

**FCEL**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**JUNE 30, 2006**



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## COMPANY INFORMATION

|   |   |
|---|---|
| <b>Board of Directors</b>                   | Mian Ehsan ul Haq<br>Chairman & Chief Executive Officer<br><br>Farooq Bin Habib<br>Ashraf Liaquat Ali Khan<br>Suhail Ahmed<br>Ahsan Zia<br>Mazhar Abbas<br>Muhammad Zubair Khalid   |
| <b>Chief Financial Officer</b>              | Mazhar Abbas  |
| <b>Audit Committee</b>                      | Muhammad Zubair Khalid (Chairman)<br>Suhail Ahmed<br>Ahsan Zia  |
| <b>Company Secretary</b>                    | Syed Akbar Naqi Zaidi   |
| <b>Auditors</b>                             | Ford Rhodes Sidat Hyder & Co.,<br>Chartered Accountants   |
| <b>Legal Advisers</b>                       | Tassawur Ali Hashmi<br>Advocates, Karachi   |
| <b>Bankers</b>                              | Askari Commercial Bank Limited<br>Bank Alfalah Limited<br>Bank Al Habib Limited<br>Faysal Bank Limited<br>Habib Bank AG Zurich<br>KASB Bank Limited<br>Metropolitan Bank Limited<br>Muslim Commercial Bank Limited<br>PICIC Commercial Bank Limited<br>Prime Commercial Bank Limited<br>Standard Chartered Bank<br>The Bank of Punjab<br>Union Bank Limited |
| <b>Registered Office</b>                    | 103-C/II, Gulberg-III<br>Lahore, Pakistan<br>☎ (042) 5757591-4<br>Fax: (042) 5757590, 5877920   |
| <b>Corporate Office</b>                     | 4 <sup>th</sup> Floor, Block B, C & D<br>Lakson Square Building No.1<br>Sarwar Shaheed Road, Karachi<br>☎ (021) 111 226 226<br>Fax: (021) 5656710, 5656725  |
| <b>Registrar and Shares Transfer Office</b> | Corlink (Pvt.) Limited<br>Wings Arcade, 1-K,<br>Commercial Model Town, Lahore<br>☎ (042) 5839182  |

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 11<sup>th</sup> Annual General Meeting of the Shareholders of First Capital Equities Limited (“the Company”) will be held on Tuesday, 31 October 2006 at 4:30p.m. at the Registered Office of the Company, 103-C/II, Gulberg-III, Lahore, to transact the following business:

### Ordinary business

1. To confirm the minutes of last Extraordinary General Meeting held on 24 January 2006;
2. To receive, consider and adopt the financial statements of the Company for the year ended 30 June 2006 together with the Directors' and Auditors' reports thereon;
3. To approve the bonus shares @ 50% i.e. 50 bonus shares for every 100 shares held, for the year ended 30 June 2006;
4. To appoint Auditors of the Company for the year ending 30 June 2007 and to fix their remuneration;

### Special Business

5. 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.300,000,000/- divided into 30,000,000 ordinary shares of Rs.10/- each to Rs.650,000,000/- divided into 65,000,000 ordinary shares of Rs.10/- each and the words and figures in Clause-V of Memorandum of Association and Clause-4 of the Article of Association of the Company be and are hereby amended accordingly.”

“**RESOLVED FURTHER THAT** any one of the Director or the Chief Executive or the Company Secretary be and is hereby authorized to do legal needful in connection with the above and to file the documents with the Company Registration Office, Lahore accordingly.”

By order of the Board

Lahore  
09 October 2006

**Syed Akbar Naqi Zaidi**  
Company Secretary

### Notes:

- 1) The register of members will remain closed from 24 October 2006 to 31 October 2006 (both days inclusive). Transfers received at Corplink (Pvt.) Limited, Wings Arcade, 1-K, Commercial Model Town, Lahore, the Registrar and Shares Transfer Office of the Company, by the close of business on 23 October 2006 will be treated in time for the purpose of Annual General Meeting & entitlements of bonus and right shares.

- 2) A member eligible to attend and vote at the meeting may appoint another member as proxy to attend and vote in the meeting. In order to be effective, proxies 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 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 signatures 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 Director/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, if any, in their registered address immediately.

**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 31 October 2006.

**Increase in the Authorized Share Capital**

The Board of Directors' in their meeting held on 09 October 2006 have declared a bonus shares issue in the proportion of fifty (50) bonus shares for every one hundred (100) shares held i.e. 50%, for the year ended 30 June 2006 and such bonus shares shall qualify for the right shares in the proportion of fifty (50) right shares for every 100 shares held i.e. 50%, at Rs. 15/- per share including share premium of Rs. 5/- per share, held by the members on the entitlement day i.e. 23 October 2006.

At present the Company has an Authorized shares capital of Rs.300,000,000/- divided into 30,000,000 ordinary shares of Rs.10/- each out of which 24,007,000 ordinary shares are issued and fully paid-up. In order to facilitate the allotment of 50% bonus and thereafter 50% right shares, the Board of Directors' have recommended that the Authorized share capital of the Company be increased to Rs.650,000,000/- divided into 65,000,000 ordinary shares or Rs.10/- each from Rs.300,000,000/- divided into 30,000,000 ordinary shares of Rs.10/- each. This increase in capital will also necessitate amendments in Clause-V of the Memorandum of Association and 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 Authorized Capital of the Company is Rs.650,000,000/- (Rupees Six Hundred and Fifty Million only) divided into 65,000,000 (Sixty Five million only) ordinary shares of Rs.10/- (Rupees Ten only) each. The Company shall have the power to increase, reduce, consolidate or re-organize the said capital and to divide the share in the capital into several clauses in accordance with the provisions of the Companies Ordinance, 1984.

**Clause-4 of the Article of Association**

The Authorized Capital of the Company is Rs.650,000,000/- (Rupees Six Hundred and Fifty Million only) divided into 65,000,000 (Sixty Five Million only) ordinary shares of Rs.10/- (Rupees Ten only) each.

**STATUS OF INVESTMENT AS REQUIRED VIDE SRO 865(1)/2000 DATED 6 DECEMBER 2000**

**Pace Gujrat (Pvt.) Limited (“PGL”)**

The Company granted approval to make long-term investments in the share capital and as loan/advances up to Rs.1million to up to Rs.20million, respectively in PGL provided that the aggregate investments in PGL shall not exceed Rs.20million at any point in time in the Extraordinary General Meeting of the Company held on 24 January 2006. Out of the said approval the Company has invested upto an amount of Rs.10.38million in PGL. The remaining investment is expected to be made in due course as and when required.

The financial position of PGL is stated hereunder:

|                         | <b>30 April 2006 (Audited)</b> |
|-------------------------|--------------------------------|
|                         | <b>Rupees</b>                  |
| Non Current assets      | 24,897                         |
| Current Assets          | 57,420,095                     |
| Current Liabilities     | 3,080,772                      |
| Non-Current Liabilities | 54,339,720                     |
| Equity                  | 24,500                         |

**INSPECTION OF DOCUMENTS**

Copies of Memorandum and Articles of Association, Statement under section 160(1)(b) of the Companies Ordinance, 1984, annual and quarterly accounts along with all published or otherwise required accounts of all prior periods of the Company and the financial projections of the Company or any other information related to the Company may be inspected/procured 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.

**INTEREST OF DIRECTORS AND THEIR RELATIVES (IF ANY)**

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

| <b>Name of Directors/CEO</b> | <b>No. of Shares<br/>(as at 30 June 2006)</b> |
|------------------------------|---|
| Mian Ehsan ul Haq            | 1,200   |
| Mr. Farooq Bin Habib         | 1,200   |
| Mr. Mazhar Abbas             | 1,200   |
| Mr. Muhammad Zubair Khalid   | 1,200   |
| Mr. Ahsan Zia                | 1,200   |
| Mr. Suhail Ahmed             | 1,200   |
| Mr. Ashraf Liaqat Ali Khan   | 1,200   |



## MISSION STATEMENT

Our mission is to strive to become the **LEADING BROKERAGE AND ITS RELATED BUSINESS COMPANY** and **BEST 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 BROKERAGE AND ITS RELATED BUSINESS COMPANY** and **BEST 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

The Directors of First Capital Limited (“the Company” or “FCEL”) are present the annual report with the Company's audited accounts for the year ended June 30, 2006.

### Market Review

Karachi Stock Exchange maintained its pace and momentum during the year showing a year on year growth of 34% with an overall gain of 2539 points in the benchmark index. The market capitalization at the year end was Rs 2.8 trillion as compared to Rs 2.1 trillion on the closing day of preceding year.

Improved corporate earnings, better dividend payouts, government initiatives of privatization, liberalization and deregulation have all contributed towards establishing investors' confidence in the market. The banking sector performance was remarkable on the back of reversal of interest rate scenario and increased credit appetite of private sector. Oil and gas exploration and production companies booked record profits because of increased international prices and new discoveries. Cement sector gained investors' confidence on display of improved profitability and ability to control cement prices.

### Financial Performance

During the period under review, your Company managed to report 189 % higher net profit at Rs. 232.66 million translating into Rs. 9.69 per share. Revenue growth from core business was the primary driver for higher profitability.

Brokerage income increased by 9 % to Rs.281.82 million from Rs. 258.55 million last year. This growth pattern is expected to continue over the medium to long terms on the back of geographical diversification and planned expansion of brokerage operations. Increase reliance on large number of retail and institutional clients locally and overseas association / partnership has resulted in increase in top line. Operating expenses have been kept under control, although the company made remarkable expansion in its branch network and national presence. Brokerage income earned per rupee of investment is one of the highest in the sector, and gross and net profit margins are expected to increase on increased absorption of fixed costs in future periods

Capital gains suffered a decline due to Company's redirection of focus on its core operations of brokerage. Reduced reliance on capital gains has ensured stability in company's revenue patterns and earnings stream.

### Operations Overview

FECL has one of the largest branch and share-shop network in the country. Market share in total trades executed in Karachi Stock Exchange has significantly improved during the past year because of cutting edge services, state of the art equipment and improved research.

The company has embarked upon improving IT infrastructure by introducing Virtual Private Network (VPN) now the backbone of operations. The company took other initiatives recently including migration from fox Pro based system to a new Oracle based integrated system and, more importantly, introduction of Broker Net Solution (BNS). Prepared by the IT department of the Lahore Stock Exchange, this cost efficient solution not only provides ability to increase its geographical outreach both locally through VPN and internationally through Web Based Solutions, but also is expected to help in increasing volumes.

## **Future Outlook**

FCEL is the local affiliate of Auerbach Grayson (AGA), an international brokerage house based in the USA with presence in about 100 different markets. The association is likely to strengthen with the presence of time and the company is expected to benefit on shape of increase in business volumes from AG.

Going forward, the company is targeting consistent growth in profitability by (a) expanding brokerage operations through increasing branch network thus gradually improving market share, (b) client diversification by enhancing focus on retail investors thus reducing client dependence and (c) use of alternative technologies and methods to improve the quality of reports and services.

In addition the Company also intends to provide Investments Finance Services (“IFS or “Investment banking”) and Real Estate Investment Trust (REIT) activities subject to necessary corporate and regulatory approvals. The Company intends to diversify its revenue streams by offering a wider product range through IFS and REIT services. Given the favourable economic conditions, there is a considerable potential for increased business activities for Investment Banks in Pakistan and Real Estate Sector.

## **Right Issue**

Pakistan's equity markets are witnessing a growth that has resulted at various times in the market breaching its previous all-time high levels and as a result has established new all-time highs. The KSE index has risen to its highest points since the beginning of the historic bullish trend. Several factors have contributed towards this bull-run including the structural changes that have occurred in Pakistan's stock markets. This is mainly due to constantly improvement in public sector reforms, enhancing transparency, investors' demand evolving in the competitive structure of capital markets, development of financial markets, integration with the global economy, reforming exchange regimes, improving regulatory environment of the capital markets, overall improvement in the law. The equity markets have experienced growth and change in response to users' desires for better services, greater efficiency, more competitive prices and better returns.

Therefore the Company intends to increase its capital base by way of Right shares in order to increase its investment portfolio and to expand/diversify its operations/business to attain maximum benefits in the growing market. The receipts of the funds will be utilized in enhancing the Company's activities.

## **Payout for the Shareholders**

It has recommended by the Board of Directors to issue Bonus shares in proportion of 50 Bonus Shares for every One Hundred (100) shares held i.e 50 %. The Board has also recommended 50 % Right at Rs. 15/- per share including share premium of Rs, 5/- per share. The Bonus shares covered by this announcement qualify for right entitlement also.

## **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 seven years company performance chart is attached.

## EARNINGS PER SHARE

Earnings per share for the year ended June 30, 2006 was Rs. 9.69 as compared to Rs. 3.35 in the last Year.

## Changes in the Board of Directors

During the year Mr. Shahbaz Ali Taseer has resigned from the Board of Directors of the Company. Mr. Suhail Ahmad has been appointed as Directors in place of Mr. Shahbaz Ali Taseer. At present, the Company has seven Directors on its Board.

## Board Meetings

4 meetings were held during the financial year. Attendance by each Director is as under:

| Directors                     | Meetings Attended |
|-------------------------------|-------------------|
| Mian Ehsan ul Haq (CEO)       | 4                 |
| Farooq Bin Habib              | 2                 |
| Ashraf Liqauat Ali Khan       | 4                 |
| Suhail Ahmad                  | -                 |
| Ahsan Zia                     | 4                 |
| Mazhar Abbas                  | 4                 |
| Muhammad Zubair Khalid        | 4                 |
| Shahbaz Ali Taseer (Resigned) | 3                 |

The Directors who could not attend the meeting were duly granted leave by the Board.

## Disclosure of trades in the Company shares by its Directors', CEO, CFO, Company Secretary and their spouses including any minor children

During the year under review no trading in the Company shares were carried out by the Directors', CEO, CFO, Company Secretary and their spouses including any minor children.

## Audit Committee

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

|                        |          |
|------------------------|----------|
| Muhammad Zubair Khalid | Chairman |
| Suhail Ahmad           | Member   |
| Ahsan Zia              | Member   |

## Auditors

The present Auditors, Messrs Ford Rhodes Sidat Hyder & Co., Chartered Accountants, shall retire and being eligible to offer themselves for re-appointment. The Board of Directors endorse the recommendation of the Audit Committee for the re-appointment of Messrs Ford Rhodes Sidat Hyder & Co., Chartered Accountants as the Auditors of the Company for the financial year ending 30 June 2007.

## **Pattern of Shareholdings**

The pattern of shareholdings as required under section-236 of the Companies Ordinance, 1984 and listing regulations are enclosed.

## **Statement of Compliance in accordance with the Code of Corporate Governance (“CCG”)**

1. The financial statements, prepared by the management, presents fairly, its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of accounts of the Company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Company's ability to continue as a going concern.
7. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
8. There are no statutory payments on account of taxes, duties, levies and charges, which are outstanding and have not been disclosed in the accounts.
9. The Company has followed the best practices of corporate governance, as detailed in the Listing Regulations of Lahore Stock Exchange wherever possible, and is in the process of complying with all the remaining regulations.

## **Holding Company**

The Company's holding company is First Capital Securities Corporation Limited (FCSC), a company incorporated in Pakistan, having its registered office at 103-C/II, Gulberg-III, Lahore. FCSC holds 16,179,600 shares (67.40 %) of FCEL.

## **Review on Group Business**

Equity Partners Securities Limited (“EPSL”) is the subsidiary company of FCEL. EPSL was incorporated in Dhaka, Bangladesh and is the member of Dhaka Stock Exchange and Chittagong Stock Exchange. FCEL holds 61,200 shares (51 %) of EPSL. The gross brokerage income of EPSL is of Rs. 3.09 million whereas it has suffered net loss after taxation of Rs. 0.29 million. The Board is reviewing its strategy in respect of operation of EPSL and is expected that EPSL will be profitable in future.

**ACKNOWLEDGEMENT**

The Board of Directors wish to place on record their thanks and appreciation to all the shareholders for their continued support. The Board also wishes to place on record its appreciation for the guidance and support extended by the Securities and Exchange Commission of Pakistan (SECP) as well the Lahore Stock Exchange. Finally, the Board would like to record its appreciation to all the staff members for their hard work in producing such brilliant results.

For and on Behalf of the Board

Lahore:  
Dated: October 09, 2006

**Mian Ehsan ul Haq**  
Chairman and Chief Executive

**SEVEN YEARS AT GLANCE**

**Financial Highlights**

|  | FY 06 | FY 05 | FY 04 | FY 03 | FY 02 | FY 01 | FY 00 |
|--|-------|-------|-------|-------|-------|-------|-------|
|--|-------|-------|-------|-------|-------|-------|-------|

( R u p e e s   i n   m i l l i o n )

**Income Statement**

|                   |        |        |        |        |       |        |        |
|-------------------|--------|--------|--------|--------|-------|--------|--------|
| Revenues          | 379.55 | 367.90 | 189.73 | 118.88 | 62.29 | 58.58  | 182.91 |
| Expenses          | 259.15 | 235.49 | 132.56 | 70.56  | 56.81 | 61.91  | 169.47 |
| Profit before tax | 264.65 | 110.45 | 57.17  | 48.32  | 5.48  | (3.33) | 13.44  |
| Profit after tax  | 232.66 | 80.49  | 55.71  | 45.38  | 5.25  | (5.63) | 9.94   |

**Balance Sheet**

|                               |          |        |        |        |        |        |        |
|-------------------------------|----------|--------|--------|--------|--------|--------|--------|
| Paid up capital               | 240.07   | 240.07 | 240.07 | 120.04 | 120.04 | 120.04 | 100.04 |
| Shareholder's equity          | 674.56   | 441.90 | 361.65 | 185.90 | 140.52 | 135.27 | 140.91 |
| Liabilities                   | 1,349.55 | 451.69 | 398.82 | 112.91 | 73.30  | 28.78  | 98.81  |
| Total assets                  | 2,024.11 | 893.55 | 760.48 | 298.81 | 213.83 | 164.05 | 239.72 |
| Investment value at cost      | 87.13    | 110.35 | 244.72 | 16.19  | 11.35  | 4.57   | 0.15   |
| Investment value at mkt price | 231.37   | 88.39  | 238.88 | 23.10  | 11.41  | 4.51   | 0.39   |

**Ratios**

|                         |       |       |       |       |       |        |       |
|-------------------------|-------|-------|-------|-------|-------|--------|-------|
| Earning per share (Rs.) | 9.69  | 3.35  | 3.06  | 3.78  | 0.44  | (0.47) | 0.99  |
| Break up value (Rs.)    | 28.10 | 18.41 | 15.06 | 15.48 | 11.71 | 11.27  | 14.09 |
| Return on Equity (%)    | 34.50 | 18.20 | 15.40 | 24.41 | 3.74  | (4.16) | 7.05  |

**Payout (%)**

|        |     |   |   |   |   |        |   |
|--------|-----|---|---|---|---|--------|---|
| Cash   | -   | - | - | - | - | -      | - |
| Bonus* | 50% | - | - | - | - | 19.99% | - |

\*The Company has also announced 50% right issue. The bonus shares shall be entitled for right issue.

**PATTERN OF SHAREHOLDING  
AS AT JUNE 30, 2006**

INCORPORATION No. L-07678 of 1994-95

| No. of Shareholders | Shareholdings |   |          | Shares Held       |
|---------------------|---------------|---|----------|-------------------|
|                     | From          |   | To       |                   |
| 30                  | 101           | - | 500      | 15,000            |
| 99                  | 501           | - | 1000     | 99,000            |
| 7                   | 1001          | - | 5000     | 8,400             |
| 1                   | 5001          | - | 10000    | 6,000             |
| 1                   | 75001         | - | 80000    | 77,500            |
| 1                   | 205001        | - | 210000   | 206,500           |
| 1                   | 210001        | - | 215000   | 215,000           |
| 2                   | 245001        | - | 250000   | 500,000           |
| 1                   | 1895001       | - | 1900000  | 1,900,000         |
| 1                   | 2655001       | - | 2660000  | 2,657,100         |
| 1                   | 4795001       |   | 4800000  | 4,800,000         |
| 1                   | 13520001      |   | 13525000 | 13,522,500        |
| <b>146</b>          |               |   |          | <b>24,007,000</b> |

| Categories of Shareholders   | Shares held | Percentage |
|--|-------------|------------|
| Directors, Chief Executive Officer,<br>and their spouse and minor children | 8,400       | 0.035      |
| Associated Companies, undertakings<br>and related parties                  | 16,179,600  | 67.395     |
| Modaraba and Mutual Fund   | 215,000     | 1.666      |
| Share holders holding 10% or more  | 20,979,600  | 87.390     |
| General Public   |             |            |
| a) Local   | 2,541,500   | 10.586     |
| b) Foreign   | 4,800,000   | 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, 2006**

| <b>Categories of Shareholders</b>  | <b>Number of Shares held</b> |
|--|------------------------------|
| <b>Associated Companies, undertaking and related parties</b>   |                              |
| First Capital Securities Corporation Limited   | 16,179,600                   |
| <b>NIT and ICP</b>   | -                            |
| <b>Directors, CEO and their Spouses and Minor Children</b>   |                              |
| Mian Ehsan ul Haq (CEO)  | 1,200                        |
| Farooq Bin Habib   | 1,200                        |
| Ashraf Liaqat Ali Khan   | 1,200                        |
| Mazhar Abbas   | 1,200                        |
| Suhail Ahmad   | 1,200                        |
| Muhammad Zubair Khalid   | 1,200                        |
| Ahsan Zia  | 1,200                        |
| <b>Executives</b>  | -                            |
| <b>Public Sector Companies and Corporations</b>  | 77,500                       |
| <b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modaraba &amp; Mutual Fund etc.</b> | 400,000                      |
| <b>Shareholders holding 10% or more voting interest in the Company</b>   |                              |
| First Capital Securities Corporation Limited   | 16,179,600                   |
| Sulieman Ahmad Said Al-Hoqani  | 4,800,000                    |

**STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES  
ON TRANSFER PRICING FOR THE YEAR ENDED JUNE 30, 2006**

The Company has complied with the best practices on Transfer Pricing as contained in the Listing Regulations of Lahore Stock Exchange.

For and on behalf of the Board

Lahore  
October 09, 2006

**Mian Ehsan ul Haq**  
Chief Executive Officer

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2006

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 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 two 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's or 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 one non-executive director including the Chairman of the committee and two executive directors.
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 Board

Lahore  
Dated: October 09, 2006

**Mian Ehsan ul Haq**  
Chief Executive Officer

**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 applicable to the Company for the year ended June 30, 2006 prepared by the Board of Directors of **First Capital Equities Limited** to comply with the Chapter XIII of the Lahore Stock Exchange, 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. A 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 as applicable to the Company for the year ended June 30, 2006.

LAHORE  
October 09, 2006

Ford Rhodes Sidat Hyder & Co.  
Chartered Accountants

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of **FIRST CAPITAL EQUITIES LIMITED** as at **June 30, 2006** 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 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 above said 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 above said statements are free of any material misstatement. An audit includes examining on a 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 the 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 account 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 except for the changes as stated in note 4.1 to the financial statements with which we concur;
  - 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 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, 2006 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.

**LAHORE**  
**October 09, 2006**

**Ford Rhodes Sidat Hyder & Co.**  
**Chartered Accountants**

## BALANCE SHEET

AS AT JUNE 30, 2006

|   | Note | 2006<br>(Rupees)     | 2005<br>(Rupees)<br>(Restated) |
|---|------|----------------------|--------------------------------|
| <b>ASSETS</b>   |      |                      |                                |
| <b>NON - CURRENT ASSETS</b>   |      |                      |                                |
| Property and equipment  | 5    | 58,038,663           | 41,656,880                     |
| Membership card and licenses  | 6    | 40,700,000           | 57,560,870                     |
| Investments - available for sale  | 7    | 6,865,076            | 6,865,076                      |
| Long term loan - Unsecured  | 8    | 10,190,000           | -                              |
| Long term deposits and advances   | 9    | 7,136,996            | 2,171,200                      |
|   |      | <b>122,930,735</b>   | <b>108,254,026</b>             |
| <b>CURRENT ASSETS</b>   |      |                      |                                |
| Trade debts- Unsecured  | 10   | 572,754,806          | 294,318,824                    |
| Investments at fair value through profit and loss                       | 11   | 231,372,769          | 88,396,669                     |
| Advances, deposits, prepayments and other receivables                   | 12   | 134,053,865          | 49,230,324                     |
| Advance income tax  |      | 35,634,236           | 33,557,972                     |
| Placements  | 13   | 677,641,520          | 225,000,000                    |
| Interest accrued  | 14   | 9,352,433            | 3,075,315                      |
| Cash and bank balances  | 15   | 240,366,410          | 91,717,213                     |
|   |      | <b>1,901,176,039</b> | <b>785,296,317</b>             |
|   |      | <b>2,024,106,774</b> | <b>893,550,343</b>             |
| <b>EQUITY AND LIABILITIES</b>   |      |                      |                                |
| <b>Authorised capital</b>   |      |                      |                                |
| 30,000,000 (2005: 30,000,000) ordinary shares of Rs.10/- each           |      | <b>300,000,000</b>   | <b>300,000,000</b>             |
| <b>Issued, subscribed and paid up share capital</b>                     | 16   | <b>240,070,000</b>   | <b>240,070,000</b>             |
| <b>Unappropriated Profits</b>   |      | <b>434,486,555</b>   | <b>201,827,949</b>             |
|   |      | <b>674,556,555</b>   | <b>441,897,949</b>             |
| <b>NON - CURRENT LIABILITIES</b>  |      |                      |                                |
| Long term financing   | 17   | <b>8,280,000</b>     | -                              |
| Liabilities against assets subject to finance lease                     | 18   | <b>110,072</b>       | 788,802                        |
| Deferred liabilities  | 19   | <b>8,965,811</b>     | 6,524,447                      |
|   |      | <b>17,355,883</b>    | <b>7,313,249</b>               |
| <b>CURRENT LIABILITIES</b>  |      |                      |                                |
| Trade and other payables  | 20   | 582,416,135          | 137,334,870                    |
| Liabilities against repurchase agreements                               | 21   | 515,000,000          | 100,000,000                    |
| Short term borrowings   | 22   | 206,039,823          | 188,783,416                    |
| Current portion of long term financing                                  | 17   | 5,040,000            | -                              |
| Interest accrued on short term borrowings                               |      | 4,283,739            | 5,539,955                      |
| Interest accrued on repurchase agreements                               |      | 3,630,513            | 657,534                        |
| Current maturity of liabilities against assets subject to finance lease | 18   | 678,729              | 364,471                        |
| Provision for taxation  |      | 15,105,397           | 11,658,899                     |
|   |      | <b>1,332,194,336</b> | <b>444,339,145</b>             |
|   |      | <b>2,024,106,774</b> | <b>893,550,343</b>             |
| <b>CONTINGENCIES AND COMMITMENTS</b>                                    |      |                      |                                |
|   | 23   |                      |                                |

The annexed notes 1 to 35 form an integral part of these financial statements.

Lahore

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2006

|   | <u>Note</u> | <u>2006</u><br>(Rupees) | <u>2005</u><br>(Rupees)<br>(Restated) |
|---|-------------|-------------------------|---------------------------------------|
| <b>INCOME</b>   |             |                         |                                       |
| Brokerage income  |             | 281,816,668             | 258,545,543                           |
| Capital gain  |             | 874,892                 | 48,022,965                            |
| Gain on sale of membership card and licenses  | 6.1         | 17,339,130              | -                                     |
| Income on continuous funding system transactions  |             | 3,505,075               | 18,358,868                            |
| Other operating income  | 24          | 76,015,069              | 42,975,436                            |
|   |             | <u>379,550,834</u>      | <u>367,902,812</u>                    |
| Unrealised gain / (loss) on re-measurement of investments at fair value through profit and loss | 11          | 144,245,619             | (21,952,758)                          |
|   |             | <u>523,796,453</u>      | <u>345,950,054</u>                    |
| <b>EXPENDITURES</b>   |             |                         |                                       |
| Operating expenses  | 25          | 190,231,274             | 190,070,173                           |
| Finance costs   | 26          | 68,917,612              | 45,425,163                            |
|   |             | <u>259,148,886</u>      | <u>235,495,336</u>                    |
| <b>PROFIT BEFORE TAXATION</b>   |             | <u>264,647,567</u>      | <u>110,454,717</u>                    |
| Taxation  | 27          | 31,988,961              | 29,967,058                            |
| <b>PROFIT AFTER TAXATION</b>  |             | <u>232,658,606</u>      | <u>80,487,660</u>                     |
| <b>EARNINGS PER SHARE - BASIC</b>   | 28          | <u>9.69</u>             | <u>3.35</u>                           |

The annexed notes 1 to 35 form an integral part of these financial statements.

Lahore

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director



# First Capital Equities Limited

## CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2006

|   | Note | 2006<br>(Rupees) | 2005<br>(Rupees)<br>(Restated) |
|---|------|------------------|--------------------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>  |      |                  |                                |
| <b>Funds generated from operations</b>  |      |                  |                                |
| Profit before taxation  |      | 264,647,567      | 110,454,717                    |
| <b>Add: Items not involved in movement of funds</b>   |      |                  |                                |
| Depreciation  |      | 7,239,988        | 5,806,891                      |
| Unrealised gain / (loss) on re-measurement of investments at fair value through profit and loss |      | (144,245,619)    | 21,952,758                     |
| Provision for doubtful debts written back   |      | (2,009,758)      | -                              |
| Provision for doubtful debts  |      | 17,129,812       | 14,745,956                     |
| Bad debts written off   |      | 706,950          | 895,905                        |
| Dividend Income   |      | (1,025,768)      | (4,121,590)                    |
| Interest accrued  |      | (66,563,109)     | (36,661,375)                   |
| Interest expense  |      | 68,917,612       | 44,683,148                     |
| (Gain) on sale of property and equipment  |      | (792,501)        | (55,244)                       |
| (Gain) on sale of membership card and licenses  |      | (17,339,130)     | -                              |
| Provision for gratuity  |      | 3,219,264        | 2,403,622                      |
|   |      | (134,762,259)    | 49,650,071                     |
|   |      | 129,885,308      | 160,104,789                    |
| <b>(Increase) / decrease in current assets</b>  |      |                  |                                |
| Investments at fair value through profit and loss   |      | 1,269,519        | 128,528,284                    |
| Trade debts- Unsecured  |      | (292,762,986)    | (82,555,111)                   |
| Advances, deposits, prepayments and other receivables   |      | (85,866,741)     | 19,355,620                     |
|   |      | (377,360,208)    | 65,328,793                     |
| <b>Increase / (decrease) in current liabilities in trade and other payables</b>                 |      | 445,081,265      | (79,638,332)                   |
| <b>Cash generated from operations</b>   |      | 197,606,365      | 145,795,250                    |
| Dividend received   |      | 568,968          | 4,121,590                      |
| Interest received   |      | 60,285,991       | 34,143,953                     |
| Finance cost paid   |      | (67,200,849)     | (39,792,776)                   |
| Gratuity Paid   |      | (777,900)        | (1,081,020)                    |
| Taxes Paid  |      | (30,618,727)     | (29,939,063)                   |
| <b>Net cash generated from operating activities</b>   |      | 159,863,848      | 113,247,934                    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |      |                  |                                |
| Acquisition of property and equipment   |      | (24,111,970)     | (29,574,161)                   |
| Proceeds from sale of property and equipment  |      | 1,282,700        | 210,000                        |
| Proceeds from sale of membership cards and licenses   |      | 34,200,000       | (1,053,370)                    |
| Long term loan - Unsecured  |      | (10,190,000)     | -                              |
| Placements  |      | (452,641,520)    | (225,000,000)                  |
| Long term deposits and advances   |      | (4,965,796)      | 70,650                         |
| <b>Net cash used in investing activities</b>  |      | (456,426,586)    | (255,346,881)                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |      |                  |                                |
| Liabilities against assets subject to finance lease   |      | (364,472)        | 383,815                        |
| Long term finance obtained  |      | 13,320,000       | -                              |
| Liabilities against repurchase agreements   |      | 415,000,000      | -                              |
| Short term borrowings   |      | 17,256,407       | 121,809,820                    |
| <b>Net cash generated from financing activities</b>   |      | 445,211,935      | 122,193,635                    |
| <b>Net increase / (decrease) in cash and cash equivalents</b>                                   |      | 148,649,197      | (19,905,312)                   |
| <b>Cash and cash equivalents at the beginning of the year</b>                                   |      | 91,717,213       | 111,622,525                    |
| <b>Cash and cash equivalents at the end of the year</b>   | 15   | 240,366,410      | 91,717,213                     |

The annexed notes 1 to 35 form an integral part of these financial statements.

Lahore

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2006

|   |      |                    | <u>Revenue Reserved</u>  |                        |
|---|------|--------------------|--------------------------|------------------------|
|   | Note | Share<br>Capital   | Unappropriated<br>Profit | Total                  |
|   |      | (Rupees)           | (Rupees)<br>(Restated)   | (Rupees)<br>(Restated) |
| <b>Balance as at June 30, 2004<br/>as previously reported</b> |      | <b>240,070,000</b> | <b>121,573,383</b>       | <b>361,643,383</b>     |
| Effect of change in accounting policy                         | 4.1  | -                  | (233,093)                | (233,093)              |
| <b>Balance as at June 30, 2004<br/>- Restated</b>             |      | <b>240,070,000</b> | <b>121,340,290</b>       | <b>361,410,290</b>     |
| Profit for the year   |      | -                  | 80,454,397               | 80,454,397             |
| Effect of change in accounting policy                         | 4.1  | -                  | 33,262                   | 33,262                 |
| <b>Balance as at June 30, 2005<br/>- Restated</b>             |      | <b>240,070,000</b> | <b>201,827,949</b>       | <b>441,897,949</b>     |
| Profit for the year   |      | -                  | 232,658,606              | 232,658,606            |
| <b>Balance as at June 30, 2006</b>                            |      | <b>240,070,000</b> | <b>434,486,555</b>       | <b>674,556,555</b>     |

The annexed notes 1 to 35 form an integral part of these financial statements.

Lahore

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

### **1. STATUS AND NATURE OF BUSINESS**

First Capital Equities Limited (the "Company") was incorporated in Pakistan 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. BASIS OF PREPARATION**

These financial statements have been prepared under the historical cost convention, except for investments at fair value through profit and loss which are stated at their fair value and employee benefits which are stated at their present value.

### **3. 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. 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 or directives issued by Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **4.1 Changes in accounting policies**

4.1.1 The company has changed its accounting policy with respect to investments in subsidiary company. Previously, investments in subsidiary was accounted for under the equity method, under which the investment was recognized at cost, and the carrying amount of this investment was increased or decreased to recognize the Company's share of the profit or loss of the subsidiary company in accordance with superseded IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries"

Now investment in subsidiary company is classified as "Available for Sale" under Revised International Accounting Standard (IAS) - 39 "Financial Instrument: Recognition and Measurement". Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are measured at fair value, unless fair value cannot be reliably measured. The investment, for which a quoted market is not available, is measured at cost. Gains and losses on remeasurement to fair value are recognized directly in equity, through the statement of changes in equity. Such a change in accounting policy has been accounted for retrospectively and comparative financial statements have been restated in accordance with requirements of revised International Accounting Standards IAS - 8 "Accounting policies, Change in Accounting Estimates and Errors".

Had there been no change in the accounting policy, profit for the year would have been lower by Rs 156,798 (2005: Rs 33,262) and long term investments would have been lower by Rs. 156,798 (2005: Rs 33,262)

4.1.2 Consequent upon revisions in IAS 39 "Financial Instruments: Recognition and Measurement", the company has changed its accounting policies in respect of the 'Investments at fair value through profit and loss. The transactions costs incurred in relation to acquisition of investments, classified as 'Investments at fair value through profit and loss' are now charged to profit and loss account when incurred. Previously such costs incurred on acquisition of all class of investments were included in the cost of related investments. This change in the accounting policy has been accounted for retrospectively in accordance

with the treatment specified in IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. Had this policy not been changed, capital value tax as included in the operating expense would have been Nil for the current and prior period and the capital gain would have been lower by Rs. 3,027/- (2005: Rs 432,074/-) and Unrealised gain / (loss) on remeasurement of investments at fair value through profit and loss would have been lower by Rs. 178/- (2005: Rs 1,612/-). However, there is no impact of the above change in accounting policy on the net profit and the assets and liabilities of the company for the current and prior period.

## 4.2 Changes in accounting estimates

4.2.1 The company has changed its accounting estimate in relation to the depreciation on property and equipment. The depreciation is charged in the month of addition and no depreciation is charged in the month of disposal. Previously full year depreciation was charged in the year of addition and no depreciation in the year of disposal. Had this change not been made, the profit during the year would have decreased by Rs 2,549,853/- and property and equipment would have decreased by Rs 2,549,853/-.

4.2.1 In addition to the above company charged 30% depreciation on computers during the year. Previously 20% depreciation was charged thereon. Had this change not been made, the profit during the year would have increased by Rs 457,372/- and property and equipment would have increased by Rs 457,372/-.

## 4.3 Significant accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the accounting policies, management has made the following estimates and judgments which are significant to the financial statements.

### Useful lives, pattern of economic benefits and impairment

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits are based on the analysis by the management of the company. Further, the company reviews the value of the assets for possible impairments on an annual basis any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

Other areas where estimates and judgments involved are disclosed in respective notes to the financial statements.

## 4.4 Tangible fixed assets

### Property and equipment

#### Owned assets

Property and equipment are stated at cost less accumulated depreciation and impairments, if any. Depreciation is charged on the reducing balance method at the rates specified in Note 5.1 to the financial statements, which are considered appropriate to write off the cost of assets over their useful economic lives.

Depreciation is charged on the assets in the month of addition while no depreciation is charged in the month of disposal.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss account in the year the asset is derecognised.

Normal repairs and maintenance are charged to income as and when incurred. Major renewals and improvements

are capitalised.

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and impairment losses are recognised.

## **Leased assets**

### **Finance lease**

Leases where the company has substantially all the risk and rewards of ownership are classified as finance lease. Leased assets are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets.

The related rental obligation net of finance charges, are included in liabilities against assets subject to finance lease are referred to in note 18 to the financial statements. The liabilities are classified as current and long term depending upon the timing of payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the rentals is charged to income over the lease term.

Depreciation of leased assets is recognised in the same manner as for owned assets.

## **4.5 Membership cards and licenses**

These are stated at cost less impairment, if any. The carrying amounts are reviewed at each balance sheet to assess whether they are recorded in excess of their recoverable amounts, and where carrying value exceeds estimated recoverable amount, these are written down to their estimated recoverable amount.

## **4.6 Investments**

### **Available for sale**

Investments in subsidiaries are accounted for as "Available for Sale Investments". Investments are initially recognized at cost, being the fair value of the consideration given including acquisition. At subsequent reporting dates, these investments are measured at fair value, unless fair value cannot be reliably measured. The investment, for which a quoted market is not available, is measured at cost.

### **At fair value through profit and loss**

Investments classified as held for trading are included in the category of financial assets at fair value through profit and loss. These are listed securities that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin.

All investments are initially recognised at cost, being the fair value of the consideration given excluding acquisition charges with the investment. After initial recognition, investments are measured at their fair values. Unrealised gains and losses on investments are recognised in profit and loss account of the period.

Fair values of these securities representing listed equity and debt securities are determined by reference to stock exchange quoted market prices at the close of business on balance sheet date.

## **4.7 Trade and other receivables**

These are stated at net of provisions for doubtful debts, if any. Trade debts are reviewed at each balance sheet date. Full provision is made against the debts considered doubtful. Bad debts and other receivable are written off as and when identified.

## 4.8 Impairments

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

## 4.9 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 calculated using the liability method on all temporary differences at the balance sheet date, between the tax base of the assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that the deductible temporary differences will reverse in the future and sufficient taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or subsequently enacted at the balance sheet date.

## 4.10 Securities sold under repurchase / purchased under resale agreements

Investment sold with a simultaneous commitment to repurchase at a specified future date (Repo) continue to be recognised in the balance sheet and are measured in accordance with the accounting policies for investments. Amounts received under these agreements are recorded as securities sold under repurchase agreements. The difference between sale and repurchase price is treated as mark-up / interest expense using the effective yield method.

Investments purchased with a corresponding commitment to resell at a specified future date (Reverse repo) are not recognised in the balance sheet. Amounts paid under these obligations are included in fund placements. The difference between purchase and resale price is treated as mark-up / interest income using the effective yield method.

## 4.11 Settlement date accounting

All "regular way" purchases and sales of financial assets are recognized on the settlement date, i.e., the date on which the asset is delivered to or by the company. Regular way purchases or sales of financial assets are those, the contract for which requires delivery of assets within the time frame generally established by regulation or convention in the market.

## 4.12 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, 2006 using projected unit credit method.

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

#### **4.13 Trade and other payables**

Trade and other payables are stated at cost.

#### **4.14 Mark up bearing borrowings**

Mark up bearing borrowings are recognised initially at cost being the fair value of consideration received, less attributable transaction cost. Subsequent to the initial recognition, mark up bearing borrowings is stated at original cost less subsequent repayments.

#### **4.15 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. Gain or loss on translation is included in or charged to income currently.

#### **4.16 Revenue recognition**

##### **Brokerage income**

Brokerage income is recognised as and when services are provided on accrual basis.

##### **Capital gains**

Sale and purchase of securities are recorded on the execution of contract. Capital gains or losses, calculated as the difference between the sale proceeds excluding transaction cost, and the carrying amount of a security is included in profit and loss account for the period. Carrying value of the security for this purpose is calculated on an individual portfolio basis using the moving average method.

##### **Dividend income**

Dividend income on equity investment is recognized, when the right to receive the same is established.

##### **Interest income**

Interest income is recognised as and when it is due on accrual basis.

##### **Income on Continuous Funding System placements**

Income on Placements on account of Continuous Funding System is recognised on accrual basis.

##### **Underwriting commission**

Underwriting commission is recognised when the agreement is executed.

#### **4.17 Finance costs**

All borrowing costs are charged to profit and loss account.

## **4.18 Financial instruments**

All the financial assets and financial liabilities are recognised at the time when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

## **4.19 Offsetting of financial assets and financial liabilities**

A financial asset and a financial liability is only offset and the net amount is reported in the balance sheet, when there is a legal enforceable right to set off the recognised amount and the company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses arising from such assets and liabilities are also accordingly offset.

## **4.20 Provisions**

A provision is recognised 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.

## **4.21 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.

## **4.22 Transactions with related parties and associated undertakings**

Transactions with related parties are at arm's length prices. These prices are determined in accordance with the methods prescribed in the Companies Ordinance, 1984.

## **4.23 Fiduciary assets**

Assets are held in trust or in fiduciary capacity are not treated as assets of the company and accordingly are not disclosed in these financial statements.



## 5 PROPERTY AND EQUIPMENT

### 5.1 Following is the statement of property and equipment:

| Particulars            | COST                |   |                     | Depreciation                    |                     |                                | Accumulated as at June 30, 2006 | Written down value as at June 30, 2006 | Rate |
|------------------------|---------------------|---|---------------------|---------------------------------|---------------------|--------------------------------|---------------------------------|--|------|
|                        | As at July 01, 2005 | Additions/Transfers/(Disposals)         | As at June 30, 2006 | Accumulated as at July 01, 2005 | Charge for the year | Adjustments/(Disposals)        |                                 |  |      |
|                        | (R u p e e s)       |   |                     |                                 |                     |                                |                                 |  | %    |
| <b>OWNED ASSETS</b>    |                     |   |                     |                                 |                     |                                |                                 |  |      |
| Office floor           | 17,000,000          | -                                       | 17,000,000          | 850,000                         | 807,500             | -                              | 1,657,500                       | 15,342,500                             | 5    |
| Leasehold improvements | 2,512,653           | -                                       | 2,512,653           | 471,361                         | 102,065             | -                              | 573,426                         | 1,939,227                              | 5    |
| Computers              | 4,676,817           | 4,074,750                               | 8,751,567           | 2,195,471                       | 1,374,188           | -                              | 3,569,659                       | 5,181,908                              | 30   |
| Office equipments      | 7,859,091           | 4,014,984                               | 11,874,075          | 2,545,953                       | 623,073             | -                              | 3,169,026                       | 8,705,049                              | 10   |
| Furniture and fittings | 3,583,157           | 591,082                                 | 4,174,239           | 1,574,309                       | 222,852             | -                              | 1,797,161                       | 2,377,078                              | 10   |
| Vehicles               | 20,712,138          | 15,431,154<br>(1,901,500)               | 34,241,792          | 8,134,490                       | 3,893,389           | (1,411,301)                    | 10,616,578                      | 23,625,214                             | 20   |
|                        | 56,343,856          | 24,111,970<br>(1,901,500)               | 78,554,326          | 15,771,584                      | 7,023,067           | -<br>(1,411,301)               | 21,383,350                      | 57,170,976                             |      |
| <b>LEASED ASSETS</b>   |                     |   |                     |                                 |                     |                                |                                 |  |      |
| Vehicles               | 1,530,000           | -                                       | 1,530,000           | 445,392                         | 216,922             | -                              | 662,314                         | 867,686                                | 20   |
| <b>Total</b>           | <b>57,873,856</b>   | <b>24,111,970</b><br><b>(1,901,500)</b> | <b>80,084,326</b>   | <b>16,216,976</b>               | <b>7,239,988</b>    | <b>-</b><br><b>(1,411,301)</b> | <b>22,045,663</b>               | <b>58,038,663</b>                      |      |
| <b>June 30, 2005</b>   | 28,753,295          | 29,574,161<br>(453,600)                 | 57,873,856          | 10,708,929                      | 5,806,891           | -<br>(298,844)                 | 16,216,976                      | 41,656,880                             |      |

### 5.2 Disposal of property and equipment

| Particulars                   | Cost             | Accumulated Depreciation | Book value     | Sale proceeds    | Gain           | Mode of Sale | Particulars of Buyers |
|-------------------------------|------------------|--------------------------|----------------|------------------|----------------|--------------|-----------------------|
|                               | (R u p e e s)    |                          |                |                  |                |              |                       |
| Motor Vehicle - Suzuki Khyber | 490,000          | 361,549                  | 128,451        | 328,800          | 200,349        | Negotiations | Dawood Car Corner     |
| Motor Vehicle - Suzuki Khyber | 490,000          | 361,549                  | 128,451        | 326,800          | 198,349        | Negotiations | Dawood Car Corner     |
| Motor Vehicle - Suzuki Khyber | 426,500          | 337,056                  | 89,444         | 301,800          | 212,356        | Negotiations | Muhammad Azam Iqbal   |
| Motor Vehicle - Suzuki Khyber | 495,000          | 351,146                  | 143,854        | 325,300          | 181,446        | Negotiations | Muhammad Azam Iqbal   |
| <b>Total</b>                  | <b>1,901,500</b> | <b>1,411,301</b>         | <b>490,199</b> | <b>1,282,700</b> | <b>792,501</b> |              |                       |

5.2.1 This represents sale of assets with book value of not less than rupees fifty thousand and not sold to Chief Executive, Director, other executive, shareholders holding not less than 10% of shares or related parties, unless otherwise mentioned.

# First Capital Equities Limited

|  | Note | 2006<br>(Rupees)  | 2005<br>(Rupees)  |
|--|------|-------------------|-------------------|
| <b>6 MEMBERSHIP CARDS AND LICENCES</b> |      |                   |                   |
| <b>Membership</b>                      |      |                   |                   |
| Lahore Stock Exchange (Guarantee) Ltd  |      | -                 | 11,000,000        |
| Karachi Stock Exchange (Guarantee) Ltd |      | <b>33,200,000</b> | 33,200,000        |
|  |      | <b>33,200,000</b> | 44,200,000        |
| <b>Licences - Rooms</b>                |      |                   |                   |
| Lahore                                 |      | -                 | 4,500,000         |
| Karachi                                |      | <b>7,500,000</b>  | 7,500,000         |
| Faisalabad                             |      | -                 | 335,870           |
| Sialkot                                |      | -                 | 1,025,000         |
|  |      | <b>7,500,000</b>  | 13,360,870        |
|  |      | <b>40,700,000</b> | <b>57,560,870</b> |

**6.1** During the year, the company sold its Membership of Lahore Stock Exchange (Guarantee) Limited along with leasehold rights of Lahore, Faisalabad and Sialkot rooms to Guardian Securities (Private) Limited against sum of Rs. 34,200,000/- and earned a gain of Rs. 17,339,130/- on sale of these assets through negotiations as per the approval of shareholders in their extraordinary general meeting held on January 24, 2006.

|  | Note | 2006<br>(Rupees) | 2005<br>(Rupees)<br>(Restated) |
|--|------|------------------|--------------------------------|
|--|------|------------------|--------------------------------|

## 7 INVESTMENTS - AVAILABLE FOR SALE

### Subsidiary Company

|   |     |                  |           |
|---|-----|------------------|-----------|
| Equity Partners Securities Limited - Foreign Entity | 7.1 | <b>6,865,076</b> | 6,865,076 |
|---|-----|------------------|-----------|

**7.1** This represents 61,200 (2005: 61,200) shares representing 51% of Equity Partners Securities Limited (EPSL), Dhaka, Bangladesh acquired in accounting year 2004, by the company at Bangladeshi Taka 112/- (Pak Rs. 112.1744). EPSL is a private limited company, which was incorporated in Bangladesh on May 2000. EPSL is a corporate member of Dhaka Stock Exchange and Chittagong Stock Exchange.

|  | Note | 2006<br>(Rupees) | 2005<br>(Rupees) |
|--|------|------------------|------------------|
|--|------|------------------|------------------|

## 8 LONG TERM LOAN - UNSECURED, CONSIDERED GOOD

|                             |     |                   |          |
|-----------------------------|-----|-------------------|----------|
| Due from associated company | 8.1 | 10,190,000        | -        |
| Less: Current Portion       |     | -                 | -        |
|                             |     | <b>10,190,000</b> | <b>-</b> |

**8.1** This represents unsecured loan disbursed up to June 30, 2006, to Pace Gujrat (Private) Limited, an associated company, as per the approval of shareholders in their extraordinary general meeting held on January 24, 2006. The loan is repayable after four years and carries mark-up at the rate of 12% or higher provided such markup shall not be less than the borrowing cost of the company. The maximum aggregate amount due from the associated company at the end of any month during the year was Rs 10,190,000.

# First Capital Equities Limited

|  | Note | 2006<br>(Rupees) | 2005<br>(Rupees) |
|--|------|------------------|------------------|
| <b>9 LONG TERM DEPOSITS AND ADVANCES</b>       |      |                  |                  |
| Deposits with:                                 |      |                  |                  |
| Leasing Companies                              |      | 402,500          | 409,400          |
| Stock Exchange                                 |      | 610,000          | 635,000          |
| Central Depository Company of Pakistan Limited |      | 200,000          | 250,000          |
| National Clearing Company of Pakistan Limited  |      | 400,000          | 400,000          |
| Others   |      | 768,496          | 476,800          |
| Advance for leasehold property                 | 9.1  | 4,756,000        | -                |
|  |      | 7,136,996        | 2,171,200        |

**9.1** Represents the amount paid to Islamabad Stock Exchange (Guarantee) Limited on account of property for which possession will be transferred to the company in the year 2008.

|   | Note | 2006<br>(Rupees) | 2005<br>(Rupees) |
|---|------|------------------|------------------|
| <b>10 TRADE DEBTS - UNSECURED</b>       |      |                  |                  |
| Trade debts against purchase of shares: |      |                  |                  |
| Unsecured, considered good:             |      |                  |                  |
| Clients                                 | 10.1 | 572,339,741      | 290,989,789      |
| Members                                 |      | 415,065          | 3,329,035        |
|   |      | 572,754,806      | 294,318,824      |
| Unsecured, considered doubtful:         |      |                  |                  |
| Clients                                 |      | 60,977,954       | 49,833,209       |
| Members                                 |      | 4,820,066        | 2,344,757        |
|   |      | 65,798,020       | 52,177,966       |
| Less: Provision for doubtful debts      | 10.2 | (65,798,020)     | (52,177,966)     |
|   |      | -                | -                |
|   |      | 572,754,806      | 294,318,824      |

**10.1** It includes an amount of Rs. 140,849,871 (2005: Rs.79,450,956) receivable from related party, Mr.Suliman Ahmad Said Al-Hoqani.

|  | Note | 2006<br>(Rupees) | 2005<br>(Rupees) |
|--|------|------------------|------------------|
| <b>10.2 Provision for doubtful debts</b> |      |                  |                  |
| Opening balance                          |      | 52,177,966       | 37,432,010       |
| Provision written back                   |      | (2,009,758)      | -                |
| Charge for the year                      | 25.1 | 15,629,812       | 14,745,956       |
| Closing balance                          |      | 65,798,020       | 52,177,966       |

# First Capital Equities Limited

## 11. INVESTMENTS -AT FAIR VALUE THROUGH PROFIT AND LOSS

|   | 2006      |             |              | 2005      |              |              |
|---|-----------|-------------|--------------|-----------|--------------|--------------|
|   | NUMBER    | COST        | MARKET VALUE | NUMBER    | COST         | MARKET VALUE |
|   | (Rupees)  | (Rupees)    | (Rupees)     | (Rupees)  | (Rupees)     | (Rupees)     |
| <b>MUTUAL FUND - LISTED</b>                                   |           |             |              |           |              |              |
| PICIC Growth Fund   | 218,200   | 7,683,800   | 6,895,120    | 4,000     | 195,980      | 214,800      |
| UTP Fund of Funds   | 60,000    | 3,000,000   | 3,241,800    | -         | -            | -            |
| Unit Trust of Pakistan  | 162       | 1,153,608   | 1,508,965    | 142       | 1,015,744    | 1,153,608    |
| <b>POWER GENERATION AND DISTRIBUTION</b>                      |           |             |              |           |              |              |
| Kot Addu Power Company Limited                                | 30,000    | 1,134,915   | 1,263,000    | 20,000    | 715,500      | 755,000      |
| <b>INVEST. CO's, BANKS AND SECURITIES</b>                     |           |             |              |           |              |              |
| Mybank Limited<br>(Formerly Bolan Bank Limited)               | 10,800    | 137,600     | 215,460      | 8,000     | 124,488      | 109,600      |
| MCB Bank Limited<br>(Formerly Muslim Commercial Bank Limited) | 2,010     | 373,100     | 422,703      | 5,500     | 350,164      | 436,150      |
| <b>TEXTILE</b>  |           |             |              |           |              |              |
| Nishat Chunian Limited  | 18,700    | 1,616,700   | 832,150      | 17,000    | 763,124      | 1,616,700    |
| <b>TECHNOLOGY AND COMMUNICATION</b>                           |           |             |              |           |              |              |
| Worldcall Communication Limited                               | -         | -           | -            | 4,391,791 | 62,363,432   | 43,917,910   |
| Worldcall BroadBand Limited                                   | -         | -           | -            | 1,137,000 | 11,491,726   | 11,256,300   |
| Worldcall Telecom Limited                                     | 7,171,793 | 43,917,910  | 64,187,547   | -         | -            | -            |
| Pakistan Telecommunication Company Limited 'A'                | -         | -           | -            | 1,000     | 70,650       | 65,950       |
| <b>CHEMICAL AND PHARMA</b>                                    |           |             |              |           |              |              |
| Fauji Fertilizer Bin Qasim Limited                            | 20,000    | 538,000     | 585,000      | 95,000    | 2,488,582    | 2,555,500    |
| <b>CEMENT</b>   |           |             |              |           |              |              |
| Al-Abbas Cement Industries Limited                            | 212       | 3,180       | 4,834        | -         | -            | -            |
| Maple Leaf Cement Factory Limited                             | 7         | 140         | 179          | 77        | 3,005        | 1,679        |
| <b>SUGAR &amp; ALLIED</b>                                     |           |             |              |           |              |              |
| Mirza Sugar Mills Limited                                     | 350       | 892         | 1,015        | 350       | 1,720        | 892          |
| Faran Sugar Mills Limited                                     | 39        | 404         | 858          | 39        | 49           | 404          |
| Tandlianwala Sugar Mills Limited                              | 250       | 3,550       | 4,088        | -         | -            | -            |
| Al Abbas Sugar Mills Limited                                  | 100       | 5,750       | 5,345        | -         | -            | -            |
| <b>INSURANCE</b>  |           |             |              |           |              |              |
| Adamjee Insurance Company Limited                             | 50        | 7,314       | 6,125        | -         | -            | -            |
| Shaheen Insurance Company Limited                             | 1,610,500 | 27,545,025  | 152,192,250  | 1,281,000 | 30,713,990   | 26,260,500   |
| Pak Guarantee Insurance Company Limited                       | 474       | 1,351       | 2,370        | 474       | 948          | 1,351        |
| <b>LEASING</b>  |           |             |              |           |              |              |
| Saudi Pak Leasing Company Limited                             | 330       | 3,911       | 3,960        | -         | -            | -            |
| <b>MISCELLANEOUS</b>  |           |             |              |           |              |              |
| Morafco Industries Limited                                    | -         | -           | -            | 5,500     | 50,325       | 50,325       |
|   |           | 87,127,150  | 231,372,769  |           | 110,349,427  | 88,396,669   |
| Gain / (Loss) on remeasurement of fair value                  |           | 144,245,619 | -            |           | (21,952,758) | -            |
| Investment as at June 30                                      |           | 231,372,769 | 231,372,769  |           | 88,396,669   | 88,396,669   |

- 11.1 Includes shares having market value of Nil (2005: 4,037,700) deposited with the Stock Exchanges in lieu of deposit under the exposure rules.
- 11.2 All shares/ certificates/ units have a face value of Rs. 10 each except for Unit Trust of Pakistan and UTP fund of funds having face value of Rs. 5,000 each. and Rs. 50 each respectively.
- 11.3 During the year, the shares of WorldCall Communication Limited were converted to shares of WorldCall Telecom Limited by virtue of merger in the swap ratio of 1 : 1.42.

# First Capital Equities Limited

|   | Note | 2006<br>(Rupees) | 2005<br>(Rupees) |
|---|------|------------------|------------------|
| <b>12 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b> |      |                  |                  |
| Advances (Unsecured - Considered Good)                          |      |                  |                  |
| Executives  |      | 300,631          | 212,831          |
| Employees   |      | 2,305,939        | 1,098,578        |
| Deposits with   |      |                  |                  |
| Lahore Stock Exchange   |      | 220,000          | -                |
| Central Depository Company                                      |      | 25,000           | -                |
| Others  |      | 973,313          | 358,969          |
| Prepayments   |      | 1,821,334        | 1,687,418        |
| Advance against purchase of property & vehicles                 |      | -                | 2,585,699        |
| Stock Exchanges   | 12.1 | 119,717,212      | 38,192,486       |
| Accrued brokerage commission                                    |      | 3,241,580        | 1,750,841        |
| Receivable on account of sale of LSE card and rooms             |      | 1,500,000        | -                |
| Dividend Receivable   |      | 456,800          | -                |
| Other receivables   | 12.2 | 3,492,056        | 3,343,502        |
|   |      | 134,053,865      | 49,230,324       |

**12.1** This represents exposure deposit with the Karachi Stock Exchange (Guarantee) Limited (2005: Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited ) under the exposure Rules.

|  | Note | 2006<br>(Rupees) | 2005<br>(Rupees) |
|--|------|------------------|------------------|
| <b>12.2</b> Other receivables considered good  |      | 3,492,056        | 3,343,502        |
| Other receivables considered doubtful          |      | 1,500,000        | -                |
| Less: Provision for doubtful other receivables |      | (1,500,000)      | -                |
|  |      | 3,492,056        | 3,343,502        |

## 13 PLACEMENTS

|  |      |             |             |
|--|------|-------------|-------------|
| Secured - Considered good  |      |             |             |
| Placement on account of continuous funding system  |      | 7,641,520   | -           |
| Securities purchased under the resale agreement of quoted shares - Parent company                                    | 13.1 | 210,000,000 | 25,000,000  |
| Securities purchased under the resale agreement of quoted shares - Others  | 13.2 | 110,000,000 | -           |
| Securities purchased under the resale agreement of quoted shares - Mr. Sulaiman Ahmed Said Al-Houqani, related party | 13.3 | 350,000,000 | 200,000,000 |
|  |      | 677,641,520 | 225,000,000 |

**13.1** Rs. 25,000,000 has been placed for a period of nineteen days and carries mark up rate of 14% per annum (2005: 15%). Fair value of quoted shares held as collateral is Rs 38,485,000. The remaining balance of Rs. 185,000,000 has been given at a rate which varies from 13% to 15% per annum (2005: Nil) against collateral of listed equities securities having a market value of Rs 263,083,391 for a period that ranges from thirty days to ninety days which was further placed as collateral to a financial institution by the company under repurchase transaction. (refer to Note 21.1).

**13.2** Rs. 30,000,000 has been placed for a period of three months and carries mark up rate of 15% per annum (2005: Nil). Fair value of quoted shares held as collateral is Rs 68,800,000. The remaining balance of Rs. 80,000,000 has been given at a rate of 14% per annum (2005: Nil) against collateral of listed equities securities having a market value of Rs 110,003,882 for a period of three months which was further placed as collateral to a financial institution by the company under repurchase transaction. (refer to Note 21.1).

# First Capital Equities Limited

**13.3** Rs. 100,000,000 has been placed for a period of four months and carries mark up rate of 15% per annum (2005: 12%). Fair value of quoted shares held as collateral is Rs 187,045,737. The remaining balance of Rs. 250,000,000 has been given at a rate which varies from 12.75% to 15% per annum (2005: 12.4%) against collateral of listed equities securities having a market value of Rs 398,824,172 for a period that ranges from thirty days to ninety days which was further placed as collateral to a financial institution by the company under repurchase transaction. (refer to Note 21.1).

|           |   | Note | 2006<br>(Rupees) | 2005<br>(Rupees) |
|-----------|---|------|------------------|------------------|
| <b>14</b> | <b>INTEREST ACCRUED</b>                           |      |                  |                  |
|           | Interest accrued on:                              |      |                  |                  |
|           | Placement on account of continuous funding system |      | 21,942           | -                |
|           | Placements with parent company                    |      | 2,672,329        | 934,932          |
|           | Placements with Mr.Sulieman Ahmad                 |      |                  |                  |
|           | Said Al-Hoqani - related party                    |      | 4,554,794        | 1,512,328        |
|           | Other Placements                                  |      | 1,275,343        | 628,055          |
|           | Long term loan - Unsecured                        |      | 174,207          | -                |
|           | Bank Deposits                                     |      | 653,818          | -                |
|           |   |      | 9,352,433        | 3,075,315        |
| <b>15</b> | <b>CASH AND BANK BALANCES</b>                     |      |                  |                  |
|           | <b>Cash at banks</b>                              |      |                  |                  |
|           | Local currency                                    |      |                  |                  |
|           | Current accounts                                  |      | 39,712,570       | 17,983,077       |
|           | Deposit accounts                                  | 15.1 | 199,420,343      | 72,697,164       |
|           |   |      | 239,132,913      | 90,680,241       |
|           | Foreign currency                                  |      |                  |                  |
|           | Deposit accounts                                  | 15.1 | 1,191,030        | 1,004,302        |
|           |   |      | 240,323,943      | 91,684,543       |
|           | <b>Cash in hand</b>                               |      | 42,467           | 32,670           |
|           |   |      | 240,366,410      | 91,717,213       |

**15.1** These carry profit rate ranging from 0.5 % to 4.5 % per annum (2005: 1 % to 4 % per annum).

|           |  | Note | 2006<br>(Rupees) | 2005<br>(Rupees) |
|-----------|--|------|------------------|------------------|
| <b>16</b> | <b>ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL</b>        |      |                  |                  |
|           |  |      | 2006             | 2005             |
|           |  |      | Number of shares |                  |
|           | <b>Shares issued against cash consideration</b>            |      |                  |                  |
|           | Ordinary shares of Rs. 10/- each fully paid                |      | 22,007,000       | 22,007,000       |
|           |  |      | 220,070,000      | 220,070,000      |
|           | <b>Shares issued against consideration other than cash</b> |      |                  |                  |
|           | Issued bonus shares of Rs. 10/- each fully paid            |      | 2,000,000        | 2,000,000        |
|           |  |      | 20,000,000       | 20,000,000       |
|           |  |      | 24,007,000       | 24,007,000       |

**16.1** The Company is a subsidiary of First Capital Securities Corporation Limited - a listed company which holds 16,179,600 (67.39 %) ordinary shares (2005:16,179,600 (67.39 %)) at the year end.

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|           |   | <u>Note</u> | <u>2006</u><br>(Rupees) | <u>2005</u><br>(Rupees) |
|-----------|---|-------------|-------------------------|-------------------------|
| <b>17</b> | <b>LONG TERM FINANCING - SECURED</b>                |             |                         |                         |
|           | Term finance facility                               | 17.1        | 13,320,000              | -                       |
|           | Less: Current portion shown under current liability |             | 5,040,000               | -                       |
|           | Long term portion                                   |             | <u>8,280,000</u>        | <u>-</u>                |

**17.1** Term finance facility has been availed from a commercial bank at mark-up rate of three months KIBOR plus 2.75% and is repayable over a period of three years from the date of disbursement in thirty six equal monthly installments. The arrangement is secured by the legal mortgage of Rs 500,000 and equitable mortgage of Rs 28,000,000 on property.

## **18 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

The rate of interest used as the discounting factor is between 8.5 % to 17% per annum (2005: 8.5% to 17% per annum). The amount of future payments and the period in which they will become due are:

|  |                | <u>2006</u><br>(Rupees) | <u>2005</u><br>(Rupees) |
|--|----------------|-------------------------|-------------------------|
| Year ended June 30,                                    |                |                         |                         |
| 2006   | -              | 412,569                 |                         |
| Year ending June 30,                                   |                |                         |                         |
| 2007   | 694,982        | 694,982                 |                         |
| 2008   | 110,135        | 110,135                 |                         |
| 2009   | -              | -                       |                         |
|  | <u>805,117</u> | 1,217,686               |                         |
| Less: Unallocated financial charges                    | <u>16,316</u>  | 64,413                  |                         |
|  | <u>788,801</u> | 1,153,273               |                         |
| Less: Current maturity shown under current liabilities | <u>678,729</u> | 364,471                 |                         |
|  | <u>110,072</u> | <u>788,802</u>          |                         |

**18.1** 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.

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

|   |  | <u>Note</u> | <u>2006</u><br>(Rupees) |  | <u>2005</u><br>(Rupees) |
|---|--|-------------|-------------------------|--|-------------------------|
| <b>Gross Minimum Lease Payments</b>               |  |             |                         |  |                         |
| Not later than one year                           |  |             | 694,982                 |  | 412,569                 |
| Later than one year but not later than five years |  |             | 110,135                 |  | 805,117                 |
|   |  |             | <u>805,117</u>          |  | <u>1,217,686</u>        |
| <b>Present value of minimum lease payments</b>    |  |             |                         |  |                         |
| Not later than one year                           |  |             | 678,729                 |  | 364,471                 |
| Later than one year but not later than five years |  |             | 110,072                 |  | 788,802                 |
|   |  |             | <u>788,801</u>          |  | <u>1,153,273</u>        |

## **19 DEFERRED LIABILITIES**

|                        |      |                  |                  |
|------------------------|------|------------------|------------------|
| Provision for Gratuity | 19.1 | <u>8,965,811</u> | <u>6,524,447</u> |
|------------------------|------|------------------|------------------|

**19.1** 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. The latest actuarial valuation was carried out as on June 30, 2006.

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|   | 2006     | 2005     |
|---|----------|----------|
| Discount Rate   | 9 %      | 9 %      |
| Expected rate of salary increased in future years         | 8 %      | 8 %      |
| Average expected remaining employment period of employees | 12 Years | 12 Years |

|  | Note | 2006<br>(Rupees) | 2005<br>(Rupees) |
|--|------|------------------|------------------|
| <b>a) The amount to be recognized in the balance sheet is as follows:</b>            |      |                  |                  |
| Present value of obligation  |      | 10,397,353       | 7,163,949        |
| Unrecognized actuarial (gain) / loss   |      | (1,553,942)      | (783,502)        |
| Benefits due but not paid  |      | 122,400          | 144,000          |
| Liability recognized in the balance sheet  |      | 8,965,811        | 6,524,447        |
| <b>b) Movement of liability to be recognized in the balance sheet is as follows:</b> |      |                  |                  |
| Present value of obligation at beginning of the year                                 |      | 6,524,447        | 5,145,690        |
| Amount recognized during the year  |      | 3,219,264        | 2,403,622        |
| Liability transferred from group companies   |      | -                | 56,155           |
| Contributions made by the company during the year                                    |      | (777,900)        | (1,081,020)      |
| Net Liability at the end of the year   |      | 8,965,811        | 6,524,447        |
| <b>c) The amount recognized in the profit and loss account is as follows:</b>        |      |                  |                  |
| Current service cost   |      | 2,712,917        | 2,039,023        |
| Interest cost  |      | 644,755          | 364,599          |
| Actuarial (gain) / loss charged to profit and loss account during the year           |      | 5,592            | -                |
| Payable from previous years written off  |      | (144,000)        | -                |
| Total amount charged to income statement   | 25   | 3,219,264        | 2,403,622        |

## 20 TRADE AND OTHER PAYABLES

|  |  |             |             |
|--|--|-------------|-------------|
| Payable against sale of shares - unsecured |  |             |             |
| Clients                                    |  | 549,896,434 | 107,445,784 |
| Members                                    |  | 1,308,259   | 1,185,312   |
| Accrued and other liabilities              |  | 29,512,539  | 28,242,482  |
| With holding tax payable                   |  | 1,698,903   | 461,292     |
|  |  | 582,416,135 | 137,334,870 |

## 21 LIABILITIES AGAINST REPURCHASE AGREEMENTS- SECURED

|                                  |      |             |             |
|----------------------------------|------|-------------|-------------|
| Payable to financial institution | 21.1 | 515,000,000 | 100,000,000 |
|----------------------------------|------|-------------|-------------|

**21.1** This represents the amount payable to a financial institution under the repurchase agreement against the securities given under the arrangement as explained in note 13. The effective interest rate is 12.75 % to 15% per annum and is for a period of one to three months.



|           |                                       | <u>Note</u> | <u>2006</u><br>(Rupees) | <u>2005</u><br>(Rupees) |
|-----------|---------------------------------------|-------------|-------------------------|-------------------------|
| <b>22</b> | <b>SHORT TERM BORROWINGS- SECURED</b> | <b>22.1</b> | <b>206,039,823</b>      | <b>188,783,416</b>      |

**22.1** The facilities are obtained from various commercial banks under mark up arrangements amounting to Rupees 1,005 million (2005 : Rs.480 million). These facilities carry mark up at the rate ranging from 6 months KIBOR plus 2 % to 4.25 % (2005: 1.5 % 4.25 %) per annum with floor limits ranging from 10% to 13% per annum. (2005: 8 % to 12 %) except for a facility which carries mark up at the rate of 16 % (2005: 16 % ) per annum payable quarterly and are secured against pledge of own shares of listed companies having fair value of Rs. 18,159,550 and third party shares of listed companies having fair value of Rs. 372,242,701.

**23 CONTINGENCIES**

**23.1 Contingencies**

- a) 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. Based on the legal opinion, the management considers if the recovery suits succeed entirely or partially and result in recovery of an amount from clients, the only obligation of the Company is to remit the same to ABN AMRO. Whereas in case of recovery suit is unsuccessful, the aforesaid loan will lapse for all purposes and it will extinguish the recovery of loans from clients and this will not affect, in any manner, the financial situation of the Company, as it does not have any obligation to pay any amounts to ABN AMRO from its own sources. 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.

The company has agreed to indemnify ABN AMRO, its directors and affiliates from any or all claims which may be finalized against the company except for those mentioned above. The existence and the magnitude of any such claims, other than mentioned in these accounts, are not presently known.

- b) The Honorable Sindh High Court, while deciding on different applications filed by the Company, directed the Karachi Stock Exchange (Guarantee) Limited (KSE) Advisory and Arbitration Committee in January 2005 to consider the legal issues before initiating arbitration proceedings for only claims amounting to Rs. 37.53 million filed by M/s. Aslam Motiwala, Sultan Ahmad Zakria and Muhammad Asif Sultan against the Company. The Management is confident that these claims would be decided in the Company's favour.

A claim of Rs. 176,594,240 by the above mentioned members of the Karachi Stock Exchange (Guarantee) Limited (KSE) was also filed with the KSE Advisory and Arbitration Committee and the same was not entertained by the committee as it was not in their legal jurisdiction. The claimant then filed a civil suit before the Honourable Sindh High Court in the year 2000, which is pending. The management is of the opinion that the likelihood of an un-favourable decision is remote.

- c) The Income Tax Authorities finalized the assessment for the assessment years 2000-2001 and 2001-2002 in previous years by allocating expenditures against capital gains and determined a demand of Rs. 8,485,909 and refund of Rs. 362,513 respectively. The company filed the appeal before the Commissioner Income Tax CIT (Appeals) who set aside the order of assessing officer on issue of capital gain. The company filed the appeal before the Honourable Income Tax Appellate Tribunal against the order of CIT (Appeals) who has directed the assessing officer to allocate expenses as were wholly and exclusively incurred in connection with the transfer of shares. In the light of direction given by the Honourable Income

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Tax Appellate Tribunal, the management is confident that no such demand will exist after issuance of appeal effect.

- d) Mr. Assad ullah Sajid has filed petition with Securities and Exchange Commission of Pakistan against the Company for refund of deposit worth of Rs. 590,740/- (2005 : Rs. 590,740) deposited for purchase of shares on his behalf.

## COMMITMENTS

- a) Commitments includes Rs. 52,500,000/- against underwriting of right issue of First Capital Mutual Fund Limited for 5,250,000/- shares.
- b) Company has agreed to pay a further sum of Rs 42,804,000 on account of property to be acquired as explained in Note 9.1 to the financial statements.
- c) Commitment includes giving delivery of shares of various listed companies having fair value of Rs. 7,641,520 against placements under Continuous Funding System as disclosed in note 13 to the financial statements.

|   | <u>Note</u> | <u>2006</u><br><u>(Rupees)</u> | <u>2005</u><br><u>(Rupees)</u> |
|---|-------------|--------------------------------|--------------------------------|
| <b>24 OTHER OPERATING INCOME</b>                |             |                                |                                |
| <b>Income from financial assets</b>             |             |                                |                                |
| Income from placements                          | 24.1        | 64,918,668                     | 35,136,829                     |
| Return on deposit accounts                      |             | 1,470,234                      | 1,524,546                      |
| Interest on long term loan - associated company |             | 174,207                        | -                              |
| Dividend income                                 |             | 1,025,768                      | 4,121,590                      |
| <b>Income from other than financial assets</b>  |             |                                |                                |
| Gain on sale of property and equipment          | 5.2         | 792,501                        | 55,244                         |
| Provision for bad debts written back            |             | 2,009,758                      | -                              |
| Gain on foreign currency translation            |             | 9,555                          | 12,457                         |
| Underwriting commission                         |             | 2,646,735                      | 1,425,000                      |
| Others  |             | 2,967,643                      | 699,770                        |
|   |             | <u>76,015,069</u>              | <u>42,975,436</u>              |

- 24.1 This includes interest income earned on placements to related parties Mr.Sulieman Ahmad Said Al-Hoqani Rs 41,129,395 (2005: Rs 24,048,950) and parent company Rs 13,508,571 (2005: Rs 11,087,879) through repurchase agreements with financial institutions during the year.

|                              | <u>Note</u> | <u>2006</u><br><u>(Rupees)</u> | <u>2005</u><br><u>(Rupees)</u><br><u>(Restated)</u> |
|------------------------------|-------------|--------------------------------|---|
| <b>25 OPERATING EXPENSES</b> |             |                                |   |
| Salaries and benefits        |             | 83,848,665                     | 83,901,384  |
| Provision for gratuity       | 19.1        | 3,219,264                      | 2,403,622   |
| Stock Exchange charges       |             | 27,315,539                     | 39,210,401  |
| Rent, rates and taxes        |             | 4,675,879                      | 3,782,413   |
| Communication                |             | 8,063,200                      | 6,857,112   |
| Utilities                    |             | 3,134,385                      | 2,729,949   |
| Insurance                    |             | 1,361,985                      | 1,175,484   |
| Printing and stationery      |             | 2,034,731                      | 1,943,198   |
| Traveling and conveyance     |             | 7,518,819                      | 4,290,472   |
| Repair and maintenance       |             | 4,632,386                      | 4,219,188   |

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|   | Note      | 2005<br>(Rupees)   | 2004<br>(Rupees)   |
|---|-----------|--------------------|--------------------|
| Postage and courier   |           | 1,590,446          | 1,511,958          |
| Vehicle running expenses  |           | 40,268             | 67,777             |
| News paper and periodicals  |           | 125,459            | 133,365            |
| Entertainment   |           | 2,411,203          | 3,837,153          |
| Legal and professional  |           | 2,211,660          | 2,205,917          |
| Bad debts   | 25.1      | 17,836,762         | 15,641,861         |
| Advertisement   |           | 1,549,386          | 1,283,876          |
| Auditors' remuneration  | 25.2      | 1,013,755          | 509,750            |
| Depreciation  | 5.1       | 7,239,988          | 5,806,891          |
| Fee and subscription  |           | 2,863,734          | 972,249            |
| CDC and stamps charges  |           | 5,989,912          | 5,960,503          |
| Donation  | 25.3      | 398,102            | 90,400             |
| Capital value tax   |           | 3,205              | 433,686            |
| Penalty by SECP   |           | 25,000             | -                  |
| Other expenses  |           | 1,127,541          | 1,101,564          |
|   |           | <u>190,231,274</u> | <u>190,070,173</u> |
| <b>25.1 Bad debts comprises of:</b>   |           |                    |                    |
| Bad debts written off directly  |           | 706,950            | 895,905            |
| Provision for doubtful debts  | 10.2&12.2 | 17,129,812         | 14,745,956         |
|   |           | <u>17,836,762</u>  | <u>15,641,861</u>  |
| <b>25.2 Auditors' remuneration</b>  |           |                    |                    |
| Statutory Audit Fee   |           | 400,000            | 250,000            |
| Review of half yearly accounts  |           | 240,000            | 100,000            |
| Misc. certification and compliance charges  |           | 373,755            | 159,750            |
|   |           | <u>1,013,755</u>   | <u>509,750</u>     |
| <b>25.3</b> None of the directors or their spouse had any interest in any of the donee. |           |                    |                    |
| <b>26 FINANCE COSTS</b>   |           |                    |                    |
| Mark-up on short term borrowings  |           | 20,374,659         | 20,634,201         |
| Mark-up on repurchase agreements  | 21.1      | 47,072,061         | 24,048,947         |
| Mark-up on long term financing  |           | 671,962            | -                  |
| Finance lease charges   |           | 47,362             | 73,976             |
| Bank charges and commission   |           | 751,568            | 668,039            |
|   |           | <u>68,917,612</u>  | <u>45,425,163</u>  |
| <b>27 TAXATION</b>  |           |                    |                    |
| Current   |           | 31,988,961         | 29,967,058         |
| Deferred  | 27.2      | -                  | -                  |
|   |           | <u>31,988,961</u>  | <u>29,967,058</u>  |
| <b>27.1 Relationship between income tax expenses and accounting profit:</b>             |           |                    |                    |
| Profit before taxation  |           | <u>264,647,567</u> | <u>110,421,455</u> |
| Tax at the applicable tax rate of 35 % (2005 : 35%)                                     |           | 92,626,648         | 38,647,509         |
| Tax effect of expenses that are inadmissible in determining tax profits                 |           | 64,708,138         | 5,185,169          |
| Tax effect of net income chargeable under final tax regime                              |           | (71,062,785)       | (4,892,838)        |

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|  | <b>2006</b>         | <b>2005</b>       |
|--|---------------------|-------------------|
|  | <b>(Rupees)</b>     | <b>(Rupees)</b>   |
|  |                     | <b>(Restated)</b> |
| Tax effect of items that are not included in determining taxable profits | <b>(54,283,040)</b> | (8,972,782)       |
| Deferred tax liability reversed during the year                          | -                   | -                 |
|  | <b>31,988,961</b>   | 29,967,058        |

**27.2** In view of taxable profits not available in foreseeable future owing to the effect of exempt income, the company has not incorporated deferred tax debit in these financial statements.

**27.3** The returns of total income for the Tax Years 2003, 2004 and 2005 were filed by the company under Universal Self Assessment Scheme and are deemed to be assessed. The return of total income for the Tax year 2003 was earlier selected by audit by the Tax Department. The Company challenged this selection in the Honourable High Court which had accepted the contention of the Company and Cancelled the selection. The Tax Department filed an appeal before Honourable Supreme Court of Pakistan, which has reversed the order of the Honourable High Court. However, consequent to this no further proceedings have been initiated in this regard.

|  | <b>2006</b>        | <b>2005</b>       |
|--|--------------------|-------------------|
|  | <b>(Rupees)</b>    | <b>(Rupees)</b>   |
|  |                    | <b>(Restated)</b> |
| <b>28 EARNINGS PER SHARE - BASIC</b>                         |                    |                   |
| Profit after taxation attributable to ordinary share holders | <b>232,658,606</b> | 80,487,660        |
| Weighted average number of ordinary shares                   | <b>24,007,000</b>  | 24,007,000        |
| Earnings per share - Basic Rupees per share                  | <b>9.69</b>        | 3.35              |

**28.1** No figure for diluted earnings per share has been disclosed as the Company has not issued any instrument which would have an impact on earnings per share, when exercised.

**29. TRANSACTIONS WITH RELATED PARTIES**

The related parties comprise parent company, related group companies, local associated undertakings, directors, key management personnel and their close family members. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel under the terms of their employment are as follows:

| June 30, 2006                        |                |                   |   |               |             |
|--------------------------------------|----------------|-------------------|---|---------------|-------------|
| Associated Company                   | Parent Company | Fellow Subsidiary | Key management personnel of the entity, Its parent and their close family members | Related Party |             |
| (Rupees)                             | (Rupees)       | (Rupees)          | (Rupees)  | (Rupees)      |             |
| Brokerage income                     | 51,975         | 1,386,648         | 129,315   | 2,185,874     | 34,845,274  |
| Repurchase agreement arrangement fee | -              | 270,833           | -   | -             | 375,000     |
| Group Expenses                       | -              | -                 | -   | -             | -           |
| Gratuity transferred                 | -              | -                 | -   | -             | -           |
| Placements entered                   | -              | 210,000,000       | -   | -             | 900,000,000 |
| Income earned on placements          | -              | 13,508,571        | -   | -             | 41,129,395  |
| Long term loan                       | 10,190,000     | -                 | -   | -             | -           |
| Interest on long term loan           | 174,207        | -                 | -   | -             | -           |

| June 30, 2006                        |                |                   |  |               |             |
|--------------------------------------|----------------|-------------------|--|---------------|-------------|
| Associated Company                   | Parent Company | Fellow Subsidiary | Key management Personnel of the entity its parent and their close family members | Related Party |             |
| (Rupees)                             | (Rupees)       | (Rupees)          | (Rupees)   | (Rupees)      |             |
| Brokerage income                     | 34,612         | 308,379           | 15,200   | 7,236,500     | 18,377,761  |
| Repurchase agreement arrangement fee | -              | -                 | -  | -             | -           |
| Group Expenses                       | -              | 5,856,055         | 1,447,304  | -             | -           |
| Gratuity transferred                 | -              | 56,155            | -  | -             | -           |
| Placements entered                   | -              | 25,000,000        | -  | -             | 398,000,000 |
| Income earned on placements          | -              | 11,087,879        | -  | -             | 24,048,950  |
| Long term loan                       | -              | -                 | -  | -             | -           |
| Interest on long term loan           | -              | -                 | -  | -             | -           |

**29.1** The amounts due to / due from related parties are disclosed in respective notes to the financial statements.

**29.2** The amounts disclosed represent the amount of brokerage income earned from the connected parties and not the purchase or sale value of securities transacted through for them. The purchase or sale value has not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.

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## 30 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 30.1 INTEREST RATE RISK EXPOSURE

Interest rate risk is the risk of decline in earnings due to adverse movement of the interest rate curve. Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. 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, 2006                     |                                   |                                   |                                   |                      |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------|
|  | Interest/Markup Bearing           |                                   | Non Interest Bearing              |                                   | Total                |
|  | Less than<br>one year<br>(Rupees) | One year<br>and above<br>(Rupees) | Less than<br>one year<br>(Rupees) | One year<br>and above<br>(Rupees) |                      |
| <b>Financial assets</b>                                |                                   |                                   |                                   |                                   |                      |
| Investments - available for sale                       | -                                 | -                                 | -                                 | 6,865,076                         | 6,865,076            |
| Long term loan - Unsecured                             | -                                 | 10,190,000                        | -                                 | -                                 | 10,190,000           |
| Long term deposits and advances                        | -                                 | -                                 | -                                 | 7,136,996                         | 7,136,996            |
| Trade debts - Unsecured                                | -                                 | -                                 | 572,754,806                       | -                                 | 572,754,806          |
| Investments at fair value through<br>profit and loss   | -                                 | -                                 | 231,372,769                       | -                                 | 231,372,769          |
| Advances, deposits and other receivables               | -                                 | -                                 | 129,625,961                       | -                                 | 129,625,961          |
| Placements   | 677,641,520                       | -                                 | -                                 | -                                 | 677,641,520          |
| Interest accrued                                       | -                                 | -                                 | 9,352,433                         | -                                 | 9,352,433            |
| Cash and bank balances                                 | 200,611,373                       | -                                 | 39,755,037                        | -                                 | 240,366,410          |
|  | <u>878,252,893</u>                | <u>10,190,000</u>                 | <u>982,861,006</u>                | <u>14,002,072</u>                 | <u>1,885,305,971</u> |
| <b>Financial Liabilities</b>                           |                                   |                                   |                                   |                                   |                      |
| Long term financing                                    | 5,040,000                         | 8,280,000                         | -                                 | -                                 | 13,320,000           |
| Liabilities against assets subject<br>to finance lease | 678,729                           | 110,072                           | -                                 | -                                 | 788,801              |
| Trade and other payables                               | -                                 | -                                 | 580,717,232                       | -                                 | 580,717,232          |
| Liabilities against repurchase agreements              | 515,000,000                       | -                                 | -                                 | -                                 | 515,000,000          |
| Short term borrowings                                  | 206,039,823                       | -                                 | -                                 | -                                 | 206,039,823          |
| Interest accrued on short term borrowings              | -                                 | -                                 | 4,283,739                         | -                                 | 4,283,739            |
| Interest accrued on repurchase agreements              | -                                 | -                                 | 3,630,513                         | -                                 | 3,630,513            |
|  | <u>726,758,552</u>                | <u>8,390,072</u>                  | <u>588,631,484</u>                | <u>-</u>                          | <u>1,323,780,108</u> |
| On balance sheet gap                                   | <u>151,494,341</u>                | <u>1,799,928</u>                  | <u>394,229,522</u>                | <u>14,002,072</u>                 | <u>561,525,863</u>   |

|  | June 30, 2005                     |                                   |                                   |                                   |                    |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|--------------------|
|  | Interest/Markup Bearing           |                                   | Non Interest Bearing              |                                   | Total              |
|  | Less than<br>one year<br>(Rupees) | One year<br>and above<br>(Rupees) | Less than<br>one year<br>(Rupees) | One year<br>and above<br>(Rupees) |                    |
| <b>Financial assets</b>                                |                                   |                                   |                                   |                                   |                    |
| Investments - available for sale                       | -                                 | -                                 | -                                 | 6,865,076                         | 6,865,076          |
| Long term deposits and advances                        | -                                 | -                                 | -                                 | 2,171,200                         | 2,171,200          |
| Trade debts - Unsecured                                | -                                 | -                                 | 294,318,824                       | -                                 | 294,318,824        |
| Investments at fair value through<br>profit and loss   | -                                 | -                                 | 88,396,669                        | -                                 | 88,396,669         |
| Advances, deposits and other receivables               | -                                 | -                                 | 43,645,798                        | -                                 | 43,645,798         |
| Placements   | 225,000,000                       | -                                 | -                                 | -                                 | 225,000,000        |
| Interest accrued                                       | -                                 | -                                 | 3,075,315                         | -                                 | 3,075,315          |
| Cash and bank balances                                 | 73,701,466                        | -                                 | 18,015,747                        | -                                 | 91,717,213         |
|  | <u>298,701,466</u>                | <u>-</u>                          | <u>447,452,353</u>                | <u>9,036,276</u>                  | <u>755,190,095</u> |
| <b>Financial Liabilities</b>                           |                                   |                                   |                                   |                                   |                    |
| Liabilities against assets subject<br>to finance lease | 364,471                           | 788,802                           | -                                 | -                                 | 1,153,273          |
| Trade and other payables                               | -                                 | -                                 | 136,873,578                       | -                                 | 136,873,578        |
| Liabilities against repurchase agreements              | 100,000,000                       | -                                 | -                                 | -                                 | 100,000,000        |
| Interest accrued on short term borrowings              | -                                 | -                                 | 5,539,955                         | -                                 | 5,539,955          |
| Interest accrued on repurchase agreements              | -                                 | -                                 | 657,534                           | -                                 | 657,534            |
| Short term borrowings                                  | 188,783,416                       | -                                 | -                                 | -                                 | 188,783,416        |
|  | <u>289,147,887</u>                | <u>788,802</u>                    | <u>143,071,067</u>                | <u>-</u>                          | <u>433,007,756</u> |
| On balance sheet gap                                   | <u>9,553,579</u>                  | <u>(788,802)</u>                  | <u>304,381,286</u>                | <u>9,036,276</u>                  | <u>322,182,339</u> |

**30.2** There are no financial assets and financial liabilities maturing after five years except for long term investments amounting to Rs 6,856,076 (2005: Rs. 6,856,076).

**30.3** The company has financial instruments with both fixed and floating interest rates which are disclosed in the respective notes to the financial statements.

**30.4 Concentration of credit risk and credit exposure of the financial instruments**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of a company's performance to developments affecting a particular industry. The company manages its credit risk by the following methods:

- Monitoring of debts on continuous basis
- Deposit of margins before execution of orders for all retail clientele.
- Obtaining adequate securities for all receivables/ placements.

**30.5 Foreign exchange risk management**

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

**30.6 Liquidity risk management**

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments. The company believes that it is not exposed to any significant level of liquidity risk.

**30.7 Fair value of the financial instruments**

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

**31 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

|                             | Chief Executive  |                  | Directors         |                   | Executives        |                   |
|-----------------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|
|                             | 2006             | 2005             | 2006              | 2005              | 2006              | 2005              |
| <b>Total Number</b>         | <b>1</b>         | <b>1</b>         | <b>4</b>          | <b>4</b>          | <b>6</b>          | <b>1</b>          |
|                             | (Rupees)         | (Rupees)         | (Rupees)          | (Rupees)          | (Rupees)          | (Rupees)          |
| Managerial Remuneration     | 917,200          | 871,467          | 3,530,000         | 3,101,778         | 4,113,600         | 2,024,200         |
| House Rent                  | 366,880          | 348,587          | 1,412,000         | 1,240,711         | 1,645,440         | 809,680           |
| Gratuity                    | -                | -                | -                 | 400,000           | -                 | 296,000           |
| Medical Expenses Reimbursed | 218,449          | 229,452          | 309,874           | 408,547           | 101,286           | 54,087            |
| Utilities                   | 91,720           | 87,147           | 353,000           | 310,178           | 411,360           | 202,420           |
| Other Benefits              | 1,675,672        | 639,000          | 4,424,197         | 9,217,082         | 4,321,696         | 9,217,082         |
|                             | <b>3,269,921</b> | <b>2,175,653</b> | <b>10,029,071</b> | <b>14,678,296</b> | <b>10,593,382</b> | <b>12,603,469</b> |

**31.1** In addition, Chief Executive, Directors and some executives have been provided with company maintained cars.

**31.2** No meeting fees were paid to any of the directors for attending the Board/ Audit Committee meetings (2005: Nil).

**32** The Board of directors have proposed 50% Bonus Issue and 50% right issue at a premium of Rs. 5/- per share for the year ended June 30, 2006, (2005: Nil), at their meeting held on October 09, 2006 for approval of the members at the Annual General Meeting to be held on October 31, 2006. These financial statements do not reflect the appropriations in this regard.

**33 AUTHORISATION FOR ISSUE**

These financial statements have been authorised for issue by the Board of Directors of the company on October 09, 2006.

**34 NEW ACCOUNTING DEVELOPMENTS**

**34.1** Following amendments to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after January 01, 2006 or later periods:

|  |                                 |
|--|---------------------------------|
| IAS-19 (Amendments) – Employee Benefits  | Effective from January 01, 2006 |
| IAS-39 Financial Instruments: Recognition and Measurement – Fair Value Option, Cash flow hedge for forecast intra group transactions | Effective from January 01, 2006 |
| IAS-1 Presentation of Financial Statements Capital Disclosures   | Effective from January 01, 2007 |

Adoption of the above amendments may only impact the extent of disclosures presented in the financial statements.

**34.2** In addition to above, a new series of standards called “International Financial Reporting Standards (IFRSs)” have been introduced and seven IFRSs have been issued by IASB. Out of these following four IFRS have been adopted by Institute of Chartered Accountant of Pakistan (ICAP) however since these have not been adopted by SECP therefore, do not form part of the approved local financial reporting framework:

IFRS-2 (Share based Payments);  
IFRS-3 (Business Combinations);  
IFRS-5 (Non-current Assets held for Sale and Discontinued Operations); and

The company expects that the adoption of these pronouncements mentioned above will have no significant impact on the company's financial statements in the period of initial application.

**35 GENERAL**

**35.1** Significant rearrangements are as follows:

|  | <u>2006</u><br><b>(Rupees)</b> | <u>2005</u><br><b>(Rupees)</b> |
|--|--------------------------------|--------------------------------|
| Accrued brokerage commission previously shown under the head of "Others" in Advances, Deposits, Prepayments and Other Receivables now separately shown | 3,241,580                      | 1,750,841                      |
| Liabilities against repurchase agreements previously shown under the head of Trade and other payables now separately shown                             | 515,000,000                    | 100,000,000                    |

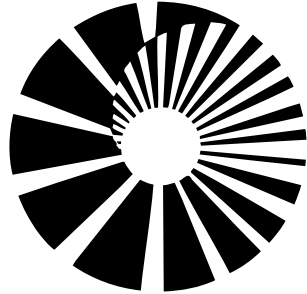
**35.2** Figures have been rounded off to the nearest rupee .

Lahore

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director





**FCEL**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**JUNE 30, 2006**

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of FIRST CAPITAL EQUITIES LIMITED and its subsidiary company as at June 30, 2006 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity, together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of First Capital Equities Limited. The financial statements of subsidiary company (unaudited) were reviewed by another firm of auditors, whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for such subsidiary company, is based solely on the report of such other auditor. These financial statements are the responsibility of Holding Company's management. Our responsibility is to express an opinion on these statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial positions of First Capital Equities Limited and its subsidiary company as at June 30, 2006 and the results of their operations for the year then ended.

LAHORE:  
October 09, 2006

**Ford Rhodes Sidat Hyder & Co.**  
**Chartered Accountants**

## CONSOLIDATED BALANCE SHEET

AS AT JUNE 30, 2006

|   | <u>Note</u> | <u>2006</u><br>(Rupees) | <u>2005</u><br>(Rupees)<br>(Restated) |
|---|-------------|-------------------------|---------------------------------------|
| <b>ASSETS</b>   |             |                         |                                       |
| <b>NON - CURRENT ASSETS</b>   |             |                         |                                       |
| Property and equipment  | 5           | 58,818,296              | 42,453,237                            |
| Membership card and licenses  | 6           | 51,023,266              | 67,884,136                            |
| Goodwill  | 7           | 358,749                 | 538,084                               |
| Long term loan - unsecured  | 8           | 10,190,000              | -                                     |
| Long term deposits and advances   | 9           | 7,136,996               | 2,171,200                             |
|   |             | <u>127,527,307</u>      | <u>113,046,657</u>                    |
| <b>CURRENT ASSETS</b>   |             |                         |                                       |
| Trade debts- unsecured  | 10          | 572,754,806             | 294,318,824                           |
| Investments at fair value through profit and loss                       | 11          | 231,372,769             | 88,396,669                            |
| Advances, deposits, prepayments and other receivables                   | 12          | 135,060,632             | 50,741,880                            |
| Advance income tax  |             | 35,634,236              | 33,557,972                            |
| Placements  | 13          | 677,641,520             | 225,000,000                           |
| Interest accrued  | 14          | 9,352,433               | 3,075,315                             |
| Cash and bank balances  | 15          | 245,893,456             | 105,397,432                           |
|   |             | <u>1,907,709,852</u>    | <u>800,488,092</u>                    |
|   |             | <u>2,035,237,159</u>    | <u>913,534,749</u>                    |
| <b>EQUITY AND LIABILITIES</b>   |             |                         |                                       |
| <b>Authorised capital</b>   |             |                         |                                       |
| 30,000,000 (2005: 30,000,000) ordinary shares of Rs.10/- each           |             | <u>300,000,000</u>      | <u>300,000,000</u>                    |
| <b>Issued, subscribed and paid up share capital</b>                     | 16          | <u>240,070,000</u>      | <u>240,070,000</u>                    |
| <b>Unappropriated Profits</b>   |             | <u>433,803,792</u>      | <u>201,490,885</u>                    |
|   |             | 673,873,792             | 441,560,885                           |
| <b>Minority interest</b>  |             | <u>5,567,389</u>        | <u>5,727,242</u>                      |
|   |             | 679,441,181             | 447,288,127                           |
| <b>NON - CURRENT LIABILITIES</b>  |             |                         |                                       |
| Long term financing   | 17          | 8,280,000               | -                                     |
| Liabilities against assets subject to finance lease                     | 18          | 110,072                 | 788,802                               |
| Deferred liabilities  | 19          | 8,965,811               | 6,524,447                             |
|   |             | <u>17,355,883</u>       | <u>7,313,249</u>                      |
| <b>CURRENT LIABILITIES</b>  |             |                         |                                       |
| Trade and other payables  | 20          | 588,446,428             | 151,796,595                           |
| Liabilities against repurchase agreements                               | 21          | 515,000,000             | 100,000,000                           |
| Short term borrowings   | 22          | 206,162,344             | 188,915,919                           |
| Current portion of long term financing                                  | 17          | 5,040,000               | -                                     |
| Interest accrued on short term borrowings                               |             | 4,283,739               | 5,539,955                             |
| Interest accrued on repurchase agreements                               |             | 3,630,513               | 657,534                               |
| Current maturity of liabilities against assets subject to finance lease | 18          | 678,729                 | 364,471                               |
| Provision for taxation  |             | 15,198,342              | 11,658,899                            |
|   |             | <u>1,338,440,095</u>    | <u>458,933,373</u>                    |
|   |             | <u>2,035,237,159</u>    | <u>913,534,749</u>                    |
| <b>CONTINGENCIES AND COMMITMENTS</b>                                    |             |                         |                                       |
|   | 23          |                         |                                       |

The annexed notes 1 to 36 form an integral part of these financial statements.

Lahore

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2006

|  | <u>Note</u> | <u>2006</u><br>(Rupees)          | <u>2005</u><br>(Rupees)<br>(Restated) |
|--|-------------|----------------------------------|---------------------------------------|
| <b>INCOME</b>  |             |                                  |                                       |
| Brokerage income   |             | 284,955,982                      | 259,854,232                           |
| Capital gain   |             | 874,892                          | 48,022,965                            |
| Gain on sale of membership card and licenses   | 6.1         | 17,339,130                       | -                                     |
| Income on continuous funding system transactions   |             | 3,505,075                        | 18,358,868                            |
| Other operating income   | 24          | <u>76,025,460</u>                | <u>42,975,436</u>                     |
|  |             | <b>382,700,539</b>               | 369,211,501                           |
| Unrealised gain / (loss) on re-measurement of investments<br>at fair value through profit and loss | 11          | <u>144,245,619</u>               | <u>(21,952,758)</u>                   |
|  |             | <b>526,946,158</b>               | 347,258,743                           |
| <b>EXPENDITURES</b>  |             |                                  |                                       |
| Operating expenses   | 25          | <b>193,532,455</b>               | 191,525,573                           |
| Finance costs  | 26          | <b>68,950,814</b>                | 45,426,316                            |
| Other charges  | 27          | <b>179,355</b>                   | 179,355                               |
|  |             | <b>262,662,624</b>               | 237,131,244                           |
| <b>PROFIT BEFORE TAXATION</b>  |             | <u><b>264,283,534</b></u>        | 110,127,499                           |
| Taxation   | 28          | <u><b>32,091,948</b></u>         | 29,884,415                            |
| <b>PROFIT AFTER TAXATION</b>   |             | <u><b>232,191,586</b></u>        | 80,243,084                            |
| <b>MINORITY INTEREST</b>   |             | <b>(141,448)</b>                 | (31,958)                              |
| <b>PROFIT ATTRIBUTABLE TO PARENT COMPANY</b>   |             | <u><u><b>232,333,034</b></u></u> | <u><u>80,275,042</u></u>              |
| <b>EARNINGS PER SHARE - BASIC</b>  | 29          | <u><u><b>9.68</b></u></u>        | <u><u>3.34</u></u>                    |

The annexed notes 1-36 form an integral part of these financial statements.

Lahore

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2006

|   | Note | 2006<br>(Rupees) | 2005<br>(Rupees)<br>(Restated) |
|---|------|------------------|--------------------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>  |      |                  |                                |
| <b>Funds generated from operations</b>  |      |                  |                                |
| Profit before taxation  |      | 264,283,534      | 110,127,499                    |
| <b>Add: Items not involved in movement of funds</b>   |      |                  |                                |
| Depreciation  |      | 7,405,464        | 5,953,987                      |
| Amortization of goodwill  |      | 179,355          | 179,355                        |
| Unrealised (gain) / loss on re measurement of investments at fair value through profit and loss |      | (144,245,619)    | 21,952,758                     |
| Provision for doubtful debts written back   |      | (2,009,758)      | -                              |
| Provision for doubtful debts  |      | 17,129,812       | 14,745,956                     |
| Bad debts written off   |      | 706,950          | 895,905                        |
| Dividend Income   |      | (1,036,159)      | (4,121,590)                    |
| Interest accrued  |      | (66,563,109)     | (36,661,375)                   |
| Interest expense  |      | 68,950,814       | 44,683,148                     |
| (Gain) on sale of property and equipment  |      | (792,501)        | (55,244)                       |
| (Gain) on sale of membership card and licenses  |      | (17,339,130)     | -                              |
| Provision for gratuity  |      | 3,219,264        | 2,403,622                      |
|   |      | (134,394,617)    | 49,976,522                     |
|   |      | 129,888,917      | 160,104,021                    |
| <b>(Increase) / decrease in current assets</b>  |      |                  |                                |
| Investments at fair value through profit and loss   |      | 1,269,519        | 128,528,284                    |
| Trade debts- unsecured  |      | (292,762,986)    | (82,555,111)                   |
| Advances, deposits, prepayments and other receivables   |      | (85,404,388)     | 20,411,769                     |
|   |      | (376,897,855)    | 66,384,942                     |
| <b>Increase / (decrease) in current liabilities in trade and other payables</b>                 |      |                  |                                |
|   |      | 436,649,833      | (171,635,606)                  |
| <b>Cash generated from operations</b>   |      |                  |                                |
|   |      | 189,640,895      | 54,853,357                     |
| Dividend received   |      | 579,359          | 4,121,590                      |
| Interest received   |      | 60,285,991       | 34,143,953                     |
| Finance cost paid   |      | (67,234,051)     | (39,792,776)                   |
| Gratuity Paid   |      | (777,900)        | (1,081,020)                    |
| Taxes Paid  |      | (30,628,769)     | (30,082,689)                   |
| <b>Net cash generated from operating activities</b>   |      | 151,865,525      | 22,162,415                     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |      |                  |                                |
| Acquisition of property and equipment   |      | (24,646,710)     | (29,574,161)                   |
| Proceeds from sale of property and equipment  |      | 1,672,572        | 210,000                        |
| Proceeds from sale of membership cards and licenses   |      | 34,200,000       | -                              |
| Membership cards and licences   |      | -                | (1,000,201)                    |
| Long term loan - unsecured  |      | (10,190,000)     | -                              |
| Placements  |      | (452,641,520)    | (225,000,000)                  |
| Long term deposits and prepayments  |      | (4,965,796)      | 70,650                         |
| <b>Net cash used in investing activities</b>  |      | (456,571,454)    | (255,293,712)                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |      |                  |                                |
| Liabilities against assets subject to finance lease   |      | (364,472)        | 383,815                        |
| Long term finance obtained  |      | 13,320,000       | -                              |
| Liabilities against repurchase agreements   |      | 415,000,000      | 100,000,000                    |
| Short term borrowings   |      | 17,246,425       | 121,809,138                    |
| <b>Net cash generated from financing activities</b>   |      | 445,201,953      | 222,192,953                    |
| <b>Net increase / (decrease) in cash and cash equivalents</b>                                   |      | 140,496,024      | (10,938,343)                   |
| <b>Cash and cash equivalents at the beginning of the year</b>                                   |      | 105,397,432      | 116,335,775                    |
| <b>Cash and cash equivalents at the end of the year</b>   | 15   | 245,893,456      | 105,397,432                    |

The annexed notes 1 to 36 form an integral part of these financial statements.

Lahore

Chief Executive

Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2006

| PARTICULARS   | Share<br>Capital<br>(Rupees) | <u>Revenue Reserve</u><br>Unappropriated<br>Profit<br>(Rupees) | Total<br>(Rupees)  |
|---|------------------------------|--|--------------------|
| <b>Balance as at June 30, 2004</b>                    | <b>240,070,000</b>           | <b>121,231,205</b>   | <b>361,301,205</b> |
| Profit for the year                                   | -                            | 80,275,042   | 80,275,042         |
| Adjustment of exchange difference<br>on consolidation | -                            | (15,362)   | (15,362)           |
| <b>Balance as at June 30, 2005</b>                    | <b>240,070,000</b>           | <b>201,490,885</b>   | <b>441,560,885</b> |
| Profit for the year                                   | -                            | 232,333,034  | 232,333,034        |
| Adjustment of exchange difference<br>on consolidation | -                            | (20,127)   | (20,127)           |
| <b>Balance as at June 30, 2006</b>                    | <b>240,070,000</b>           | <b>433,803,792</b>   | <b>673,873,792</b> |

The annexed notes 1 to 36 form an integral part of these financial statements.

Lahore

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

### **1. STATUS AND NATURE OF BUSINESS**

First Capital Equities Limited (the "Company") was incorporated in Pakistan 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.

The parent company has made investment in Equity Partners Limited (EPSL) subsidiary company on April 01 2004, engaged in stock brokerage business in Bangladesh. EPSL, was incorporated in Bangladesh on May 2000. It has corporate membership of Dhaka Stock Exchange and Chittagong Stock Exchange Limited. The parent company holds 51% share holding (2005: 51%) in subsidiary.

### **2. BASIS OF PREPARATION**

These financial statements have been prepared under the historical cost convention, except for investments at fair value through profit and loss which are stated at their fair value and employee benefits which are stated at their present value.

#### **BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of First Capital Equities Limited and its subsidiary (EPSL).

In subsidiary company, the parent company directly controls 51% of the voting securities and has power to elect and appoint 51% of its directors. The financial statements of the subsidiary are included in the consolidated financial statements from the date of control commences i.e. April 01, 2004, until the date when that control ceases. The financial statements of the subsidiary company have been consolidated on a line-by-line basis.

### **3. 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. 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 or directives issued by Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **4.1 Change in accounting policy**

Consequent upon revisions in IAS 39 "Financial Instruments: Recognition and Measurement", the company

has changed its accounting policy in respect of the Investments at fair value through profit and loss. The transactions costs incurred in relation to acquisition of investments, classified as investments at fair value through profit and loss when incurred. Previously such costs incurred on acquisition of all class of investments were included in the cost of related investments. This change in the accounting policy has been accounted for retrospectively in accordance with the treatment specified in IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. Had this policy not been changed, capital value tax as included in the operating expense would have been Nil for the current and prior period and the capital gain would have been lower by Rs. 3,027/- (2005: Rs 432,074/-) and Unrealised gain / (loss) on remeasurement of investments at fair value through profit and loss would have been lower by Rs. 178/- (2005: Rs 1,612/-). However, there is no impact of the above change in accounting policy on the net profit and the assets and liabilities of the company for the current and prior period.

## 4.2 Changes in accounting estimates

4.2.1 The company has changed its accounting estimate in relation to the depreciation on property and equipment. The depreciation is charged in the month of addition and no depreciation is charged in the month of disposal. Previously full year depreciation was charged in the year of addition and no depreciation in the year of disposal. Had this change not been made, the profit during the year would have decreased by Rs 2,549,853/- and property and equipment would have decreased by Rs 2,549,853/-.

4.2.1 In addition to the above company charged 30% depreciation on computers during the year. Previously 20% depreciation was charged thereon. Had this change not been made, the profit during the year would have increased by Rs 457,372/- and property and equipment would have increased by Rs 457,372/-.

## 4.3 Significant accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the accounting policies, management has made the following estimates and judgments which are significant to the financial statements.

### Useful lives, pattern of economic benefits and impairment

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits are based on the analysis by the management of the company. Further, the company reviews the value of the assets for possible impairments on an annual basis any change in the estimates in the future might affect the carrying amount of respective item of property and equipment, with a corresponding effect on the depreciation charge and impairment.

Other areas where estimates and judgments involved are disclosed in respective notes to the financial statements.



## 4.4 Tangible fixed assets

### Property and equipment

#### Owned assets

Property and equipment are stated at cost less accumulated depreciation and impairments, if any. Depreciation is charged on the reducing balance method at the rates specified in Note 5.1 to the financial statements, which are considered appropriate to write off the cost of assets over their useful economic lives.

Depreciation is charged on the assets in the month of addition while no depreciation is charged in the month of disposal.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss account in the year the asset is derecognised.

Normal repairs and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalised.

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and impairment losses are recognised.

In case of EPSL, no depreciation is charged on assets acquired during the year, whereas full year depreciation is charged in the year of disposal.

#### Leased assets

##### Finance lease

Leases where the company has substantially all the risk and rewards of ownership are classified as finance lease. Leased assets are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets.

The related rental obligation net of finance charges, are included in liabilities against assets subject to finance lease are referred to in note 18 to the financial statements. The liabilities are classified as current and long term depending upon the timing of payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the rentals is charged to income over the lease term.

Depreciation of leased assets is recognised in the same manner as for owned assets.

## 4.5 Membership cards and licenses

These are stated at cost less impairment, if any. The carrying amounts are reviewed at each balance sheet to

assess whether they are recorded in excess of their recoverable amounts, and where carrying value exceeds estimated recoverable amount, these are written down to their estimated recoverable amount.

## 4.6 Investments

### At fair value through profit and loss

Investments classified as held for trading are included in the category of financial assets at fair value through profit and loss. These are listed securities that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin.

All investments are initially recognised at cost, being the fair value of the consideration given excluding acquisition charges with the investment. After initial recognition, investments are measured at their fair values. Unrealised gains and losses on investments are recognised in profit and loss account of the period.

Fair values of these securities representing listed equity and debt securities are determined by reference to stock exchange quoted market prices at the close of business on balance sheet date.

## 4.7 Trade and other receivables

These are stated at net of provisions for doubtful debts, if any. Trade debts are reviewed at each balance sheet date. Full provision is made against the debts considered doubtful. Bad debts and other receivable are written off as and when identified.

## 4.8 Impairments

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

## 4.9 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 calculated using the liability method on all temporary differences at the balance sheet date, between the tax base of the assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that the deductible temporary differences will reverse in the future and sufficient taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or subsequently enacted at the balance sheet date.

#### **4.10 Securities sold under repurchase / purchased under resale agreements**

Investment sold with a simultaneous commitment to repurchase at a specified future date (Repo) continue to be recognised in the balance sheet and are measured in accordance with the accounting policies for investments. Amounts received under these agreements are recorded as securities sold under repurchase agreements. The difference between sale and repurchase price is treated as mark-up / interest expense using the effective yield method.

Investments purchased with a corresponding commitment to resell at a specified future date (Reverse repo) are not recognised in the balance sheet. Amounts paid under these obligations are included in fund placements. The difference between purchase and resale price is treated as mark-up / interest income using the effective yield method.

#### **4.11 Settlement date accounting**

All “regular way” purchases and sales of financial assets are recognized on the settlement date, i.e., the date on which the asset is delivered to or by the company. Regular way purchases or sales of financial assets are those, the contract for which requires delivery of assets within the time frame generally established by regulation or convention in the market.

#### **4.12 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, 2006 using projected unit credit method.

Actuarial gains and losses that are in excess of the corridor limits as prescribed in IAS-19 “Employee Benefits” are amortised over the average remaining working lives of the employees participating in the plan.

#### **4.13 Trade and other payables**

Trade and other payables are stated at cost.

#### **4.14 Mark up bearing borrowings**

Mark up bearing borrowings are recognised initially at cost being the fair value of consideration received,

less attributable transaction cost. Subsequent to the initial recognition, mark up bearing borrowings is stated at original cost less subsequent repayments.

#### **4.15 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. Gain or loss on translation is included in or charged to income currently.

#### **4.16 Revenue recognition**

##### **Brokerage income**

Brokerage income is recognised as and when services are provided on accrual basis.

##### **Capital gains**

Sale and purchase of securities are recorded on the execution of contract. Capital gains or losses, calculated as the difference between the sale proceeds excluding transaction cost, and the carrying amount of a security is included in profit and loss account for the period. Carrying value of the security for this purpose is calculated on an individual portfolio basis using the moving average method.

##### **Dividend income**

Dividend income on equity investment is recognized, when the right to receive the same is established.

##### **Interest income**

Interest income is recognised as and when it is due on accrual basis.

##### **Income on Continuous Funding System placements**

Income on Placements on account of Continuous Funding System is recognised on accrual basis.

##### **Underwriting commission**

Underwriting commission is recognised when the agreement is executed.

#### **4.17 Finance costs**

All borrowing costs are charged to profit and loss account.

#### **4.18 Financial instruments**

All the financial assets and financial liabilities are recognised at the time when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

## **4.19 Offsetting of financial assets and financial liabilities**

A financial asset and a financial liability is only offset and the net amount is reported in the balance sheet, when there is a legal enforceable right to set off the recognised amount and the company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses arising from such assets and liabilities are also accordingly offset.

## **4.20 Provisions**

A provision is recognised 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.

## **4.21 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.

## **4.22 Transactions with related parties and associated undertakings**

Transactions with related parties are at arm's length prices. These prices are determined in accordance with the methods prescribed in the Companies Ordinance, 1984.

## **4.23 Goodwill**

Goodwill arising on acquisition represents the excess of the cost of acquisition over the fair value of the interest in subsidiary company net assets acquired and is amortized over its estimated useful life at an annual rate of 20%. Amortization of goodwill is charged to profit and loss account on a straight-line basis.

## **4.24 Fiduciary assets**

Assets are held in trust or in fiduciary capacity are not treated as assets of the company and accordingly are not disclosed in these financial statements.

## 5 PROPERTY AND EQUIPMENT

### 5.1 Following is the statement of property and equipment.

| Particulars            | Cost                |   |                     | Depreciation                    |                     |                                |                                 | Written down value as at June 30, 2006 | Depreciation Rate |
|------------------------|---------------------|---|---------------------|---------------------------------|---------------------|--------------------------------|---------------------------------|--|-------------------|
|                        | As at July 01, 2005 | Additions/Transfers/(Disposals)         | As at June 30, 2006 | Accumulated as at July 01, 2005 | Charge for the year | Adjustments/(Disposals)        | Accumulated as at June 30, 2006 |  |                   |
| (R u p e e s)          |                     |   |                     |                                 |                     |                                |                                 |  |                   |
| OWNED ASSETS           |                     |   |                     |                                 |                     |                                |                                 |  |                   |
| Office floor           | 17,000,000          | -                                       | 17,000,000          | 850,000                         | 807,500             | -                              | 1,657,500                       | 15,342,500                             | 5                 |
| Leasehold improvements | 3,364,527           | -                                       | 3,364,527           | 898,878                         | 160,419             | -                              | 1,059,297                       | 2,305,230                              | 5 - 15            |
| Computers              | 5,159,600           | 4,425,979<br>(211,792)                  | 9,373,787           | 2,556,527                       | 1,453,956           | (3,884)                        | 4,006,599                       | 5,367,188                              | 25 - 30           |
| Office equipments      | 8,145,277           | 4,020,415                               | 12,165,692          | 2,684,433                       | 641,016             | -                              | 3,325,449                       | 8,840,243                              | 10 - 20           |
| Furniture and fittings | 3,747,850           | 769,162<br>(178,080)                    | 4,338,932           | 1,641,349                       | 231,811             | -                              | 1,873,160                       | 2,465,772                              | 10                |
| Croceries & Cultaries  | 7,910               | -                                       | 7,910               | 2,996                           | 451                 | -                              | 3,447                           | 4,463                                  | 10                |
| Vehicles               | 20,712,138          | 15,431,154<br>(1,901,500)               | 34,241,792          | 8,134,490                       | 3,893,389           | (1,411,301)                    | 10,616,578                      | 23,625,214                             | 20                |
|                        | 58,137,302          | 24,646,710<br>(2,291,372)               | 80,492,640          | 16,768,673                      | 7,188,542           | -<br>(1,415,185)               | 22,542,030                      | 57,950,610                             |                   |
| LEASED ASSETS          |                     |   |                     |                                 |                     |                                |                                 |  |                   |
| Vehicles               | 1,530,000           | -                                       | 1,530,000           | 445,392                         | 216,922             | -                              | 662,314                         | 867,686                                | 20                |
| <b>Total</b>           | <b>59,667,302</b>   | <b>24,646,710</b><br><b>(2,291,372)</b> | <b>82,022,640</b>   | <b>17,214,065</b>               | <b>7,405,464</b>    | <b>-</b><br><b>(1,415,185)</b> | <b>23,204,344</b>               | <b>58,818,296</b>                      |                   |
| <b>June 30, 2005</b>   | <b>30,546,741</b>   | <b>29,574,161</b><br><b>(453,600)</b>   | <b>59,667,302</b>   | <b>11,558,922</b>               | <b>5,953,987</b>    | <b>-</b><br><b>(298,844)</b>   | <b>17,214,065</b>               | <b>42,453,237</b>                      |                   |

### 5.2 Disposal of property and equipment

| Particulars                   | Cost             | Accumulated Depreciation | Book value     | Sale proceeds    | Gain           | Mode of Sale | Particulars of Buyers |
|-------------------------------|------------------|--------------------------|----------------|------------------|----------------|--------------|-----------------------|
| (R u p e e s)                 |                  |                          |                |                  |                |              |                       |
| Motor Vehicle - Suzuki Khyber | 490,000          | 361,549                  | 128,451        | 328,800          | 200,349        | Negotiations | Dawood Car Corner     |
| Motor Vehicle - Suzuki Khyber | 490,000          | 361,549                  | 128,451        | 326,800          | 198,349        | Negotiations | Dawood Car Corner     |
| Motor Vehicle - Suzuki Khyber | 426,500          | 337,056                  | 89,444         | 301,800          | 212,356        | Negotiations | Muhammad Azam Iqbal   |
| Motor Vehicle - Suzuki Khyber | 495,000          | 351,146                  | 143,854        | 325,300          | 181,446        | Negotiations | Muhammad Azam Iqbal   |
| <b>Total</b>                  | <b>1,901,500</b> | <b>1,411,301</b>         | <b>490,199</b> | <b>1,282,700</b> | <b>792,501</b> |              |                       |

5.2.1 This represents sale of assets with book value of not less than rupees fifty thousand and not sold to Chief Executive, Director, other executive, shareholders holding not less than 10% of shares or related parties, unless otherwise mentioned.

# First Capital Equities Limited

|  | <u>Note</u> | <u>2006</u><br>(Rupees) | <u>2005</u><br>(Rupees) |
|--|-------------|-------------------------|-------------------------|
| <b>6 MEMBERSHIP CARD AND LICENSES</b>  |             |                         |                         |
| <b>Membership</b>                      |             |                         |                         |
| Lahore Stock Exchange (Guarantee) Ltd  |             | -                       | 11,000,000              |
| Karachi Stock Exchange (Guarantee) Ltd |             | <b>33,200,000</b>       | 33,200,000              |
| Dhaka Stock Exchange                   |             | <b>6,478,399</b>        | 6,478,399               |
| Chittagong Stock Exchange              |             | <b>3,844,867</b>        | 3,844,867               |
|  |             | <b>43,523,266</b>       | 54,523,266              |
| <b>Licenses - Rooms</b>                |             |                         |                         |
| Lahore                                 |             | -                       | 4,500,000               |
| Karachi                                |             | <b>7,500,000</b>        | 7,500,000               |
| Faisalabad                             |             | -                       | 335,870                 |
| Sialkot                                |             | -                       | 1,025,000               |
|  |             | <b>7,500,000</b>        | 13,360,870              |
|  |             | <b>51,023,266</b>       | 67,884,136              |

**6.1** During the year company sold its Membership of Lahore Stock Exchange (Guarantee) Limited along with leasehold rights of Lahore, Faisalabad and Sialkot rooms to Guardian Securities (Private) Limited against sum of Rs. 34,200,000/- and earned a gain of Rs. 17,339,130/- on sale of these assets through negotiations as per the approval of shareholders in their extraordinary general meeting held on January 24, 2006.

|  | <u>Note</u> | <u>2006</u><br>(Rupees) | <u>2005</u><br>(Rupees) |
|--|-------------|-------------------------|-------------------------|
| <b>7 GOODWILL</b>                                    |             |                         |                         |
| Goodwill   |             | <b>538,084</b>          | 717,439                 |
| Less: Amortization                                   |             | <b>(179,335)</b>        | (179,355)               |
|  |             | <b>358,749</b>          | 538,084                 |
| <b>8 LONG TERM LOAN - UNSECURED, CONSIDERED GOOD</b> |             |                         |                         |
| Due from associated company                          | <b>8.1</b>  | <b>10,190,000</b>       | -                       |
| Less: Current Portion                                |             | -                       | -                       |
|  |             | <b>10,190,000</b>       | -                       |

**8.1** This represents unsecured loan disbursed up to June 30, 2006, to Pace Gujrat (Private) Limited, an associated company, as per the approval of shareholders in their extraordinary general meeting held on January 24, 2006. The loan is repayable after four years and carries mark-up at the rate of 12% or higher provided such markup shall not be less than the borrowing cost of the company. The maximum aggregate amount due from the associated company at the end of any month during the year was Rs 10,190,000.

|  | <u>Note</u> | <u>2006</u><br>(Rupees) | <u>2005</u><br>(Rupees) |
|--|-------------|-------------------------|-------------------------|
| <b>9 LONG TERM DEPOSITS AND ADVANCES</b>       |             |                         |                         |
| Deposits with:                                 |             |                         |                         |
| Leasing companies                              |             | <b>402,500</b>          | 409,400                 |
| Stock Exchange                                 |             | <b>610,000</b>          | 635,000                 |
| Central Depository Company of Pakistan Limited |             | <b>200,000</b>          | 250,000                 |
| National Clearing Company of Pakistan Limited  |             | <b>400,000</b>          | 400,000                 |
| Others   |             | <b>768,496</b>          | 476,800                 |
| Advance for leasehold property                 | <b>9.1</b>  | <b>4,756,000</b>        | -                       |
|  |             | <b>7,136,996</b>        | 2,171,200               |

**9.1** Represents the amount paid to Islamabad Stock Exchange (Guarantee) Limited on account of property for which possession will be transferred to the company in the year 2008.

# First Capital Equities Limited

|   | <u>Note</u> | <u>2006</u><br><u>(Rupees)</u> | <u>2005</u><br><u>(Rupees)</u> |
|---|-------------|--------------------------------|--------------------------------|
| <b>10 TRADE DEBTS - UNSECURED</b>       |             |                                |                                |
| Trade debts against purchase of shares: |             |                                |                                |
| Unsecured, considered good:             |             |                                |                                |
| Clients                                 | <b>10.1</b> | <b>572,339,741</b>             | 290,989,789                    |
| Members                                 |             | <b>415,065</b>                 | 3,329,035                      |
|   |             | <b>572,754,806</b>             | 294,318,824                    |
| Unsecured, considered doubtful:         |             |                                |                                |
| Clients                                 |             | <b>60,977,954</b>              | 49,833,209                     |
| Members                                 |             | <b>4,820,066</b>               | 2,344,757                      |
|   |             | <b>65,798,020</b>              | 52,177,966                     |
| Less: Provision for doubtful debts      | <b>10.2</b> | <b>(65,798,020)</b>            | (52,177,966)                   |
|   |             | <b>572,754,806</b>             | 294,318,824                    |

**10.1** It includes an amount of Rs. 140,849,871 (2005: Rs.79,450,956) receivable from related party, Mr.Sulieman Ahmad Said Al-Hoqani

|  | <u>Note</u> | <u>2006</u><br><u>(Rupees)</u> | <u>2005</u><br><u>(Rupees)</u> |
|--|-------------|--------------------------------|--------------------------------|
| <b>10.2</b> Provision for doubtful debts |             |                                |                                |
| Opening balance                          |             | <b>52,177,966</b>              | 37,432,010                     |
| Provision written back                   |             | <b>(2,009,758)</b>             | -                              |
| Charge for the year                      | <b>25.1</b> | <b>15,629,812</b>              | 14,745,956                     |
| Closing balance                          |             | <b>65,798,020</b>              | 52,177,966                     |



**11. INVESTMENTS - AT FAIR VALUE THROUGH PROFIT AND LOSS**

|   | 2006      |                           |                           | 2005                   |                          |                          |
|---|-----------|---------------------------|---------------------------|------------------------|--------------------------|--------------------------|
|   | NUMBER    | COST                      | MARKET VALUE              | NUMBER                 | COST                     | MARKET VALUE             |
|   | (Rupees)  | (Rupees)                  |                           | (Rupees)<br>(Restated) | (Rupees)                 |                          |
| <b>MUTUAL FUND</b>  |           |                           |                           |                        |                          |                          |
| PICIC Growth Fund   | 218,200   | 7,683,800                 | 6,895,120                 | 4,000                  | 195,980                  | 214,800                  |
| UTP fund of funds   | 60,000    | 3,000,000                 | 3,241,800                 | -                      | -                        | -                        |
| Unit Trust of Pakistan  | 162       | 1,153,608                 | 1,508,965                 | 142                    | 1,015,744                | 1,153,608                |
| <b>POWER GENERATION AND DISTRIBUTION</b>                      |           |                           |                           |                        |                          |                          |
| Kot Addu Power Company Limited                                | 30,000    | 1,134,915                 | 1,263,000                 | 20,000                 | 715,500                  | 755,000                  |
| <b>INVEST. CO's, BANKS AND SECURITIES</b>                     |           |                           |                           |                        |                          |                          |
| Mybank Limited<br>(Formerly Bolan Bank Limited)               | 10,800    | 137,600                   | 215,460                   | 8,000                  | 124,488                  | 109,600                  |
| MCB Bank Limited<br>(Formerly Muslim Commercial Bank Limited) | 2,010     | 373,100                   | 422,703                   | 5,500                  | 350,164                  | 436,150                  |
| <b>TEXTILE</b>  |           |                           |                           |                        |                          |                          |
| Nishat Chunian Limited  | 18,700    | 1,616,700                 | 832,150                   | 17,000                 | 763,124                  | 1,616,700                |
| <b>TECHNOLOGY AND COMMUNICATION</b>                           |           |                           |                           |                        |                          |                          |
| Worldcall Communication Limited                               | -         | -                         | -                         | 4,391,791              | 62,363,432               | 43,917,910               |
| Worldcall BroadBand Limited                                   | -         | -                         | -                         | 1,137,000              | 11,491,726               | 11,256,300               |
| Worldcall Telecom Limited                                     | 7,171,793 | 43,917,910                | 64,187,547                | -                      | -                        | -                        |
| Pakistan Telecommunication Company Limited 'A'                | -         | -                         | -                         | 1,000                  | 70,650                   | 65,950                   |
| <b>CHEMICAL &amp; PHARMA</b>                                  |           |                           |                           |                        |                          |                          |
| Fauji Fertilizer Bin Qasim Limited                            | 20,000    | 538,000                   | 585,000                   | 95,000                 | 2,488,582                | 2,555,500                |
| <b>CEMENT</b>   |           |                           |                           |                        |                          |                          |
| Al Abbas Cement Industries Limited                            | 212       | 3,180                     | 4,834                     | -                      | -                        | -                        |
| Maple Leaf Cement Factory Limited                             | 7         | 140                       | 179                       | 77                     | 3,005                    | 1,679                    |
| <b>SUGAR &amp; ALLIED</b>                                     |           |                           |                           |                        |                          |                          |
| Mirza Sugar Mills Limited                                     | 350       | 892                       | 1,015                     | 350                    | 1,720                    | 892                      |
| Faran Sugar Mills Limited                                     | 39        | 404                       | 858                       | 39                     | 49                       | 404                      |
| Tandliwala Sugar Mills Limited                                | 250       | 3,550                     | 4,088                     | -                      | -                        | -                        |
| Al Abbas Sugar Mills Limited                                  | 100       | 5,750                     | 5,345                     | -                      | -                        | -                        |
| <b>INSURANCE</b>  |           |                           |                           |                        |                          |                          |
| Adamjee Insurance Co. Limited                                 | 50        | 7,314                     | 6,125                     | -                      | -                        | -                        |
| Shaheen Insurance Company Limited                             | 1,610,500 | 27,545,025                | 152,192,250               | 1,281,000              | 30,713,990               | 26,260,500               |
| Pak Guarantee Insurance Company Limited                       | 474       | 1,351                     | 2,370                     | 474                    | 948                      | 1,351                    |
| <b>LEASING</b>  |           |                           |                           |                        |                          |                          |
| Saudi Pak Leasing Company Limited                             | 330       | 3,911                     | 3,960                     | -                      | -                        | -                        |
| <b>MISCELLANEOUS</b>  |           |                           |                           |                        |                          |                          |
| Morafco Industries Limited                                    | -         | -                         | -                         | 5,500                  | 50,325                   | 50,325                   |
|   |           | <u>87,127,150</u>         | <u>231,372,769</u>        |                        | <u>110,349,427</u>       | <u>88,396,669</u>        |
| Gain / (Loss) on remeasurement of fair value                  |           | 144,245,619               | -                         |                        | (21,952,758)             | -                        |
| <b>Investment as at June 30</b>                               |           | <u><u>231,372,769</u></u> | <u><u>231,372,769</u></u> |                        | <u><u>88,396,669</u></u> | <u><u>88,396,669</u></u> |

11.1 Includes shares having market value of Nil (2005: 4,037,700) deposited with the Stock Exchanges in lieu of deposit under the exposure rules.

11.2 All shares/ certificates/ units have a face value of Rs. 10 each except for Unit Trust of Pakistan and UTP fund of funds having face value of Rs. 5,000 each. and Rs. 50 each respectively.

11.3 During the year, the shares of WorldCall Communication Limited were converted to shares of WorldCall Telecom Limited by virtue of merger in the swap ratio of 1:1.42.

# First Capital Equities Limited

|   | <u>Note</u> | <u>2006</u><br>(Rupees) | <u>2005</u><br>(Rupees) |
|---|-------------|-------------------------|-------------------------|
| <b>12 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b> |             |                         |                         |
| Advances (unsecured - considered good)                          |             |                         |                         |
| Executives  |             | 300,631                 | 212,831                 |
| Employees   |             | 2,305,939               | 1,098,578               |
| Deposits with   |             |                         |                         |
| Lahore Stock Exchange   |             | 220,000                 | -                       |
| Central Depository Company                                      |             | 25,000                  | -                       |
| Others  |             | 1,084,287               | 652,634                 |
| Prepayments   |             | 1,821,334               | 1,687,418               |
| Advance against purchase of property & vehicles                 |             | -                       | 2,585,699               |
| Stock Exchanges   | 12.1        | 119,717,212             | 38,192,486              |
| Receivable from Dhaka Stock Exchnage                            |             | 557,844                 | 749,066                 |
| Receivable from Chittagong Stock Exchnage                       |             | 337,949                 | 468,825                 |
| Accrued brokerage commission                                    |             | 3,241,580               | 1,750,841               |
| Receivable on account of sale of LSE card and rooms             |             | 1,500,000               | -                       |
| Dividend Receivable   |             | 456,800                 | -                       |
| Other receivables   | 12.2        | 3,492,056               | 3,343,502               |
|   |             | <u>135,060,632</u>      | <u>50,741,880</u>       |

**12.1** This represents exposure deposit with the Karachi Stock Exchange (Guarantee) Limited (2005: Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited ) under the exposure Rules.

|  | <u>2006</u><br>(Rupees) | <u>2005</u><br>(Rupees) |
|--|-------------------------|-------------------------|
| <b>12.2</b> Other receivables considered good  | <b>3,492,056</b>        | 3,343,502               |
| Other receivables considered doubtful          | 1,500,000               | -                       |
| Less: Provision for doubtful other receivables | (1,500,000)             | -                       |
|  | -                       | -                       |
|  | <u>3,492,056</u>        | <u>3,343,502</u>        |

## 13 PLACEMENTS

|  |      |                    |                    |
|--|------|--------------------|--------------------|
| Secured - Considered good  |      |                    |                    |
| Placement on account of continuous funding system  |      | 7,641,520          | -                  |
| Securities purchased under the resale agreement of quoted shares - Parent company                                    | 13.1 | 210,000,000        | 25,000,000         |
| Securities purchased under the resale agreement of quoted shares - Others  | 13.2 | 110,000,000        | -                  |
| Securities purchased under the resale agreement of quoted shares - Mr. Sulaiman Ahmed Said Al-Houqani, related party | 13.3 | 350,000,000        | 200,000,000        |
|  |      | <u>677,641,520</u> | <u>225,000,000</u> |

- 13.1** Rs. 25,000,000 has been placed for a period of nineteen days and carries mark up rate of 14% per annum (2005: 15%). Fair value of quoted shares held as collateral is Rs 38,485,000. The remaining balance of Rs. 185,000,000 has been given at a rate which varies from 13% to 15% per annum (2005: Nil) against collateral of listed equities securities having a market value of Rs 263,083,391 for a period that ranges from thirty days to ninety days which was further placed as collateral to a financial institution by the company under repurchase transaction. (refer to Note 21.1).
- 13.2** Rs. 30,000,000 has been placed for a period of three months and carries mark up rate of 15% per annum (2005: Nil). Fair value of quoted shares held as collateral is Rs 68,800,000. The remaining balance of Rs. 80,000,000 has been given at a rate of 14% per annum (2005: Nil) against collateral of listed equities securities having a market value of Rs 110,003,882 for a period of three months which was further placed as collateral to a financial institution by the company under repurchase transaction. (refer to Note 21.1).
- 13.3** Rs. 100,000,000 has been placed for a period of four months and carries mark up rate of 15% per annum (2005: 12%). Fair value of quoted shares held as collateral is Rs 187,045,737. The remaining balance of Rs. 250,000,000 has been given at a rate which varies from 12.75% to 15% per annum (2005: 12.4%) against collateral of listed equities securities having a market value of Rs 398,824,172 for a period that ranges from thirty days to ninety days which was further placed as collateral to a financial institution by the company under repurchase transaction. (refer to Note 21.1).

# First Capital Equities Limited

|  | Notes | 2006<br>(Rupees) | 2005<br>(Rupees) |
|--|-------|------------------|------------------|
| <b>14 INTEREST ACCRUED</b>                                       |       |                  |                  |
| Interest accrued on:   |       |                  |                  |
| Placement on account of continuous funding system                |       | 21,942           | -                |
| Placements with parent company                                   |       | 2,672,329        | 934,932          |
| Placements with Mr.Sulieman Ahmad Said Al-Hoqani - related party |       | 4,554,794        | 1,512,328        |
| Other placements   |       | 1,275,343        | 628,055          |
| Long term loan - unsecured                                       |       | 174,207          | -                |
| Bank Deposits  |       | 653,818          | -                |
|  |       | 9,352,433        | 3,075,315        |

## 15 CASH AND BANK BALANCES

### Cash at banks

|                                       |      |             |             |
|---------------------------------------|------|-------------|-------------|
| Local currency                        |      |             |             |
| Current accounts                      |      | 39,712,570  | 17,983,077  |
| Deposit accounts                      | 15.1 | 199,420,343 | 72,697,164  |
|                                       |      | 239,132,913 | 90,680,241  |
| Foreign currency                      |      |             |             |
| Current accounts - (outside Pakistan) |      | 5,523,121   | 13,680,219  |
| Deposit accounts                      | 15.1 | 1,191,030   | 1,004,302   |
|                                       |      | 245,847,064 | 105,364,762 |

### Cash in hand

|                                       |  |             |             |
|---------------------------------------|--|-------------|-------------|
| Foreign currency - (outside Pakistan) |  | 3,925       | -           |
| Local currency                        |  | 42,467      | 32,670      |
|                                       |  | 245,893,456 | 105,397,432 |

15.1 These carry profit rate ranging from 0.5 % to 4.5 % per annum (2005: 1 % to 4 % per annum).

## 16 ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

| 2006   | 2005       |   | 2006<br>(Rupees) | 2005<br>(Rupees) |
|--|------------|---|------------------|------------------|
| <b>Number of shares</b>                                    |            |   |                  |                  |
| <b>Shares issued against cash consideration</b>            |            |   |                  |                  |
| 22,007,000   | 22,007,000 | Ordinary shares of Rs. 10/- each fully paid     | 220,070,000      | 220,070,000      |
| <b>Shares issued against consideration other than cash</b> |            |   |                  |                  |
| 2,000,000  | 2,000,000  | Issued bonus shares of Rs. 10/- each fully paid | 20,000,000       | 20,000,000       |
| 24,007,000   | 24,007,000 |   | 240,070,000      | 240,070,000      |

16.1 The Company is a subsidiary of First Capital Securities Corporation Limited - a listed company which holds 16,179,600 (67.39 %) ordinary shares (2005: 16,179,600 (67.39 %)) at the year end.

# First Capital Equities Limited

|   | Notes | 2006<br>(Rupees) | 2005<br>(Rupees) |
|---|-------|------------------|------------------|
| <b>17 LONG TERM FINANCING - SECURED</b>             |       |                  |                  |
| Term finance facility                               | 17.1  | 13,320,000       | -                |
| Less: Current portion shown under current liability |       | 5,040,000        | -                |
| Long term portion                                   |       | 8,280,000        | -                |

**17.1** Term finance facility has been availed from a commercial bank at mark-up rate of three months KIBOR plus 2.75% and is repayable over a period of three years from the date of disbursement in thirty six equal monthly installments. The arrangement is secured by the legal mortgage of Rs 500,000 and equitable mortgage of Rs 28,000,000 on property.

## 18 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The rate of interest used as the discounting factor is between 8.5 % to 17% per annum (2005: 8.5% to 17%). The amount of future payments and the period in which they will become due are:

|  | 2006<br>(Rupees) | 2005<br>(Rupees) |
|--|------------------|------------------|
| Year ended June 30,                                    |                  |                  |
| 2006   | -                | 412,569          |
| Year ending June 30,                                   |                  |                  |
| 2007   | 694,982          | 694,982          |
| 2008   | 110,135          | 110,135          |
| 2009   | -                | -                |
|  | 805,117          | 1,217,686        |
| Less: Unallocated financial charges                    | 16,316           | 64,413           |
|  | 788,801          | 1,153,273        |
| Less: Current maturity shown under current liabilities | 678,729          | 364,471          |
|  | 110,072          | 788,802          |

**18.1** 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.

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

|   | Note | 2006<br>(Rupees) | 2005<br>(Rupees) |
|---|------|------------------|------------------|
| <b>Gross Minimum Lease Payments</b>               |      |                  |                  |
| Not later than one year                           |      | 694,982          | 412,569          |
| Later than one year but not later than five years |      | 110,135          | 805,117          |
|   |      | 805,117          | 1,217,686        |
| <b>Present value of minimum lease payments</b>    |      |                  |                  |
| Not later than one year                           |      | 678,729          | 364,471          |
| Later than one year but not later than five years |      | 110,072          | 788,802          |
|   |      | 788,801          | 1,153,273        |

## 19 DEFERRED LIABILITIES

|                        |      |           |           |
|------------------------|------|-----------|-----------|
| Provision for Gratuity | 19.1 | 8,965,811 | 6,524,447 |
|------------------------|------|-----------|-----------|

# First Capital Equities Limited

**19.1** 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. The latest actuarial valuation was carried out as on June 30, 2006.

|   | 2006     | 2005     |
|---|----------|----------|
| Discount Rate   | 9 %      | 9 %      |
| Expected rate of salary increased in future years         | 8 %      | 8 %      |
| Average expected remaining employment period of employees | 12 Years | 12 Years |

|  | Note | 2006<br>(Rupees) | 2005<br>(Rupees) |
|--|------|------------------|------------------|
| <b>a) The amount to be recognized in the balance sheet is as follows:</b>            |      |                  |                  |
| Present value of obligation  |      | 10,397,353       | 7,163,949        |
| Unrecognized actuarial (gain) / loss   |      | (1,553,942)      | (783,502)        |
| Benefits due but not paid  |      | 122,400          | 144,000          |
|  |      | 8,965,811        | 6,524,447        |
| <b>b) Movement of liability to be recognized in the balance sheet is as follows:</b> |      |                  |                  |
| Present value of obligation at beginning of the year                                 |      | 6,524,447        | 5,145,690        |
| Amount recognized during the year  |      | 3,219,264        | 2,403,622        |
| Liability transferred from group companies   |      | -                | 56,155           |
| Contributions made by the company during the year                                    |      | (777,900)        | (1,081,020)      |
|  |      | 8,965,811        | 6,524,447        |
| <b>c) The amount recognized in the profit and loss account is as follows:</b>        |      |                  |                  |
| Current service cost   |      | 2,712,917        | 2,039,023        |
| Interest cost  |      | 644,755          | 364,599          |
| Actuarial (gain) / loss charged to profit and loss account during the year           |      | 5,592            | -                |
| Payable from previous years written off  |      | (144,000)        | -                |
| Total amount charged to income statement   | 25   | 3,219,264        | 2,403,622        |

## 20 TRADE AND OTHER PAYABLES

|  |  |             |             |
|--|--|-------------|-------------|
| Payable against sale of shares - unsecured |  |             |             |
| Clients                                    |  | 555,489,195 | 121,859,112 |
| Members                                    |  | 1,308,259   | 1,185,312   |
| Accrued and other liabilities              |  | 29,950,071  | 28,290,879  |
| With holding tax payable                   |  | 1,698,903   | 461,292     |
|  |  | 588,446,428 | 151,796,595 |

## 21 LIABILITIES AGAINST REPURCHASE AGREEMENTS - SECURED

|                                  |      |             |             |
|----------------------------------|------|-------------|-------------|
| Payable to financial institution | 21.1 | 515,000,000 | 100,000,000 |
|----------------------------------|------|-------------|-------------|

**21.1** This represents the amount payable to a financial institution under the repurchase agreement against the securities given under the arrangement as explained in note 13. The effective interest rate is 12.75 % to 15% per annum and is for a period of one to three months.

|   | Note        | 2006<br>(Rupees)   | 2005<br>(Rupees) |
|---|-------------|--------------------|------------------|
| <b>22 SHORTTERMBORROWINGS- SECURED</b>                                  |             |                    |                  |
| Short term borrowings - Pakistan  | <b>22.1</b> | <b>206,039,823</b> | 188,783,416      |
| Short term borrowings - Equity Partners Securities Limited - Bangladesh |             | <b>122,521</b>     | 132,503          |
|   |             | <b>206,162,344</b> | 188,915,919      |

**22.1** The facilities are obtained from various commercial banks under mark up arrangements amounting to Rupees 1,005 million (2005 : Rs.480 million). These facilities carry mark up at the rate ranging from 6 months KIBOR plus 2 % to 4.25 % (2005: 1.5 % to 4.25 %) per annum with floor limits ranging from 10% to 13% per annum. (2005: 8 % to 12 %) except for a facility which carries mark up at the rate of 16 % (2005: 16 % ) per annum payable quarterly and are secured against pledge of own shares of listed companies having fair value of Rs. 18,159,550 and third party shares of listed companies having fair value of Rs. 372,242,701.

## 23 CONTINGENCIES

### 23.1 Contingencies

- a) 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. Based on the legal opinion, the management considers if the recovery suits succeed entirely or partially and result in recovery of an amount from clients, the only obligation of the Company is to remit the same to ABN AMRO. Whereas in case of recovery suit is unsuccessful, the aforesaid loan will lapse for all purposes and it will extinguish the recovery of loans from clients and this will not affect, in any manner, the financial situation of the Company, as it does not have any obligation to pay any amounts to ABN AMRO from its own sources. 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.

The company has agreed to indemnify ABN AMRO, its directors and affiliates from any or all claims which may be finalized against the company except for those mentioned above. The existence and the magnitude of any such claims, other than mentioned in these accounts, are not presently known.

- b) The Honorable Sindh High Court, while deciding on different applications filed by the Company, directed the Karachi Stock Exchange (Guarantee) Limited (KSE) Advisory and Arbitration Committee in January 2005 to consider the legal issues before initiating arbitration proceedings for only claims amounting to Rs. 37.53 million filed by M/s. Aslam Motiwala, Sultan Ahmad Zakria and Muhammad Asif Sultan against the Company. The Management is confident that these claims would be decided in the Company's favour.

A claim of Rs. 176,594,240 by the above mentioned members of the Karachi Stock Exchange (Guarantee) Limited (KSE) was also filed with the KSE Advisory and Arbitration Committee and the same was not

entertained by the committee as it was not in their legal jurisdiction. The claimant then filed a civil suit before the Honourable Sindh High Court in the year 2000, which is pending. The management is of the opinion that the likelihood of an un-favourable decision is remote.

- c) The Income Tax Authorities finalized the assessment for the assessment years 2000-2001 and 2001-2002 in previous years by allocating expenditures against capital gains and determined a demand of Rs. 8,485,909 and refund of Rs. 362,513 respectively. The company filed the appeal before the Commissioner Income Tax CIT (Appeals) who set aside the order of assessing officer on issue of capital gain. The company filed the appeal before the Honourable Income Tax Appellate Tribunal against the order of CIT (Appeals) who has directed the assessing officer to allocate expenses as were wholly and exclusively incurred in connection with the transfer of shares. In the light of direction given by the Honourable Income Tax Appellate Tribunal, the management is confident that no such demand will exist after issuance of appeal effect.
- d) Mr. Assad ullah Sajid has filed petition with Securities and Exchange Commission of Pakistan against the Company for refund of deposit worth of Rs. 590,740/- (2005 : Rs. 590,740) deposited for purchase of shares on his behalf.

#### COMMITMENTS

- a) Commitments includes Rs. 52,500,000/- against underwriting of right issue of First Capital Mutual Fund Limited for 5,250,000/- shares.
- b) Company has agreed to pay a further sum of Rs 42,804,000 on account of property to be acquired as explained in Note 9.1 to the financial statements.
- c) Commitment includes giving delivery of shares of various listed companies having fair value of Rs. 7,641,520 against placements under Continuous Funding System as disclosed in note 13 to the financial statements.

| Note | 2006<br>(Rupees) | 2005<br>(Rupees) |
|------|------------------|------------------|
|------|------------------|------------------|

#### 24 OTHER OPERATING INCOME

##### Income from financial assets

|   |      |            |            |
|---|------|------------|------------|
| Income from placements                          | 24.1 | 64,918,668 | 35,136,829 |
| Return on deposit accounts                      |      | 1,470,234  | 1,524,546  |
| Interest on long term loan - associated company |      | 174,207    | -          |
| Dividend income                                 |      | 1,036,159  | 4,121,590  |

##### Income from other than financial assets

|  |     |            |            |
|--|-----|------------|------------|
| Gain on sale of property and equipment | 5.2 | 792,501    | 55,244     |
| Provision for bad debts written back   |     | 2,009,758  | -          |
| Gain on foreign currency translation   |     | 9,555      | 12,457     |
| Underwriting commission                |     | 2,646,735  | 1,425,000  |
| Others                                 |     | 2,967,643  | 699,770    |
|  |     | 76,025,460 | 42,975,436 |

- 24.1 This includes interest income earned on placements to related parties Mr.Sulieman Ahmad Said Al-Hoqani Rs 41,129,395 (2005: Rs 24,048,950) and parent company Rs 13,508,571 (2005: Rs 11,087,879) through repurchase agreements with financial institutions during the year.



# First Capital Equities Limited

|   | Note      | 2006<br>(Rupees) | 2005<br>(Rupees)<br>(Restated) |
|---|-----------|------------------|--------------------------------|
| <b>25 OPERATING EXPENSES</b>  |           |                  |                                |
| Salaries and benefits   |           | 85,115,927       | 84,805,911                     |
| Provision for gratuity  | 19.1      | 3,219,264        | 2,403,622                      |
| Stock Exchange charges  |           | 27,756,935       | 39,371,051                     |
| Rent, rates and taxes   |           | 4,859,658        | 3,918,869                      |
| Communication   |           | 8,209,136        | 6,879,515                      |
| Utilities   |           | 3,184,387        | 2,748,533                      |
| Insurance   |           | 1,361,985        | 1,175,484                      |
| Printing and stationery   |           | 2,187,904        | 1,941,843                      |
| Traveling and conveyance  |           | 7,614,719        | 4,306,205                      |
| Repair and maintenance  |           | 4,675,437        | 4,219,188                      |
| Postage and courier   |           | 1,599,289        | 1,515,874                      |
| Vehicle running expenses  |           | 95,248           | 67,777                         |
| News paper and periodicals  |           | 139,474          | 134,326                        |
| Entertainment   |           | 2,426,586        | 3,843,593                      |
| Legal and professional  |           | 2,253,642        | 2,216,488                      |
| Bad debts   | 25.1      | 17,836,762       | 15,641,861                     |
| Advertisement   |           | 1,549,386        | 1,283,876                      |
| Auditors' remuneration  | 25.2      | 1,036,905        | 509,750                        |
| Depreciation  | 5.1       | 7,405,464        | 5,953,987                      |
| Fee and subscription  |           | 2,923,043        | 976,123                        |
| CDC and stamps charges  |           | 6,377,123        | 5,986,986                      |
| Donation  | 25.3      | 398,102          | 90,400                         |
| Capital value tax   |           | 3,205            | 433,686                        |
| Penalty by SECP   |           | 25,000           | -                              |
| Other expenses  |           | 1,277,874        | 1,100,625                      |
|   |           | 193,532,455      | 191,525,573                    |
| <b>25.1</b> Bad debts comprises of:   |           |                  |                                |
| Bad debts written off directly  |           | 706,950          | 895,905                        |
| Provision for doubtful debts  | 10.2&12.2 | 17,129,812       | 14,745,956                     |
|   |           | 17,836,762       | 15,641,861                     |
| <b>25.2 Auditors' remuneration</b>  |           |                  |                                |
| Statutory Audit Fee   |           | 400,000          | 250,000                        |
| Audit Fee - Subsidiary company  |           | 23,150           | -                              |
| Review of half yearly accounts  |           | 240,000          | 100,000                        |
| Misc. certification and compliance charges  |           | 373,755          | 159,750                        |
|   |           | 1,036,905        | 509,750                        |
| <b>25.3</b> None of the directors or their spouse had any interest in any of the donee. |           |                  |                                |
|   |           | 2006             | 2005                           |
|   |           | Rupees           | Rupees                         |
| <b>26 FINANCE COSTS</b>   |           |                  |                                |
| Mark-up on short term borrowings  |           | 20,374,659       | 20,634,201                     |
| Mark-up on repurchase agreements  |           | 47,072,061       | 24,048,947                     |
| Mark-up on long term financing  |           | 671,962          | -                              |
| Finance lease charges   |           | 47,362           | 73,976                         |
| Bank charges and commission   |           | 784,770          | 669,192                        |
|   |           | 68,950,814       | 45,426,316                     |

# First Capital Equities Limited

|   | <u>Note</u> | <u>2006</u><br><u>(Rupees)</u> | <u>2005</u><br><u>(Rupees)</u>                      |
|---|-------------|--------------------------------|---|
| <b>27 OTHER CHARGES</b>   |             |                                |   |
| Amortization of goodwill  |             | <u>179,355</u>                 | <u>179,355</u>                                      |
| <b>28 TAXATION</b>  |             |                                |   |
| Current   |             | 32,091,948                     | 29,884,415  |
| Deferred  | 28.2        | -                              | -   |
|   |             | <u>32,091,948</u>              | <u>29,884,415</u>                                   |
| <b>28.1 Relationship between income tax expenses and accounting profit:</b>   |             |                                |   |
| Profit before taxation - FCEL   |             | 264,283,534                    | 110,421,455   |
| Profit before taxation - EPSL   |             | (197,755)                      | (147,863)   |
|   |             | <u>264,085,779</u>             | <u>110,273,592</u>                                  |
| Tax at the applicable tax rate of 35 % (2005 : 35%)   |             | 92,430,023                     | 38,647,509  |
| Tax effect of expenses that are inadmissible in determining tax profits   |             | 65,007,750                     | 5,185,169   |
| Tax effect of net income chargeable under final tax regime  |             | (71,062,785)                   | (4,892,838)   |
| Tax effect of items that are not included in determining taxable profits  |             | (54,283,040)                   | (8,972,782)   |
| Deferred tax liability reversed during the year   |             | -                              | -   |
| Tax at applicable rate (Bangladesh)   |             | -                              | (82,643)  |
|   |             | <u>32,091,948</u>              | <u>29,884,415</u>                                   |
| <b>28.2</b> In view of taxable profits not available in foreseeable future owing to the effect of exempt income, the company has not incorporated deferred tax debit in these financial statements. |             |                                |   |
|   |             | <u>2006</u><br><u>(Rupees)</u> | <u>2005</u><br><u>(Rupees)</u><br><u>(Restated)</u> |
| <b>29 EARNINGS PER SHARE - BASIC</b>  |             |                                |   |
| Profit after taxation attributable to ordinary share holders  |             | <u>232,333,034</u>             | <u>80,275,042</u>                                   |
| Weighted average number of ordinary shares  |             | <u>24,007,000</u>              | <u>24,007,000</u>                                   |
| Earnings per share - Basic Rupees per share   |             | <u>9.68</u>                    | <u>3.34</u>   |
| <b>29.1</b> No figure for diluted earnings per share has been disclosed as the Company has not issued any instrument which would have an impact on earnings per share, when exercised.              |             |                                |   |

**30. TRANSACTIONS WITH RELATED PARTIES**

The related parties comprise parent company, related group companies, local associated undertakings, directors, key management personnel and their close family members. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel under the terms of their employment are as follows:

| June 30, 2006                        |                |                     |   |               |             |
|--------------------------------------|----------------|---------------------|---|---------------|-------------|
| (Associated Company)                 | Parent Company | Fellow Subsidiaries | Key management Personnel of the entity, its parent and their close family members | Related Party |             |
| (Rupees)                             | (Rupees)       | (Rupees)            | (Rupees)  | (Rupees)      |             |
| Brokerage Income                     | 51,975         | 1,386,648           | 129,315   | 2,185,874     | 34,845,274  |
| Repurchase agreement arrangement fee | -              | 270,833             | -   | -             | 375,000     |
| Group Expenses                       | -              | -                   | -   | -             | -           |
| Gratuity transferred                 | -              | -                   | -   | -             | -           |
| Placements entered                   | -              | 210,000,000         | -   | -             | 900,000,000 |
| Income earned on placements          | -              | 13,508,571          | -   | -             | 41,129,395  |
| Long term loan                       | 10,190,000     | -                   | -   | -             | -           |
| Interest on long term loan           | 174,207        | -                   | -   | -             | -           |

| June 30, 2005                        |                |                     |   |               |             |
|--------------------------------------|----------------|---------------------|---|---------------|-------------|
| (Associated Company)                 | Parent Company | Fellow Subsidiaries | Key Management Personnel of the entity and their close family members | Related Party |             |
| (Rupees)                             | (Rupees)       | (Rupees)            | (Rupees)  | (Rupees)      |             |
| Brokerage                            | 34,612         | 308,379             | 15,200  | 7,236,500     | 18,377,761  |
| Repurchase agreement arrangement fee | -              | -                   | -   | -             | -           |
| Group Expenses                       | -              | 5,856,055           | 1,447,304   | -             | -           |
| Gratuity transferred                 | -              | 56,155              | -   | -             | -           |
| Placements entered                   | -              | 25,000,000          | -   | -             | 398,000,000 |
| Income earned on placements          | -              | 11,087,879          | -   | -             | 24,048,950  |
| Long term loan                       | -              | -                   | -   | -             | -           |
| Interest on long term loan           | -              | -                   | -   | -             | -           |

**30.1** The amounts due to / due from related parties are disclosed in respective notes to the financial statements.

**30.2** The amounts disclosed represent the amount of brokerage income earned from the connected parties and not the purchase or sale value of securities transacted through for them. The purchase or sale value has not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.

# First Capital Equities Limited

## 31 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 31.1 INTEREST RATE RISK EXPOSURE

Interest rate risk is the risk of decline in earnings due to adverse movement of the interest rate curve. Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. 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, 2006                     |                                   |                                   |                                   |                      |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------|
|  | Interest / Mark up Bearing        |                                   | Non Interest Bearing              |                                   | Total                |
|  | Less than<br>one year<br>(Rupees) | One year<br>and above<br>(Rupees) | Less than<br>one year<br>(Rupees) | One year<br>and above<br>(Rupees) |                      |
| <b>Financial assets</b>                                |                                   |                                   |                                   |                                   |                      |
| Long term loan - Unsecured                             | -                                 | 10,190,000                        | -                                 | -                                 | 10,190,000           |
| Long term deposits                                     | -                                 | -                                 | -                                 | 7,136,996                         | 7,136,996            |
| Trade debts - Unsecured                                | -                                 | -                                 | 572,754,806                       | -                                 | 572,754,806          |
| Investments at fair value through<br>profit and loss   | -                                 | -                                 | 231,372,769                       | -                                 | 231,372,769          |
| Advances, deposits and other receivables               | -                                 | -                                 | 130,632,728                       | -                                 | 130,632,728          |
| Placements   | 677,641,520                       | -                                 | -                                 | -                                 | 677,641,520          |
| Interest accrued                                       | -                                 | -                                 | 9,352,433                         | -                                 | 9,352,433            |
| Cash and bank balances                                 | 200,611,373                       | -                                 | 39,755,037                        | -                                 | 240,366,410          |
|  | <u>878,252,893</u>                | <u>10,190,000</u>                 | <u>983,867,774</u>                | <u>7,136,996</u>                  | <u>1,879,447,663</u> |
| <b>Financial Liabilities</b>                           |                                   |                                   |                                   |                                   |                      |
| Long term financing                                    | 5,040,000                         | 8,280,000                         | -                                 | -                                 | 13,320,000           |
| Liabilities against assets subject to<br>finance lease | 678,729                           | 110,072                           | -                                 | -                                 | 788,801              |
| Trade and other payables                               | -                                 | -                                 | 586,747,525                       | -                                 | 586,747,525          |
| Liabilities against repurchase agreements              | 515,000,000                       | -                                 | -                                 | -                                 | 515,000,000          |
| Short term borrowings                                  | 206,162,344                       | -                                 | -                                 | -                                 | 206,162,344          |
| Interest accrued on short term borrowings              | -                                 | -                                 | 4,283,739                         | -                                 | 4,283,739            |
| Interest accrued on repurchase agreements              | -                                 | -                                 | 3,630,513                         | -                                 | 3,630,513            |
|  | <u>726,881,073</u>                | <u>8,390,072</u>                  | <u>594,661,777</u>                | <u>-</u>                          | <u>1,329,932,922</u> |
| On balance sheet gap                                   | <u>151,371,820</u>                | <u>1,799,928</u>                  | <u>389,205,996</u>                | <u>7,136,996</u>                  | <u>549,514,740</u>   |
|  |                                   |                                   |                                   |                                   |                      |
|  | June 30, 2005                     |                                   |                                   |                                   |                      |
|  | Interest/Mark up Bearing          |                                   | Non Interest Bearing              |                                   | Total                |
|  | Less than<br>one year<br>(Rupees) | One year<br>and above<br>(Rupees) | Less than<br>one year<br>(Rupees) | One year<br>and above<br>(Rupees) |                      |
| <b>Financial assets</b>                                |                                   |                                   |                                   |                                   |                      |
| Long term deposits                                     | -                                 | -                                 | -                                 | 2,171,200                         | 2,171,200            |
| Trade debts - Unsecured                                | -                                 | -                                 | 294,318,824                       | -                                 | 294,318,824          |
| Investments at fair value through<br>profit and loss   | -                                 | -                                 | 88,396,669                        | -                                 | 88,396,669           |
| Advances, deposits and other receivables               | -                                 | -                                 | 45,157,354                        | -                                 | 45,157,354           |
| Placements   | 225,000,000                       | -                                 | -                                 | -                                 | 225,000,000          |
| Interest accrued                                       | -                                 | -                                 | 3,075,315                         | -                                 | 3,075,315            |
| Cash and bank balances                                 | 73,701,466                        | -                                 | 18,015,747                        | -                                 | 91,717,213           |
|  | <u>298,701,466</u>                | <u>-</u>                          | <u>448,963,909</u>                | <u>2,171,200</u>                  | <u>749,836,575</u>   |
| <b>Financial Liabilities</b>                           |                                   |                                   |                                   |                                   |                      |
| Liabilities against assets subject to<br>finance lease | 364,471                           | 788,802                           | -                                 | -                                 | 1,153,273            |
| Trade and other payables                               | -                                 | -                                 | 151,335,303                       | -                                 | 151,335,303          |
| Liabilities against repurchase agreements              | 100,000,000                       | -                                 | -                                 | -                                 | 100,000,000          |
| Interest accrued on short term borrowings              | -                                 | -                                 | 5,539,955                         | -                                 | 5,539,955            |
| Interest accrued on repurchase agreements              | -                                 | -                                 | 657,534                           | -                                 | 657,534              |
| Short term borrowings                                  | 188,783,416                       | -                                 | -                                 | -                                 | 188,783,416          |
|  | <u>289,147,887</u>                | <u>788,802</u>                    | <u>157,532,792</u>                | <u>-</u>                          | <u>447,469,481</u>   |
| On balance sheet gap                                   | <u>9,553,579</u>                  | <u>(788,802)</u>                  | <u>291,431,117</u>                | <u>2,171,200</u>                  | <u>302,367,094</u>   |

**31.2** There are no financial assets and financial liabilities maturing after five years.

**31.3** The company has financial instruments with both fixed and floating interest rates which are disclosed in the respective notes to the financial statements.

**31.4 Concentration of credit risk and credit exposure of the financial instruments**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of a company's performance to developments affecting a particular industry. The company manages its credit risk by the following methods:

- Monitoring of debts on continuous basis
- Deposit of margins before execution of orders for all retail clientele.
- Obtaining adequate securities for all receivables/ placements.

**31.5 Foreign exchange risk management**

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

**31.6 Liquidity risk management**

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments. The company believes that it is not exposed to any significant level of liquidity risk.

**31.7 Fair value of the financial instrument**

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

**32 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

|                             | Chief Executive  |           | Directors         |            | Executives        |            |
|-----------------------------|------------------|-----------|-------------------|------------|-------------------|------------|
|                             | 2006             | 2005      | 2006              | 2005       | 2006              | 2005       |
| <b>Total Number</b>         | <b>1</b>         | <b>1</b>  | <b>4</b>          | <b>4</b>   | <b>6</b>          | <b>1</b>   |
|                             | (Rupees)         | (Rupees)  | (Rupees)          | (Rupees)   | (Rupees)          | (Rupees)   |
| Managerial Remuneration     | 917,200          | 871,467   | 3,530,000         | 3,101,778  | 4,113,600         | 2,024,200  |
| House Rent                  | 366,880          | 348,587   | 1,412,000         | 1,240,711  | 1,645,440         | 809,680    |
| Gratuity                    | -                | -         | -                 | 400,000    | -                 | 296,000    |
| Medical Expenses Reimbursed | 218,449          | 229,452   | 309,874           | 408,547    | 101,286           | 54,087     |
| Utilities                   | 91,720           | 87,147    | 353,000           | 310,178    | 411,360           | 202,420    |
| Other Benefits              | 1,675,672        | 639,000   | 4,424,197         | 9,217,082  | 4,321,696         | 9,217,082  |
|                             | <b>3,269,921</b> | 2,175,653 | <b>10,029,071</b> | 14,678,296 | <b>10,593,382</b> | 12,603,469 |

**32.1** In addition, Chief Executive, Directors and some executives have been provided with company maintained cars.

**32.2** No meeting fees were paid to any of the directors for attending the Board/ Audit Committee meetings (2005: Nil).

**33** The Board of directors have proposed 50% Bonus Issue and 50% right issue at a premium of Rs. 5/- per share for the year ended June 30, 2006, (2005: Nil), at their meeting held on October 09, 2006 for approval of the members at the Annual General Meeting to be held on October 31, 2006. These financial statements do not reflect the appropriations in this regard.

**34 AUTHORISATION FOR ISSUE**

These financial statements have been authorised for issue by the Board of Directors of the company on October 09, 2006.

**35 NEW ACCOUNTING DEVELOPMENTS**

**35.1** Following amendments to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after January 01, 2006 or later periods:

|  |                                 |
|--|---------------------------------|
| IAS-19 (Amendments) – Employee Benefits  | Effective from January 01, 2006 |
| IAS-39 Financial Instruments: Recognition and Measurement –<br>Fair Value Option, Cash flow hedge for forecast<br>intra group transactions | Effective from January 01, 2006 |
| IAS-1 Presentation of Financial Statements Capital Disclosures   | Effective from January 01, 2007 |

Adoption of the above amendments may only impact the extent of disclosures presented in the financial statements.

**35.2** In addition to above, a new series of standards called “International Financial Reporting Standards (IFRSs)” have been introduced and seven IFRSs have been issued by IASB. Out of these following four IFRS have been adopted by Institute of Chartered Accountant of Pakistan (ICAP) however since these have not been adopted by SECP therefore, do not form part of the approved local financial reporting framework:

- IFRS-2 (Share based Payments);
- IFRS-3 (Business Combinations);
- IFRS-5 (Non-current Assets held for Sale and Discontinued Operations); and

The company expects that the adoption of these pronouncements mentioned above will have no significant impact on the company's financial statements in the period of initial application.

|                 |                 |
|-----------------|-----------------|
| <u>2006</u>     | <u>2005</u>     |
| <b>(Rupees)</b> | <b>(Rupees)</b> |

**36 GENERAL**

**36.1** Significant rearrangements are as follows:

|  |             |             |
|--|-------------|-------------|
| Minority Interest previously shown separately now shown in Equity  | 5,567,390   | 5,727,242   |
| Accrued brokerage commission previously shown under the head of "Others" in Advances, Deposits, Prepayments and Other Receivables now separately shown | 3,241,580   | 1,750,841   |
| Payable to financial institutions previously shown under the head of Trade and other payables now separately shown                                     | 515,000,000 | 100,000,000 |

**36.2** Figures have been rounded off to the nearest rupee .

Lahore

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

First Capital Equities Limited

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 of
(Name) (Address)

being the member (s) of First Capital Equities Limited hereby appoint Mr. / Mrs./

Miss of of
(Name) (Address)

or failing him / her / Mr. / Mrs. / Miss. of 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 Registered Office of the Company, 103-C/II, Gulberg-III, Lahore, on 31 October 2006 at 4:30 p.m. and at any adjournment thereof.

Signature this Day of 2006

Affix Revenue Stamp of Rupees Five

(Witnesses)

1.

2.

Signature

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

Notes:

- 1. This Proxy Form, duly completed and signed, must be received at the Registered Officer of the Company not later than 48 hours before the time of holding the meeting.
2. No person shall act as a 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 holder, will further have to follow the guidelines as laid down in Circular No. 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

