass the following “Special Resolutions” with or without modifications:

“**RESOLVED THAT** the Authorized Share Capital of the Company be and is hereby increased from Rs. 150,000,000/- divided into 15,000,000 ordinary shares of Rs. 10/- each to Rs. 300,000,000/- divided into 30,000,000 ordinary shares of Rs. 10/- each and the words and figures in clause V of Memorandum of Association and clause 4 of Articles of Association of the Company be and are hereby amended accordingly.”

“**RESOLVED FURTHER THAT** any one of the Directors or the Chief Executive or the Company Secretary be and is hereby authorized to complete the necessary corporate and legal formalities in connection with the above.”

By Order of the Board

AKBAR NAQI
Company Secretary

Lahore
October 07, 2003

Notes:

- 1) The Members Register will remain closed from 21 October 2003 to 30 October 2003 (both days inclusive). Transfers received at Corplink (Pvt.) Limited, 1-K, Commercial Model Town, Lahore, the Registrar and Shares Transfer Office of the Company, by the close of business on 20 October 2003 will be considered in time for Annual General Meeting and entitlement of 100% Right Shares at Par as recommended by the Board of Directors of the Company in their meeting held on 09 September 2003, in the proportion of 01 share for each share held by the members on the entitlement day i.e. 20 October 2003.
- 2) A member eligible to attend and vote at the meeting may appoint another member as proxy to attend and vote in the meeting. Proxies in order to be effective must be received by the company at the Registered Office not later than 48 hours before the time for holding the meeting.

- 3) In order to be valid, an instrument of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney, must be deposited at the registered office of the company, 103-C/II, Gulberg-III, Lahore, not less than 48 hours before the time of the meeting.
- 4)
 - a) Individual beneficial owners of CDC entitled to attend and vote at the meeting must bring his/her participant ID and account/sub-account number along with original NIC or passport to authenticate his/her identity. In case of Corporate entity, resolution of the Board of Directors/Power of attorney with specimen of nominees shall be produced (unless provided earlier) at the time of meeting.
 - b) For appointing of proxies, the individual beneficial owners of CDC shall submit the proxy form as per above requirement along with participant ID and account/sub-account number together with attested copy of their NIC or Passport. The proxy form shall be witnessed by two witnesses with their names, addresses and NIC numbers. The proxy shall produce his/her original NIC or Passport at the time of meeting. In case of Corporate entity, resolution of the Board of Directors/Power of attorney along with specimen signatures shall be submitted (unless submitted earlier) along with the proxy form.
- 5) Members are requested to notify any change in their registered addresses immediately.

STATEMENT UNDER SECTION 208 OF THE COMPANIES ORDINANCE, 1984

WorldCALL Communications Limited (“WCL”)

WCL is the largest payphone service provider in the country engaged in installation, operation and maintenance of a countrywide smart card payphone network. WCL was incorporated on 14 December 1995 and received certificate of commencement of business on 14 April 1996. WCL has been listed on Karachi and Lahore Stock Exchanges since 22 May 2000. WCL has built up strong brand equity, transforming from a payphone company to a leading value-added service provider within a short span. Currently, WCL has subsidiary and associated companies engaged in the provision of prepaid international calling card services, internet and software services, Internet over cable TV service and plans to operate a wireless local loop card payphone service. WCL had been assigned a credit rating of AA - (Double A Minus) by Pakistan Credit Rating Agency (“PACRA”). The rating recognizes WCL’s strong financial profile with stable cash flows and sound coverages. The ratings also take into account WCL’s strong competitive position, which helps in mitigating the various business risk factors in the telecom, services industry. WCL has undergone a major restructuring process, which has brought the local operational telecom companies in the group under one umbrella. WCL has a paid up capital of Rs. 1,592,642,690/- divided into 159,264,269 ordinary shares of Rs. 10/- each. The Company has already invested Rs. 10 million in WCL i.e. 1,041,791 ordinary shares of Rs. 10/- each which were acquire through settlement arrangement by WCL to the existing Shareholders of WorldCALL Multimedia Limited (“WML”) in the settlement ratio of 1 share of WCL for every 1.2 shares of WML sold by the company to WCL. The breakup value of WCL’s shares as at 30 June 2003 was Rs. 12.60.

Shaheen Insurance Company Limited (“SICL”)

SICL was incorporated under the Companies Ordinance, 1984, as a public Company on 29 March 1995 and obtained the certificate of commencement of business in July 1995. SICL is registered with Controller of Insurance, in November 1995 to carry out general insurance business in all classes e.g. Fire, Marine, Motor and Miscellaneous. SICL made its public offering in August 1996 and is currently listed on the Karachi, Lahore and Islamabad Stock Exchanges. SICL has a paid up capital of Rs. 80 million divided into 8 million ordinary shares of Rs. 10/- each. The breakup value of SICL’s shares as at 30 June 2003 was Rs. 12.17. SICL has re-insurance treaty arrangements with local and foreign re-insurers of repute. One of the major shareholder of SICL is Hollard Insurance of South Africa which has its nominee directors on the Board of SICL, who have brought new expertise/knowledge and resulted in the increase in the profitability of SICL. Hollard is a multinational company, which has its operations in many countries of the world.

STATEMENT UNDER SECTION 160(1)(b) OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts pertaining to the special business to be transacted at the Annual General Meeting of the company to be held on 30 October 2003.

1) INVESTMENTS TO BE MADE BY THE COMPANY

The Company is fully authorized by its Memorandum of Association to make such investment(s). The investment(s) would be made at such time(s), as the Chief Executive may think appropriate on behalf of the Company.



The following are material facts about the proposed special resolutions:

| | | | | |
|--------|---|--|---|---|
| (i) | Name of the investee company | WorldCALL Communications Limited (“WCL”) | | |
| (ii) | Nature, amount and extent of investment | Long term Investment in share capital of WCL upto Rs. 50 million. | | |
| (iii) | Average market price of the shares intended to be purchased during preceding six months in case of listed companies | Month | Average Mkt. Price (Rupees) | |
| | | April 2003 | 13.08 | |
| | | May 2003 | 13.65 | |
| | | June 2003 | 14.88 | |
| | | July 2003 | 16.13 | |
| | | August 2003 | 17.35 | |
| | | September 2003 | 16.10 | |
| (iv) | Break-up value of shares intended to be purchased on the basis of last published financial statements | Rs. 11.98 per share based as per un-audited accounts of 31 March 2003. | | |
| (v) | Price at which shares will be purchased | At prevailing market price at the time of investment | | |
| (vi) | Earning per share of the investee company in last three years | 30-06-03 Rs. 1.44 | 30-06-02 Rs. 1.14 (Restated) | 30-06-01 Rs. 1.01 (Restated) |
| (vii) | Source of funds from where shares will be purchased | Available cash resources and the future internal cash generation from the profitable operations of Company. | | |
| (viii) | Period for which investment will be made | As a long term investment. | | |
| (ix) | Purpose of Investment | Utilization of the Company’s available cash resources for better future returns to shareholders. | | |
| (x) | Benefits likely to accrue to the company and the shareholders from the proposed investments | <p>The Government of Pakistan (“GOP”) has taken key steps for the deregulation of telecom sector and is following a policy of encouraging private sector participation. Incentives for IT and Telecom sector include expansion of infrastructure, realignment of tariffs, drastic reduction in bandwidth rates, introduction of value added services and importantly an independent regulator. In its meeting held on 12th July 2003, the Federal Cabinet approved the telecommunication de-regulation policy to regulate the entry of private companies for providing fixed-line telephone services side by side with PTCL. The exclusivity of PTCL on fixed-line telephone services had come to an end with effect from 1st January 2003. The main objectives of the de-regulation policy are to promote infrastructure development, increase investment in the telecommunication sector, harness local entrepreneurship, increase quality and choice of affordable services for businesses and consumers, protect security Interests of the country, extend telecommunications service to under-served areas and encourage fair competition amongst licensees. The de-regulation policy will help finance provisioning of telecommunication services and Internet access in distant areas of the country and under privileged segments of the society. All the benefits accrued to the investee company will form part of returns to the Company. The Company expects to receive substantial dividend and capital gains on the proposed investment.</p> | | |
| (xi) | Interest of Directors and their relatives in the investee company | The Directors of the Company and their relatives have no interest in above company except that what has been disclosed under the section “Interest of Directors and their Relatives”. | | |

| | | | |
|---|---|--|-----------------------------|
| (i) Name of the investee company | Shaheen Insurance Company Limited (“SICL”) | | |
| (ii) Nature, amount and extent of investment | Long term Investment in Share Capital of SICL upto Rs. 35 million. | | |
| (iii) Average market price of the shares intended to be purchased during preceding six months in case of listed companies | Month | Average Mkt. Price (Rupees) | |
| | April 2003 | 10.80 | |
| | May 2003 | 11.25 | |
| | June 2003 | 16.75 | |
| | July 2003 | 20.25 | |
| | August 2003 | 22.13 | |
| | September 2003 | 27.50 | |
| (iv) Break-up value of shares intended to be purchased on the basis of last published financial statements | Rs. 12.17 per share based as per un-audited half yearly accounts for the period ended June 30, 2003 | | |
| (v) Price at which shares will be purchased | At prevailing market price at the time of investment | | |
| (vi) Earning per share of the investee company in last three years | 31-12-02 Rs. 2.05 | 31-12-01 Rs. 0.67 | 31-12-00 Rs. 1.56 |
| (vii) Source of funds from where shares will be purchased | Available cash resources and the future internal cash generation from the profitable operations of Company. | | |
| (viii) Period for which investment will be made | As a long term investment. | | |
| (ix) Purpose of Investment | Utilization of the Company’s available cash resources for better future returns to shareholders. | | |
| (x) Benefits likely to accrue to the company and the shareholders from the proposed investments | The Government has taken steps for insurance industry in Pakistan to be developed modern lines. To facilitate this process, a number of market-based provisions to develop the insurance sector while protecting the rights of policy-holders have been introduced. The Government has also formulated a Code of Corporate Governance for insurance companies to promote good business practices and bring uniformity across the insurance companies with high growth in the Insurance market and resultantly all the benefits accrued to SICL will form part of returns to the Company. The Company expects to receive substantial dividends and capital gains from the proposed investment. | | |
| (xi) Interest of Directors and their relatives in the investee company | The Directors of the Company and their relatives have no interest in above company except that what has been disclosed under the section “Interest of Directors and their Relatives”. | | |

2) INCREASE IN AUTHORIZED SHARE CAPITAL

The Board of Directors’ in their meeting held on 09 September 2003 has decided to issue 100% Right Shares at Par in the proportion of 01 share for each share held by the members on the entitlement day i.e. 20 October 2003. At present the Company has an Authorized Share Capital of Rs. 150,000,000/- divided into 15,000,000 ordinary shares of Rs. 10/- each of which 12,003,500 ordinary shares are issued and fully paid up. In order to facilitate the further issuance of 12,003,500 shares by way of Right Shares at par, the Board of Directors’ have recommended that the Authorized Share Capital of the Company be increased from Rs. 150,000,000/- to Rs. 300,000,000/-. This increase in capital by way of Right shares will also necessitate amendments in clause V of the Memorandum of Association and in clause 4 of the Articles of Association of the Company accordingly and will be read as under:



CLAUSE-V OF THE MEMORANDUM OF ASSOCIATION

The Capital of the Company is Rs. 300,000,000/- (Rupees Three Hundred Million only) divided into 30,000,000 (Thirty Million) ordinary shares of Rs. 10/- each with powers to the Company from time to time to increase and reduce its capital in accordance with the provisions of the Companies Ordinance, 1984.

CLAUSE-4 OF THE ARTICLES OF ASSOCIATION

The authorized capital of the Company is Rs. 300,000,000/- (Rupees Three Hundred Million only) divided into 30,000,000 (Thirty Million) ordinary shares of Rs. 10/- each.

INTEREST OF DIRECTORS AND THEIR RELATIVES

The Directors of the Company and their relatives are interested to the extent of their shareholdings as hereunder:

| | Name of Director/CEO | As at 01-09-2003 | | As at 01-09-2003 | | As at 01-09-2003 | |
|---|------------------------|-----------------------|-----------------------|------------------|---------------|------------------|----------------|
| | | Status in the Company | Shares in the Company | Status in WCL | Shares in WCL | Status in SICL | Shares in SICL |
| 1 | Mian Ehsan ul Haq | CEO/Dir. | 600 | Share holder | 1,353 | - | - |
| 2 | Khurram Hanif | Director | 600 | - | - | - | - |
| 3 | Mazhar Abbas | Director | 600 | - | - | - | - |
| 4 | Ahsan Zia | Director | 600 | - | - | - | - |
| 5 | Muhammad Zubair Khalid | Director | 600 | - | - | - | - |
| 6 | Ali Nayyar | Director | 600 | - | - | - | - |
| 7 | Akbar Naqi | Director | 600 | - | - | - | - |

INSPECTION OF DOCUMENTS

Copies of Memorandum and Articles of Association, Statement under section 160(1)(b) of the Companies Ordinance, 1984, quarterly accounts alongwith all published and annual accounts of all prior periods of the Company and investee companies alongwith the financial projections of the investee companies including the Company and other related information of the Company may be inspected during the business hours on any working day at the Registered Office of the Company from the date of publication of this notice till the conclusion of the Annual General Meeting.

MISSION STATEMENT

Our mission is to strive to become the LEADING INVESTMENT AND FINANCIAL SERVICES COMPANY and PREFERRED EMPLOYER in each market that we operate. We will adhere to the following principles and provide execution to direct our future. We shall experience growth through building quality relationships, knowledge, service and innovation.

DEDICATED TO MAKE IT HAPPEN

| | |
|-------------------|---|
| CLIENTS | We will offer every Client: Fast & Friendly Service, Commitment, Cleanliness, Dedication, Excellence, & Trust. |
| ASSOCIATES | We will offer every associate: Development, Loyalty, Opportunities, Open-Door, Teamwork, Training, & Benefits. |
| IMAGE | We will operate every facility: Professionally, Helpful, Positive, Bright, Clean, & Consistent. |
| COMMUNITY | We will offer every community: Involvement, Support, Stability, Respect, Assistance, & Environmental Awareness. |
| STANDARDS | We will operate our business: Ethically, Competitively, Safely, Innovative, with High Expectations, & Quality Products. |

VISION STATEMENT

Our Vision is linked with our Mission to be the LEADING INVESTMENT AND FINANCIAL SERVICES COMPANY and PREFERRED EMPLOYER in each market we operate. Our Vision will guide and direct us towards our mission, and communicates what we believe in as an operations group.

WE BELIEVE IN

- ☀ Obligation to serve the SHAREHOLDERS' INTEREST
- ☀ Providing Clients with CONSISTENT OUTSTANDING SERVICES
- ☀ Showing and encouraging TEAMWORK
- ☀ Maintaining and developing high standards of IMAGE
- ☀ Treating people with RESPECT
- ☀ Creating and developing a POSITIVE ENVIRONMENT
- ☀ Building a REPUTATION FOR SUCCESS
- ☀ Providing services with the HIGHEST QUALITY
- ☀ Operating with the highest INTEGRITY & HONESTY
- ☀ Exploring and encouraging NEW & INNOVATIVE IDEAS
- ☀ Providing positive RECOGNITION & REINFORCEMENT
- ☀ Becoming a dependant fiber in every COMMUNITY
- ☀ Continue to focus our associates with DEVELOPMENT & TRAINING
- ☀ Building and consistently growing overall REVENUES
- ☀ Provide every Client with a PLEASANT EXPERIENCE
- ☀ Stay focused on our business by LISTENING INTENTLY



DIRECTORS' REPORT TO THE SHAREHOLDERS

We take immense pleasure in presenting the Company's annual report for the period ended on June 30, 2003 together with audited accounts of the company and auditors report thereon.

MARKET REVIEW

In the Financial Year ended June 30, 2003, local bourses experienced an unprecedented boom with the KSE gaining 92% in absolute terms. The KSE, which started the financial year at 1770, had reached 3402 points by the end of the year. Better Risk Management System in place and the ongoing reform process helped the bourses broaden their base especially with retail clients who switched over to equities due to low returns on fixed income securities.

The healthy performance in the bourses was possible only due to better macro economic environment and healthy corporate results. Interest rates touched rock bottom, exchange rate remained stable and the Rupee recorded an appreciation of 4%, which also became the reason for a narrow gap between the open and interbank market, Export for the first time crossed the psychological barrier of US\$10bn and above all continuation of sound and stable monetary and fiscal policies were the highlights of the forgoing year. Much of the buoyancy in the bourse was also due to growth in remittances that was sparked off by curbing of money laundering activities, foreign currency investment being diverted to equity market owing to negative returns and entry of the common man in the stock market in search of higher returns. However, some issues remain dampeners for the market such as PSO impending privatization and the on-going tussle over the LFO that have caused market volatility.

OPERATING RESULTS

In the year under review, your company posted a marked improvement in performance. Brokerage income recorded a growth of 95%, which was further fueled by capital gains and revaluation surplus down the line. Exercising of strict frugality, expenses remained well in control. Your company was able to earn a profit after tax of Rs. 45.37 million against Rs. 5.25 million in the last year. Following table gives a glimpse of last two years company's performance.

| | <u>2003</u> <u>(Rupees)</u> | <u>2002</u> <u>(Rupees)</u> |
|-----------------------------|--------------------------------|--------------------------------|
| Net Sales | 89,303,875 | 45,752,127 |
| Capital Gain | 10,600,016 | 4,493,834 |
| Operating Revenue | 99,904,035 | 50,245,961 |
| Operating Expenses | 69,522,033 | 53,111,577 |
| Operating Profit/(Loss) | 30,382,002 | (2,865,616) |
| Financial Expenses | 960,749 | 2,852,956 |
| Net Operating Profit/(Loss) | 29,421,253 | (5,718,572) |
| Profit Before Tax | 48,320,038 | 5,482,565 |
| Taxation | 2,942,820 | 230,000 |
| Profit After Tax | <u>45,377,218</u> | <u>5,252,565</u> |
| Earnings Per Share | <u>3.78</u> | <u>0.44</u> |

FUTURE OUT-LOOK

The much-touted PSO privatization is expected to realize in the first quarter of this fiscal year. Moreover, the government has expressed the intention to divest or completely privatize some of the well performing public companies through bourses, which include OGDCL, Sui Southern and National Bank. This will broaden the base of the market and increase the market capitalization. We believe the market capitalization would reach US\$20bn by the end of this fiscal year. Achieving this milestone is expected to entice foreign fund managers into the market and cause another bullish rally. Replacing of badla financing with more formal and developed system of margin financing will also add to the market's further deepening.

However, this dream needs to be supported by the continuation of stable and sound monetary and fiscal policies coupled with a healthy political environment. We need to maintain the confidence of foreign investors at this very critical moment

when the country, after going through a stabilization period is all set to enjoy the fruits of hardwork. In view of the above factors, we believe bourses will continue their joy ride this year and that will translate into yet another year of better performance for your company.

CODE OF CORPORATE GOVERNANCE

As required under the Code of Corporate Governance we as Board of Director state that;

- The Financial Statements represent the true and fair view of the Company's 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 financial statements while adopting the International Accounting Standard 39 & International Accounting Standard 19. Accounting estimates (if any) are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan have been followed in preparation of financial statements and any departure therefrom (if any) has been adequately disclosed.
- Adequate system of internal control is designed and being effectively implemented and monitored by the management.
- There are no significant doubts upon the company's ability to continue as a going concern.

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

RISK MANAGEMENT

The Company's principal business activities by their nature engender significant market and credit risks. In addition, the Company is also subject to various other risks including operating risk, legal risk and funding risk. Effective identification, assessment and management of these risks are critical to the success and stability of the Company. As a result comprehensive risk management policies and procedure have been established to identify, control and monitor each of these major risks.

COMPANY PERFORMANCE IN PAST YEARS

Past six years company performance chart is disclosed at page number 13.

PAYOUT FOR SHAREHOLDERS

In order to strengthen the company's financial base, the directors do not recommend payment of any dividend this year.

STATUTORY PAYMENTS

The Income Tax Authorities has re-opened the assessments for the assessment years 1998-1999 & 1999-2000 under section 66-A of the Income Tax Ordinance, 1979 and assessed a tax demand of Rs. 10.08 million by allocating expenditure against the Capital Gains. The Commissioner of Income Tax (appeals) has finalised the appeal for the assessment year 2000-2001 by partially set aside the appeal of the assessee on allocation of expenditure to exempt income i.e. capital gains and tax demand comes to Rs. 7.25 million. The Company has filed appeals in the Income Tax Appellate Tribunal ("ITAT") for above mentioned years. The Income Tax Authorities have also finalized the assessment for the assessment year 2001-2002 by allocating expenditure against capital gains and determined a refund of Rs. 530,345/-. The Income Tax Authorities has also imposed additional tax & penalties u/s 52, 88 & 89 of the Income Tax Ordinance, 1979 and assessed tax demand of Rs. 1.26 million for the assessment years 1998-99 to 2001-02. The Company has filed appeals before the Commissioner of Income Tax (appeals). The management is hopeful for a favourable outcome in the appeals.

BOD MEETINGS DURING THE YEAR

Four Board meetings were held during the year. The attendance of each director at the meeting of the Board of Directors is as per Annexure – I

PATTERN OF SHAREHOLDING

The pattern of shareholding under the section 236 of the Companies Ordinance, 1984 is given on page number 38.



TRADING BY THE DIRECTORS etc.

During the year under review no trading in the company's shares was observed by any member of board or his spouse and other family members except the purchase of 600 qualification shares by Ali Nayyar, Muhammad Zubair Khalid and Mazhar Abbas. Detail is as per Annexure – II.

EARNINGS PER SHARE

Earnings per share for the year ended June 30, 2003 was Rs. 3.78 as compared to Rs. 0.44 in the last year.

DIRECTORS

During the year Salmaan Taseer, Mumtaz H Syed and Sardar Ali Wattoo has resigned from the Board of Directors of the company. Ali Nayyar, Muhammad Zubair Khalid and Mazhar Abbas have been appointed in place of Salmaan Taseer, Mumtaz H Syed and Sardar Ali Wattoo. Subsequent to the year end Ahsan Zia was appointed as director of the Company in place of Aamer Nasim Chishti. The member of the Board would like to place on record, appreciation for guidance and co-operation extended by Salmaan Taseer, Mumtaz H Syed, Sardar Ali Wattoo and Aamer Nasim Chishti during the tenure as Directors of the Company and welcome Ali Nayyar, Muhamamd Zubair Khalid, Mazhar Abbas and Ahsan Zia as new directors of the Company.

AUDITORS

The retiring auditors Nasir Javaid Maqsood (Chartered Accountants) have expressed their willingness to continue in office and the board recommends that they may be re-appointed. A resolution proposing the re-appointment of Nasir Javaid Maqsood (Chartered Accountants) as auditors of the company and giving authority to the directors to determine their remuneration will be submitted to the forthcoming Annual General meeting.

HOLDING COMPANY

The Company's Holding Company is First Capital Securities Corporation Limited, a company incorporated in Pakistan, having its registered office at 103-C/II, Gulberg-III, Lahore.

ACKNOWLEDGEMENT

The Board of Directors' wish to place on record their thanks and appreciation to all our shareholders for the trust and confidence reposed in us and sincere gratitude to all our clients and banks for their invaluable guidance and support at all times. Finally, we would like to thank the Securities and Exchange Commission of Pakistan and Lahore Stock Exchanges (Guarantee) Limited for their continued guidance and constant improvement on regulation.

We acknowledge the hard work, motivation, professional skill and positive efforts of all the staff members.

For and on behalf of the Board

Lahore:
October 07, 2003

MIAN EHSAN UL HAQ
Chairman and Chief Executive

SEVEN YEARS AT A GLANCE

Financial Highlights

| | FY 03 | FY 02 | FY 01 | FY 00 | FY 99 | FY 98 | FY 97 |
|-------------------------------|-----------------------------------|--------|--------|--------|--------|--------|--------|
| | (R u p e e s i n m i l l i o n) | | | | | | |
| Income Statement | | | | | | | |
| Revenues | 118.88 | 62.29 | 58.58 | 182.91 | 174.86 | 56.30 | 0.58 |
| Expenses | 70.56 | 56.81 | 61.91 | 169.47 | 114.93 | 39.66 | 7.54 |
| Profit before tax | 48.32 | 5.48 | (3.33) | 13.44 | 59.92 | 16.64 | (6.96) |
| Profit after tax | 45.38 | 5.25 | (5.63) | 9.94 | 54.32 | 16.45 | (6.96) |
| Balance Sheet | | | | | | | |
| Paid up capital | 120.04 | 120.04 | 120.04 | 100.04 | 100.04 | 100.04 | 40.04 |
| Shareholder's equity | 185.90 | 140.52 | 135.27 | 140.91 | 130.97 | 112.91 | 111.47 |
| Liabilities | 112.91 | 73.30 | 28.78 | 98.81 | 468.06 | 290.64 | 7.02 |
| Total assets | 298.81 | 213.83 | 164.05 | 239.72 | 599.03 | 403.55 | 118.49 |
| Investment value at cost | 16.19 | 11.35 | 4.57 | 0.15 | 2.14 | 0.47 | - |
| Investment value at mkt price | 23.10 | 11.41 | 4.51 | 0.39 | 2.03 | 0.24 | - |
| Ratios | | | | | | | |
| Earning per share (Rs.) | 3.78 | 0.44 | (0.47) | 0.99 | 5.43 | 1.64 | (1.74) |
| Break up value (Rs.) | 15.48 | 11.71 | 11.27 | 14.09 | 13.09 | 10.66 | 6.30 |
| Return on Equity (%) | 24.41 | 3.74 | (4.16) | 7.05 | 41.48 | 14.57 | (6.25) |
| Payout (%) | | | | | | | |
| Cash | - | - | - | - | 30 | 15 | - |
| Bonus | - | - | 19.99 | - | - | - | - |



ANNEXURE - I

**Statement showing attendance of board meetings
from July 01, 2002 to June 30, 2003.**

| S. No. | Name | Attended | Leave Granted |
|--------|-------------------------------------|----------|---------------|
| 1 | Salmaan Taseer (Resigned) | 2 | - |
| 2 | Mumtaz H Syed (Resigned) | 2 | - |
| 3 | Sardar Ali Wattoo (Resigned) | 2 | - |
| 4 | Mian Ehsan ul Haq (CEO) | 4 | - |
| 5 | Aamer Nasim Chishti | 4 | - |
| 6 | Khurram Hanif | 4 | - |
| 7 | Mazhar Abbas | 2 | - |
| 8 | Ali Nayyar | 2 | - |
| 9 | Muhammad Zubair Khalid | 2 | - |
| 10 | Akbar Naqi | 4 | - |

ANNEXURE - II

**Statement showing shares bought and sold by Directors, CEO, CFO, Company Secretary and their Spouses
and minor children from July 01, 2002 to June 30, 2003.**

| | Opening balance as on 01-07-2002 | Purchase | Sale | Closing balance as on 30-06-2003 |
|--|---|----------|------|---|
| Directors | | | | |
| Salmaan Taseer (Resigned) | 600 | - | 600 | - |
| Mumtaz H Syed (Resigned) | 600 | - | 600 | - |
| Sardar Ali Wattoo (Resigned) | 600 | - | 600 | - |
| Mian Ehsan ul Haq (CEO) | 600 | - | - | 600 |
| Aamer Nasim Chishti | 600 | - | - | 600 |
| Khurram Hanif | 600 | - | - | 600 |
| Mazhar Abbas | - | 600 | - | 600 |
| Ali Nayyar | - | 600 | - | 600 |
| Muhammad Zubair Khalid | - | 600 | - | 600 |
| Akbar Naqi | 600 | - | - | 600 |
| Spouses | - | - | - | - |
| Minor Children | - | - | - | - |
| Chief Financial Officer Mazhar Abbas | - | 600 | - | 600 |
| Company Secretary Akbar Naqi | 600 | - | - | 600 |

STATEMENT OF COMPLIANCE

WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2003

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of Lahore Stock Exchange (Guarantee) Limited 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 Code in the following manner:

- 1) The board of directors comprise of seven directors. The Company encourages representation of independent non-executive directors on its board. At present the board includes at least 2 independent non-executive directors.
- 2) The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
- 3) All the resident directors of the Company are registered as taxpayers and none of them has convicted by a Court of competent jurisdiction as a defaulter in payment of any loan to a banking company, a DFI or an NBFIs. No one is a member of Stock Exchange.
- 4) All casual vacancies occurring in the Board were filled up by the directors within 30 days thereof.
- 5) The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of 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 and other executive directors, have been taken 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 Board arranged orientation courses for its directors during the year to apprise them of their duties and responsibilities.
- 10) The Board has approved appointment of Company Secretary including remuneration and terms and conditions of employment, as determined by the CEO.
- 11) The directors' report for this year has been prepared in compliance with the requirements of the Code 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 requirements of the Code.
- 15) The Board has formed an audit committee. At present the committee includes two non-executive directors including the chairman of the committee and one executive 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 and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
- 17) The Board has set-up an effective internal audit function having suitable qualified and experienced personal who are conversant with the policies and procedures of the Company.
- 18) The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, 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 Institute of Chartered Accountants of Pakistan.
- 19) 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.
- 20) We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Lahore:
October 07, 2003

MIAN EHSAN UL HAQ
Chairman and Chief Executive

REVIEW REPORT TO THE MEMBERS

ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of First Capital Equities Limited to comply with the Listing Regulation, Chapter 13 of the Lahore Stock Exchange (Guarantee) Limited, where the company is listed.

The responsibility for compliance with the Code of Corporate Governance 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 of Corporate Governance and report if it does not. Our review is limited primarily to inquiries of the company 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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 of Corporate Governance effective as at June 30, 2003.

Date: October 07, 2003
Place: LAHORE

NASIR JAVAID MAQSOOD
CHARTERED ACCOUNTANTS



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of **First Capital Equities Limited** as at **June 30, 2003** and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose 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 above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984, and Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. 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 above said statements are free of any material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said 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, and Rule 7 of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003;
- (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 in accordance with the provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, and are in agreement with the books of accounts 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, 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, and Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2003, 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.

Date: October 07, 2003
Place: LAHORE

NASIR JAVAID MAQSOOD
CHARTERED ACCOUNTANTS

BALANCE SHEET

as at June 30, 2003

| | <u>Notes</u> | <u>2003</u> (Rupees) | <u>2002</u> (Rupees) |
|---|--------------|-------------------------|-------------------------|
| NON-CURRENT ASSETS | | | |
| Tangible Fixed Assets | 3 | 23,259,782 | 36,016,147 |
| Cost of Cards and Rooms | 4 | 56,200,000 | 56,200,000 |
| Long Term Deposits | 5 | 1,458,936 | 2,147,590 |
| | | 80,918,718 | 94,363,737 |
| CURRENT ASSETS | | | |
| Accounts receivable | 6 | 129,852,698 | 31,094,241 |
| Investments | 7 | 23,101,031 | 11,411,285 |
| Advances, deposits, prepayments and other receivables | 8 | 37,201,845 | 18,736,596 |
| Cash and bank balances | 9 | 27,732,581 | 58,221,515 |
| | | 217,888,155 | 119,463,637 |
| CURRENT LIABILITIES | | | |
| Current maturity of liabilities against assets subject to finance lease | 15 | 61,293 | 1,509,221 |
| Accounts payable | 10 | 95,339,911 | 31,046,129 |
| Short term running finance | 11 | - | 14,247,836 |
| Creditors, accrued and other liabilities | 12 | 7,224,989 | 19,657,128 |
| Provision for taxation | | 5,254,657 | 3,252,002 |
| | | 107,880,850 | 69,712,316 |
| WORKING CAPITAL | | 110,007,305 | 49,751,321 |
| CAPITAL EMPLOYED | | 190,926,023 | 144,115,058 |
| NON-CURRENT LIABILITIES | | | |
| LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE | 15 | 36,151 | 41,845 |
| DEFERRED LIABILITIES | 13 | 4,988,481 | 3,549,040 |
| NET CAPITAL EMPLOYED | | 185,901,391 | 140,524,173 |
| REPRESENTED BY: | | | |
| SHARE CAPITAL & RESERVES | | | |
| Share Capital | 14 | 120,035,000 | 120,035,000 |
| Unappropriated Profit | | 65,866,391 | 20,489,173 |
| | | 185,901,391 | 140,524,173 |
| CONTINGENCIES AND COMMITMENTS | 16 | - | - |
| | | 185,901,391 | 140,524,173 |

The annexed notes form an integral part of these accounts.

Lahore

Chief Executive

Director



Annual Report 2003

PROFIT AND LOSS ACCOUNT

for the year ended June 30, 2003

| | <u>Notes</u> | <u>2003</u> <u>(Rupees)</u> | <u>2002</u> <u>(Rupees)</u> |
|---|--------------|--------------------------------|--------------------------------|
| OPERATING REVENUE | | | |
| Brokerage Income | | 89,303,875 | 45,752,127 |
| Capital Gain | | 10,600,160 | 4,493,834 |
| | | <u>99,904,035</u> | <u>50,245,961</u> |
| OPERATING EXPENSES | 17 | <u>69,522,033</u> | <u>53,111,577</u> |
| OPERATING PROFIT / (LOSS) | | 30,382,002 | (2,865,616) |
| FINANCIAL EXPENSES | 18 | <u>960,749</u> | <u>2,852,956</u> |
| NET OPERATING PROFIT / (LOSS) | | 29,421,253 | (5,718,572) |
| OTHER INCOME | 19 | <u>12,061,185</u> | <u>11,990,389</u> |
| | | <u>41,482,438</u> | <u>6,271,817</u> |
| SURPLUS ON REVALUATION OF INVESTMENTS | 7 | <u>6,911,781</u> | <u>57,590</u> |
| | | <u>48,394,219</u> | <u>6,329,407</u> |
| OTHER EXPENSES | 20 | <u>74,181</u> | <u>846,842</u> |
| PROFIT BEFORE TAXATION | | 48,320,038 | 5,482,565 |
| TAXATION | 21 | <u>2,942,820</u> | <u>230,000</u> |
| PROFIT AFTER TAXATION | | 45,377,218 | 5,252,565 |
| ACCUMULATED PROFIT BROUGHT FORWARD | | <u>20,489,173</u> | <u>15,236,608</u> |
| PROFIT AVAILABLE FOR APPROPRIATION | | <u>65,866,391</u> | <u>20,489,173</u> |
| APPROPRIATION | | <u>-</u> | <u>-</u> |
| ACCUMULATED PROFIT CARRIED FORWARD | | <u>65,866,391</u> | <u>20,489,173</u> |
| Earnings per share - Basic | 22 | <u>3.78</u> | <u>0.44</u> |

The annexed notes form an integral part of these accounts.

Lahore

Chief Executive

Director

CASH FLOW STATEMENT

for the year ended June 30, 2003

| | Note | 2003 (Rupees) | 2002 (Rupees) |
|---|------|------------------|------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Funds generated from operations | | | |
| Profit/(loss) before taxation | | 48,320,038 | 5,482,565 |
| Add: Items not involved in movement of funds | | | |
| Depreciation | | 3,678,539 | 4,447,293 |
| Surplus on revaluation of investments | | (6,911,781) | (57,590) |
| Provision for doubtful debts | | (2,107,449) | (5,599,145) |
| Dividend Income | | (2,523,768) | (2,773,600) |
| Interest/Mark-up income | | (1,187,450) | (1,578,740) |
| Interest/Mark-up expense | | 369,480 | 2,202,722 |
| Gain on sale of fixed assets | | (2,825,501) | (351,182) |
| Provision for gratuity | | 1,527,926 | 1,549,199 |
| | | (9,980,004) | (2,161,043) |
| | | 38,340,034 | 3,321,522 |
| (Increase) / decrease in current assets | | | |
| Investments | | (4,777,965) | (6,843,823) |
| Accounts receivable | | (96,651,008) | (9,097,298) |
| Advances, deposits, prepayments and other receivables | | (3,926,942) | 5,344,232 |
| | | (105,355,915) | (10,596,889) |
| Increase / (decrease) in current liabilities | | | |
| Accounts payable | | 64,293,782 | 21,768,057 |
| Creditors, accrued and other liabilities | | (12,618,280) | 13,113,870 |
| | | 51,675,502 | 34,881,927 |
| | | (15,340,378) | 27,606,561 |
| Cash Generated from Operations | | | |
| Dividend received | | 2,523,768 | 2,773,600 |
| Interest/Mark-up received | | 1,302,508 | 977,282 |
| Interest/Mark-up paid | | (779,045) | (2,029,878) |
| Gratuity paid | | (1,028,650) | (1,341,959) |
| Taxes paid | | (13,976,201) | (2,237,512) |
| | | (27,297,998) | 25,748,094 |
| Net cash flow from operating activities | | | |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Acquisition of fixed assets | | (5,302,158) | (13,121,717) |
| Proceeds from sale of fixed asset | | 17,205,480 | 1,104,000 |
| Long term deposits | | 688,654 | 385,258 |
| | | 12,591,976 | (11,632,459) |
| Net cash flow from investing activities | | | |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Repayment against lease finance | | (1,604,076) | (2,821,014) |
| Proceeds from finance lease | | 69,000 | - |
| Short term running finance | | (14,247,836) | 14,086,592 |
| | | (15,782,912) | 11,265,578 |
| Net cash flow from financing activities | | | |
| NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| | | (30,488,934) | 25,381,213 |
| CASH AND CASH EQUIVALENTS - OPENING | | | |
| | | 58,221,515 | 32,840,302 |
| CASH AND CASH EQUIVALENTS - CLOSING | | | |
| | 9 | 27,732,581 | 58,221,515 |

The annexed notes form an integral part of these accounts.

Lahore

Chief Executive

Director



Annual Report 2003

STATEMENT OF CHANGES IN EQUITY

for the year ended June 30, 2003

| Particulars | Share Capital | Unappropriated Profit | Total |
|------------------------------------|--------------------|-----------------------|--------------------|
| | (Rupees) | (Rupees) | (Rupees) |
| Balance as at June 30, 2001 | 120,035,000 | 15,236,608 | 135,271,608 |
| Profit for the Year | - | 5,252,565 | 5,252,565 |
| Balance as at June 30, 2002 | 120,035,000 | 20,489,173 | 140,524,173 |
| Profit for the Year | - | 45,377,218 | 45,377,218 |
| Balance as at June 30, 2003 | 120,035,000 | 65,866,391 | 185,901,391 |

The annexed notes form an integral part of these accounts.

Lahore

Chief Executive

Director

NOTES TO THE ACCOUNTS

for the year ended June 30, 2003

1. STATUS AND NATURE OF BUSINESS

First Capital Equities Limited, (the "Company") was incorporated on January 26, 1995 as a private limited company, under the Companies Ordinance, 1984. The company was converted into public limited company on June 18, 1997 and is listed on Lahore Stock Exchange. The principal activities of the company include share brokerage and conducting/ publishing business research.

The registered office of the company is located at 103-C/II, Gulberg-III, Lahore.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting Convention

These accounts have been prepared under the historical cost convention, except for the investments, which are stated at their fair value.

2.2 Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984, Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984, and Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984, Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 or the requirements of the said directives take precedence.

2.3 Tangible Fixed Assets

Owned Assets

- i) Fixed assets are stated at cost less accumulated depreciation.
- ii) Depreciation is charged on the reducing balance method at the rates specified in the schedule of fixed asset, which are considered appropriate to write off the cost of assets over their useful economic lives.
- iii) Full year's depreciation is charged on the assets acquired during the year while no depreciation is charged in the year of disposal.
- iv) Gain or loss on disposal of assets, if any, are determined by comparing the sales proceeds with the carrying value and are included in income currently.
- v) Normal repairs and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalized.

Leased Assets

- i) Assets subject to finance lease are stated at cost less depreciation at the rates and basis applicable to company's owned assets. The outstanding obligations under the lease less finance charges allocated to future periods are shown as a liability;
- ii) The finance charges are calculated at the interest rates implicit in the lease and are charged to income.

2.4 Room and Membership Card

These are stated at acquisition cost. Provision, if any, is made for permanent diminution in value of these assets.

2.5 Investments

All investments are initially recognized at cost, being fair value of the consideration given and including



NOTES

acquisition charges associated with investments and are classified as either held for trading or available for sale.

After initial recognition, investments, which are classified as, investments held for trading are measured at their fair value. Investments held for trading are those, which are either acquired for generating a profit from short-term fluctuations in prices or dealers margin, or are securities included in the portfolio in which a pattern of short-term profit taking exists. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or change in interest rates are classified as available for sale. These are classified as non-current unless management intends to hold the investment for less than 12 months from the balance sheet date in which case they are included in current assets.

Gains and losses on held for trading investments are recognized in profit and loss account for the year.

All purchases and sales of investments are recognized on trade date, which is the date that the company commits to purchase or sell the investments.

2.6 Revenue Recognition

- i) Brokerage income is recognized as and when services are provided.
- ii) Capital gains or losses on sale of investments are taken to income in the year in which they arise.
- iii) Dividend income is recognized at the time of book closure of company declaring dividend.
- iv) Mark-up/ interest income is recognized as and when it is due on accrual basis.

2.7 Trade & Other Receivables

These are stated at net of provisions, if any, for doubtful debts. Full provision is made against the debts considered doubtful.

2.8 Taxation

Current:

Provision for current taxation is based on taxable income at current rates of taxation after taking into account all tax credits and tax rebates available, if any.

Deferred:

Deferred tax is provided by using the balance sheet liability method on all temporary differences arising at the balance sheet date, between the tax bases of the assets and liabilities and their carrying amounts. Deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits, if any, to the extent that it is probable that future taxable profits will be available against which the temporary differences, tax losses and unused tax credits can be utilised.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and adjusted to the appropriate extent, if it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled based on tax rates that have been enacted at the balance sheet date.

Commencing from the current year, the revised International Accounting Standard (IAS) 12 "Income Taxes" became applicable for period beginning on or after January 01, 2003. Hence, the company now recognizes deferred tax assets on all deductible temporary differences, unused tax losses and unused tax credits, if any.

The above change has resulted in current year deferred tax liability of Rs. 940,165/-.

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2.9 Foreign Currency Translation

All assets and liabilities in foreign currency are translated at exchange rates prevailing at the year-end. Foreign currency transactions during the year are recorded at the rate of exchange prevailing at the time of transaction. Exchange differences are included in income currently.

2.10 Staff Retirement Benefits

The company operates an un-funded gratuity scheme for its permanent employees, under which benefits are paid on cessation of employment subject to a minimum qualifying period of service. Obligation of the scheme and profit and loss charge is made in accordance with the actuary's recommendation based on the actuarial valuation of the scheme as on June 30, 2003 using projected unit credit method and in line with the provisions of the Income Tax Ordinance, 2001.

Actuarial gains and losses that are in excess of the corridor limits as prescribed in IAS-19 "Employee Benefits" are amortized over the average remaining working lives of the employees participating in the plan. (Refer Note-13)

2.11 Financial instruments

Financial instruments carried on the balance sheet include investments, receivables, cash & bank balances, finance under mark up arrangements, other payables, deposits, creditors, accrued and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

2.12 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if the company has a legally enforceable right to set off the recognized amounts and intends either to settle on net basis or to realize the assets and settle the liabilities simultaneously.

2.13 Provisions

A provision is recognized when and only when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made.

2.14 Borrowing costs

All borrowing costs are charged to profit and loss account.

2.15 Cash and cash equivalents

Cash and cash equivalents are carried in balance sheet at cost. For the purpose of cash flow statements, cash and cash equivalents comprise cash in hand and bank balances.



NOTES

3. TANGIBLE FIXED ASSETS

3.1 Following is the statement of operating assets

| Particulars | COST | | | DEPRECIATION | | | Written down value as at June. 30, 2003 | Depreciation Rate | Depreciation charged for the year |
|---|---------------------|---|---------------------|---------------------------------|--|---------------------------------|---|-------------------|-----------------------------------|
| | AS at June 30, 2002 | Additions/ Transfers/ (Deletions) | AS at June 30, 2003 | Accumulated as at June 30, 2002 | Adjustments/ (Deletions) | Accumulated as at June 30, 2003 | | | |
| | (R u p e e s) | | | | | | | % | (Rupees) |
| OWNED ASSETS | | | | | | | | | |
| Leasehold Improvements | 4,694,331 | 150,730 (126,555) | 4,718,506 | 1,030,223 | - (23,475) | 1,192,336 | 3,526,170 | 5 | 185,588 |
| Freehold Building | 11,330,099 | (11,330,099) | - | 566,505 | (566,505) | - | - | 5 | - |
| Computers | 11,475,286 | 1,081,700 (669,822) | 11,887,164 | 6,671,858 | - (357,124) | 7,429,220 | 4,457,944 | 20 | 1,114,486 |
| Office Equipments (Transferred from Leased assets) | 11,428,121 | 1,421,561 1,100,000 (2,785,690) | 11,163,992 | 3,534,566 | - 286,684 (1,093,351) | 3,571,508 | 7,592,484 | 10 | 843,609 |
| Furniture and Fixtures | 4,957,865 | 76,767 (966,816) | 4,067,816 | 1,509,342 | - (378,406) | 1,424,624 | 2,643,192 | 10 | 293,688 |
| Vehicles (Transferred from Leased assets) | 6,360,526 | 2,502,400 3,345,000 (1,860,000) | 10,347,926 | 3,894,164 | - 1,366,877 (940,140) | 5,526,306 | 4,821,620 | 20 | 1,205,405 |
| | 50,246,228 | 9,678,158 (17,738,982) | 42,185,404 | 17,206,658 | 1,653,561 (3,359,001) | 19,143,994 | 23,041,410 | | 3,642,776 |
| LEASED ASSETS | | | | | | | | | |
| Computers | 53,900 | - | 53,900 | 19,404 | - | 26,303 | 27,597 | 20 | 6,899 |
| Office Equipments (Transferred to Freehold assets) | 1,296,000 | - (1,100,000) | 196,000 | 332,045 | - (286,684) | 60,425 | 135,575 | 10 | 15,064 |
| Vehicles (Transferred to Freehold assets) | 3,345,000 | 69,000 (3,345,000) | 69,000 | 1,366,877 | - (1,366,877) | 13,800 | 55,200 | 20 | 13,800 |
| Total | 54,941,128 | 9,747,158 (22,183,982) | 42,504,304 | 18,924,984 | 1,653,561 (5,012,562) | 19,244,522 | 23,259,782 | | 3,678,539 |
| 2002 | 43,128,210 | 19,597,297 (7,784,379) | 54,941,128 | 15,033,671 | 2,647,003 (3,202,986) | 18,924,981 | 36,016,147 | | 4,447,293 |

3.2 Disposal of Fixed Assets

| Particulars | Cost | Accumulated Depreciation | Book Value | Sale Proceeds | Profit/(Loss) | Mode of Sale | Particulars of Buyers |
|-------------------------|-------------------|--------------------------|-------------------|-------------------|------------------|--------------|---|
| | (R u p e e s) | | | | | | |
| Furniture and Fixtures | 156,804 | 55,614 | 101,190 | | | | |
| Computers | 8,500 | 5,018 | 3,482 | | | | |
| Office Equipments | 181,535 | 65,583 | 115,952 | | | | |
| | 346,839 | 126,215 | 220,624 | 44,900 | (175,724) | Negotiations | Abdul Wahid Khan - Haripur |
| Computers | 493,680 | 240,916 | 252,764 | | | | |
| Furniture and Fixtures | 810,012 | 322,792 | 487,220 | | | | |
| | 1,303,692 | 563,708 | 739,984 | 60,000 | (679,984) | Negotiations | MAK'S Marketing - Karachi |
| Computers | 91,980 | 64,134 | 27,846 | | | | |
| Office Equipments | 20,514 | 8,281 | 12,233 | | | | |
| | 112,494 | 72,415 | 40,079 | 4,080 | (35,999) | Negotiations | Mr. Muhammad Ali - Lahore |
| Computers | 20,690 | 10,097 | 10,593 | 500 | (10,093) | Negotiations | Multimedia Business Machines - Lahore |
| Free Hold Building | 11,330,099 | 566,505 | 10,763,594 | 15,000,000 | 4,236,406 | Negotiations | WorldCall Communication Limited - Lahore |
| Office Equipments | 600,000 | 162,600 | 437,400 | 400,000 | (37,400) | Negotiations | Media Times (Pvt) Ltd. - Lahore |
| Office Equipments | 1,965,141 | 851,943 | 1,113,198 | 100,000 | (1,013,198) | Negotiations | AMFCO International - Karachi |
| Office Equipments | 10,000 | 4,095 | 5,905 | 15,000 | 9,095 | Negotiations | I G Markets (South Asia) - Lahore |
| Office Equipments | 8,500 | 850 | 7,650 | 3,000 | (4,650) | Negotiations | Rizwan Masood Khan (Ex Employee) - Lahore |
| Computers | 54,972 | 36,959 | 18,013 | 1,000 | (17,013) | Negotiations | Imtiaz Mahmood (Ex Employee)-Lahore |
| Lease Hold Improvements | 126,555 | 23,475 | 103,080 | - | (103,080) | Written Off | |
| Vehicle | 643,000 | 313,784 | 329,216 | 552,000 | 222,784 | Negotiations | Nasrudin - Karachi |
| Vehicles | 900,000 | 439,200 | 460,800 | 825,000 | 364,200 | Negotiations | First Capital Securities Corporation Limited (Holding Company) - Lahore |
| Vehicle | 317,000 | 187,157 | 129,843 | 200,000 | 70,157 | Negotiations | Muhammad Assad Butt (Employee) - Lahore |
| Total | 17,738,982 | 3,359,003 | 14,379,979 | 17,205,480 | 2,825,501 | | |
| 2002 | 1,308,799 | 555,981 | 752,818 | 1,104,000 | 351,182 | | |

3.3 No assets were sold to Chief Executive, Directors, Executives & Associated undertaking and shareholders with not less than 10% shares of the company unless other wise mentioned.

NOTES

| | <u>2003</u> (Rupees) | <u>2002</u> (Rupees) |
|---|-------------------------|-------------------------|
| 4. COST OF CARDS AND ROOMS | | |
| Lahore Stock Exchange (Guarantee) Ltd. | 11,000,000 | 11,000,000 |
| Karachi Stock Exchange (Guarantee) Ltd. | 33,200,000 | 33,200,000 |
| Others (Rooms) | 12,000,000 | 12,000,000 |
| | <u>56,200,000</u> | <u>56,200,000</u> |
| 5. LONG TERM DEPOSITS | | |
| Leasing Companies | 31,590 | 469,190 |
| Stock Exchanges | 855,000 | 855,000 |
| Central Depository Company | 400,000 | 500,000 |
| Others | 172,346 | 323,400 |
| | <u>1,458,936</u> | <u>2,147,590</u> |
| 6. ACCOUNTS RECEIVABLE | | |
| Receivable against purchase of shares | | |
| Unsecured considered good | | |
| Clients | 45,604,541 | 27,861,233 |
| Members | 2,312,484 | 141,371 |
| Stock Exchanges | 81,935,673 | 3,091,637 |
| | 129,852,698 | 31,094,241 |
| Unsecured considered doubtful: | | |
| Clients | 34,487,594 | 36,595,042 |
| Members | 2,344,757 | 2,344,757 |
| | 36,832,351 | 38,939,799 |
| Less: Provision for doubtful debts | (36,832,351) | (38,939,799) |
| | - | - |
| | <u>129,852,698</u> | <u>31,094,241</u> |



NOTES

7. INVESTMENTS

| | 2003 | | | | | 2002 | | | | |
|---|-----------|----------|------------|----------|------------|-----------|-------|------------|--------|------------|
| | Quantity | Cost | | Market | | Quantity | Cost | | Market | |
| | | Rate | (Rupees) | Rate | (Rupees) | | Rate | (Rupees) | Rate | (Rupees) |
| INVESTMENTS HELD FOR TRADING | | | | | | | | | | |
| ASSOCIATED - LISTED | | | | | | | | | | |
| WorldCall Multimedia Limited | - | - | - | - | - | 1,000,000 | 10.00 | 10,000,000 | 9.85 | 9,850,000 |
| OTHERS - LISTED | | | | | | | | | | |
| FUEL & ENERGY | | | | | | | | | | |
| Hub Power Company Ltd. | - | - | - | - | - | 5,000 | 19.15 | 95,750 | 23.20 | 116,000 |
| Karachi Electric Supply Corporation | - | - | - | - | - | 40,000 | 3.00 | 120,000 | 5.20 | 208,000 |
| Pak Oil Field Ltd. | 14,000 | 219.50 | 3,073,000 | 225.20 | 3,152,800 | - | - | - | - | - |
| INVEST. CO'S, LEASING & BANKS | | | | | | | | | | |
| National Bank of Pakistan Ltd. | 5,000 | 27.80 | 139,000 | 27.30 | 136,500 | - | - | - | - | - |
| Askari Leasing Limited | - | - | - | - | - | 7,500 | 9.83 | 73,750 | 7.85 | 58,875 |
| TEXTILE | | | | | | | | | | |
| Sunrays Textile Ltd. | 500 | 15.50 | 7,750 | 17.00 | 8,500 | - | - | - | - | - |
| Youaf Weaving Mills Ltd. | 22,500 | 7.00 | 157,500 | 6.00 | 135,000 | - | - | - | - | - |
| Nishat Mills Ltd. | 150 | 25.50 | 3,825 | 35.05 | 5,258 | - | - | - | - | - |
| Legler Nafees Denim Mills Ltd. | 17,000 | 15.42 | 262,100 | 15.55 | 264,350 | - | - | - | - | - |
| COMMUNICATION | | | | | | | | | | |
| P. I. A (C) | 98,500 | 6.75 | 664,875 | 12.55 | 1,236,175 | 1,000 | 7.75 | 7,750 | 7.60 | 7,600 |
| WorldCall Communication Ltd. | 1,041,791 | 9.60 | 10,000,000 | 15.20 | 15,835,223 | - | - | - | - | - |
| Dewan Farooq Motors Ltd. | 4,500 | 26.60 | 119,700 | 26.15 | 117,675 | - | - | - | - | - |
| CHEMICAL & PHARMA | | | | | | | | | | |
| FFC Jordan Ltd. | - | - | - | - | - | 29,500 | 6.87 | 202,665 | 6.30 | 185,850 |
| Engro Chemicals Ltd. | - | - | - | - | - | 15,400 | 50.95 | 784,600 | 59.90 | 922,460 |
| CEMENT | | | | | | | | | | |
| Lucky Cement Ltd. | - | - | - | - | - | 200 | 6.80 | 1,360 | 8.20 | 1,640 |
| MISCELLANEOUS | | | | | | | | | | |
| Prud. Modarba Ist. | - | - | - | - | - | 400 | 1.00 | 400 | 0.65 | 260 |
| Ados Pakistan Ltd. | - | - | - | - | - | 12,000 | 4.74 | 56,920 | 4.10 | 49,200 |
| Rupali Polyester Ltd. | - | - | - | - | - | 400 | 26.25 | 10,500 | 28.50 | 11,400 |
| Ist. Punjab Modarba | 8,000 | 5.30 | 42,400 | 7.50 | 60,000 | - | - | - | - | - |
| Atlas Battery Ltd. | 500 | 80.35 | 40,175 | 86.00 | 43,000 | - | - | - | - | - |
| Pak. Reinsurance Corp. | 5,000 | 21.40 | 106,975 | 58.30 | 291,500 | - | - | - | - | - |
| Pak Leather | 10,000 | 8.85 | 88,500 | 7.50 | 75,000 | - | - | - | - | - |
| Commercial Union Life Assurance | 15,000 | 14.60 | 219,000 | 17.10 | 256,500 | - | - | - | - | - |
| Gillete Pakistan Ltd. | 8,500 | 78.50 | 667,250 | 79.90 | 679,150 | - | - | - | - | - |
| UTP Units | 100 | 5,972.00 | 597,200 | 8,044.00 | 804,400 | - | - | - | - | - |
| | | | 16,189,250 | | 23,101,031 | | | 11,353,695 | | 11,411,285 |
| Surplus on revaluation of investments held for trading | | | 6,911,781 | | - | | | 57,590 | | - |
| Investments as at 30 June. | | | 23,101,031 | | 23,101,031 | | | 11,411,285 | | 11,411,285 |

NOTES

| | <u>Note</u> | <u>2003</u> (Rupees) | <u>2002</u> (Rupees) |
|---|--|-------------------------|-------------------------|
| 8. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES | | | |
| Advances: Unsecured - Considered Good | | | |
| Executives | 8.1 | 1,177,477 | 2,348,111 |
| Employees | | 365,125 | 111,811 |
| Advance Income tax | | 27,111,529 | 11,431,488 |
| Deposits | | 248,000 | 64,000 |
| Prepayments | | 1,089,578 | 1,249,353 |
| Other receivables | | | |
| - Mark up | | 486,400 | 601,458 |
| - Others | | 6,723,736 | 2,930,375 |
| | | <u>37,201,845</u> | <u>18,736,596</u> |
| 8.1 | These represent interest free, unsecured advances to executives. The maximum aggregate balance due from executives at the end of any month during the year was Rs 2,821,341/- (2002: Rs. 2,348,111/-). | | |
| | | | |
| | <u>Note</u> | <u>2003</u> (Rupees) | <u>2002</u> (Rupees) |
| 9. CASH AND BANK BALANCES | | | |
| Cash at banks - | | | |
| Local currency | | | |
| - Current accounts | | 618,351 | 3,822 |
| - PLS accounts | | 27,069,865 | 55,972,599 |
| | | 27,688,216 | 55,976,421 |
| Foreign Currency | | | |
| - PLS account | | 3,760 | 2,214,016 |
| | | 27,691,976 | 58,190,437 |
| Cash in hand | | 40,605 | 31,078 |
| | | <u>27,732,581</u> | <u>58,221,515</u> |
| 10. ACCOUNTS PAYABLE | | | |
| Payable against sale of shares | | | |
| Clients | | 70,320,931 | 18,585,876 |
| Members | | 267,813 | 16,165 |
| Associated Companies | 10.1 | 24,751,167 | 12,444,088 |
| | | <u>95,339,911</u> | <u>31,046,129</u> |
| 10.1 Detail of these are as under: | | | |
| Shaheen Insurance Company Ltd. | | 139,160 | 49,286 |
| First Capital Securities Corporation Ltd. (Holding Company) | | 24,612,007 | 12,394,802 |
| | | <u>24,751,167</u> | <u>12,444,088</u> |



NOTES

| | <u>Notes</u> | <u>2003</u> <u>(Rupees)</u> | <u>2002</u> <u>(Rupees)</u> |
|---|---|--------------------------------|--------------------------------|
| 11. SHORT TERM RUNNING FINANCE | | | |
| PICIC Commercial Bank Ltd. | 11.1 | - | 14,247,836 |
| 11.1 | The company had a running facility of Rs. 18.00 million secured against shares of listed companies under mark up arrangement. The mark up rate was 17.5% (2002: 17.5%) per annum was payable quarterly. During the year the company has withdrawn the above facility. | | |
| 12. CREDITORS, ACCRUED AND OTHER LIABILITIES | | | |
| Due to Associated Companies | | 2,700,253 | 12,318,571 |
| Creditors | | 2,414,732 | 3,908,365 |
| Accrued & Other Liabilities | | 1,721,496 | 2,353,981 |
| Mark-up on short term running finance | | - | 324,975 |
| Tax Deducted at Source | | 388,508 | 751,236 |
| | | <u>7,224,989</u> | <u>19,657,128</u> |
| 13. DEFFERED LIABILITIES | | | |
| Provision for Gratuity | 13.1 | 4,048,316 | 3,549,040 |
| Deffered Taxation | 13.2 | 940,165 | - |
| | | <u>4,988,481</u> | <u>3,549,040</u> |
| 13.1 | The future contribution rates of the scheme include allowances for deficit and surplus. Projected unit credit method based on the following significant assumptions is used for valuation of this scheme. | | |
| Discount Rate | | 8 % | 11 % |
| Excepted rate of salary increased in future years | | 7 % | 10 % |
| Average excepted remaining life time of employees | | 12 Years | 12 Years |
| (a) The amount to be recognized in the balance sheet is as follows: | | | |
| Present value of obligation | | 3,706,092 | 3,405,561 |
| Unrecognized actuarial gain | | 342,224 | 143,479 |
| Liability recognized in the balance sheet | | <u>4,048,316</u> | <u>3,549,040</u> |
| (b) The amount to be recognized in the profit and loss account is as follows: | | | |
| Current Service Cost | | 1,153,314 | 1,534,320 |
| Interest Cost | | 374,612 | 332,644 |
| Liability/ (Asset) charged | | - | (317,765) |
| Total amount charged to income statement | | <u>1,527,926</u> | <u>1,549,199</u> |
| (c) Movement of liability to be recognized in the balance sheet is as follows: | | | |
| Present value of obligation at beginning of the year | | 3,549,040 | 3,341,800 |
| Contributions paid | | 1,527,926 | 1,549,199 |
| Benefits paid | | (1,028,650) | (1,341,959) |
| Net Liability at the end of the year | | <u>4,048,316</u> | <u>3,549,040</u> |

NOTES

| | <u>2003</u> (Rupees) | <u>2002</u> (Rupees) |
|--|-------------------------|-------------------------|
| 13.2 Deferred Taxation | | |
| The deferred taxation comprises of the following: | | |
| Difference between written down values and tax bases of fixed assets | 2,357,076 | - |
| Provision for Gratuity | (1,416,911) | - |
| | <u>940,165</u> | <u>-</u> |
| 14. SHARE CAPITAL | | |
| Authorized | | |
| 15,000,000 (2002:15,000,000) ordinary shares of Rs.10/- each | <u>150,000,000</u> | <u>150,000,000</u> |
| Issued, subscribed and paid-up | | |
| 10,003,500 (2002:10,003,500) ordinary shares of Rs.10/- each fully paid in cash | 100,035,000 | 100,035,000 |
| 2,000,000 (2002: 2,000,000) ordinary shares of Rs.10/- each issued as bonus shares | 20,000,000 | 20,000,000 |
| | <u>120,035,000</u> | <u>120,035,000</u> |

The Company is a subsidiary of First Capital Securities Corporation Limited - a listed company holding 8,089,800 (67.39%) ordinary shares (2002 : 9,289,800 (77.39%)) at the year end.

15. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The rate of interest used as the discounting factor is between 16 % to 18.5% per annum. The amount of future payments and the period in which they will become due are:

| | <u>2003</u> (Rupees) | <u>2002</u> (Rupees) |
|--|-------------------------|-------------------------|
| Period ended June 30, | | |
| 2003 | - | 1,584,429 |
| 2004 | 68,481 | 42,285 |
| 2005 | 26,196 | - |
| 2006 | 13,388 | - |
| | <u>108,065</u> | <u>1,626,714</u> |
| Less: Unallocated financial charges | (10,621) | (75,648) |
| | <u>97,444</u> | <u>1,551,066</u> |
| Less: Current maturity shown under current liabilities | (61,293) | (1,509,221) |
| | <u>36,151</u> | <u>41,845</u> |

The lease rentals are payable in monthly installments. The company has the right to exercise purchase option at the end of the lease term. There are no financial restrictions in the lease agreement.



NOTES

- 15.1 The reconciliation between gross minimum lease payment, future financial charges and present value of minimum lease payments is as follows:

| | <u>2003</u> (Rupees) | <u>2002</u> (Rupees) |
|---|-------------------------|-------------------------|
| Gross Minimum Lesae Payments | | |
| Not later than one year | 68,481 | 1,584,429 |
| Later than one year but not later than five years | 39,584 | 42,285 |
| | <u>108,065</u> | <u>1,626,714</u> |
| Present value of minimum lease payments | | |
| Not later than one year | 61,293 | 1,509,221 |
| Later than one year but not later than five years | 36,151 | 41,845 |
| | <u>97,444</u> | <u>1,551,066</u> |

16. CONTINGENCIES AND COMMITMENTS

- 16.1 During the year 2000 certain clients of the company defaulted on their obligations. ABN AMRO Asia Limited Hong Kong (ABN AMRO), major shareholder of the company at that time, arranged for the requisite financing and assumed the open positions and obligations of the defaulting clients. The loans so arranged by ABN AMRO were secured specifically against the amounts recoverable from these defaulting clients and were repayable only through amounts recovered from such defaulting clients. These loans were interest free and exchange risk had been assumed by ABN AMRO pursuant to the loan agreements signed between the company and ABN AMRO. Accordingly the company had set off these loans and such recoverable amounts. The Company had initiated cases against the defaulting clients for recovery of the amounts due from them. The defaulting clients had made a counter claim in the said proceedings. The eventual outcome of these cases or counter claims is uncertain at this stage.
- 16.2 The company has agreed to indemnify ABN AMRO, its directors and affiliates from any or all claims which may be finalised against the company except for those mentioned in note 16.1. The existence and the magnitude of any such claims, other than mentioned in these accounts, are not presently known.
- 16.3 Members of Karachi Stock Exchange, Mr. Aslam Motiwala and Mr. Sultan Ahmed Zakaria have lodged claim of Rs.187.530 million in arbitration proceedings before the Karachi Stock Exchange and a similar claim before the High Court of Sind relating to the same causes of actions. The company has denied the claims on factual and legal grounds. The final outcome of the matter remains uncertain at this point of time. However, the Company is confident of an eventual outcome in its favour.
- 16.4 The Income Tax Authorities has re-opened the assessments for the assessment years 1998-1999 & 1999-2000 under section 66-A of the Income Tax Ordinance, 1979 and assessed a tax demand of Rs. 10.08 million by allocating expenditure against the Capital Gains. The Commissioner of Income Tax (appeals) has finalised the appeal for the assessment year 2000-2001 by partially set aside the appeal of the assessee on allocation of expenditure to exempt income i.e capital gains and tax demand comes to Rs. 7.25 million. The Company has filed appeals in the Income Tax Appellate Tribunal ("ITAT") for above mentioned years. The Income Tax Authorities have also finalized the assessment for the assessment year 2001-2002 by allocating expenditure against capital gains and determined a refund of Rs. 530,345/-. The Income Tax Authorities has also imposed additional tax & penalties u/s 52, 88 & 89 of the Income Tax Ordinance, 1979 and assessed tax demand of Rs. 1.26 million for the assessment years 1998-99 to 2001-02. The Company has filed appeals before the Commissioner of Income Tax (appeals). The management is hopeful for a favourable outcome in the appeals.
- 16.5 Mr. Assad ullah Sajid has filed petition with the Securities & Exchange Commission of Pakistan against FCEL for refund of deposit worth of Rs. 590,740/- deposited for purchase of shares on his behalf.

NOTES

| | <u>Notes</u> | <u>2003</u> <u>(Rupees)</u> | <u>2002</u> <u>(Rupees)</u> |
|--|---|--------------------------------|--------------------------------|
| 17. OPERATING EXPENSES | | | |
| Salaries and Benefits | | 32,728,700 | 23,556,475 |
| Provision for gratuity | | 1,527,926 | 1,549,199 |
| Rent, Rates & Taxes | | 2,531,462 | 4,076,458 |
| Communication | | 5,888,003 | 5,833,164 |
| Utilities | | 2,593,297 | 2,164,439 |
| Insurance | | 353,147 | 447,480 |
| Printing and stationery | | 1,317,127 | 771,878 |
| Traveling and conveyance | | 1,005,433 | 985,217 |
| Repair and maintenance | | 2,258,623 | 1,318,219 |
| Postage and courier etc. | | 750,096 | 435,934 |
| Vehicle running expenses | | 44,460 | 68,229 |
| News paper and periodicals | | 94,407 | 86,645 |
| Entertainment | | 1,309,976 | 717,051 |
| Legal and professional | | 3,456,442 | 2,927,159 |
| Bad Debts | | 404,762 | 134,663 |
| Advertisement | | 203,445 | 69,582 |
| Auditors' remuneration | 17.1 | 190,000 | 100,000 |
| Depreciation | 3.1 | 3,678,539 | 4,447,293 |
| Other expenses | | 693,387 | 614,602 |
| Fee & Subscription | | 278,037 | 209,246 |
| Stock Exchange charges | | 8,158,464 | 2,587,970 |
| Donation | 17.2 | 52,475 | 2,000 |
| Zakat | | 3,825 | 8,674 |
| | | <u>69,522,033</u> | <u>53,111,577</u> |
| 17.1 Auditors' remuneration | | | |
| Audit Fee | | 125,000 | 85,000 |
| Misc. certification and compliance charges | | 50,000 | - |
| Out of Pocket Expenses | | 15,000 | 15,000 |
| | | <u>190,000</u> | <u>100,000</u> |
| 17.2 | None of the directors or their spouse had any interest in any of the donee. | | |
| | | <u>2003</u> <u>(Rupees)</u> | <u>2002</u> <u>(Rupees)</u> |
| 18. FINANCIAL EXPENSES | | | |
| Mark-up on short term finances | | 369,480 | 1,931,991 |
| Mark-up charged by associated companies | | - | 270,731 |
| Lease finance charges | | 81,455 | 422,862 |
| Bank charges and commission | | 509,814 | 227,372 |
| | | <u>960,749</u> | <u>2,852,956</u> |



NOTES

| | <u>2003</u> (Rupees) | <u>2002</u> (Rupees) |
|--|-------------------------|-------------------------|
| 19. OTHER INCOME | | |
| Mark-up on PLS accounts | 1,187,450 | 1,578,740 |
| Dividend income | 2,523,768 | 2,773,600 |
| Provision for doubtful debts - written back | 2,107,449 | 5,599,145 |
| Services charges | 2,460,000 | 1,200,000 |
| Gain on sale of fixed assets | 2,825,501 | 351,182 |
| Others | 957,017 | 487,722 |
| | <u>12,061,185</u> | <u>11,990,389</u> |
| 20. OTHER EXPENSES | | |
| Loss on foreign currency translation | 74,181 | 846,842 |
| 21. TAXATION | | |
| Current | 1,760,406 | 230,000 |
| Prior Year | 242,249 | - |
| Deffered | 940,165 | - |
| | <u>2,942,820</u> | <u>230,000</u> |
| 21.1 Relationship between income tax expenses and accounting profit | | |
| Profit before taxation | 48,320,038 | 5,482,565 |
| Tax at the applicable tax rate of 35 % (2002 : 35%) | 16,912,012 | - |
| Tax effect of expenses that are admissible/ inadmissible in determining tax profits | (9,503,863) | - |
| Tax effect of tax credits carried forward from previous years | (5,647,743) | - |
| Minimum tax due under section 148(8) of the Income Tax Ordinance 2001 | - | 230,000 |
| | <u>1,760,406</u> | <u>230,000</u> |
| Effect of change in prior years' | 242,249 | - |
| Tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes | 940,165 | - |
| | <u>2,942,820</u> | <u>230,000</u> |

NOTES

| | <u>2003</u> (Rupees) | <u>2002</u> (Rupees) |
|--|-------------------------|-------------------------|
| 22. EARNINGS PER SHARE - Basic | | |
| There is no dilutive effect on the basic earnings per share which is based on: | | |
| Profit attributable to ordinary share holders | <u>45,377,218</u> | <u>5,252,565</u> |
| Number of ordinary shares | <u>12,003,500</u> | <u>12,003,500</u> |
| Earnings per share - Basic | <u>3.78</u> | <u>0.44</u> |
| 23. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS | | |
| Brokerage Income | 456,360 | 2,162,667 |
| Payment for/ against Current accounts | 34,518,292 | 3,326,939 |
| Mark-up charged on borrowings | - | 270,731 |
| Group pool expenses paid | 1,542,801 | 2,872,450 |

These transactions were carried out at an arm's length basis.

24. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

| | Chief Executive | | Directors | | Executives | |
|-----------------------------|------------------|----------|------------------|------------------|-------------------|-------------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Total Number | 1 | 1 | 5 | 3 | 30 | 35 |
| Managerial Remuneration | 680,000 | - | 1,478,000 | 1,752,000 | 4,798,522 | 5,281,755 |
| House Rent | 272,000 | - | 591,200 | 700,800 | 1,919,409 | 2,112,702 |
| Gratuity | - | - | - | 234,558 | 414,000 | 932,114 |
| Medical Expenses Reimbursed | 115,354 | - | 154,334 | 178,839 | 407,423 | 447,892 |
| Utilities | 68,000 | - | 147,800 | 175,200 | 479,852 | 528,176 |
| Other Benefits | - | - | 336,000 | 352,500 | 7,147,015 | 3,218,262 |
| | <u>1,135,354</u> | <u>-</u> | <u>2,707,334</u> | <u>3,393,897</u> | <u>15,166,221</u> | <u>12,520,901</u> |

In addition, Chief Executive, Directors and some executives have been provided with company maintained cars. No meeting fees were paid to any of the directors for attending the Board/Audit Committee meetings. (2002: Nil)



NOTES

25. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

25.1 Interest Rate Risk Exposure

Information about the company's exposure to interest rate risk based on contractual refinancing and maturity dates, which ever is earlier, is as follows:

| June 30, 2003 | | | | | |
|--|----------------------------|--------------------|-------------------|----------------------|--------------------|
| | Interest / Mark up Bearing | | | Non Interest Bearing | Total |
| | Less than one year | One year and above | Sub Total | | |
| | (Rupees) | (Rupees) | (Rupees) | (Rupees) | (Rupees) |
| Financial assets | | | | | |
| Long term deposits | - | - | - | 1,458,936 | 1,458,936 |
| Investments | - | - | - | 23,101,031 | 23,101,031 |
| Advances, deposits and other receivables | - | - | - | 9,000,738 | 9,000,738 |
| Accounts receivables | - | - | - | 129,852,698 | 129,852,698 |
| Cash and bank balances | 27,073,625 | - | 27,073,625 | 658,956 | 27,732,581 |
| | 27,073,625 | - | 27,073,625 | 164,072,359 | 191,145,984 |
| Financial liabilities | | | | | |
| Obligations under finance leases | 61,293 | 36,151 | 97,444 | - | 97,444 |
| Creditors, accrued and other liabilities | 774,258 | - | 774,258 | 6,062,223 | 6,836,481 |
| Accounts Payable | - | - | - | 95,339,911 | 95,339,911 |
| | 835,551 | 36,151 | 871,702 | 101,402,134 | 102,273,836 |
| On balance sheet gap | 26,238,074 | (36,151) | 26,201,923 | 62,670,225 | 88,872,148 |
| June 30, 2002 | | | | | |
| | Interest / Mark up Bearing | | | Non Interest Bearing | Total |
| | Less than one year | One year and above | Sub Total | | |
| | (Rupees) | (Rupees) | (Rupees) | (Rupees) | (Rupees) |
| Financial assets | | | | | |
| Long term deposits | - | - | - | 2,147,590 | 2,147,590 |
| Investments | - | - | - | 11,411,285 | 11,411,285 |
| Advances, deposits and other receivables | - | - | - | 6,055,755 | 6,055,755 |
| Accounts receivables | - | - | - | 31,094,241 | 31,094,241 |
| Cash and bank balances | 58,186,615 | - | 58,186,615 | 34,900 | 58,221,515 |
| | 58,186,615 | - | 58,186,615 | 50,743,771 | 108,930,386 |
| Financial liabilities | | | | | |
| Obligations under finance leases | 1,509,221 | 41,845 | 1,551,066 | - | 1,551,066 |
| Short term running finances | 14,247,836 | - | 14,247,836 | - | 14,247,836 |
| Creditors, accrued and other liabilities | 10,318,571 | - | 10,318,571 | 8,587,321 | 18,905,892 |
| Accounts Payable | - | - | - | 31,046,129 | 31,046,129 |
| | 26,075,628 | 41,845 | 26,117,473 | 39,633,450 | 65,750,923 |
| On balance sheet gap | 32,110,987 | (41,845) | 32,069,142 | 11,110,321 | 43,179,463 |

NOTES

| | <u>2003</u> | <u>2002</u> |
|------------------------------------|-------------|-------------|
| | % | % |
| Effective interest rate: | | |
| PLS accounts | 1 - 7 | 3.5 - 12 |
| Obligation under Lease Finance | 16 - 18.5 | 18 - 23.5 |
| Short Term Finance | 17.5 | 17.5 |
| Advances from Associated Companies | 14-18.5 | 18-18.5 |

25.2 Concentration of credit risk and credit exposure of the financial instruments

Credit risk represents the loss that would result if counter parties failed to perform as contracted. The company manages its credit risk by the following method:

- Monitoring of debts on continuous basis
- Legal notice and follow up.
- Deposit of margins before execution of orders for all retail clientele.

The company believes that it is not exposed to major concentration of credit risk.

25.3 Foreign Exchange Risk Management

Foreign currency risk arises mainly where payable/receivable exist due to transactions with foreign clients. Payable exposed to foreign currency risks are identified as "Accounts Payable". The company does not view hedging as being financially feasible owing to the excessive cost involved in relation to the amount at risk.

25.4 Fair value of the financial instruments

The carrying value of all the financial instruments reflected in the financial statements approximate their fair values.

| 26. NUMBER OF EMPLOYEES | <u>2003</u> | <u>2002</u> |
|--|-------------|-------------|
| Total number of employees at the year end. | <u>97</u> | <u>85</u> |

27. AUTHORIZATION

These financial statements have been authorised for issue by the Board of Directors of the company on October 07, 2003.

28. GENERAL

28.1 Figures have been rounded off to the nearest rupee.

28.2 Figures of corresponding year have been rearranged, wherever necessary, for the purpose of comparison.

Lahore

Chief Executive

Director



PATTERN OF SHAREHOLDING

as at June 30, 2003

INCORPORATION NUMBER: L-07678 OF 1994-95

| No. of Shareholders | Share holdings | | Total Shares held |
|---------------------|----------------|---------|-------------------|
| | from | To | |
| 219 | 101 | 500 | 109,500 |
| 7 | 501 | 1000 | 4,200 |
| 1 | 195001 | 200000 | 200,000 |
| 1 | 1510001 | 1515000 | 1,510,500 |
| 1 | 1195001 | 1200000 | 1,200,000 |
| 1 | 2395001 | 2400000 | 2,400,000 |
| 1 | 6575001 | 6580000 | 6,579,300 |
| 231 | | | 12,003,500 |

CATEGORIES OF SHAREHOLDERS

as at June 30, 2003

| <u>Categories of Shareholders</u> | <u>Shares held</u> | <u>Percentage</u> |
|---|--------------------|-------------------|
| Directors and Chief Executive Officer | 4,200 | 0.035 |
| Associated Companies, undertakings and related parties | 6,779,300 | 56.478 |
| Banks, Development Financial Institutions, Non Banking Financial Institutions | 1,510,500 | 12.584 |
| Modarabas and Mutual Funds | 200,000 | 1.666 |
| Share holders holding 10% or more | 10,489,800 | 87.390 |
| General Public | | |
| a) Local | 1,309,500 | 10.909 |
| b) Foreign | 2,400,000 | 19.994 |

Note: Some of the shareholders are reflected in more than one category.

PATTERN OF SHAREHOLDING

AS PER LISTING REGULATIONS
AS AT JUNE 30, 2003

| <u>Shareholders Category</u> | <u>Number of shares held</u> |
|--|------------------------------|
| Associated Companies, Undertaking & Related Parties | |
| First Capital Securities Corporation Limited (FCSC) | 6,579,300 |
| First Capital Mutual Fund Limited | 200,000 |
| NIT & ICP | - |
| Directors, CEO & their spouse and minor children | |
| Mian Ehsan ul Haq (Chairman & Chief Executive) | 600 |
| Aamer Nasim Chishti (Director) | 600 |
| Khurram Hanif (Director) | 600 |
| Akbar Naqi (Director) | 600 |
| Ali Nayyar (Director) | 600 |
| Muhammad Zubair Khalid (Director) | 600 |
| Mazhar Abbas (Director) | 600 |
| Executives | - |
| Public Sector Companies & Corporations | 6,579,300 |
| Banks, Development Finance Institutions, Non Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds etc. | 1,710,500 |
| Shareholders holding 10% or more voting interest in the Company | |
| First Capital Securities Corporation Limited | 6,579,300 |
| Prime Commercial Bank Limited (Custodian of FCSC) | 1,510,500 |
| Sulieman Ahmad Said Al-Hoqani | 2,400,000 |



FORM OF PROXY

The Company Secretary
First Capital Equities Limited
103-C/II, Gulberg-III
Lahore

| |
|------------------------------|
| Folio No./CDC A/c. No. _____ |
| Shares Held: _____ |

I / We _____ of _____
(Name) (Address)

being the member (s) of **First Capital Equities Limited** hereby appoint Mr. / Mrs./ Miss.
_____ of _____
(Name) (Address)

or failing him / her / Mr. / Mrs. / Miss. _____ of _____
(Name) (Address)

[who is also member of the Company vide Registered Folio No.....(being the member of the Company)] as my / our proxy to attend at and vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held at the Registered Office of the Company, 103-C/II, Gulberg-III, Lahore, on October 30 2003, at 12:30 p.m. and at any adjournment thereof.

Signature this _____ Day of _____ 2003

| |
|---------------------------------------|
| Affix Revenue Stamp of Rupees Five |
|---------------------------------------|

(Witnesses)

1. _____

2. _____

Signature _____

(signature appended should agree with the specimen signature registered with the Company)

Notes:

1. The Proxy Form, duly completed and signed, must be received at the Registered Office of the Company not later than 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he himself is a member of the Company, except that a corporation may appoint a person who is not a member.
3. CDC account holders may follow the guidelines, laid down in Circular No. 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan

