

TWELFTH ANNUAL REPORT 2006

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FIRST IMROOZ MODARABA



FIRST IMROOZ MODARABA

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## **VISION / MISSION STATEMENT**

IMROOZ is committed to:

- operate its business activities in accordance with Islamic Sharia'a in its true spirit and zeal.
- employ its funds in the best possible way and to promote and use human talents, to maximize the profit for its certificate holders.
- provide products and services that meet or preferably exceed the need and expectations of its customers in a cost effective manner and to provide satisfactory returns to its certificate holders, principals and stakeholders.
- its policies and performance that it hopes will positively contribute to society and help build a stronger and progressive Pakistan.

## **STATEMENT OF ETHICS & BUSINESS PRACTICES**

1. The objective of Imrooz is to engage efficiently, responsibly and profitably in its businesses. Imrooz seeks a high standard of performance and aims to maintain a long term position in its respective competitive environment.
2. Imrooz recognizes the responsibility:
  - to protect its certificate holder's investment and strive hard to provide them with better return.
  - to maintain and enhance its customer base by providing products and services which offer value in terms of price and quality.
  - to encourage growth of its employees, provide them with good working conditions and competitive terms and conditions of service and treat them without any discriminative policies on the basis of race, religion, gender or any other factor.
  - to conduct business as responsible corporate member of the society, and to comply with obligations enforced by regulatory agencies for improving corporate performance.
3. Imrooz insists on honesty, integrity and fairness in all aspects of their business.
4. Imrooz believes in free and fair business practices in open competitive markets.



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## MODARABA INFORMATION

<b>Modaraba Management Company</b>	: A R Management Services (Private) Ltd.
<b>Directors of Modaraba Company</b>	: Mr. Naveed Riaz - Chief Executive Mrs. Saadat Ikram Mr. Ameer Riaz Mr. Omar Mohammad Khan
<b>Chief Financial Officer</b>	: Mr. Ateed Riaz
<b>Audit Committee</b>	: Mr. Omar Mohammad Khan (Chairman) Mrs. Saadat Ikram (Member) Mr. Ameer Riaz (Member)
<b>Company Secretary</b>	: Mr. Shabbir Ahmed Jamsa
<b>Chief Internal Auditor</b>	: Mr. Abbas Kerani
<b>Auditors</b>	: M. Yousuf Adil Saleem & Co. Chartered Accountants
<b>Bankers</b>	: Soneri Bank Limited
<b>Legal Advisors</b>	: Mr. Akram Zuberi Advocate, Supreme Court of Pakistan
<b>Principal place of business</b>	: 119-120, Qamar House M. A. Jinnah Road Karachi.
<b>Registered Office of the Modaraba Company</b>	: 33-C, Behind Mall Mansion Shahrah-e-Quaid-e-Azam The Mall, Lahore.
<b>Share Registration Office</b>	: Progressive Management Services (Pvt.) Limited 10th Floor, Mehdi Tower A-115, S.M.C.H.S., Shahrah-e-Faisal Karachi.



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## REPORT OF THE DIRECTORS

The Board of Directors of A R Management Services (Private) Limited, the management company of First Imrooz Modaraba, have pleasure in submitting the twelfth Annual Report of First Imrooz Modaraba along with audited financial statements for the year ended June 30, 2006.

### Operating Results

The financial results of the Modaraba are summarized below:

	(Rupees in '000)	
	2006	2005
Profit before taxation	39,821	32,387
Taxation	19,200	17,074
Profit for the year	20,621	15,313
Unappropriated profit brought forward	1,091	2,941
	21,712	18,254
Appropriation		
Transfer to statutory reserve	4,124	3,063
Balance unappropriated profit available	16,497	12,250
Earning per certificate - Basic & Diluted	Rs. 6.87	Rs. 5.10
Dividend pay-out	Rs. 5.20	Rs. 4.70

### Review of Financial Performance

The performance of the Modaraba during the year showed a remarkable improvement. The turnover of the Modaraba increased by Rs. 116.53 million and gross profit improved by Rs. 14.95 million as compared to last year. This improvement was essentially due to focus on new products which helped to increase sales volume. The Modaraba plans to continue its strategy of exploring new profitable product lines in the coming year.

The other income of the Modaraba shows an improvement due to sale of its NIT units. However, the Modaraba has recorded diminution on re-measurement of investments which is due to depressed share market in the last quarter of financial year 2005-2006.

After considering the satisfactory results, the Directors have decided to transfer 20% of the profit amounting to Rs. 4.124 million to the Statutory Reserve and to pay final cash dividend @ 52% i.e. Rs. 5.20 per certificate to the certificate holders.

## Taxation

As stated in the accounts, the trading income of the Modaraba is taxed under presumptive tax regime. Due to this, the tax incidence on Modaraba's income is much higher than the normal tax rate of 25%. Your management is working on the issue and exploring the possibilities to take up the issue with the Central Board of Revenue (CBR) for a rationale tax on trading income of the Modaraba. It is hoped that CBR would give just consideration on the matter.

## Auditors

The present auditors M/s M. Yousuf Adil Saleem & Co., Chartered Accountants being due for retirement and have offered themselves for re-appointment for the year ending June 30, 2007. The Directors have approved themselves for appointment subject to consent of the Registrar, Modaraba Companies and Modaraba.

## Corporate governance

Your Directors are pleased to report that:

- the financial statements, prepared by the management company of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- proper books of account of the Modaraba have been maintained.
- appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- approved International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- the system of internal control is sound in design and has been effectively implemented and monitored.
- there are no significant doubts upon the Modaraba's ability to continue as a going concern.
- there has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- statement summarizing key operating and financial data for the last six years is given as under:

(Rupees in '000)

Particulars	2006	2005	2004	2003	2002	2001	2000
Fixed Assets	5,821	5,793	5,656	4,613	4,369	5,979	5,298
Working Capital	84,028	76,930	61,287	60,937	55,788	50,145	48,488
Certificate holders Equity	86,681	80,160	64,847	63,612	58,484	54,381	52,229
Paid-up Capital	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Total Sales	427,105	310,484	366,790	332,556	300,083	395,804	399,927
Gross Profit	60,234	45,285	48,207	42,614	45,161	54,930	42,084
Profit after Taxation	20,621	15,313	10,985	20,128	19,104	15,951	9,783
Dividend – Cash	52%	47%	32.5%	50%	50%	46%	30%
Earnings per Certificate	6.87	5.10	3.66	6.71	6.37	5.32	3.26
Break-up value per Certificate	28.89	26.72	21.62	21.20	19.49	18.13	17.41



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- i) pattern of certificate holding of the Modaraba and certificate holders' information as required under the Modaraba Rules and the Listing Regulations of Karachi Stock Exchange are included in this report.

### **Transfer Pricing**

Your Directors are pleased to report that the Modaraba has fully complied with the best practices on transfer pricing as contained in the listing regulations of Karachi Stock Exchange.

### **Board meetings**

During the year, four (4) meetings of the Board of Directors were held. Attendance by each director is as follows.

	<u>Attended</u>
Mr. Naveed Riaz	4
Mr. Ameer Riaz	4
Mr. Omar Mohammad Khan	4
Mrs. Saadat Ikram	4

### **Acknowledgment**

The Board wishes to express its gratitude and appreciation for the guidance and support extended by the Registrar, Modaraba Companies and Modaraba and the Securities and Exchange Commission of Pakistan. The Board also wishes to thank its certificate holders and bankers for their continued support and appreciates above all the dedication and hard work of each staff member of the Modaraba.

On behalf of the Board

Naveed Riaz  
Chief Executive

September 20, 2006

## TEN YEARS AT A GLANCE

(Rs. '000s)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
<b>Balance Sheet Information</b>										
Authorized capital	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Paid up capital	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Statutory reserve & surplus	56,681	50,160	34,847	33,612	28,484	24,380	22,229	21,446	20,723	15,741
Certificate holders' equity	86,681	80,160	64,847	63,612	58,484	54,380	52,229	51,446	50,723	45,741
Deferred liability - staff gratuity	3,169	2,562	2,096	1,938	1,673	1,744	1,557	-	-	-
Qard-e-Hasna from Modaraba management company	-	-	500	-	-	-	6,300	1,000	4,225	7,650
Short term borrowing - Morabaha finances	40,955	61,063	20,165	25,157	-	-	15,439	-	5,078	-
Current liabilities	93,370	83,199	67,659	90,974	89,200	52,383	99,283	77,246	58,896	52,404
Fixed Assets	5,821	5,793	5,656	4,613	4,369	5,979	5,298	3,359	1,751	1,971
Deferred Costs	-	-	-	-	-	-	-	-	197	492
Stock-in-trade	108,794	121,430	88,685	109,660	79,761	52,065	113,668	75,565	56,979	41,784
Trade debtors	40,696	24,922	24,344	22,633	18,219	17,586	17,729	21,242	5,641	3,325
Investments	3,938	10,007	9,524	9,290	8,875	3,366	2,254	1,126	709	1,438
Current assets	177,397	160,128	128,946	151,911	144,988	102,528	147,771	125,333	107,671	95,682
<b>Operational Results</b>										
Sales	427,015	310,484	366,790	332,556	300,083	395,804	399,927	339,033	379,498	354,833
Cost of sales	366,781	265,199	318,583	289,942	254,922	340,873	357,843	304,212	342,982	322,723
Gross profit	60,234	45,285	48,207	42,614	45,161	54,931	42,084	34,821	36,516	32,110
Other income	3,725	3,097	1,289	6,784	4,608	755	1,026	1,268	371	184
Operating expenses	20,639	14,392	15,204	12,243	11,486	13,196	12,431	10,891	10,767	9,409
(Diminution)/unrealised appreciation on remeasurement of investment - net	(503)	834	1,484	4,872	920	(151)	383	89	(730)	(116)
Operating profit	42,818	34,825	35,776	42,027	39,203	42,339	31,062	25,287	25,390	22,769
Modaraba company's management fee	2,997	2,438	2,504	2,942	2,744	2,117	2,174	2,299	2,308	2,070
Profit before tax	39,821	32,387	33,272	39,085	36,459	40,222	28,888	22,988	23,082	20,699
Taxation	19,200	17,074	22,288	18,957	17,355	24,271	19,105	17,016	3,100	-
Profit after tax	20,621	15,313	10,984	20,128	19,104	15,951	9,783	5,972	19,982	20,699
Transfer to statutory reserve	4,124	3,063	2,197	4,026	3,821	1,595	978	1,194	3,996	4,140
	20%	20%	20%	20%	20%	10%	10%	20%	20%	20%
<b>Profit Distribution</b>										
Cash dividend	15,600	14,100	9,750	15,000	15,000	13,800	9,000	5,250	15,000	16,500
Rate per certificate	52%	47%	32.5%	50%	50%	46%	30%	17.5%	50%	55%
<b>Financial Ratios</b>										
Gross profit - % of sales	14.11%	14.59%	13.14%	12.81%	15.05%	13.88%	10.52%	10.27%	9.62%	9.05%
Operating expenses - % of sales	4.83%	4.64%	4.15%	3.68%	3.83%	3.33%	3.11%	3.21%	2.84%	2.65%
Operating profit - % of sales	10.03%	11.22%	9.75%	12.64%	13.06%	10.70%	7.77%	7.46%	6.69%	6.42%
Profit before tax - % of sales & other income	9.24%	10.33%	9.04%	11.52%	11.97%	10.14%	7.20%	6.76%	6.08%	5.83%
Profit after tax - % of sales & other income	4.79%	4.88%	2.98%	5.93%	6.27%	4.02%	2.44%	1.75%	5.26%	5.83%
<b>Return to Certificateholders</b>										
Return on equity - before tax	45.94%	40.40%	51.31%	61.44%	62.34%	73.96%	55.31%	44.68%	45.51%	45.25%
Return on equity - after tax	23.79%	19.10%	16.94%	31.64%	32.67%	29.33%	18.73%	11.61%	39.39%	45.25%
Earning per certificate - Rs.	6.87	5.10	3.66	6.71	6.37	5.32	3.26	1.99	6.66	6.90
Profit distribution per certificate - Rs.	5.20	4.70	3.25	5.00	5.00	4.60	3.00	1.75	5.00	5.50
Market price per certificate - Rs.	35.50	58.25	42.75	37.50	28.25	33.00	36.00	27.75	31.75	21.50
Break-up value per certificate - Rs.	28.89	26.72	21.62	21.20	19.49	18.13	17.41	17.15	16.91	15.25





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## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed Balance Sheet of **First Imrooz Modaraba** as at June 30, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the Modaraba Company's [A.R. Management Services (Private) Limited] responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

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

- (a) in our opinion, proper books of account have been kept by the Modaraba Company in respect of **First Imrooz Modaraba** as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- (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 Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in agreement with accounting policies consistently applied, except for the changes as stated in note 2.2 with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - (iii) the business conducted, investments made and expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;



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- (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 Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981 in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2006 and of the profit, its cash flows and changes in equity for the year then ended, and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

The financial statements of the Modaraba for the year ended June 30, 2005 were audited by another firm of Chartered Accountants, whose report dated September 06, 2005 expressed an unqualified opinion.

M. Yousuf Adil Saleem & Co.  
Chartered Accountants

Karachi: September 20, 2006



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**BALANCE SHEET  
AS AT JUNE 30, 2006**

	Note	2006 Rupees	2005 Rupees
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Tangible fixed assets	3	5,802,874	5,570,734
Intangible assets	4	18,500	221,749
		5,821,374	5,792,483
<b>CURRENT ASSETS</b>			
Stock-in-trade	5	108,794,065	121,429,921
Trade debtors		40,695,984	24,922,153
Investments	6	3,937,893	10,007,500
Deposits, prepayments and other receivables	7	1,382,341	711,616
Taxation		20,651	933,828
Cash and bank balances	8	22,566,604	2,123,639
		<u>177,397,538</u>	<u>160,128,657</u>
		<u>183,218,912</u>	<u>165,921,140</u>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Authorized capital 10,000,000 modaraba certificates of Rs. 10 each		<u>100,000,000</u>	<u>100,000,000</u>
Issued, subscribed and paid up capital	9	30,000,000	30,000,000
Statutory reserve		39,092,680	34,968,521
Unappropriated profit		17,587,979	15,191,343
		86,680,659	80,159,864
<b>DEFERRED LIABILITY</b>			
Staff Gratuity	10	3,168,743	2,561,806
<b>CURRENT LIABILITIES</b>			
Obligation under Murabaha finances	11	40,955,290	61,063,075
Creditors, accrued and other liabilities	12	52,414,220	22,136,395
		93,369,510	83,199,470
<b>CONTINGENCIES AND COMMITMENTS</b>			
	13	–	–
		<u>183,218,912</u>	<u>165,921,140</u>

The annexed notes from 1 to 28 form an integral part of these financial statements.

**Naveed Riaz**  
Chief Executive

**Ameed Riaz**  
Director

**Saadat Ikram**  
Director



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**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2006**

	Note	2006 Rupees	2005 Rupees
Sales		427,014,888	310,484,304
Cost of goods sold	14	<u>(366,780,657)</u>	<u>(265,198,990)</u>
Gross profit		60,234,231	45,285,314
Operating expenses	15	<u>20,638,835</u>	<u>14,391,858</u>
Operating profit		39,595,396	30,893,456
Other income	16	3,725,487	3,097,324
(Diminution)/unrealised appreciation on remeasurement of investments		<u>(502,801)</u>	<u>834,100</u>
		42,818,082	34,824,880
Modaraba Company's management fee		<u>(2,997,266)</u>	<u>(2,437,742)</u>
Profit before taxation		39,820,816	32,387,138
Taxation	17	<u>(19,200,021)</u>	<u>(17,073,950)</u>
Profit for the year*		<u>20,620,795</u>	<u>15,313,188</u>
Earning per certificate - Basic & Diluted	18	<u>6.87</u>	<u>5.10</u>

\* For more than 90% profits distribution please see note 25.

The annexed notes from 1 to 28 form an integral part of these financial statements.

**Naveed Riaz**  
Chief Executive

**Ameed Riaz**  
Director

**Saadat Ikram**  
Director



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## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2006

	2006 Rupees	2005 Rupees
<b>A. Cash flow from operating activities</b>		
Profit before taxation	39,820,816	32,387,138
Adjustments:		
Depreciation on tangible fixed assets	2,195,173	2,502,112
Amortization of intangible assets	225,449	221,750
(Gain) on disposal of fixed assets	(1,318,986)	(1,502,595)
(Gain) on sale of investment	(1,747,643)	(38,000)
Diminution/(unrealised) appreciation on remeasurement of investments	502,801	(834,100)
Provision for staff gratuity	606,937	487,522
(Reversal) of provision for doubtful debts	-	(790,316)
Irrecoverable deposits written off	-	40,000
	463,731	86,373
	40,284,547	32,473,511
Changes in operating assets and liabilities		
(Increase)/Decrease in operating assets		
Stock-in-trade	12,635,856	(32,744,368)
Trade debtors	(15,773,831)	212,540
Deposits, prepayments and other receivables	(670,725)	79,866
	(3,808,700)	(32,451,962)
Increase/(decrease) in current liabilities		
creditors, accrued and other liabilities	29,429,334	(15,113,747)
<i>Cash generated from/(used in) operations</i>	65,905,181	(15,092,198)
Gratuity paid	-	(22,038)
Taxes paid	(18,286,844)	(17,361,316)
Profit distribution	(13,251,509)	(9,743,921)
<i>Net cash generated from/(used in) operating activities</i>	34,366,828	(42,219,473)
<b>B. Cash flow from investing activities</b>		
Purchase of fixed assets	(2,441,627)	(2,902,663)
Purchase of intangible assets	(22,200)	-
Proceeds from disposal of fixed assets	1,333,300	1,545,300
Dividend received	407,000	598,000
Investments - net	6,907,449	(209,000)
<i>Net cash generated from/(used in) investing activities</i>	6,183,922	(968,363)
<b>C. Cash flow from financing activities</b>		
Qard-e-Hasna from Modaraba Management Company	-	(500,000)
Obligation under murabaha finances	(20,107,785)	40,898,225
<i>Net cash (used in)/generated from financing activities</i>	(20,107,785)	40,398,225
<b>Net increase/(decrease) in cash and bank balances A+B+C</b>	20,442,965	(2,789,611)
Cash & bank balances at the beginning of the year	2,123,639	4,913,250
Cash & bank balances at the end of the year	22,566,604	2,123,639

The annexed notes from 1 to 28 form an integral part of these financial statements.

**Naveed Riaz**  
Chief Executive

**Ameed Riaz**  
Director

**Saadat Ikram**  
Director



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## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2006

	Issued, subscribed and paid-up capital	Statutory reserve	Un- appropriated profit	Total
	..... Rupees .....			
<b>Balance at June 30, 2004</b> (as previously reported)	<b>30,000,000</b>	<b>31,905,883</b>	<b>2,940,793</b>	<b>64,846,676</b>
Effect of change in accounting policy for dividend (refer note 2.2)	–	–	9,750,000	9,750,000
<b>Balance at June 30, 2004 - restated</b>	<b>30,000,000</b>	<b>31,905,883</b>	<b>12,690,793</b>	<b>74,596,676</b>
Profit distribution for the year ended June 30, 2004 @ Rs. 3.25 per certificate	–	–	(9,750,000)	(9,750,000)
Profit after tax	–	–	15,313,188	15,313,188
Transfer to statutory reserve @ 20%	–	3,062,638	(3,062,638)	–
Proposed profit distribution - final @ Rs. 4.70 per certificate	–	–	(14,100,000)	(14,100,000)
<b>Balance at June 30, 2005</b> (as previously reported)	<b>30,000,000</b>	<b>34,968,521</b>	<b>1,091,343</b>	<b>66,059,864</b>
Effect of change in accounting policy for dividend (refer note 2.2)	–	–	14,100,000	14,100,000
<b>Balance at June 30, 2005 - restated</b>	<b>30,000,000</b>	<b>34,968,521</b>	<b>15,191,343</b>	<b>80,159,864</b>
Profit distribution for the year ended June 30, 2005 @ Rs. 4.70 per certificate	–	–	(14,100,000)	(14,100,000)
Profit for the year	–	–	20,620,795	20,620,795
Transfer to statutory reserve @ 20%	–	4,124,159	(4,124,159)	–
<b>Balance at June 30, 2006</b>	<b>30,000,000</b>	<b>39,092,680</b>	<b>17,587,979</b>	<b>86,680,659</b>

The annexed notes from 1 to 28 form an integral part of these financial statements.

**Naveed Riaz**  
Chief Executive

**Ameed Riaz**  
Director

**Saadat Ikram**  
Director



FIRST IMROOZ MODARABA

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006**

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

First Imrooz Modaraba (the Modaraba) was formed on 27 September 1993 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Rules framed thereunder and is managed by A R Management Services (Private) Limited. The Modaraba commenced its commercial operations from March 01, 1994. The Modaraba is listed on Karachi Stock Exchange.

It is a multi purpose, perpetual Modaraba and is mainly engaged in domestic and international trading activities.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **2.1 Statement of compliance**

These financial statements have been prepared in accordance with the requirements of the Modaraba Companies & Modaraba (Floatation & Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and directives issued by the Securities & Exchange Commission of Pakistan ["the Modaraba Regulations"] together with approved accounting standards as applicable in Pakistan to Modarabas. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984 and made applicable to Modarabas. Wherever the requirements of "the Modaraba Regulations" differ from the requirements of these standards, the requirements of "the Modaraba Regulations" take precedence.

#### **2.2 Changes in accounting policy**

In the year 2005, the Securities & Exchange Commission of Pakistan (SECP) issued a SRO No. 665(I)/2005 dated June 28, 2005 for following up various IAS's mentioned therein including IAS 10 "Events after Balance Sheet Date" in regard to the accounts, preparation of balance sheet and profit and loss account of the listed companies. Later-on the Institute of Chartered Accountants of Pakistan vide its Circular No. 06/2006 dated June 19, 2006 clarified that all entities including specialized entities (e.g. Modarabas, Mutual Funds, General Insurance Companies, etc) should follow the requirements of IAS 10 as notified by the SECP. This has resulted in a change in accounting policy relating to the recognition of profit distribution / dividends. Now, profit distribution / dividend declared is recognized as a liability in the period in which it is declared. Previously, profit distribution / dividend that was declared after the balance sheet date but before the financial statements were authorized for issue, was reported as a liability. The changed accounting policy has been accounted for retrospectively in accordance with benchmark treatment of International Accounting Standard "Accounting Policies, Changes in Accounting Estimates and Errors (IAS-8)".



Had there been no change in the accounting policy, the unappropriated profit would have been lower and higher respectively by Rs. 15,600,000 (2005: Rs.14,100,000). The effect of change in accounting policy has been taken in statement of changes in equity. This change in accounting policy has not resulted in any change in the profit after tax and earnings per certificate for the current year and prior years.

For more than 90% profit distribution please refer note 25.

### **2.3 Basis of preparation**

These financial statements have been prepared under the historical cost convention except for the revaluation of certain financial assets which are stated at fair value.

### **2.4 Operating fixed assets and depreciation**

Operating fixed assets are stated at cost less accumulated depreciation. Depreciation is charged to income at the rates specified in Note 3 by applying the straight line method whereby the cost of an asset is written off over its estimated useful life. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged for full month in which an assets is acquired or capitalized while no depreciation is charged from the month in which an asset is disposed off.

Gains / losses on disposal of fixed assets are accounted for in the year in which they arise.

Subsequent costs are recognized as an asset, only when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the year in which they are incurred.

### **2.5 Intangible assets**

Intangible assets are stated at cost less amortization. Cost of such assets are amortized on a straight line basis over a period of four years.

Amortization on additions is charged for full month in which an assets is acquired or capitalized, while no amortization is charged from the month in which an asset is disposed off.

### **2.6 Stock-in-trade**

These are stated at the lower of cost determined by first in first out method and net realizable value. Net realizable value signifies the selling price in the ordinary course of business less cost to be incurred to make sale. Goods in transit and in bonded warehouse are stated at invoice value plus other charges paid thereon, wherever applicable.





## **2.7 Trade debtors and other receivables**

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

## **2.8 Investments**

Investment in securities are recognized on a trade-date basis and are initially measured at cost except investment held for trading which is recognized on fair value. In respect of investments held for trading and available for sale, subsequent measurement is made at fair value. Unrealized gains and losses are included in the profit and loss account for held for trading investments and in equity in case of available for sale investments. Held to maturity investments are valued on subsequent measurement date at the amortized value in accordance with the International Accounting Standard 39 "Financial instruments: Recognition and measurement".

## **2.9 Taxation**

Provision for taxation is based on taxable income of the year at the current rates of taxation after taking into account tax credits and exemptions available, if any. For items covered under presumptive tax regime, provision is made according to the current presumptive tax rates provided in the Income Tax Ordinance, 2001.

## **2.10 Staff retirement benefits**

The Modaraba operates an unfunded defined benefit plan comprising of gratuity scheme for all its employees who have completed the minimum qualifying period of service as defined under the scheme. Modaraba's obligations under the scheme is determined on the basis of actuarial valuation and are charged to income. The most recent valuation was carried out by a qualified actuary in accordance with IAS 19 "Employees Benefits" on May 15, 2006 using the "Project unit Credit Method".

The amount recognised in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognized actuarial gains and losses and as reduced by the fair value of plan assets.

Cumulative net unrecognized actuarial gains and losses at the end of previous year which exceeds 10% of the greater of the present value of the Modaraba's gratuity is amortised over the average expected remaining working lives of the employees.

## **2.11 Trade Creditors and other payables**

Liability for trade and other payable are carried at cost which is the fair value of the consideration to be paid in future for goods received and services rendered.

## **2.12 Provisions**

Provisions are recognised when the Modaraba has a present, legal or constructive obligation as a result of past event, 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. However, provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

## **2.13 Financial instruments**

Financial assets and liabilities are recognized when the Modaraba becomes a party to the contractual provision of the instrument and de-recognized when the Modaraba loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged.

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

Financial assets and liabilities are offset and net amount reported in the balance sheet when there is legally enforceable right to set off the recognized amount and the Modaraba intends to either settle on a net basis, or realize the asset and settle the liability simultaneously.

## **2.15 Foreign currency transactions**

Transactions in foreign currencies are translated into Pak rupees at the rate of exchange ruling on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the rate of exchange ruling at the balance sheet date, while those covered under forward exchange contracts are valued at the contractual rates.

Exchange gains and losses are included in income currently.

## **2.16 Impairment**

The Modaraba assesses at each balance sheet date whether there is any indication that the assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of initial cost of the investment. Reversal of impairment loss is recognized as income.

The gain or loss on disposal or retirement of an assets represented by the difference between the sale proceed and the carrying amount of the asset is recognized as an income or expense.



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### 2.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods and services provided in the normal course of business.

Revenue from sale of goods is recognized on dispatch of goods to customer and title has passed.

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

Dividend income from investments is recognized when the right to receive payment have being established.

Profit on PLS savings account is recognized on accrual basis.

### 2.18 Transactions with related parties

Transactions with related parties are priced on arm's length basis.

## 3. TANGIBLE FIXED ASSETS

	Cost			Depreciation			Net Book value as at June 30, 2006	Rate of Depreciation per annum
	As at July 01, 2005	Additions/ (disposals) during the year	As at June 30, 2006	As at July 01, 2005	For the year/ (disposals)	As at June 30, 2006		
	Rupees							
Furniture and fixtures	447,002	48,600	495,602	184,656	43,400	228,056	267,546	10%
Office equipment and appliances	1,893,673	171,265 (337,840)	1,727,098	1,270,140	199,846 (325,508)	1,144,478	582,620	20%
Computer equipment	2,249,686	363,607 (120,200)	2,493,093	1,802,481	317,337 (118,121)	2,001,697	491,396	25%
Vehicles	10,868,697	1,858,155 (2,364,610)	10,362,242	6,631,047	1,634,590 (2,364,707)	5,900,930	4,461,312	20%
2006	15,459,058	2,441,627 (2,822,650)	15,078,035	9,888,324	2,195,173 (2,808,336)	9,275,161	5,802,874	
2005	14,838,288	2,902,663 (2,281,893)	15,459,058	9,625,401	2,502,111 (2,239,188)	9,888,324	5,570,734	

3.1 International Accounting Standards (IAS) 16, 'Property, Plant and Equipment' requires the cost of non-current tangible assets should be systematically allocated over its useful life in a manner which represents best pattern of use of the assets. To comply with this requirement precisely, the Modaraba has revised it's method of allocation of charging the depreciation on addition / deletion of asset from yearly to monthly proportionate basis.



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Had there been no change in the accounting estimates, the depreciation / amortization charged for the year would have been increased by Rs.148,060 and gain on disposal of fixed assets would have been decreased by Rs. 4,456.

**3.2** The following assets were disposed off during the year:

	Cost	Accumulated Depreciation	Net book value	Gain/(loss) on disposal	Mode of disposal	Particulars of purchasers
	Rupees					
Vehicle	1,138,000	1,137,999	1	599,999	Negotiation	Dr. Salma Sophie 87/1, 14 Lane, Phase 7, Defence Housing Authority, Karachi.
Vehicle	1,166,610	1,166,609	1	689,999	Negotiation	Mr. Noor Butt House No. 1-A, Faisal Town, Lahore.
Motor Cycle	60,000	59,999	1	34,999	Negotiation	Mr. Mohammad Hussain Patni House No. 1735 / 441 Baldia Town, Karachi.
Computer equipment	25,050	22,975	2,075	1,225	Negotiation	Al-Noor Computer Shop No. 51, Uni Centre, I.I. Chundrigar Road, Karachi.
Computer equipment	387,990	375,755	12,235	(12,235)	Scrapped	
Office equipment	45,000	44,999	1	4,999	Trade in	Panasonic Office Solution 177 Y, Block-2, P.E.C.H.S., Karachi.
2006	<u>2,822,650</u>	<u>2,808,336</u>	<u>14,314</u>	<u>1,318,986</u>		
2005	<u>2,281,893</u>	<u>2,239,188</u>	<u>42,705</u>	<u>1,502,595</u>		

**4. INTANGIBLE ASSETS**

Cost of software licenses

At July 01

Additions

At June 30

Amorization

At July 01

Charge during the year

At June 30

Carrying Amount

At July 01

At June 30

**2006  
Rupees**

**2005  
Rupees**

887,000

887,000

22,200

—

909,200

887,000

665,251

443,501

225,449

221,750

890,700

665,251

221,749

443,499

18,500

221,749



**4.1** International Accounting Standards (IAS) 16, 'Property, Plant and Equipment' requires the cost of non-current intangible assets should be systematically amortized over its useful life in a manner which represents best pattern of use of the assets. To comply with this requirement precisely, the Modaraba has revised its method of allocation of amortization on addition/deletion of intangible asset from yearly to monthly proportionate basis.

Had there been no change in the accounting estimates, the amortization charged for the year would have been increased by Rs.1,850.

	<b>2006 Rupees</b>	<b>2005 Rupees</b>
<b>5. STOCK-IN-TRADE</b>		
In hand	44,580,186	22,386,029
In bonded warehouse	48,135,039	92,264,869
In transit	16,078,840	6,779,023
	<u>108,794,065</u>	<u>121,429,921</u>
<b>6. INVESTMENTS - Held for trading</b>		
	<b><u>Fair Value</u></b>	<b><u>Fair Value</u></b>
National Investment (Unit) Trust = NIL = Units of Rs. 10/- each (2005: 105,000 Units)	-	4,315,500
Crescent Steel & Allied Products Limited 63,720 shares of Rs. 10/- each (2005: 60,500 shares)	2,768,634	4,658,500
UTP Growth Fund (previously Abamco Growth Fund) *89,943 certificates of Rs. 10/- each (2005: 48,750 certificates of Abamco Growth Fund)	1,169,259	1,033,500
	<u>3,937,893</u>	<u>10,007,500</u>

\* During the year the certificates of Abamco Growth Fund were converted into UTP Growth Fund. For every 1 certificate of Abamco Growth Fund 1.845 certificates of UTP Growth Fund were issued.



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	2006 Rupees	2005 Rupees
<b>7. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>		
Deposits	368,450	138,950
Prepayments	299,127	300,514
Sales tax	521,789	-
Other receivables - considered good	192,975	272,152
	<u>1,382,341</u>	<u>711,616</u>
<b>8. CASH AND BANK BALANCES</b>		
Cash in hand	-	6,320
Cash at bank on		
- PLS savings account	20,564,253	1,886,067
- Current accounts	2,002,351	231,252
	<u>22,566,604</u>	<u>2,123,639</u>
<b>9. ISSUED SUBSCRIBED AND PAID-UP CAPITAL</b>		
3,000,000 modaraba certificates of Rs. 10 each fully paid in cash (2005: 3,000,000 Modaraba Certificates)	<u>30,000,000</u>	<u>30,000,000</u>
<b>10 Staff gratuity</b>		
Modaraba's obligation under the scheme is calculated by estimating the amount of future benefits that employees have earned in return for their services in the current and prior years. Modaraba's obligation under the scheme is determined by a qualified actuary using the projected unit credit method, based on the following:		
Discount rate	9% per annum	
Expected rate of eligible salary increase	9% per annum	
Average expected remaining working life time of employees	10 years	



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	2006 Rupees	2005 Rupees
<b>Movement in defined benefit obligation</b>		
Opening balance of defined benefit obligation as at July 01	2,561,806	2,096,322
<b>Charge for the year</b>		
Current service cost	386,156	303,980
Financing cost	220,781	183,542
	606,937	487,522
Benefits paid during the year	-	(22,038)
Closing balance of defined benefit obligation as at June 30	<u>3,168,743</u>	<u>2,561,806</u>
<b>Represented by</b>		
Present value of defined benefit obligations as at June 30	3,614,879	2,759,760
Unrecognized actuarial (losses)	(446,136)	(197,954)
	<u>3,168,743</u>	<u>2,561,806</u>
<b>Present value of defined benefit obligations liability</b>		
Present value of defined benefit obligations as at July 01	2,759,760	2,294,276
Current service cost	386,156	303,980
Financing cost	220,781	183,542
Benefits paid during the year	-	(22,038)
Unrecognized actuarial losses	248,182	-
Present value of defined benefit obligations as at June 30	<u>3,614,879</u>	<u>2,759,760</u>
<b>11. OBLIGATION UNDER MURABAHA FINANCES - Secured</b>		
Soneri Bank Limited	<u>40,955,290</u>	<u>61,063,075</u>

The Modaraba has availed the facility to the extent of Rs. 40,955,290 against its sanctioned limit of Rs. 60 million. The facility is secured against pledge of stock in trade of the Modaraba.



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	<b>2006 Rupees</b>	<b>2005 Rupees</b>
<b>12. CREDITORS, ACCRUED AND OTHER LIABILITIES</b>		
Creditors	98,656	202,721
Bills payable	47,819,751	17,726,956
Accrued liabilities (Note 12.1)	338,150	315,618
Management fee payable to Modaraba Company	2,997,266	2,437,742
Sales tax	-	1,141,452
Unclaimed profit distribution	1,160,397	311,906
	<u>52,414,220</u>	<u>22,136,395</u>

12.1 Accrued liabilities includes Rs. 5,400/- (2005: Rs. Nil) payable to an associated undertaking.

	<b>2006 Rupees</b>	<b>2005 Rupees</b>
<b>13. CONTINGENCIES AND COMMITMENTS</b>		
<b>Contingencies</b>		
Post dated cheques to Collector of Customs amounting to Rs.32,684,145 (2005: Rs. Nil).		
<b>Commitments</b>		
Commitments in respect of outstanding letters of credit amounting to Rs. 5,451,879 (2005: Rs. 20,936,784).		

	<b>2006 Rupees</b>	<b>2005 Rupees</b>
<b>14. COST OF GOODS SOLD</b>		
Opening stock as at July 01	22,386,029	30,292,458
Add: Purchases	388,974,814	257,292,561
Less: Closing stock as at June 30	(44,580,186)	(22,386,029)
	<u>366,780,657</u>	<u>265,198,990</u>





FIRST IMROOZ MODARABA

	<b>2006</b>	<b>2005</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>15. OPERATING AND ADMINISTRATIVE EXPENSES</b>		
Salaries and other staff benefits (Note 15.1)	8,148,256	5,519,697
Staff gratuity (Note 10)	606,937	487,522
Rent, rates and taxes	430,810	386,004
Postage and telephone	540,070	504,762
Printing and stationery	169,002	217,699
Fees and subscriptions	368,200	277,755
Staff training	169,457	164,137
Traveling and conveyance	984,711	664,713
Entertainment	107,977	73,456
Repairs and maintenance	1,033,729	349,202
Vehicle running and maintenance	897,832	578,483
Electricity	549,954	361,844
Depreciation	2,195,173	2,502,112
Amortization of intangible asset	225,449	221,750
Advertisement and publicity	160,193	141,481
Sales Promotion	659,195	-
Packing material	64,828	160,534
Insurance	300,041	696,633
Security charges	415,000	354,155
Irrecoverable deposits written off	-	40,000
Cleaning & washing	5,995	5,841
Freight and forwarding	909,784	223,457
Auditors remuneration (Note 15.2)	160,000	138,548
Legal and professional	154,500	191,305
Consultancy	954,000	-
Bank charges	138,067	33,896
Zakat	-	12,188
Donation (Note 15.3)	289,675	84,684
	<u>20,638,835</u>	<u>14,391,858</u>



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**15.1 Remuneration of officers and employees**

	2006			2005		
	Officers	Employees	Total	Officers	Employees	Total
	Rupees					
Remuneration	3,042,093	2,478,831	5,520,924	2,036,158	1,516,116	3,552,274
Allowances	1,193,304	1,063,205	2,256,509	812,040	675,622	1,487,662
Medical	199,302	95,946	295,248	173,678	263,423	437,101
EOBI Contribution	–	40,680	40,680	12,600	30,060	42,660
SESSI Contribution	16,020	18,875	34,895	–	–	–
	<u>4,450,719</u>	<u>3,697,537</u>	<u>8,148,256</u>	<u>3,034,476</u>	<u>2,485,221</u>	<u>5,519,697</u>

In addition to above, some officers have been provided with vehicle maintained by the Modaraba.

	2006 Rupees	2005 Rupees
<b>15.2 Auditors' remuneration</b>		
Annual audit fee	120,000	110,000
Half yearly review fee	30,000	25,000
Review of Code of Corporate Governance	10,000	–
Out of pocket	–	3,548
	<u>160,000</u>	<u>138,548</u>
<b>15.3 Donation</b>		
The Kidney Centre	–	84,684
The Citizens Foundation	266,175	–
Modaraba Association of Pakistan	23,500	–
	<u>289,675</u>	<u>84,684</u>

None of the directors of the Management Company of the Modaraba or their spouses had any interest in the donee.

	2006 Rupees	2005 Rupees
<b>16. OTHER INCOME</b>		
Dividend Income	407,000	598,000
Gain on sale of investment	1,747,643	38,000
Reversal of provision for doubtful debts	–	790,316
Gain on disposal of fixed assets	1,318,986	1,502,595
Other	251,858	168,413
	<u>3,725,487</u>	<u>3,097,324</u>



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	<b>2006 Rupees</b>	<b>2005 Rupees</b>
<b>17. TAXATION</b>		
for the year	19,200,000	17,074,697
for prior year	21	(747)
	<u>19,200,021</u>	<u>17,073,950</u>

**Current**

The trading income of the Modaraba is taxed under presumptive tax regime under Section 169 of the Income Tax Ordinance, 2001.

As per Clause (18), Part II of Second schedule to the Income Tax Ordinance, 2001, the income of the Modaraba is liable to be taxed @ 25%. However, tax charge due to presumptive tax regime is much higher than on a normal tax basis.

Reconciliation between tax expense and accounting profit is not required due to the fact that Modaraba's substantial income falls under presumptive tax regime.

**Deferred**

Deferred tax liability or asset does not arise on temporary differences since Modaraba's income is taxed under the presumptive tax regime and as per TR 27 issued by the Institute of Chartered Accountants of Pakistan deferred tax assets / liabilities are not recorded.

**18. EARNINGS PER CERTIFICATE - Basic & Diluted**

Profit for the year (Rupees)	<u>20,620,795</u>	<u>15,313,188</u>
Number of modaraba certificates	<u>3,000,000</u>	<u>3,000,000</u>
Earnings per certificate (Rupees)	<u>6.87</u>	<u>5.10</u>

**19. CREDIT RISK AND CONCENTRATION OF CREDIT RISK**

**19.1 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. Policies and procedures have been established by the Modaraba with the objective of protecting against unacceptable credit losses, including credit worthiness of counter parties. The modaraba does not have significant exposure to any individual customer.

The financial assets in which the Modaraba is exposed to credit risk are as follows:



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	<b>2006 Rupees</b>	<b>2005 Rupees</b>
Trade debtors	40,695,984	24,922,153
Other receivable	561,424	411,102
	41,257,408	25,333,255

## 19.2 Concentration of credit risk

Concentration of credit risk may arise from exposures to a single debtor. The Modaraba manages concentration of credit risk through diversification of activities among individuals, groups and industry segment. An analysis of the Modaraba's credit risk exposure as at the year-end is as follows:

	<b>2006</b>		<b>2005</b>	
	<b>Rupees</b>	<b>%</b>	<b>Rupees</b>	<b>%</b>
Chemicals & Textile	27,956,612	68	14,979,630	79
Health, Consumer & pharmaceuticals	12,739,372	31	9,942,523	19
Others	561,424	1	411,102	2
	41,257,408	100	25,333,255	100

## 20. CURRENCY RISK

Currency risk is the risk that the value of financial liability will fluctuate due to changes in foreign exchange rates.

Modaraba covers its currency risk by monitoring foreign currency fluctuations and by obtaining forward exchange cover, if deemed necessary.

Following is the detail of currency risk of the Modaraba at the balance sheet date:

	<b>2006</b>	<b>2005</b>
US Dollars	649,114	185,999
British Pound Sterling	76,862	40,277

## 21. LIQUIDITY RISK

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Modaraba matches availability of liquid funds before committing for liabilities and also on a timely basis perform analysis of liquid funds with maturities of liabilities due is performed.



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## 22. PROFIT RATE RISK EXPOSURE

The information about modaraba's exposure to profit rate risk based on contractual refinancing or maturity dates whichever is earlier is as follows:

	2006				2005			
	Profit bearing		Non profit bearing	Total	Profit bearing		Non profit bearing	Total
	Less than one month	One month to one year			Less than one month	One month to one year		
	Rupees							
<b>Financial Assets</b>								
Trade debtors	-	-	40,695,984	40,695,984	-	-	24,922,153	24,922,153
Investments	-	-	3,937,893	3,937,893	-	-	10,007,500	10,007,500
Deposits and other receivables	-	-	561,424	561,424	-	-	411,102	411,102
Cash and bank balances	20,564,253	-	2,002,351	22,566,604	1,886,067	-	237,572	2,123,639
	20,564,253	-	47,197,652	67,761,905	1,886,067	-	35,578,327	37,464,394
<b>Financial Liabilities</b>								
Creditors, accrued and other liabilities	-	-	52,414,220	52,414,220	-	-	20,994,943	20,994,943
Obligation under murabaha finances	-	-	40,955,290	40,955,290	-	-	61,063,075	61,063,075
	-	-	93,369,510	93,369,510	-	-	82,058,018	82,058,018
On-balance sheet gap (a)	20,564,253	-	(46,171,858)	(25,607,605)	1,886,067	-	(46,479,698)	(44,593,624)
Total profit rate sensitivity gap	20,564,253	-	-	-	1,886,067	-	-	-

(a) The on-balance sheet gap represents the net amounts of on-balance sheet items.

## 23. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value is the amount at which an asset could be exchanged or liability settled between knowledgeable willing parties in an arms length transaction. The carrying value of financial assets and liabilities approximates their fair values as reflected in respective notes to the financial statements.

	2006 Rupees	2005 Rupees
<b>24. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS</b>		
Sale of goods	2,656,915	3,502,652
Purchase of goods	-	1,307,800
Share of common expenses	210,740	91,858
Payment of Modaraba Company's Management fee	2,437,742	2,504,331
Receipts of Qard-e-Hasna from Modaraba Company	38,500,000	26,700,000
Repayments of Qard-e-Hasna to Modaraba Company	38,500,000	27,200,000



FIRST IMROOZ MODARABA

**25. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Modaraba Management Company in its meeting held on 20-09-2006 approved a final profit distribution / dividend of Rs. 5.20 per certificate, amounting to Rs. 15,600,000 for the year ended June 30, 2006.

**26. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Board of Directors of the Modaraba Management Company and authorized for issue on 20-09-2006.

**27. CORRESPONDING FIGURES**

Corresponding figures have been rearranged / reclassified, wherever necessary, for the purpose of comparison. However, no significant reclassification has been made, except the following:

**Previous Nomenclature**

Provision for appreciation in the value of investments

**New Nomenclature**

(Diminution) / unrealised appreciation on remeasurement of investments

**28. GENERAL**

These financial statements are presented in Pak Rupees, which is the Modaraba's functional and presentation currency.

Amounts have been presented and rounded off to the nearest rupee.

**Naveed Riaz**  
Chief Executive

**Ameed Riaz**  
Director

**Saadat Ikram**  
Director



FIRST IMROOZ MODARABA

**PATTERN OF HOLDINGS OF THE CERTIFICATES  
BY THE CERTIFICATE HOLDERS AS AT JUNE 30, 2006**

(on Form No. XII prescribed under Rule 14 of the Modaraba Companies & Modaraba Rules, 1981)

<b>Number of Certificate Holders</b>	<b>:</b>	<b>Certificate Holding From</b>	<b>:</b>	<b>To</b>	<b>:</b>	<b>Total Certificates Held</b>
—	:	1	:	50	:	—
3	:	51	:	100	:	300
519	:	101	:	500	:	257,700
9	:	501	:	1000	:	8,600
12	:	1001	:	5000	:	43,000
3	:	5001	:	10000	:	20,700
25	:	10001	:	above	:	2,669,700
571						3,000,000

<b>Categories of Certificate Holders</b>	<b>:</b>	<b>Number</b>	<b>:</b>	<b>Certificates Held</b>	<b>:</b>	<b>Percentage</b>
Individuals	:	567	:	2,393,000	:	79.77
Investment Companies	:	—	:	—	:	—
Insurance Companies	:	—	:	—	:	—
Joint Stock Companies	:	2	:	6,500	:	00.21
Financial Institutions	:	1	:	500	:	00.02
Modaraba Company	:	1	:	600,000	:	20.00
Others	:	—	:	—	:	—
	:	571	:	3,000,000	:	100.00



FIRST IMROOZ MODARABA

**CERTIFICATE HOLDERS INFORMATION  
AS PER REQUIREMENT OF LISTING REGULATIONS  
OF THE KARACHI STOCK EXCHANGE**

<b>ASSOCIATED COMPANIES</b>	<b>SHARES HELD</b>	
A R Management Services (Pvt) Limited Modaraba Management Company	600,000	
<b>DIRECTORS, CEO THEIR SPOUSE &amp; MINOR CHILDREN</b>		
Mr. Naveed Riaz	Chief Executive	240,300
Mrs. Ismat Riaz w/o Mr. Naveed Riaz		259,000
Mr. Ameer Riaz	Director	240,200
Mrs. Roqaiya Riaz w/o Mr. Ameer Riaz		259,200
Mr. Ikramul Haque		53,400
<b>BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, MODARABAS, MUTUAL FUNDS, ETC.</b>		
First Dawood Investment Bank		500
N H Securities (Pvt) Limited		500
Azee Securities (Pvt) Limited		6,000

**CERTIFICATE HOLDERS HOLDING 10% OR MORE**

A R Management Services (Pvt) Limited

**TRADES IN THE MODARABA CERTIFICATES**

None of the Directors, CEO, CFO, Company Secretary and their spouses and minor children has traded in the certificates of the Modaraba during the year.





FIRST IMROOZ MODARABA

## **STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37(xiv) of the Listing Regulation of the Karachi Stock Exchange for the purposes of establishing a framework of good governance, whereby a listed entity is managed in compliance with the best practices of corporate governance.

Regardless of the fact that A R Management Services (Private) Limited, the management company of First Imrooz Modaraba, is a Private Limited Company, the Board of Directors are pleased to confirm that the Modaraba complied with all material principles contained in Code of Corporate Governance.

### **The Modaraba Management Company has applied the principles contained in the Code in the following manner:**

1. The Management Company encourages representation of independent non-executive directors on its Board. At present the Board includes two independent non-executive directors, out of total number of four directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the directors of the Management Company are registered taxpayers and none of them has defaulted in payment of any loan to a banking company, DFI or NBFIs. None of the director is a member of any stock exchange.
4. No casual vacancy arose in the Board during the current year.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors of the Management Company and all employees of the Modaraba.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Modaraba.
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 CFO, Company Secretary and other Executive Directors have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and held at least once in each quarter. Written notice of Board meeting, along with agenda and working papers were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.
9. The directors in the Board have adequate exposure of corporate matters and knowledge of laws and regulations applicable to Modaraba and well versed of their duties and responsibilities.
10. The board has already approved appointment of CFO, Company Secretary and Head of Internal Audit.



FIRST IMROOZ MODARABA

11. The Director's Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters which are required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.
13. The Directors, CEO and Executives do not hold any interest in the Certificate of the Modaraba other than that disclosed in the pattern of Certificate holding.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the code.
15. The Board has formed an Audit Committee. It comprises three members including the Chairman, of whom two are non-executive directors.
16. The meetings of the audit committee were held in every quarter prior to approval of financial results of the Modaraba as required by the Code. The terms of references of the committee have been formed and duly approved by the Board and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function and personnel involved are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Modaraba and they are involved in the internal audit function on a full time basis.
18. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review Programme of the Institute of Chartered Accountant of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold Certificates of Modaraba and that the firm and all its partners are compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all the material principles contained in the code have been complied with.

September 20, 2006

Naveed Riaz  
Chief Executive

### **STATEMENT OF COMPLIANCE WITH BEST PRACTICES ON TRANSFER PRICING**

This statement is being presented to comply with the Listing Regulation No. 38 of the Karachi Stock Exchange for approving the transfer pricing policy. The modaraba confirm that all material principles contained in the said regulation have been complied with.



FIRST IMROOZ MODARABA

## **REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of A.R. Management Services (Private) Limited (the Modaraba Company) representing **FIRST IMROOZ MODARABA** (the Modaraba) to comply with the relevant Listing Regulations of the Karachi Stock Exchange where the Modaraba is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Modaraba 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 Modaraba 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 Modaraba personnel and review of various documents prepared by the Modaraba to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended June 30, 2006.

M. Yousuf Adil Saleem & Co.  
Chartered Accountants  
Karachi

September 20, 2006



FIRST IMROOZ MODARABA

## NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given to the certificate holders that seventh Annual Review Meeting of First Imrooz Modaraba will be held on Wednesday the 18th October, 2006 at 10:30 a.m. at Registered Office of the Modaraba Management Company at 33-C, Behind Mall Mansion, Shahrah-e-Quaid-e-Azam, The Mall, Lahore.

By order of the Board

September 20, 2006

Shabbir Ahmed Jamsa  
COMPANY SECRETARY

Note:

1. The Certificate Transfer Book of the Modaraba will remain closed from October 10, 2006 to October 18, 2006 (both days inclusive).
2. Certificate holders are requested to inform promptly of any change in their address to our Share Registrar, Progressive Management Services (Pvt.) Limited, 10th Floor, Mehdi Tower, A-115, S.M.C.H.S., Shahrah-e-Faisal, Karachi.

Managed by  
**A R MANAGEMENT SERVICES (PRIVATE) LIMITED**

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**FIRST IMROOZ MODARABA**

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