

Annual Report 2006




SME Leasing Limited
(A subsidiary of SME Bank Ltd.)

www.smelease.com





SME Leasing Limited
(A subsidiary of SME Bank Ltd.)

The background features a series of overlapping, curved shapes in shades of orange and brown. A prominent yellow strip with a series of circular perforations curves along the right side of the page. The overall aesthetic is modern and geometric.

Small and Medium Enterprises (SMEs) are considered to be the backbone of any developing economy and can play a vital role in its economic growth. SME Leasing takes pride in mentioning that it exclusively works for providing reliable financial strength to the SMEs on a sustainable basis and has designed specialized financial products.

Vision Statement

In partnership with the people, empowering small and medium enterprises, strengthening the economy, towards a prosperous Pakistan.

Mission Statement

To be the leading financial institution in the country that provides lease finance facilities to the SME sector on a sustainable basis.

To have a client focused strategy and develop the approach and expertise in SME that will set an example and lead the way for the financial industry to serve the SMEs on a commercial basis.



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Corporate Information

BOARD OF DIRECTORS

Mr. S.M. Naseem	Chairman
Mr. Munawar Suleman	Director/CEO
Mr. Mansur Khan	Director
Mr. M. Hashim Khan	Director
Mrs. Arjumand Qazi	Director
Mr. M.A. Ghazali Marghoob	Director
Mr. Hussain Ahmad Ozgen	Director

AUDIT COMMITTEE

Mr. S.M. Naseem	(Non-Executive Director) Chairman
Mr. Mansur Khan	(Non-Executive Director) Member
Mr. M.A. Ghazali Marghoob	(Non-Executive Director) Member
Mr. M. Hashim Khan	(Non-Executive Director) Member
Miss Shafaque Akhtar	Committee Secretary

CREDIT COMMITTEE

Mr. Munawar Suleman	Chief Executive Officer
Mr. M. Tariq Siddiqui	Head, Credit & Risk Management
Mr. Shaheen Akhtar	Head, Credit & Marketing

MANAGEMENT COMMITTEE

Mr. Munawar Suleman	Chief Executive Officer
Mr. Tanveer-ul-Bari	Company Secretary & Chief Financial Officer
Mr. M. Tariq Siddiqui	Head, Credit & Risk Management
Mr. Shaheen Akhtar	Head, Credit & Marketing

COMPANY SECRETARY & CFO

Mr. Tanveer-ul-Bari

AUDITORS

A.F. FERGUSON & Co. Chartered Accountants

LEGAL ADVISOR

Mohsin Tayebaly & Co. Advocate & Legal Consultant

TAX CONSULTANT

A.F. Ferguson & Co.

CREDIT RATING

Long-term: BBB+
Short-term: A-2

BANKS AND LENDING INSTITUTIONS

Allied Bank Limited
Askari Commercial Bank Limited
Bank Al-Falah Limited
Faysal Bank Limited
MCB Commercial Bank Limited
National Bank of Pakistan
Pak Oman Investment Co. Limited
Pak Libya Holding Co. (Pvt) Limited
Pak Kuwait Investment Co. (Pvt) Limited
PICIC Commercial Bank
Saudi Pak Commercial Bank Limited
Saudi Pak Ind. & Agri. Investment Co. Ltd.
The Bank of Punjab
United Bank Limited

MAIN OFFICE

2nd Floor, Tower "B",
Finance & Trade Center (FTC),
Shahra-e-Faisal, Karachi.
Phone: 021-9204751-53
Fax: 021-9204754

REGISTERED OFFICE

40, Jang Building,
A.K. Fazal-ul-Haq Road,
Blue Area, Islamabad.

REGISTRAR AND SHARE TRANSFER OFFICE

Progressive Management Services (Pvt) Ltd.
10th Floor, Mehdi Towers, A-115, S.M.C.H.S.,
Shahra-e-Faisal, Karachi.
Phone: 021-4526983-84
Fax: 021-4526985

WEBSITE

www.smelease.com

BRANCHES

KARACHI

Main Branch
2nd Floor, Tower "B",
Finance & Trade Center (FTC),
Shahra-e-Faisal.
Phone: 021-9204751-53
Fax: 021-9204754

F.B. Area Branch
Ground Floor,
Gulshan-e-Amin Plaza,
Block-21, F.B. Area.
Phone: 021-6807584
Fax: 021-6806940

HYDERABAD

Mezzanine Floor,
Rabi Shopping Center,
Cantonment Area, Saddar.
Phone: 022-9200747
Fax: 022-9201060

LAHORE

Gulberg Branch
13-L, Mini Market, Gulberg-III.
Phone: 042-5714499
Fax: 042-5714499

Ravi Road Branch
103, Battiwala Chowk, Ravi Road.
Phone: 042-7705901
Fax: 042-7705901

ISLAMABAD

Suite No. 13, 1st Floor,
Muhammadi Plaza,
Nazimuddin Road, Blue Area.
Phone: 051-9219261
Fax: 051-9205782

SIALKOT

Small Industrial Estate
Uggoki Road, Shahabpura.
Phone: 051-9219261
Fax: 051-9205782

PESHAWAR

34, Ground Floor,
State Life Building,
The Mall, Peshawar Cantt.
Phone: 091-9211683
Fax: 091-9211683

MARDAN

The Mall Office No. 26,
Adjacent Allied Bank Limited,
Mardan Cantt.
Phone: 0937-9230800
Fax: 0937-9230800





SME Leasing Limited
(A subsidiary of SME Bank Ltd.)



Scarcity of finance can adversely influence the efforts and skills that are being applied for the expansion and growth of the business. SME Cash plus presents an easy and reliable financial support by making available working capital for the smooth running of the business without facing cash-flow problems.

Notice of the 5th Annual General Meeting

Notice is hereby given that the 5th Annual General Meeting of SME Leasing Limited (the Company) will be held at Hotel Crown Plaza, 99-E, Jinnah Avenue, Blue Area, Islamabad, on Thursday, April 26, 2007 at 3:30 p.m. to transact the following business:

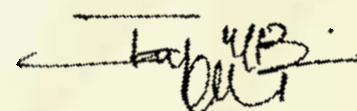
ORDINARY BUSINESS

1. To confirm the minutes of the Extra Ordinary General Meeting of the Company held on July 14, 2006.
2. To receive and consider the audited Financial Statements of the Company for the year ended December 31, 2006 together with the Directors' and Auditors' Report thereon.
3. To appoint the auditors of the company and fix their remuneration for the year ending December 31, 2007. The present auditors M/s. A.F. Ferguson and Company Chartered Accountants retire and are ineligible for re-appointment as auditors of the Company. The Board of Directors has recommended the name of M/s. Anjum Asim Shahid Rahman Chartered Accountants for consideration and appointment as auditors of the Company for the year ending December 31, 2007.
4. To consider any other business with the permission of Chair.

SPECIAL BUSINESS

1. To consider and pass the following resolution.
"Resolved that the Company may transmit the quarterly financial statements through its website presently addressed as www.smelease.com in compliance with Section 245 of the Companies Ordinance, 1984 and Securities and Exchange Commission of Pakistan Circular No. 19 of 2004 dated April 14, 2004. Resolved further that the Chief Executive Officer and Company Secretary of the Company are hereby authorized to take all such steps necessary to implement this resolution."

By Order of Board



Tanveer Ul Bari
Company Secretary

Karachi: April 02, 2007

Notes:

1. The Register of the members of the Company will remain closed from April 16, 2007 to April 26, 2007 (both days inclusive).
2. A member entitled to attend and vote at the meeting is entitled to appoint an other member as proxy to attend, speak and vote in the meeting. Proxies in order to be effective must be received by the Company at the Main Office at 2nd Floor, Tower-B, Finance & Trade Centre, Shahra-e-Faisal, Karachi not less than 48 hours before the time of holding the meeting.
3. An instrument appointing proxy and the Power of Attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney, in order to be valid must be deposited at the Main Office of the Company not less than 48 hours before the time of the meeting.

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

For attending the meeting

- In case of individuals, the account holder or sub-account holder shall authenticate his/her identity by showing his/her original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting. The shareholders registered on CDS are also requested to bring their participants I.D. numbers and account numbers in CDS.
- In case of a corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of meeting.

For appointing proxies

- In case of individuals, the account holder or sub-account holder and /or the person whose securities are in group account and their registration details are uploaded as per the regulations, shall submit the proxy form as per the above requirements.
 - The proxy shall be witnessed by two persons whose names, address and CNIC numbers shall be mentioned on the form.
 - Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
 - The proxy shall produce his/her original CNIC or original passport at the time of the meeting.
 - In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) along with the proxy form for the meeting.
5. Shareholders are requested to notify the change of their address, if any, at our Main Office at 2nd Floor, Tower-B, Finance & Trade Centre, Shakra-e-Faisal, Karachi.

STATEMENT UNDER SECTION 160(1) (b) COMPANIES ORDINANCE, 1984 IN RESPECT OF SPECIAL BUSINESS

The Securities and Exchange Commission of Pakistan (SECP) has allowed, subject to fulfillment of certain conditions, listed companies to place quarterly financial statements for the first, second and third quarter on their website instead of sending the same to each shareholder by post. The Company is maintaining a website www.smelease.com. The permission from SECP will be sought for transmitting quarterly accounts through Company's website after the approval of the members. The Company however will provide the printed quarterly financial statements to the shareholders on demand at their registered address, free of cost, within one week of such demand.

The directors of SME Leasing Limited are interested in this resolution to the extent of their shareholding only.





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Lack of transport facilities can slow down the business progress. SME Auto plus is an attempt to resolve the transport problems by making available lease assistance for commercial vehicles. It also envisages leasing to fleet operators of commercial transport.

Directors' Report

The Board of Directors of SME Leasing Limited takes pleasure to present before you, the annual report 2006, together with the audited financial statements for the year ended December 31, 2006.

REVIEW OF OPERATIONS

Your company continued to operate in line with its long-term strategic business policies which have resulted in larger business volumes, higher operating profits and net profit as compared to last year. The analysis of key operating profits results for the current year and their comparison with results of the previous year are given below:

	2006 Rupees	2005 Rupees
Gross revenue	146,607,469	104,598,927
Operating profit	31,257,634	22,002,659
Provision	<u>1,385,352</u>	<u>602,881</u>
Profit before taxation	<u>29,872,282</u>	<u>21,399,778</u>
Taxation:		
- Current	<u>2,439,563</u>	<u>1,773,797</u>
- Deferred	<u>3,332,876</u>	<u>(3,109,291)</u>
	<u>5,772,439</u>	<u>(1,335,494)</u>
Profit after taxation	<u><u>24,099,843</u></u>	<u><u>22,735,272</u></u>
Earnings per share - basic and diluted	<u><u>1.05</u></u>	<u><u>1.03</u></u>

Gross revenue increased by 40.16% over that of the last year. The pretax profit of the company increased from Rs. 21.399m in 2005 to Rs. 29.872m in 2006, which is 39.59% increase over the last year. This has been achieved as a result of focused management strategies, effective utilization of resources and control over resources.

During the next year, the company will continue to make efforts to build a sound business portfolio and at the same time strictly monitor the recoveries to produce even better results.

PUBLIC LISTING

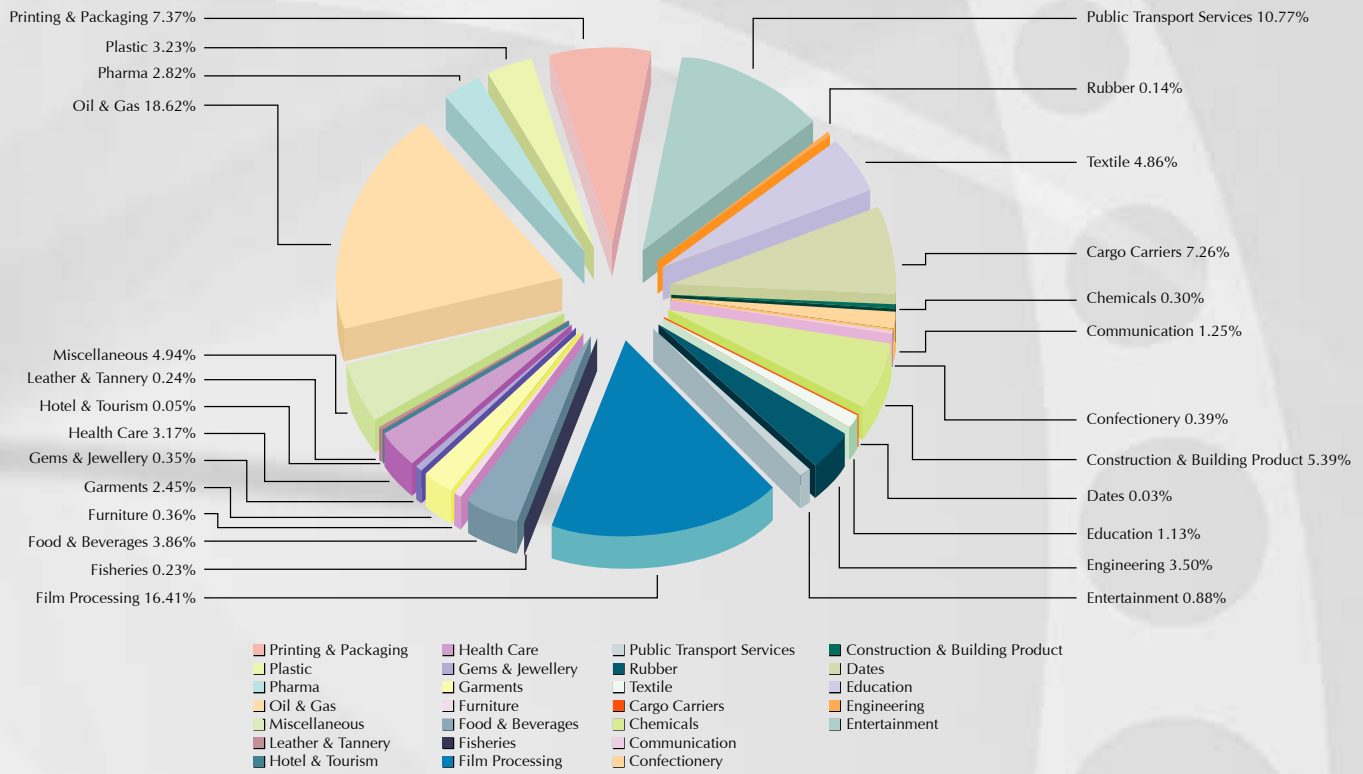
During the period under review, the company also became a listed company on the Lahore Stock Exchange by fulfilling all the conditions and requirements of Securities and Exchange Commission of Pakistan (SECP) and Lahore Stock Exchange. The company made a public offering of 10 million ordinary shares of Rs. 10/- each at a price of Rs. 11/- per share including a premium of Re. 1/- per share.

This not only provided an opportunity to the company to write more leases, but also strengthened its equity base which will also enable the company to broaden its product base as a Non-Banking Finance Company.

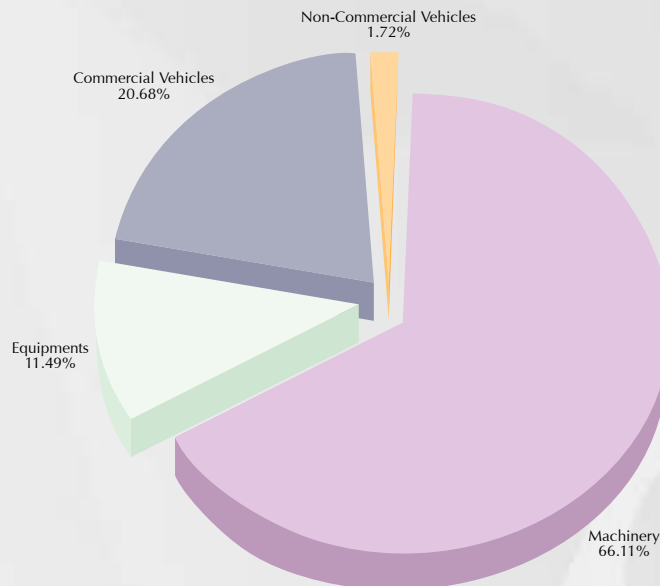
FUTURE OUTLOOK

Moving forward, the focus would remain on writing more leases, which is our core business, but at the same time in our quest to add more products to our business, the company plans to enter into housing finance after seeking approval from SECP. The company also plans to launch a scheme of COIs which shall have a positive impact on the earnings of the company.

Portfolio as at December 31, 2006



Categorywise Gross Lease Portfolio as at December 31, 2006



HUMAN RESOURCE

The company considers its human resource as its main strength. Every member of its core staff team is given an opportunity to attend various workshops locally and internationally.

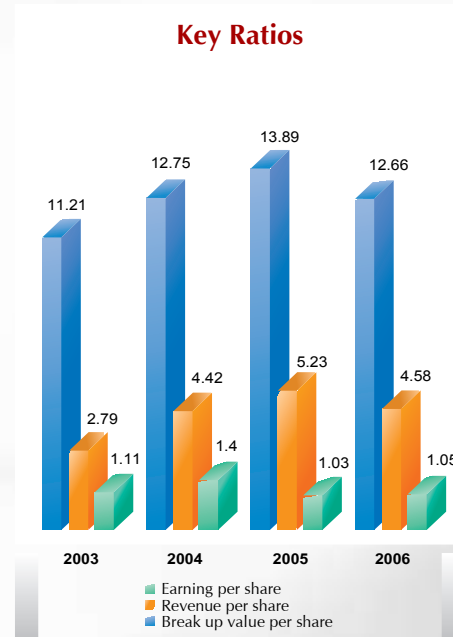
CORPORATE GOVERNANCE

The Code of Corporate Governance has become applicable on the company since its listing on Lahore Stock Exchange in December 2006. However the company has implemented the code voluntarily and there has been no material departure from it. However, certain requirements as referred in the Statement of Compliance with the Code of Corporate Governance that only has to be complied with by a listed company, will now be followed in future.

DIRECTORS' DECLARATION

The Directors confirm compliance with the Corporate and Financial Reporting of the Code of Corporate Governance for the following:

- i) The financial statements prepared by the management of SME Leasing Limited present fairly its statement of affairs, the results of its operations, cash flows and changes in its equity;
- ii) Proper books of accounts of the company have been maintained;
- iii) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- iv) International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements;
- v) The system of internal control is sound in design and has been effectively implemented and monitored;
- vi) There are no significant doubts upon the company's ability to continue as a going concern;
- vii) There has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations;
- viii) Details of significant improvements in the company's operations during the year ended December 31, 2006 are stated in the Directors' Report;
- ix) Key operating and financial data for last four years in summarized form is included in the annual report;
- x) The value of investments of recognized provident fund as at December 31, 2006 was Rs. 2.6 million (un-audited) and as at December 31, 2005 was Rs. Nil;
- xi) No trading in shares of the company was carried out by the Directors, Chief Executive, Chief Financial Officer/Company Secretary and their spouses and minor children during the year.



During the year five meetings of the Board of Directors were held and attended by as follows:

1. Mr. S.M. Naseem	5
2. Mr. Munawar Suleman	5
3. Mr. Mansur Khan	5
4. Mr. M.A. Ghazali Marghoob	5
5. Mrs. Arjumand Qazi	3
6. Mr. Muhammed Hashim Khan	3
7. Mr. Hussain Ahmed Ozgen	5

Leave of absence was granted to Directors who could not attend the Board meetings.

CREDIT RATING

Based on the results for the year ended December 31, 2005, the JCR-VIS Credit Rating Company Limited has maintained the medium to long-term entity rating of BBB+ (Triple B plus) and short-term rating of A-2 (A-Two) with a stable look.

PARENT COMPANY

SME Bank Limited and its nominees hold 73.14% of the shareholding in the company.

DIVIDEND

The Board considered the dividend for the period under review. However, it decided not to recommend any dividend for the year which will enable the company to consolidate the reserves.

AUDITORS

The Board and its Audit Committee has recommended the appointment of M/s. Anjum Asim Shahid Rahman Chartered Accountants as auditors of the Company for the year ending December 31, 2007.

The retiring auditors M/s. A.F. Ferguson and Company Chartered Accountants are ineligible for reappointment in term of the notification dated February 25, 2004 jointly issued by State Bank of Pakistan and Securities and Exchange Commission of Pakistan, which directs all inter-related companies/institutions engaged in the business of providing financial services to appoint the same firm of auditors to conduct audit of their accounts. The holding company SME Bank Limited has appointed M/s. Anjum Asim Shahid Rahman Chartered Accountants as their auditors for the year 2007.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the Company as on December 31, 2006 is annexed with this report.

ACKNOWLEDGEMENT

We take this opportunity to place on record the appreciation for the support of regulatory authorities, financial institution, shareholders and all staff members for their continued support and guidance.

On behalf of Board of Directors,



S.M. Naseem
Chairman

Karachi: March 06, 2007

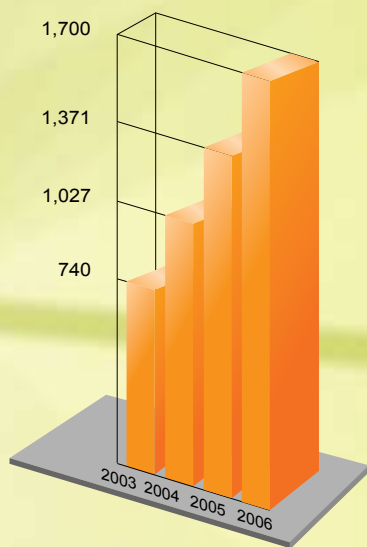
Financial Highlights

Rupees in '000'

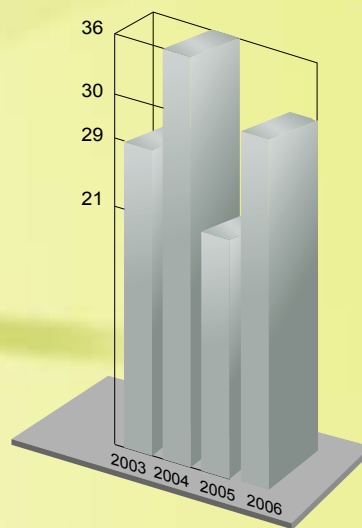
Balance Sheet	2006	2005	2004	2003
Paid-up Capital	320,000	200,000	200,000	200,000
Total Equity	404,986	277,833	255,097	224,231
Gross Lease Receivable	1,700,313	1,370,727	1,027,253	740,014
Net Investment in Lease	1,488,228	1,196,199	889,288	606,578
Long-term Liabilities	688,594	561,879	430,850	239,879
Current Liabilities	521,202	453,588	274,548	210,206
Current Assets	524,256	409,561	347,301	209,842
Total Assets	1,614,782	1,293,300	960,495	674,316
Income Statement	2006	2005	2004	2003
Lease Income	145,400	103,325	88,118	55,762
Total Revenue	146,607	104,599	88,370	55,889
Financial Charges	73,875	50,018	25,692	7,476
Administrative Expenses	38,730	32,579	27,008	18,541
Provisions	1,385	603	120	878
Total Expenses	116,735	83,199	52,821	26,895
Profit before Taxation	29,872	21,400	35,549	28,994
Profit after Taxation	24,100	22,735	30,866	24,509
Financial Indicators	2006	2005	2004	2003
Breakup Value (Rs.)	12.66	13.89	12.75	11.21
Current Ratio (X)	1.01	0.90	1.26	1.00
Debt-Equity Ratio (Times)	1.54	2.15	1.68	1.28
Earning Per Share (Rs.)	1.05	1.03	1.40	1.11
Financial Charges / Total Expenses (%)	63.28	60.12	48.64	27.80
Financial Charges / Total Revenue (%)	50.39	47.82	29.07	13.38
Income Expense Ratio (Times)	1.26	1.26	1.67	2.08
Net Profit Margin (%)	16.44	21.74	34.93	43.85
Return on Assets / Fix Assets Turnover (%)	1.66	2.02	3.78	3.63
Return on Average Equity (%)	7.06	8.53	12.88	10.93
Return to Shareholders (%)	-	10.00*	-	-
Revenue Per Share (Rs.)	4.58	5.23	4.42	2.79

* Bonus issue

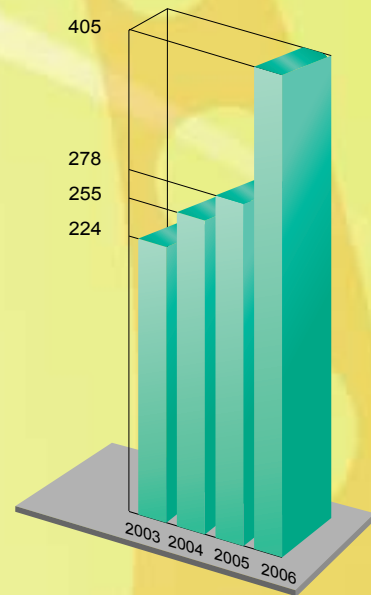
Gross Lease Receivables
(Figures in PKRmn)



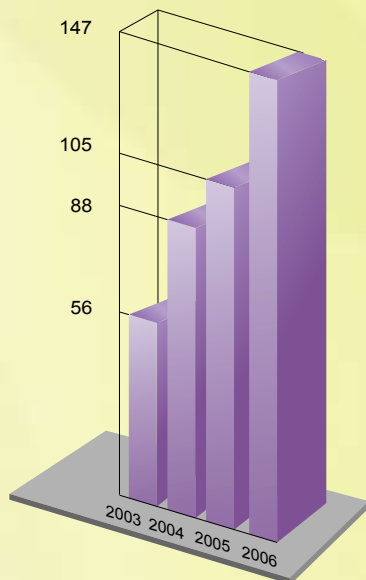
Profit before Taxation
(Figures in PKRmn)



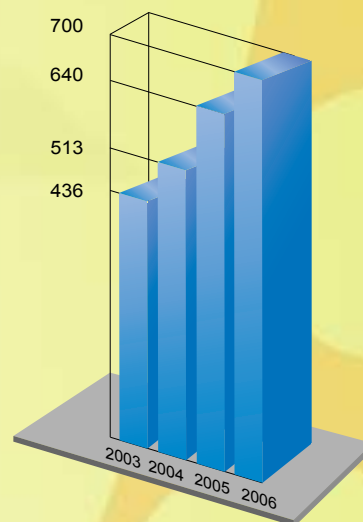
Shareholders' Equity
(Figures in PKRmn)



Total Revenues
(Figures in PKRmn)



Total Disbursements
(Figures in PKRmn)



Statement of Value Added

	2006 Rupees	%	2005 Rupees	%
Revenue from Operations	145,400,398		103,324,887	
Other Income	1,207,071		1,274,040	
	<u>146,607,469</u>		<u>104,598,927</u>	
Financial Charges	73,874,619		50,017,652	
Administrative & Operating Expenses	16,566,057		11,350,918	
Provisions	1,385,352		602,881	
	<u>91,826,028</u>		<u>61,971,451</u>	
Value Added	54,781,441	100	42,627,476	100
Distributed as follows:				
To Employees:				
As Remuneration	22,459,920	41	19,267,480	45
To Government				
As taxation, current	2,439,563		1,773,797	
As taxation, deferred	3,332,876		(3,109,291)	
	5,772,439	11	(1,335,494)	(3)
To Retain in the Business				
As transferred to statutory reserve	4,819,969	9	4,547,054	11
As transferred to reserve against future losses	1,523,472	3	1,314,718	3
As reserved and retained profits	17,756,402	32	16,873,500	39
As depreciation	2,449,239	4	1,960,218	5
Rupees	54,781,441	100	42,627,476	100

Review Report to the Members

on Statement of Compliance with the Best Practices of the Code of Corporate Governance

A member firm of

PRICEWATERHOUSECOOPERS 

A.F. Ferguson & Co.
Chartered Accountants

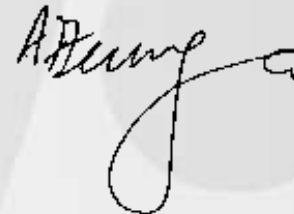
State Life Building No. 1-C,
I.I. Chundrigar Road, P.O. Box 4716,
Karachi-74000, Pakistan.
Tel: (021) 2426682-86/2426711-15
Facsimile: (021) 2415007/2427938

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of SME Leasing Limited to comply with Chapter XIII of the Listing Regulations 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 a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control system 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 December 31, 2006.



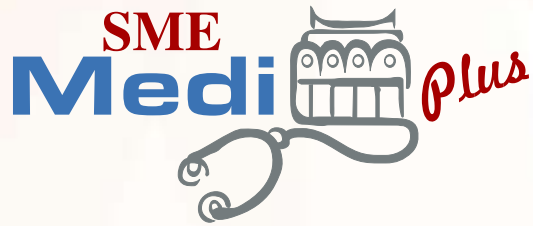
Chartered Accountants
Karachi

Date: March 06, 2007





SME Leasing Limited
(A subsidiary of SME Bank Ltd.)



A lease finance product designed for health professionals, doctors and for others to set up hospitals, clinics, diagnostic and clinical laboratories or for the expansion of existing facilities.

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of the 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 practice of corporate governance.

The Code of Corporate Governance became applicable on the Company after its listing on the Lahore Stock Exchange on December 13, 2006; however, the Board of Directors of SME Leasing Limited had voluntarily adopted the Code prior to its listing and confirms that it has applied the principles contained in the Code in the following manner:


1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes six non-executive directors and one executive Director who is also the Chief Executive Officer. All the directors have been nominated by SME Bank Limited;
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company;
3. The directors of the Company have confirmed that they are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or being a member of a stock exchange, has been declared as a defaulter by that stock exchange;
4. No casual vacancy occurred in the Board during the year;
5. The Board of directors have approved a "Statement of Ethics and Business Practices" in its meeting held subsequent to the year end, which has been signed by all the Directors and the employees of the Company;
6. The Board has developed vision and mission statements, overall corporate strategy and significant policies of the Company. A complete record 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, CFO and Company Secretary were approved by the Board;
8. Five meetings of the Board were held during the year, at least once in every quarter. The meetings of the Board were presided over by the Chairman and written notices of the meetings, along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meeting were appropriately recorded and circulated;
9. The Directors are conversant with the relevant laws applicable to the Company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities;
10. The Board has approved the appointment of the Company Secretary who is also the CFO, including the remuneration and terms and conditions of employment, as recommended by the Chief Executive Officer;
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 the CEO and the 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. However, requirements pertaining to publication, circulation of quarterly and half yearly accounts and limited review of half yearly accounts by the statutory auditors were not mandatory on the Company as it was listed on December 13, 2006;
15. The Board has formed an Audit Committee. It comprises of four members, who all are non-executive Directors including the Chairman of the Committee;
16. Meetings of the Audit Committee were held at least once in every quarter, prior to approval of interim and final results of the Company, as required by the Code. The terms of reference of the Committee have been framed and approved by the Board and have been advised to the Committee for compliance;
17. The internal audit function of the Company has been outsourced to M/S. Ford , Rhodes Sidat Hyder & Company Chartered Accountants in accordance with the decision taken by the Board in its meeting held subsequent to the year end. Previously, the Company had an effective internal audit function, which comprised of qualified and experienced staff who were conversant with the policies and procedures of the Company and were involved in the internal audit function on a full time basis;
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 ICAP;
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. The Company confirms that all other material principles contained in the Code have been complied with.

Karachi-March 06, 2007


Munawar Suleman
Chief Executive Officer

Auditors' Report to the Members

A member firm of

PRICEWATERHOUSECOOPERS 

A.F. Ferguson & Co.
Chartered Accountants

State Life Building No. 1-C,
I.I. Chundrigar Road, P.O. Box 4716,
Karachi-74000, Pakistan.
Tel: (021) 2426682-86/2426711-15
Facsimile: (021) 2415007/2427938

We have audited the annexed balance sheet of SME Leasing Limited as at December 31, 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 management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) In our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;
- b) In our opinion:
 - i. The balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii. The expenditure incurred during the year was for the purpose of the company's business; and
 - iii. The business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- c) In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 December 31, 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.



Chartered Accountants

Karachi-March 06, 2007

Balance Sheet as at December 31, 2006

	Note	2006 Rupees	2005 Rupees
ASSETS			
Cash and bank balances	3	14,049,475	18,773,214
Mark-up accrued	4	1,428,448	663,916
Current maturity of originated loans and receivables	5	53,711,101	30,047,262
Loans and advances - considered good	6	1,087,776	1,081,687
Deposits, prepayments and other receivables	7	3,322,023	2,276,014
Investments - available for sale	8	2,500,000	-
Current maturity of net investment in leases	9	448,156,994	356,719,326
Total current assets		524,255,817	409,561,419
Originated loans and receivables - due after one year	5	27,304,252	24,324,835
Net investment in leases - due after one year	9	1,040,070,978	839,480,222
Long-term loans - considered good	10	10,078,867	7,770,857
Long-term deposits and prepayments	11	745,689	686,501
Operating fixed assets	12	12,326,667	11,475,887
		1,090,526,453	883,738,302
Total Assets		1,614,782,270	1,293,299,721
LIABILITIES			
Mark-up accrued	13	13,618,808	6,471,650
Creditors, accrued and other liabilities	14	21,932,734	11,178,860
Current maturity of lease key money	15	121,809,821	95,382,114
Current maturity of long-term borrowings	16	251,909,396	237,277,574
Short-term running finance under mark-up arrangements	17	103,881,801	98,405,518
Current maturity of liabilities against assets subject to finance lease	18	1,981,723	1,180,508
Taxation payable		6,068,025	3,692,208
Total current liabilities		521,202,308	453,588,432
Lease key money - due after one year	15	413,417,619	296,122,371
Long-term borrowings	16	263,496,782	259,156,685
Liabilities against assets subject to finance lease	18	2,220,381	1,079,578
Deferred liabilities	19	9,459,493	5,519,986
		688,594,275	561,878,620
Total Liabilities		1,209,796,583	1,015,467,052
NET ASSETS		404,985,687	277,832,669
FINANCED BY			
Authorised share capital	20	500,000,000	500,000,000
Issued, subscribed and paid-up capital	20	320,000,000	200,000,000
Reserves	21	84,985,687	77,832,669
		404,985,687	277,832,669
Commitments	22		

The annexed notes 1 to 40 form an integral part of these financial statements.


Chief Executive Officer


Director

Profit and Loss Account for the year ended December 31, 2006

	Note	2006 Rupees	2005 Rupees
Income from operations	23	145,400,398	103,324,887
Other operating income	24	1,207,071	1,274,040
		146,607,469	104,598,927
Administrative expenses	25	38,730,447	32,578,616
Finance cost	27	73,874,619	50,017,652
Other operating expenses	28	2,744,769	-
		115,349,835	82,596,268
Operating profit before provisions		31,257,634	22,002,659
Provision for potential lease losses	9.5	1,315,537	1,185,408
Provision / (reversal of provision) against originated loans and receivables	5.2	69,815	(582,527)
Profit before taxation		29,872,282	21,399,778
Taxation	29		
- Current		2,439,563	1,773,797
- Deferred		3,332,876	(3,109,291)
		5,772,439	(1,335,494)
Profit after taxation		24,099,843	22,735,272
Earnings per share - basic and diluted	30	1.05	1.03

The annexed notes 1 to 40 form an integral part of these financial statements.


Chief Executive Officer


Director

Cash Flow Statement for the year ended December 31, 2006

	Note	2006 Rupees	2005 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	31	117,607,719	77,482,504
Mark-up paid		(64,206,161)	(46,084,566)
Mark-up received on loans to employees		458,052	372,106
Mark-up received		70,648	20,140
Financial charges paid		(1,833,629)	(196,653)
Gratuity paid		(197,888)	(37,090)
Taxes paid		(63,746)	(37,084)
Increase in net investment in leases		(293,343,961)	(308,095,984)
Increase in originated loans and receivables		(26,713,071)	(12,592,433)
Lease key money received		143,722,955	140,212,751
Net cash outflow on operating activities		(124,499,082)	(148,956,309)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(1,350,454)	(6,563,695)
Sale proceeds from disposal of fixed assets		316,600	815,151
Increase in long-term loans and advances		(2,308,010)	(2,840,380)
Increase in Investments		(2,500,000)	-
Increase in long-term deposits and prepayments		(59,188)	(20,401)
Net cash outflow on investing activities		(5,901,052)	(8,609,325)
CASH FLOW FROM FINANCING ACTIVITIES			
Increase in long-term borrowings		18,971,919	103,824,751
Issue of shares for cash		110,000,000	-
Share issue expenses paid		(6,946,825)	-
Repayment of liabilities against assets subject to finance lease		(1,824,982)	(2,316,445)
Net cash inflow from financing activities		120,200,112	101,508,306
Net decrease in cash and cash equivalents		(10,200,022)	(56,057,328)
Cash and cash equivalents at beginning of the year	32	(79,632,304)	(23,574,976)
Cash and cash equivalents at end of the year	32	(89,832,326)	(79,632,304)

The annexed notes 1 to 40 form an integral part of these financial statements.


Chief Executive Officer


Director

Statement of Changes in Equity for the year ended December 31, 2006

	Issued, subscribed and paid-up capital	Share premium	Statutory reserve	Reserve against future losses	Un-appropriated profit	Total
Rupees						
Balance as at January 1, 2005	200,000,000	-	10,976,697	4,367,859	39,752,841	255,097,397
Profit after taxation for the year ended December 31, 2005	-	-	-	-	22,735,272	22,735,272
Transferred to statutory reserve	-	-	4,547,054	-	(4,547,054)	-
Transferred to reserve against future losses	-	-	-	1,314,718	(1,314,718)	-
Balance as at December 31, 2005	200,000,000	-	15,523,751	5,682,577	56,626,341	277,832,669
Issue of bonus shares	20,000,000	-	-	-	(20,000,000)	-
Issue of shares for cash	100,000,000	10,000,000	-	-	-	110,000,000
Share issue expenses	-	-	-	-	(6,946,825)*	(6,946,825)
Profit after taxation for the year ended December 31, 2006	-	-	-	-	24,099,843	24,099,843
Transferred to statutory reserve	-	-	4,819,969	-	(4,819,969)	-
Transferred to reserve against future losses	-	-	-	1,523,472	(1,523,472)	-
Balance as at December 31, 2006	320,000,000	10,000,000	20,343,720	7,206,049	47,435,918	404,985,687

* Transaction costs incurred in connection with the issue of shares have been accounted for as a deduction from equity, in accordance with the requirements of International Accounting Standard (IAS)-32 : 'Financial Instruments: Disclosure and Presentation'.

The annexed notes 1 to 40 form an integral part of these financial statements.


Chief Executive Officer


Director

Notes to the Financial Statement for the year ended December 31, 2006

1. THE COMPANY AND ITS OPERATIONS

SME Leasing Limited was incorporated in Pakistan as a public limited company on July 12, 2002. The company was incorporated as a wholly owned subsidiary of SME Bank Limited, whereby under an arrangement the assets and liabilities of the leasing division of SME Bank Limited were transferred to the company on January 31, 2003. The company was granted the Certificate of Commencement of Business on January 28, 2003. The registered office of the company is situated at 40, Jang Building, A.K. Fazal-ul-Haq Road, Blue Area, Islamabad.

During the current year, the company made an Initial Public Offer of 10,000,000 ordinary shares of Rs. 10 each at an offer price of Rs. 11 per share inclusive of a premium of Re. 1 per share thereby increasing the issued, subscribed and paid-up capital of the company to Rs. 320,000,000 represented by 32,000,000 ordinary shares of Rs 10 each. Consequently, the holding of SME Bank Limited in the company has reduced to 73.14%. Further, the company's shares were listed on the Lahore Stock Exchange on December 13, 2006.

The company is registered with the Securities and Exchange Commission of Pakistan as a leasing company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. The core objective of the company is to extend lease and working capital financing facilities to small and medium enterprises of the country.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

(a) Statement of compliance

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

- (b) The company provides for impairment in the carrying value of its net investment in finance lease based on the requirements laid down in the Prudential Regulations for Non-Banking Finance Companies.

The requirements of International Accounting Standard (IAS)-39: 'Financial Instruments: Recognition and Measurement', relating to the assessment of impairment loss on these assets have not been followed in the preparation of these financial statements based on a clarification received from the SECP specifying that the requirements of IAS-39 should only be followed by leasing companies so far as it relates to investments made by them. The management is also of the view that the provisioning made in accordance with the requirements of the Prudential Regulations for Non-Banking Finance Companies is adequate to meet the identified impairment loss arising on these assets.

(c) Amendments to published accounting standards effective in 2006

IAS-19 (Amendment), 'Employee Benefits' is mandatory for the company's accounting period beginning on or after January 1, 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It also add new disclosure requirements. As the company does not intend to change its accounting policy for recognition of actuarial gains and losses, adoption of this amendment only impacts the format and extent of disclosure presentation in the financial statements.

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2006 which are not considered relevant nor have any significant effect on the company's operations are not detailed in these financial statements.

(d) Standards, interpretations and amendments to published approved IFRS that are not yet effective

IAS-1: 'Presentation of Financial Statements - Capital Disclosures' has been revised and the amendments are applicable to the financial statements of the company covering accounting periods beginning on or after January 1, 2007 or later periods. Adoption of the said amendments would result in an impact on the extent of disclosures presented in the future financial statements of the company.

Notes to the Financial Statement for the year ended December 31, 2006

2.2 Critical 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 judgement in the process of applying the company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

- i) provision against originated loans and receivables (note 5.2)
- ii) provision against net investment in leases (note 9.5)
- iii) staff retirement benefits (note 26)
- iv) depreciation / amortisation of operating fixed assets (note 12)

2.3 Accounting convention

These financial statements have been prepared under the historical cost convention, except as follows:

- certain staff retirement benefits (referred to in notes 2.4 and 26) are carried at present value; and
- available for sale investments (referred to in notes 2.13 and 8) are carried at fair value.

2.4 Employee benefits

Defined contribution plan

The company operates a recognised contributory provident fund for all its permanent employees. The company and employees make equal monthly contributions to the fund at the rate of 8 percent of basic salary.

Defined benefit plan

The company operates an unapproved and unfunded gratuity scheme for all its permanent employees who complete the prescribed eligibility period of service. Provision is made annually to meet the cost of such gratuity benefits on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. The actuarial gains and losses arising at each valuation date are recognised as income or expense immediately.

Employees' compensated absences

The company provides for compensated vested and non-vested absences accumulated by its employees on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method.

2.5 Net investment in finance lease

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

2.6 Originated loans and receivables

Originated loans and receivables are stated at amortised cost less provision, if any, for doubtful loans and receivables.

2.7 Provision for potential lease losses and provision for doubtful loans and receivables

Provisions for potential lease losses and doubtful loans and receivables are determined on the basis of Prudential Regulations for Non-Banking Finance Companies issued by the Securities and Exchange Commission of Pakistan.

2.8 Reserve against future losses

Reserve against future losses represents amounts set aside in view of the risks associated with the economic cyclical nature of the business and is recognised as an appropriation of retained earnings. Any credits resulting from the reduction of such amounts result in an increase in unappropriated profit and are not included in the determination of profit or loss for the period. The amount to be set aside against future losses is determined at the rate of 0.5 percent of the outstanding balance of the regular portfolio of leases and originated loans and receivables as at each period end.

Notes to the Financial Statement for the year ended December 31, 2006

2.9 Other provisions

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

2.10 Taxation

- Current

Income for the purpose of computing current taxation is determined under the provisions of the prevalent income tax law, whereby lease rentals receivable for a year are deemed to be income. Provision for taxation is thus based on taxable income at the current rates of taxation, or minimum tax determined in accordance with the requirements of the Income Tax Ordinance, 2001, as applicable.

- Deferred

The company accounts for deferred taxation using the balance sheet liability method on temporary differences arising from using the different methods in the recognition of lease income for tax purposes and accounting purposes as well as for all other significant temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In addition, the company also recognises deferred tax asset on unused tax losses (including unabsorbed depreciation) to the extent that they will be available for set off against future taxable profits. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.11 Revenue recognition

- The company follows the finance method in accounting for lease income. Under this method the unearned lease income i.e. the excess of aggregate lease rentals plus the estimated residual value over the cost of leased assets is taken to income over the term of the lease, so as to produce a systematic return on the net investment in lease.
- Income on originated loans and receivables is accounted for on accrual basis using the effective yield method.
- Unrealised lease income and unrealised income on originated loans and receivables is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations for Non-Banking Finance Companies.
- Profit on bank deposits is accrued on a time proportion basis.
- Front-end fee and documentation fee are taken to income when realised.

2.12 Operating fixed assets

Tangible

Operating fixed assets (including assets acquired under finance lease arrangements) are stated at cost less accumulated depreciation. Depreciation on all operating fixed assets is charged using the straight line method in accordance with the rates specified in note 12 to the financial statements after taking into account residual value, if any. The residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on all fixed assets is charged from the month in which the asset is acquired. No depreciation is charged for the month in which the asset is disposed of.

Gains and losses on disposal of assets, if any, are included in income currently.

Intangible

Costs that are clearly associated with an identifiable asset which has a probable benefit beyond one year are recognised as intangible assets.

Intangible assets which have a definite life are amortised using the straight-line method over their estimated useful lives.

Notes to the Financial Statement for the year ended December 31, 2006

2.13 Investments

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention such as 'T+3' purchases and sales are recognised at the trade date. Trade date is the date on which the company commits to purchase or sell an asset.

The management determines the appropriate classification of its investments for the purpose of subsequent measurement in accordance with the requirements of International Accounting Standard (IAS)-39: 'Financial Instruments: Recognition and Measurement', at the time of purchase and re-evaluates this classification as at each balance sheet date. As at December 31, 2006, investments of the company are categorised as 'available for sale'.

Available for sales investments are those investments that are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in equity prices. These investments are initially recognised at cost which includes transaction costs associated with the investment. Subsequent to initial measurement, 'available for sale' investments are revalued and remeasured to fair value. Net gains or losses arising on changes in fair values are taken to equity.

2.14 Impairment

The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment in any asset or a group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised in the profit and loss account.

2.15 Cash and cash equivalents

Cash and cash equivalents carried in the balance sheet include cash in hand and balances with banks in current and savings accounts. For the purpose of cash flow statement, cash and cash equivalent comprise of cash in hand and balances with banks (including running finance under mark-up arrangements).

2.16 Trade and other payables

Short-term liabilities for trade and other amounts payable are stated at amortised cost.

2.17 Proposed dividend and transfer between reserves

Dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are not recognised in the financial statements.

2.18 Financial assets and financial liabilities

Financial assets carried on the balance sheet include net investment in leases, originated loans and receivables, investments, loans and advances, accrued mark-up, cash and bank balances, deposits and certain other receivables. Financial liabilities carried on the balance sheet include borrowings from financial institutions, lease key money, liabilities against assets subject to finance lease, accrued mark-up and certain other liabilities.

At the time of initial recognition, all financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Transaction costs are included in the initial measurement of all financial assets and financial liabilities. The particular recognition method adopted for measurement of financial assets and financial liabilities subsequent to initial recognition are disclosed in the policy statements associated with each item.

2.19 Offsetting financial assets and financial liabilities

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

2.20 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates. The financial statements are presented in Pakistani Rupees, which is the company's functional and presentation currency.

Notes to the Financial Statement for the year ended December 31, 2006

	Note	2006 Rupees	2005 Rupees
3. CASH AND BANK BALANCES			
With State Bank of Pakistan in current account		9,828	708
With banks:			
- in current accounts		11,215,152	14,140,617
- in savings accounts	3.1	2,782,983	4,590,377
Cash in hand		41,512	41,512
		<u>14,049,475</u>	<u>18,773,214</u>

3.1 Return on these savings accounts is earned at rates ranging from 0.1 percent to 5.0 percent (2005: 0.1 percent to 4.0 percent) per annum.

	2006 Rupees	2005 Rupees
4. MARK-UP ACCRUED		
Accrued mark-up on loans to employees	13,544	10,166
Accrued mark-up on originated loans and receivables	1,414,904	653,750
	<u>1,428,448</u>	<u>663,916</u>

4.1 Accrued mark-up on loans to employees includes an amount of Rs. 5,143 (2005: Rs. 3,833) that is receivable from key management personnel (related parties).

	Note	2006 Rupees	2005 Rupees
5. ORIGINATED LOANS AND RECEIVABLES			
Secured			
Loans to customers - considered good	5.1	73,018,759	43,764,251
Loans to customers - considered doubtful		8,066,409	10,607,846
		<u>81,085,168</u>	<u>54,372,097</u>
Less: Provision for doubtful loans and receivables	5.2	69,815	-
		<u>81,015,353</u>	<u>54,372,097</u>
Less: Current maturity of originated loans and receivables		53,711,101	30,047,262
		<u>27,304,252</u>	<u>24,324,835</u>

5.1 These represent loans to customers for a period of three to five years on mark-up basis and are secured by way of hypothecation of stock and immovable property. The rate of mark-up ranges from 17 percent to 24 percent (2005: 13.5 percent to 22 percent) per annum.

	2006 Rupees	2005 Rupees
5.2 Provision for doubtful loans and receivables		
Balance as at January 1	-	582,527
Charge for the year	69,815	-
Reversal during the year	-	(582,527)
Net charge / reversal	69,815	(582,527)
Balance as at December 31	<u>69,815</u>	<u>-</u>

Notes to the Financial Statement for the year ended December 31, 2006

	Note	2006 Rupees	2005 Rupees
6. LOANS AND ADVANCES - considered good			
Loans due from:			
- chief executive - related party		94,289	89,703
- executives - related parties		102,275	50,394
- employees		612,325	246,140
		808,889	386,237
Advances to:			
- chief executive - related party		-	416,666
- executives - related parties		93,600	24,000
- employees		184,347	243,257
- others		940	11,527
		278,887	695,450
		1,087,776	1,081,687

6.1 The maximum aggregate amount of advances due from the chief executive and executives at the end of any month during the year was Rs. 374,999 (2005: Rs. 458,333) and Rs. 139,950 (2005: Rs. 66,000) respectively.

	2006 Rupees	2005 Rupees
7. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Security deposits	240,800	-
Prepayments	2,050,953	1,928,381
Receivable from SME Bank Limited (holding company) - related party	-	177,674
Others	1,030,270	169,959
	3,322,023	2,276,014

	2006 Number of Certificates	2005 Number of Certificates
8. INVESTMENTS - available for sale		
Units of NAMCO Balanced Fund - closed end mutual fund		
Number of certificates held (face value per unit: Rs 10)	250,000	-
	2006 Rupees	2005 Rupees
Cost of purchase	2,500,000	-
Unrealised gain/(loss)	-	-
Fair value as at December 31	2,500,000	-

Notes to the Financial Statement for the year ended December 31, 2006

	Note	2006 Rupees	2005 Rupees
9. NET INVESTMENT IN LEASES			
Minimum lease payments receivable	9.2	1,165,085,573	979,222,730
Add: Residual value of leased assets		535,227,440	391,504,485
Lease contract receivable	9.3	1,700,313,013	1,370,727,215
Less: Unearned lease income		209,169,043	172,927,206
Less: Provision for potential lease losses	9.5	2,915,998	1,600,461
		212,085,041	174,527,667
Net investment in leases	9.4	1,488,227,972	1,196,199,548
Less: Current maturity of net investment in leases		448,156,994	356,719,326
Net investment in leases - due after one year		1,040,070,978	839,480,222

9.1 The IRR on lease contract receivable ranges from 13.5 percent to 25.07 percent (2005: 10.7 percent to 23 percent) per annum.

	Note	2006 Rupees	2005 Rupees
9.2 Minimum lease payments receivable			
Less than one year		593,058,999	469,148,276
More than one year and less than five years		572,026,574	510,074,454
		1,165,085,573	979,222,730
9.3 Lease contract receivable			
Less than one year		714,868,820	564,530,390
More than one year and less than five years		985,444,193	806,196,825
		1,700,313,013	1,370,727,215
9.4 Net investment in leases			
Less than one year		448,156,994	356,719,326
More than one year and less than five years		1,040,070,978	839,480,222
		1,488,227,972	1,196,199,548
9.5 Provision for potential lease losses			
Balance as at January 1		1,600,461	415,053
Charge for the year		1,315,537	1,185,408
Balance as at December 31		2,915,998	1,600,461

10. LONG-TERM LOANS - considered good

Due from chief executive	10.2	2,004,315	2,093,987
Less: Receivable within one year		(94,289)	(89,703)
		1,910,026	2,004,284
Due from executives	10.3	2,784,883	1,423,172
Less: Receivable within one year		(102,275)	(50,394)
		2,682,608	1,372,778
Due from employees	10.3	6,098,558	4,639,935
Less: Receivable within one year		(612,325)	(246,140)
		5,486,233	4,393,795
		10,078,867	7,770,857

Notes to the Financial Statement for the year ended December 31, 2006

10.1 Reconciliation of carrying amount of long-term loans to chief executive, directors and executives is as follows:

	Chief Executives		Executives	
	2006	2005	2006	2005
	Rupees			
Opening balance as at January 1	2,093,987	2,179,323	2,882,181*	1,471,112
Disbursements	-	-	-	-
Repayments	(89,672)	(85,336)	(97,298)	(47,940)
Closing balance as at December 31	<u>2,004,315</u>	<u>2,093,987</u>	<u>2,784,883</u>	<u>1,423,172</u>

*This includes the outstanding amount of loan disbursed to an employee last year, who became an executive during the current year.

10.2 This represents housing loan given to the Chief Executive Officer (CEO) of the company with the prior approval of the Securities and Exchange Commission of Pakistan under Section 195 of the Companies Ordinance, 1984. The loan is secured by way of equitable mortgage over the said property and is repayable by September 2021. The loan carries mark-up at the rate of 5 percent per annum.

10.3 These represent loans given to executives and employees for purchase of motor vehicles and housing loans. These loans are recovered through deduction from salaries over varying periods upto a maximum period of 20 years. These loans are granted to the employees in accordance with their terms of employment. The motor vehicle loans are secured by way of title of the motor vehicles being held in the name of the company, whereas the housing loans are secured by registered mortgage in favour of the company. Motor vehicle loans carry mark-up at 7 percent per annum while the housing loans carry mark-up at 5 percent per annum.

10.4 The maximum aggregate amount of loans due from the chief executive and executives at the end of any month during the year was Rs. 2,086,682 and Rs. 2,874,257 (2005: Rs. 2,101,261 and Rs. 1,451,427) respectively.

11. LONG-TERM DEPOSITS AND PREPAYMENTS

	2006 Rupees	2005 Rupees
Security deposits against assets acquired under lease arrangements	492,400	604,500
Other deposits	212,200	76,600
Prepayments	41,089	5,401
	<u>745,689</u>	<u>686,501</u>

Notes to the Financial Statement for the year ended December 31, 2006

12. OPERATING FIXED ASSETS

The following is a statement of operating fixed assets:

	Year ended December 31, 2006								Leased Assets	Total	
	Owned Assets							Intangible			Vehicles
	Tangible						Total Tangible Assets				
	Office Premises	Building Improvements	Furniture & Fixtures	Office Equipment & Others	Computers	Vehicles					
Rupees											
At January 1, 2006											
Cost	4,954,190	1,424,244	1,233,294	571,154	1,045,087	974,911	10,202,880	303,000	4,990,659	15,496,539	
Accumulated depreciation/amortisation	(87,251)	(1,050,369)	(499,081)	(138,915)	(659,166)	(235,843)	(2,670,625)	(200,136)	(1,149,891)	(4,020,652)	
Net book value	4,866,939	373,875	734,213	432,239	385,921	739,068	7,532,255	102,864	3,840,768	11,475,887	
Year ended December 31, 2006											
Opening net book value	4,866,939	373,875	734,213	432,239	385,921	739,068	7,532,255	102,864	3,840,768	11,475,887	
Additions	-	210,746	252,856	242,727	410,080	79,795	1,196,204	-	3,921,250	5,117,454	
Disposals											
Cost	-	-	-	(7,759)	-	(268,866)	(276,625)	-	(2,608,209)	(2,884,834)	
Depreciation/amortisation	-	-	-	194	-	142,405	142,599	-	924,800	1,067,399	
Depreciation/amortisation charge for the year	(247,716)	(304,658)	(279,665)	(98,951)	(384,963)	(134,656)	(1,450,609)	(100,992)	(897,638)	(2,449,239)	
Closing net book value	4,619,223	279,963	707,404	568,450	411,038	557,746	7,143,824	1,872	5,180,971	12,326,667	
At December 31, 2006											
Cost	4,954,190	1,634,990	1,486,150	806,122	1,455,167	785,840	11,122,459	303,000	6,303,700	17,729,159	
Accumulated depreciation/amortisation	(334,967)	(1,355,027)	(778,746)	(237,672)	(1,044,129)	(228,094)	(3,978,635)	(301,128)	(1,122,729)	(5,402,492)	
Net book value	4,619,223	279,963	707,404	568,450	411,038	557,746	7,143,824	1,872	5,180,971	12,326,667	
Depreciation/amortisation rate (% per annum)	5%	33.33%	20%	15%	33.33%	20%	33.33%	33.33%	20%		
	Year ended December 31, 2005								Leased Assets	Total	
	Owned Assets							Intangible			Vehicles
	Tangible						Total Tangible Assets				
	Office Premises	Building Improvements	Furniture & Fixtures	Office Equipment & Others	Computers	Vehicles					
Rupees											
At January 1, 2005											
Cost	-	1,133,138	927,555	344,563	804,367	483,951	3,693,574	271,750	3,730,784	7,696,108	
Accumulated Depreciation/amortisation	-	(612,301)	(293,786)	(69,029)	(345,159)	(135,615)	(1,455,890)	(106,956)	(860,919)	(2,423,765)	
Net book value	-	520,837	633,769	275,534	459,208	348,336	2,237,684	164,794	2,869,865	5,272,343	
Year ended December 31, 2005											
Opening net book value	-	520,837	633,769	275,534	459,208	348,336	2,237,684	164,794	2,869,865	5,272,343	
Additions	4,954,190	291,106	331,638	245,591	240,720	490,960	6,554,205	31,250	2,218,875	8,804,330	
Disposals											
Cost	-	-	(25,899)	(19,000)	-	-	(44,899)	-	(959,000)	(1,003,899)	
Depreciation/amortisation	-	-	11,222	475	-	-	11,697	-	351,634	363,331	
Depreciation/amortisation charge for the year	(87,251)	(438,068)	(216,517)	(70,361)	(314,007)	(100,228)	(1,226,432)	(93,180)	(640,606)	(1,960,218)	
Closing net book value	4,866,939	373,875	734,213	432,239	385,921	739,068	7,532,255	102,864	3,840,768	11,475,887	
At December 31, 2005											
Cost	4,954,190	1,424,244	1,233,294	571,154	1,045,087	974,911	10,202,880	303,000	4,990,659	15,496,539	
Accumulated depreciation/amortisation	(87,251)	(1,050,369)	(499,081)	(138,915)	(659,166)	(235,843)	(2,670,625)	(200,136)	(1,149,891)	(4,020,652)	
Net book value	4,866,939	373,875	734,213	432,239	385,921	739,068	7,532,255	102,864	3,840,768	11,475,887	
Depreciation/amortisation rate (% per annum)	5%	33.33%	20%	15%	33.33%	20%	33.33%	33.33%	20%		

Notes to the Financial Statement for the year ended December 31, 2006

12.1 The following assets were disposed of during the year:

Particulars	Original cost	Accumulated depreciation	Net book value	Sale proceeds	Gain / (Loss) on disposal	Mode of disposal	Particulars of buyer
Rupees							
Vehicles							
Suzuki Alto	493,013	244,801	248,212	-	(248,212)	Transfer to employee as per company's policy	Mr. Jawaid Anwar, Head of Internal Audit
Toyota Corolla	1,031,516	107,091	924,425	-	(924,425)	-do-	Mr. Munawar Suleman, Chief Executive Officer - related party
Suzuki Alto	490,290	259,255	231,035	-	(231,035)	-do-	Mr. Sarmad Aman, Area Head Islamabad - related party
Suzuki Cultus	593,390	313,653	279,737	-	(279,737)	-do-	Mr. Tariq Siddiqui, Head of Credit Control - related party
Suzuki Margalla	268,866	142,405	126,461	316,600	190,139	Negotiation	Mr. Ahmed Jan (third party)
Office equipment	7,759	194	7,565	-	(7,565)	Stolen	Not applicable
2006	2,884,834	1,067,399	1,817,435	316,600	(1,500,835)		
2005	1,003,899	363,331	640,568	815,151	174,583		

13. MARK-UP ACCRUED

Mark-up accrued on:

- borrowing from SME Bank Limited (holding company) - related party
- borrowings from other financial institutions

2006
Rupees

2005
Rupees

2,246,224
11,372,584
13,618,808

443,014
6,028,636
6,471,650

13.1 The maximum aggregate amount due to SME Bank Limited at the end of any month during the year was Rs. 2,790,723 (2005: Rs. 1,504,443).

Notes to the Financial Statement for the year ended December 31, 2006

	2006 Rupees	2005 Rupees
14. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Accrued liabilities	1,888,938	2,698,428
Provision for compensated absences	511,879	582,355
Rentals received in advance	3,347,060	1,135,286
Tax deducted at source	9,002	-
Contractors' retention money	-	21,334
Payable on termination / maturity of leases	729,275	701,904
Payable in respect of undisbursed leases	1,789,964	3,366,663
Payable to SME Bank Limited - holding company	124,198	-
Others	13,532,418	2,672,890
	<u>21,932,734</u>	<u>11,178,860</u>

14.1 The maximum aggregate amount due to SME Bank Limited at the end of any month during the year was Rs. 124,198 (2005: Rs. Nil).

	2006 Rupees	2005 Rupees
15. LEASE KEY MONEY		
Lease key money	535,227,440	391,504,485
Less: current maturity shown under current liabilities	121,809,821	95,382,114
Lease key money - due after one year	<u>413,417,619</u>	<u>296,122,371</u>

These represent security deposits received from lessees under lease contracts and are adjustable against residual values of the related leased assets on expiry of the respective lease periods of these contracts.

	2006 Rupees	2005 Rupees
16. LONG-TERM BORROWINGS		
Long-term borrowings from:		
- SME Bank Limited (holding company) - related party	95,406,175	125,184,257
- other financial institutions	420,000,003	371,250,002
	515,406,178	496,434,259
Less: current maturity shown under current liabilities	251,909,396	237,277,574
Long-term borrowings - due after one year	<u>263,496,782</u>	<u>259,156,685</u>

The maximum aggregate amount due to SME Bank Limited at the end of any month during the year was Rs. 115,470,824 (2005: Rs. 130,516,256).

Notes to the Financial Statement for the year ended December 31, 2006

16.1 Long-term borrowings

	Amount borrowed (Rupees)	Repayment Period		Price	Principal Outstanding	
		From	To		2006 Rupees	2005 Rupees
SME Bank Limited (facility no. I)	110,000,000	Jul-03	Oct-08	7% (payable quarterly)	48,621,836	65,184,257
SME Bank Limited (facility no. II)	60,000,000	Nov-05	Dec-08	6 months KIBOR+1.5% (Floor 11% and no Cap) (payable quarterly)	46,784,339	60,000,000
Total long-term borrowings from SME Bank Limited - related party					95,406,175	125,184,257
Pak Oman Investment Company (Private) Limited (facility no. I)	50,000,000	Apr-04	Apr-06	6 months KIBOR+3.25% (Floor 5.5% and Cap 8%) (payable quarterly)	-	12,500,000
Pak Oman Investment Company (Private) Limited (facility no. II)	100,000,000	May-05	Feb-08	6 months KIBOR+2.25% (payable quarterly)	41,666,670	75,000,002
Pak Oman Investment Company (Private) Limited (facility no. III - tranche 1)	25,000,000	Sep-06	Sep-09	6 month KIBOR+2.75% (payable quarterly)	22,916,667	-
Pak Oman Investment Company (Private) Limited (facility no. III - tranche 2)	25,000,000	Sep-06	Sep-09	6 month KIBOR+2.75% (payable quarterly)	22,916,667	-
United Bank Limited (tranche I)	50,000,000	May-05	May-08	3 months KIBOR+2.3% (payable quarterly)	24,999,998	41,666,666
United Bank Limited (tranche II)	50,000,000	Jun-05	Jun-08	3 months KIBOR+2.3% (payable quarterly)	24,999,998	41,666,666
United Bank Limited (tranche III)	50,000,000	Sep-05	Sep-08	3 months KIBOR+2.3% (payable quarterly)	29,166,665	45,833,333
Faysal Bank Limited	50,000,000	Jun-04	Jun-07	6 months KIBOR+3.5%-2.5% (payable quarterly)	8,333,330	24,999,998
PICIC Commercial Bank Limited	50,000,000	Jun-04	Jun-06	6 months KIBOR+3% (Floor 5.25% and Cap 6.25%) (payable quarterly)	-	12,500,000
The Bank of Punjab	100,000,000	Jun-04	Jun-06	6 months KIBOR+3% (Floor 5.25% and Cap 6.25%) (payable quarterly)	-	25,000,000
Pak Libya Holding Company (Private) Limited (facility no. I)	100,000,000	Oct-04	Oct-07	6 months KIBOR+2.5% (payable quarterly)	33,333,336	66,666,668
Pak Libya Holding Company (Private) Limited (facility no. 2)	30,000,000	May-06	Feb-09	6 months KIBOR+2.5% (payable quarterly)	25,000,000	-
Pak Kuwait Investment Company (Private) Limited	10,000,000	Dec-04	Dec-07	6 months KIBOR+2.5% (payable quarterly)	3,333,336	6,666,668
Saudi Pak Industrial and Agricultural Company (Private) Limited	25,000,000	Apr-05	Jan-08	6 months KIBOR+2.5% (payable quarterly)	10,416,669	18,750,001
National Bank of Pakistan	150,000,000	Mar-06	Mar-10	6 months KIBOR+1.85% (payable semi-annually)	131,250,000	-
Saudi Pak Commercial Bank Limited (tranche I)	25,000,000	Jun-06	Jun-09	6 month KIBOR+2.5% (payable semi-annually) (mark-up payable quarterly)	16,666,667	-
Saudi Pak Commercial Bank Limited (tranche II)	25,000,000	Aug-06	Aug-09	6 month KIBOR+2.5% (payable semi-annually) (mark-up payable quarterly)	25,000,000	-
Total long-term borrowings from other banks and financial institutions					420,000,003	371,250,002
Total long-term borrowings					515,406,178	496,434,259

Long-term borrowings from SME Bank Limited and other financial institutions are secured by way of first exclusive charge on all specific leased assets and associated lease rentals receivable.

Notes to the Financial Statement for the year ended December 31, 2006

17. SHORT-TERM RUNNING FINANCE UNDER MARK-UP ARRANGEMENTS

This represents short-term running finance available from two banks as follows:

17.1 The facility for short-term running finance available from a bank amounts to Rs. 50 million (2005: Rs. 50 million). The rate of mark-up is determined on the basis of six months KIBOR+2 percent per annum with a floor of 7 percent per annum. The arrangement is secured by way of hypothecation of the company's leased assets and related receivables. The purchase price was payable by November 30, 2006. However, the company has applied for renewal of this facility which is still under process.

17.2 The other facility for short-term running finance available from a bank amounts to Rs 75 million (2005: Rs 50 million). The rate of mark-up is determined on the basis of one month KIBOR+2.15 percent per annum. The arrangement is secured by way of hypothecation of specific leased assets and associated receivables of the company. The purchase price is payable by August 22, 2007.

18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2006			2005		
	Minimum lease payments	Finance charges not yet due	Present value of minimum lease payments	Minimum lease payments	Finance charges not yet due	Present value of minimum lease payments
	Rupees			Rupees		
Payable not later than one year	2,340,244	358,521	1,981,723	1,274,311	93,803	1,180,508
Payable later than one year but not later than five years	2,399,827	179,446	2,220,381	1,125,195	45,617	1,079,578
	<u>4,740,071</u>	<u>537,967</u>	<u>4,202,104</u>	<u>2,399,506</u>	<u>139,420</u>	<u>2,260,086</u>

The finance lease arrangements have been entered into with Faysal Bank Limited and Bank Al-Falah Limited for motor vehicles at mark-up rates ranging from 7.50 percent per annum to 13.99 percent per annum (2005: 7.50 percent per annum to 12.5 percent per annum) with a late payment surcharge of Rs. 100 (2005: Rs. 100) per day. These finance lease arrangements will mature in the year 2009.

	Note	2006 Rupees	2005 Rupees
19. DEFERRED LIABILITIES			
Provision for gratuity	26.1	2,276,284	1,669,653
Deferred tax liability - net	19.1	7,183,209	3,850,333
		9,459,493	5,519,986
19.1 Deferred tax liabilities - net			
Deductible temporary differences			
- Unabsorbed tax depreciation		(72,403,522)	(74,109,976)
- Provisions against net investment in leases and originated loans and receivables		(1,436,513)	(560,161)
- Minimum tax		(2,439,563)	
- Others		(5,694,773)	(98,120)
		(81,974,371)	(74,768,257)
Taxable temporary differences			
- Net investment in leases		88,154,695	77,299,777
- Liabilities against assets subject to finance lease		342,603	553,239
- Accelerated tax depreciation on operating fixed assets - own use		660,282	765,574
		89,157,580	78,618,590
		7,183,209	3,850,333
19.1.1 Reconciliation of deferred tax liability			
Deferred tax liability as at January 1		3,850,333	6,959,624
Recognised for the year		3,332,876	(3,109,291)
Deferred tax liability as at December 31		7,183,209	3,850,333

Notes to the Financial Statement for the year ended December 31, 2006

20. SHARE CAPITAL

Authorised			2006	2005
2006	2005		Rupees	Rupees
Number of Shares				
<u>50,000,000</u>	<u>50,000,000</u>	Ordinary shares of Rs. 10 each	<u>500,000,000</u>	<u>500,000,000</u>
Issued, subscribed and paid-up				
10,100,000	100,000	Ordinary shares of Rs. 10 each issued as fully paid in cash	101,000,000	1,000,000
19,900,000	19,900,000	Ordinary shares of Rs. 10 each issued as fully paid for consideration other than cash	199,000,000	199,000,000
2,000,000	-	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	20,000,000	-
<u>32,000,000</u>	<u>20,000,000</u>		<u>320,000,000</u>	<u>200,000,000</u>

20.1 Movement in number of shares

	2006	2005
	Number of Shares	
Opening balance	20,000,000	20,000,000
Issue of bonus shares	2,000,000	-
Issue of shares	10,000,000	-
Closing balance	<u>32,000,000</u>	<u>20,000,000</u>

At December 31, 2006, SME Bank Limited and its nominees held 23,405,198 (December 31, 2005: 20,000,000) ordinary shares of Rs. 10 each of the company.

	Note	2006	2005
		Rupees	Rupees
21. RESERVES			
Capital reserves			
Statutory reserve	21.1	20,343,720	15,523,751
Share premium		10,000,000	-
Revenue reserves			
Reserve against future losses		7,206,049	5,682,577
Unappropriated profit		47,435,918	56,626,341
		<u>84,985,687</u>	<u>77,832,669</u>

21.1 Statutory reserve represents profits after tax set aside to comply with the Prudential Regulations for Non-Banking Finance Companies.

	2006	2005
	Rupees	Rupees
22. COMMITMENTS		
Commitments for lease disbursements	<u>24,377,000</u>	<u>48,023,380</u>

Notes to the Financial Statement for the year ended December 31, 2006

	Note	2006 Rupees	2005 Rupees
23. INCOME FROM OPERATIONS			
Income from finance lease operations		133,479,592	97,349,900
Gain on termination of leases		449,058	927,655
Income on originated loans and receivables		11,471,748	4,906,800
Mark-up on advance against leases		-	140,532
		145,400,398	103,324,887
24. OTHER OPERATING INCOME			
Profit on bank accounts		70,648	20,140
Mark-up on loans to employees		461,430	360,881
Gain on disposal of fixed assets		-	174,583
Liabilities no longer required written back		674,993	186,642
Others		-	531,794
		1,207,071	1,274,040
25. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits	25.1	22,459,920	19,267,480
Directors' fee		124,000	56,000
Rent		3,235,287	2,838,414
Electricity, gas and water		563,407	410,265
Telephone and postage		1,334,246	1,123,573
Repairs and maintenance		1,042,242	996,368
Books and periodicals		39,954	23,255
Fees and subscriptions		27,524	159,713
Vehicle running		91,913	111,966
Advertising		212,290	203,339
Training and development		233,861	379,997
Travelling, conveyance and entertainment		1,798,761	1,415,395
Printing and stationery		574,180	411,801
Auditors' remuneration	25.2	246,015	208,938
Depreciation	12	2,449,239	1,960,218
Legal and professional		1,988,551	1,642,052
Insurance		1,134,185	919,391
Miscellaneous		1,174,872	450,451
		38,730,447	32,578,616

25.1 Salaries, allowances and other benefits include Rs. 1,324,455 (2005: Rs. 1,104,536) in respect of staff retirement benefits. In addition, the amount charged to the profit and loss account in respect of compensated absences was Rs. 592,249 (2005: Rs. 672,259).

	2006 Rupees	2005 Rupees
25.2 Auditors' remuneration		
Statutory annual audit fee	210,000	175,000
Out of pocket expenses	36,015	33,938
	246,015	208,938

Notes to the Financial Statement for the year ended December 31, 2006

26. STAFF RETIREMENT BENEFIT SCHEMES

26.1 Staff Gratuity Scheme

The company operates an unapproved and unfunded gratuity scheme for all its permanent employees. The latest actuarial valuation of the gratuity scheme was carried out as at December 31, 2006 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:

	2006	2005
- Expected rate of increase in salary level	9%	9%
- Valuation discount rate	10%	9%
- Expected return on plan assets	-	-

The fair value of the scheme's assets and liabilities for past services of the employees at the latest valuation date are as follows:

	2006 Rupees	2005 Rupees
Present value of defined benefit obligation	2,276,284	1,669,653
Fair value of plan assets	-	-
Deficit in scheme's assets	<u>2,276,284</u>	<u>1,669,653</u>

The following is a reconciliation of the movement in the liability recognised in respect of gratuity benefits:

	2006 Rupees	2005 Rupees
Balance as at January 1	1,669,653	645,777
Add: Gratuity liability of certain employees transferred from SME Bank Limited	-	455,737
Charge for the year	804,519	605,229
Less: Payments made during the year	(197,888)	(37,090)
Balance as at December 31	<u>2,276,284</u>	<u>1,669,653</u>

The following amounts have been charged in the profit and loss account during the current year in respect of the scheme:

	2006 Rupees	2005 Rupees
Current service cost	509,914	605,229
Interest cost	169,509	-
Actuarial loss recognised during the year	125,096	-
Expected return on plan assets	-	-
	<u>804,519</u>	<u>605,229</u>

Data on experience adjustments in respect of defined benefit obligation is as follows:

	2006 Rupees	2005 Rupees
Experience adjustments on obligation*	125,096	-

*The gratuity scheme was introduced in 2004, hence the data on experience adjustments has been given only for the current and prior year.

26.2 During the year an amount of Rs. 519,936 (2005: Rs. 499,307) has been charged to the profit and loss account in respect of the company's contribution to the Provident Fund.

Notes to the Financial Statement for the year ended December 31, 2006

	2006 Rupees	2005 Rupees
27. FINANCE COST		
Mark-up on:		
- borrowing from SME Bank Limited (holding company) - related party	9,989,000	5,923,100
- borrowings from other financial institutions	50,324,017	36,880,350
- short-term loans and finances under mark-up arrangements	11,040,302	6,034,912
	<u>71,353,319</u>	<u>48,838,362</u>
Financial charges on liabilities against assets subject to finance lease	333,629	196,653
Bank charges	474,071	782,637
Arrangement fee	1,500,000	-
Others	213,600	200,000
	<u>73,874,619</u>	<u>50,017,652</u>
28. OTHER OPERATING EXPENSES		
Loss on disposal of fixed assets	1,500,835	-
Loss on termination of leases	1,232,422	-
Others	11,512	-
	<u>2,744,769</u>	<u>-</u>
29. TAXATION		
- Current - for the year	2,439,563	1,773,797
- Deferred	3,332,876	(3,109,291)
	<u>5,772,439</u>	<u>(1,335,494)</u>

The current tax charge for the year represents minimum tax at 0.5 percent of turnover in accordance with the requirements of the Income Tax Ordinance, 2001.

	2006 Rupees	2005 Rupees
29.1 Relationship between tax expense and accounting profit		
Accounting profit before taxation	<u>29,872,282</u>	
Tax on income @ 35%	10,455,299	
Deferred taxation-prior years	(4,324,551)	
Others	(358,309)	
Tax charge for the current year	<u>5,772,439</u>	
30. EARNINGS PER SHARE - basic and diluted		
Profit after taxation	<u>24,099,843</u>	<u>22,735,272</u>
	2006	2005
	Number of Shares	
Weighted average number of ordinary shares outstanding during the year	<u>22,876,712</u>	<u>22,000,000</u>
	2006	2005
	Rupees	
Earnings per share - basic and diluted	<u>1.05</u>	<u>1.03</u>

Notes to the Financial Statement for the year ended December 31, 2006

	2006 Rupees	2005 Rupees
31. CASH GENERATED FROM OPERATIONS		
Profit for the year before taxation	29,872,282	21,399,778
Adjustment for non-cash charges and other items:		
Depreciation	2,449,239	1,960,218
Gratuity expense	804,519	605,229
Mark-up expense	71,353,319	48,838,362
Mark-up income	(70,648)	(20,140)
Financial charges on leased assets	333,629	196,653
Arrangement fee	1,500,000	-
Loss/(gain) on disposal of operating fixed assets	1,500,835	(174,583)
Interest income on loans to employees	(461,430)	(360,881)
Provision for potential lease losses	1,315,537	1,185,408
Provision/(reversal of provision) against originated loans and receivables	69,815	(582,527)
	78,794,815	51,647,739
	108,667,097	73,047,517
Movement in working capital		
(Increase)/decrease in current assets		
Mark-up accrued	(761,154)	680,861
Deposits, prepayments and other receivables	(1,046,009)	4,856,582
Loans and advances	(6,089)	(775,497)
	(1,813,252)	4,761,946
Increase/(decrease) in current liabilities		
Creditors, accrued and other liabilities	10,753,874	(326,959)
	8,940,622	4,434,987
	117,607,719	77,482,504
32. CASH AND CASH EQUIVALENTS		
Cash and bank balances	14,049,475	18,773,214
Running finance under mark-up arrangements	(103,881,801)	(98,405,518)
	(89,832,326)	(79,632,304)

Notes to the Financial Statement for the year ended December 31, 2006

33. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

SME Leasing Limited is a subsidiary of SME Bank Limited. During the year, the following transactions were undertaken by the company with SME Bank Limited:

	2006			2005		
	Key management personnel	SME Bank Limited (Holding Company)	Others	Key management personnel	SME Bank Limited (Holding Company)	Others
Borrowings						
Balance as at January 1	-	125,184,257	-	-	90,942,842	-
Add: Borrowings during the year	-	2,500,000	-	-	60,000,000	-
Less: Repayments during the year	-	(32,278,082)	-	-	(25,758,585)	-
Balance as at December 31	-	95,406,175	-	-	125,184,257	-
Loans and advances						
Balance as at January 1	8,383,045	-	-	5,168,531	-	-
Add: Advances given during the year	308,400	-	-	3,632,000	-	-
Less: Repayments during the year	(830,891)	-	-	(417,486)	-	-
Balance as at December 31	7,860,554	-	-	8,383,045	-	-
Mark-up expense for the year	-	10,328,041	-	-	5,923,100	-
Mark-up income for the year	317,410	-	-	360,881	-	-
Other transactions						
Lease facility provided to holding company	-	11,068,200	-	-	6,511,000	-
Deposit margin (50%) by holding company for the lease facility	-	5,679,500	-	-	3,255,500	-
Total rentals receivables (for the entire lease period)	-	6,816,096	-	-	4,074,336	-
Total rentals received during the year	-	1,552,614	-	-	339,528	-
Transfers from the holding company	-	-	-	-	455,737	-
Expense incurred by holding company on behalf of SME Leasing Limited	-	301,872	-	-	158,021	-
Remuneration paid	8,439,698	-	-	8,188,167	-	-
Post retirement benefits	1,053,103	-	-	863,672	-	-
Provident fund - company's contribution	-	-	519,936	-	-	499,307

All transactions with the holding company are carried out on commercial terms and conditions.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The company considers all departmental heads, chief executives and directors to be key management personnel. There are no transactions with key management personnel other than under their terms of employment.

Balances that have been specifically identified as related party balances in the relevant foot notes to these financial statements have not been given in this note.

34. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amount charged in these financial statements for remuneration including all benefits, to the chief executive and executives are as follows:

	Chief Executive		Executives		Total	
	2006	2005	2006	2005	2006	2005
Managerial remuneration (including bonus)	2,503,568	2,391,882	1,311,575	694,745	3,815,143	3,086,627
House rent, utilities, etc.	341,532	22,500	630,300	287,304	971,832	309,804
Retirement benefits	240,699	166,692	26,107	45,972	266,806	212,664
Medical	60,000	55,000	171,000	49,956	231,000	104,956
Club membership	42,000	38,500	24,000	124,000	66,000	162,500
Leave fare assistance	202,909	173,636	-	-	202,909	173,636
Gratuity	222,247	293,658	100,565	49,979	322,812	343,637
Leave encashment	113,350	102,750	82,188	40,038	195,538	142,788
Others	84,000	325,177	-	126,798	84,000	451,975
	3,810,305	3,569,795	2,345,735	1,418,792	6,156,040	4,988,587
Number of persons	1	1	2	1	3	2

The chief executive and the executives are also provided with free use of company maintained cars.

Notes to the Financial Statement for the year ended December 31, 2006

36. FINANCIAL INSTRUMENTS

	Effective Yield / Interest Rate	2006					Not exposed to Yield / Interest Risk
		Total	Exposed to Yield / Interest risk				
			Upto three months	Over 3 months to one year	Over 1 year to five years	Over five years	
(Rupees)							
Assets							
Cash and bank balances	0.10%-5.00%	14,049,475	2,782,983	-	-	-	11,266,492
Mark-up accrued		1,428,448	-	-	-	-	1,428,448
Originated loans and receivables	17.00%-24.00%	81,015,353	18,603,998	35,107,103	27,304,252	-	-
Loans and advances - considered good	5.00%-7.00%	10,887,756	194,088	615,181	3,408,513	6,669,974	-
Deposits and other receivables		1,109,269	-	-	-	-	1,109,269
Net investment in leases	13.50%-25.07%	1,488,227,972	190,398,726	257,758,268	1,040,070,978	-	-
Investments - available for sale		2,500,000	-	-	-	-	2,500,000
Long-term deposits		704,600	-	-	-	-	704,600
		<u>1,599,922,873</u>	<u>211,979,795</u>	<u>293,480,552</u>	<u>1,070,783,743</u>	<u>6,669,974</u>	<u>17,008,809</u>
Liabilities							
Short-term running finance under mark-up arrangements	8.42%-10.06%	103,881,801	103,881,801	-	-	-	-
Mark-up accrued		13,618,808	-	-	-	-	13,618,808
Creditors, accrued and other liabilities		21,923,732	-	-	-	-	21,923,732
Lease key money		535,227,440	-	-	-	-	535,227,440
Long-term borrowings	6.25%-13.35%	515,406,178	155,740,262	96,169,134	263,496,782	-	-
Liabilities against assets subject to finance lease	7.50%-13.99%	4,202,104	422,109	1,559,614	2,220,381	-	-
		<u>1,194,260,063</u>	<u>260,044,172</u>	<u>97,728,748</u>	<u>265,717,163</u>	<u>-</u>	<u>570,769,980</u>
Total Financial Assets as on December 31, 2006		<u>1,599,922,873</u>	<u>211,979,795</u>	<u>293,480,552</u>	<u>1,070,783,743</u>	<u>6,669,974</u>	<u>17,008,809</u>
Total Financial Liabilities as on December 31, 2006		<u>1,194,260,063</u>	<u>260,044,172</u>	<u>97,728,748</u>	<u>265,717,163</u>	<u>-</u>	<u>570,769,980</u>
On balance sheet gap		<u>405,662,810</u>	<u>(48,064,377)</u>	<u>195,751,804</u>	<u>805,066,580</u>	<u>6,669,974</u>	<u>(553,761,171)</u>
Off balance sheet items							
Commitments		<u>24,377,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,377,000</u>

	Effective Yield / Interest Rate	2005					Not exposed to Yield / Interest Risk
		Total	Exposed to Yield / Interest risk				
			Upto three months	Over 3 months to one year	Over 1 year to five years	Over five years	
(Rupees)							
Assets							
Cash and bank balances	0.10%-4.00%	18,773,214	4,590,377	-	-	-	14,182,837
Mark-up accrued		663,916	-	-	-	-	663,916
Originated loans and receivables	13.50%-22.00%	54,372,097	15,133,792	14,913,470	24,324,835	-	-
Loans and advances - considered good	5.00%-7.00%	8,852,544	94,612	291,625	1,599,803	6,171,054	695,450
Deposits and other receivables		347,633	-	-	-	-	347,633
Net investment in leases	10.70%-23.00%	1,196,199,548	138,889,991	217,829,335	839,480,222	-	-
Long-term deposits		681,100	-	-	-	-	681,100
		<u>1,279,890,052</u>	<u>158,708,772</u>	<u>233,034,430</u>	<u>865,404,860</u>	<u>6,171,054</u>	<u>16,570,936</u>
Liabilities							
Short-term running finance under mark-up arrangements	7.89%-11.50%	98,405,518	98,405,518	-	-	-	-
Mark-up accrued		6,471,650	-	-	-	-	6,471,650
Creditors, accrued and other liabilities		11,178,860	-	-	-	-	11,178,860
Lease key money		391,504,485	-	-	-	-	391,504,485
Long-term borrowings	6.25%-11.69%	496,434,259	71,675,313	165,602,261	259,156,685	-	-
Liabilities against assets subject to finance lease	7.50%-12.50%	2,260,086	408,896	771,612	1,079,578	-	-
		<u>1,006,254,858</u>	<u>170,489,727</u>	<u>166,373,873</u>	<u>260,236,263</u>	<u>-</u>	<u>409,154,995</u>
Total Financial Assets as on December 31, 2005		<u>1,279,890,052</u>	<u>158,708,772</u>	<u>233,034,430</u>	<u>865,404,860</u>	<u>6,171,054</u>	<u>16,570,936</u>
Total Financial Liabilities as on December 31, 2005		<u>1,006,254,858</u>	<u>170,489,727</u>	<u>166,373,873</u>	<u>260,236,263</u>	<u>-</u>	<u>409,154,995</u>
On balance sheet gap		<u>273,635,194</u>	<u>(11,780,955)</u>	<u>66,660,557</u>	<u>605,168,597</u>	<u>6,171,054</u>	<u>(392,584,059)</u>
Off balance sheet items							
Commitments		<u>48,023,380</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,023,380</u>

Notes to the Financial Statement for the year ended December 31, 2006

37. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The carrying amounts of the financial assets and financial liabilities approximate their fair values.

38. RISK MANAGEMENT

The company's activities are primarily subject to market risk, yield rate risk, credit risk and liquidity risk. The company is not exposed to any foreign exchange risk as currently the company has no transactions or balances that are denominated in a foreign currency. The company has designed and implemented a framework of controls to identify, monitor and manage these risks as follows:

38.1 Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The company's market risk is managed by following the internal guidelines established by the management.

38.2 Yield risk

Yield rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market yield. The company has adopted appropriate policies to minimise its exposure to this risk.

38.3 Credit risk

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. All financial assets of the company except Rs. 41,512 are exposed to credit risk. The company controls credit risk by monitoring credit exposure, limiting transactions with specific counter parties, obtaining collaterals and continually assessing the credit worthiness of counter parties.

38.4 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The company manages liquidity risk by following the internal guidelines of the management, such as monitoring maturities of financial assets and financial liabilities.

39. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison.

40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on March 6, 2007 by the Board of Directors of the company.



Chief Executive Officer



Director

Pattern of Shareholding as at December 31, 2006

NUMBER OF SHARE HOLDERS	SHAREHOLDING		TOTAL SHARES HELD
	FROM	TO	
7	1	100	7
305	101	500	152,500
45	501	1,000	45,000
31	1,001	5,000	89,000
1	5,001	10,000	10,000
1	10,001	15,000	12,000
2	15,001	20,000	40,000
1	20,001	25,000	22,500
1	25,001	30,000	30,000
4	45,001	50,000	196,000
1	150,001	155,000	155,000
1	220,001	225,000	225,000
1	450,001	455,000	451,175
4	600,001	1,100,000	3,229,093
3	1,100,001	1,600,000	3,937,527
1	23,100,001	23,600,000	23,405,198
409			32,000,000

Categories Of Shareholders as at December 31, 2006

	Numbers of Shareholders	Shares Held	Percentage
1 Individuals	387	494,500	1.54%
2 Joint Stock Companies	8	3,804,368	11.89%
3 Banks	1	902,350	2.82%
4 Public Sector Companies and Corporations	1	1,353,525	4.23%
5 Leasing Companies	1	604,575	1.89%
6 National Bank of Pakistan	1	1,230,477	3.85%
7 Associated Companies (SME Bank Limited)*	1	23,405,198	73.14%
8 Insurance Companies	1	155,000	0.48%
9 Others	1	50,000	0.16%
10 Directors, CEO and their spouses and minor children			0%
Mansur Khan	1	1	0%
Munawar Suleman	1	1	0%
S.M. Naseem	1	1	0%
Muhammad Hashim Khan	1	1	0%
Arjumand Qazi	1	1	0%
M.A. Ghazali Marghoob	1	1	0%
Hussain Ahmed Ozgen	1	1	0%
	409	32,000,000	100%

* Represents shareholder holding ten percent or more voting interest in the company.

Proxy Form

I/We _____
of _____ (full address)
being a member of SME Leasing Limited hereby appoint _____
of _____ (full address)
or failing him/her _____
of _____ (full address)
as my/our Proxy to attend and vote for me/us and on my/our behalf at the 5th Annual General Meeting of the Company to be held on _____, 2007 and at any adjournment thereof.

Signed this _____ of _____ 2007.
(day) (date, month)

Signature of Member: _____

Folio Number: _____

Number of shares held : _____

Witnesses:

1. _____

2. _____

Please affix
Revenue Stamp
of Rs. 5/-

Signature and Company Seal

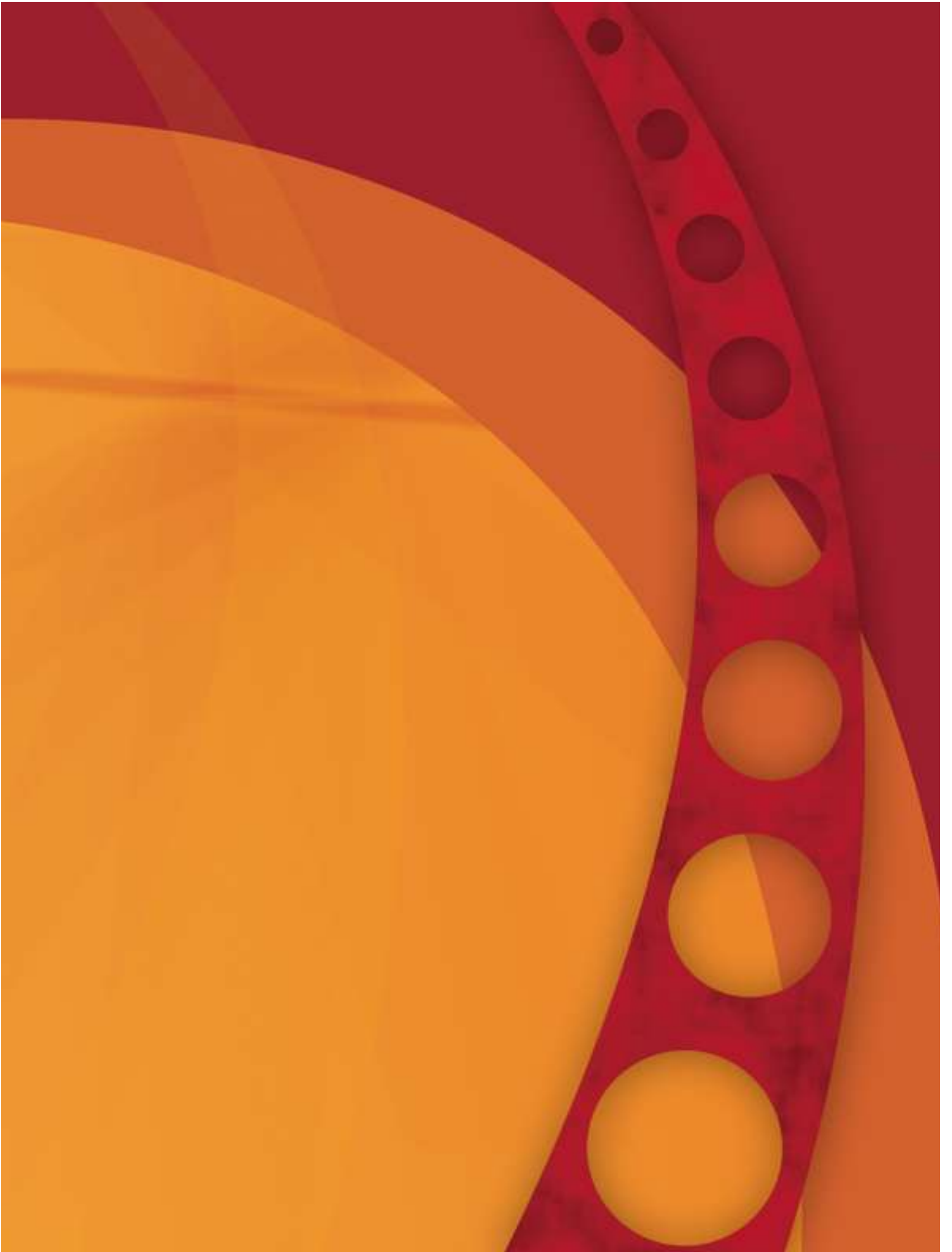
-
1. A member entitled to attend and vote at a General Meeting is entitled to appoint a Proxy to attend and vote instead of him/her.
 2. The instrument appointing a Proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing, if the appointer is a corporation, under its common seal or the hand of an officer or attorney duly authorised. A Proxy need not be a Member of the Company,
 3. The instrument appointing a Proxy, together with the Power of Attorney, if any, under which it is signed or a notarially certified copy thereof, should be deposited at the Main Office of the Company at 2nd Floor, Tower-B, Finance & Trade Centre, Shakra-e-Faisal, Karachi.
 4. Any individual Beneficial Owner of the Central Depository Company, entitled to vote at this meeting must bring his/her National Identity Card with him/her as proof of his/her identity, and in case of proxy, must enclose an attested copy of his/her National Identity Card. Representative of corporate entity, shall submit Board of Directors resolutions/ power of attorney with specimen signature (unless it has been provided earlier) along with proxy form of the Company.

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To:
SME Leasing Limited
2nd Floor, Tower "B",
Finance & Trade Centre, Shakra-e-Faisal, Karachi.
Tel: (021) 9204751-53



SME Leasing Limited
(A subsidiary of SME Bank Ltd.)



www.smelease.com



Main Office:
2nd Floor, Tower "B",
Finance & Trade Centre, Shakra-e-Faisal, Karachi.
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