

FIFTEENTH ANNUAL REPORT 2009

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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.



FIRST IMROOZ MODARABA

## **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.



FIRST IMROOZ MODARABA

## 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/s. M. Yousuf Adil Saleem & Co. Chartered Accountants
<b>Bankers</b>	: Soneri Bank Limited MCB Bank Limited
<b>Legal Advisors</b>	: Mr. Akram Zuberi Advocate, Supreme Court of Pakistan
<b>Principal place of business</b>	: Room No. 405, 4th Floor Beaumont Plaza, Beaumont Road Civil Lines Quarters, Karachi-75530.
<b>Registered Office of the Modaraba Company</b>	: 33-C, Behind Mall Mansion Shahrah-e-Quaid-e-Azam The Mall, Lahore. Website: <a href="http://www.firstimrooz.com">www.firstimrooz.com</a> Note: These accounts are also available on our website
<b>Certificate Registration Office</b>	: Progressive Management Services (Pvt.) Limited 10th Floor, Mehdi Tower A-115, S.M.C.H.S., Shahrah-e-Faisal Karachi.



FIRST IMROOZ MODARABA

## 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 fifteenth Annual Report of First Imrooz Modaraba along with audited financial statements for the year ended June 30, 2009.

This report is prepared under section 236 of Companies Ordinance, 1984 and clause XIX of the Code of Corporate Governance.

### Operating Results

The financial results of the Modaraba are summarized below:

	<i>(Rupees in million)</i>	
	<i>2009</i>	<i>2008</i>
Profit before taxation	29.982	31.185
Taxation	<u>7.917</u>	<u>16.018</u>
Profit for the year	22.065	15.167
Appropriation:		
Transfer to Statutory Reserve	<u>2.206</u>	<u>3.033</u>
Profit after appropriation	<u>19.859</u>	<u>12.134</u>
Earnings per certificate - basic & diluted	Rs. <u>7.36</u>	<u>5.06</u>

### Review of Financial Performance

During the year ended June 30, 2009, the Modaraba's performance was satisfactory despite extremely challenging economic conditions especially depreciation of the Pak rupee against foreign currencies .

The Modaraba's turnover grew by 10.42% to Rs. 474.517 million in 2009 as compared to 429.742 million in 2008. The Modaraba's gross profit increased by 14.79% to Rs. 58.779 million as compared to Rs. 51.205 in 2008.

The other income of the Modaraba showed a decline of Rs. 2.217 million due to low dividend income and capital gains. Also, the Modaraba has recorded diminution of Rs. 1.727 million on re-measurement of investments as compared to Rs. 0.49 million in 2008.

After considering these results, the Board of Directors have decided to transfer 10% of the profit to Statutory Reserve and a final profit distribution @ 63% i.e. Rs. 6.30 per certificate to the certificate holders.



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## 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, 2010. 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:

- a) 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.
- b) proper books of account of the Modaraba have been maintained.
- c) appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) approved International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- e) the system of internal control is sound in design and has been effectively implemented and monitored.
- f) there are no significant doubts upon the Modaraba's ability to continue as a going concern.
- g) there has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) statement summarizing key operating and financial data for the last six years is given as under:

(Rupees in million)

Particulars	2009	2008	2007	2006	2005	2004	2003
Fixed Assets	5,439	6,746	5,054	5,821	5,793	5,656	4,613
Working Capital	103,888	90,557	95,295	84,028	76,930	61,287	60,937
Certificate Holders Equity	102,508	92,442	96,776	86,681	80,160	64,847	63,612
Paid-up Certificate Capital	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Sales	474,517	429,742	402,845	427,015	310,484	366,790	332,556
Gross Profit	58,779	51,205	56,033	60,234	45,285	48,207	42,614
Profit after Taxation	22,065	15,167	23,254	20,621	15,313	10,985	20,128
Profit Distribution – Cash	63%	40%	65%	52%	47%	32.5%	50%
Earnings per Certificate - Rs.	7.36	5.06	7.75	6.87	5.10	3.66	6.71
Break-up value per Certificate - Rs.	34.17	30.81	32.25	28.89	26.72	21.62	21.20

- 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.



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### **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. Aameed Riaz	4
Mr. Omar Mohammad Khan	3
Mrs. Saadat Ikram	4

### **Acknowledgment**

The Board wishes to express its thanks for continued guidance and support extended by the Registrar, Modaraba and other officials of Securities and Exchange Commission of Pakistan. The Board also wishes to thank its certificate holders, colleagues, investors, bankers and business associates for their continued support and co-operation and above all appreciates the dedication and hard work of each staff member of the Modaraba.

On behalf of the Board

Naveed Riaz  
Chief Executive

September 25, 2009



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## TEN YEARS AT A GLANCE

(Rupees in million)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<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
Certificate capital	30.000	30.000	30.000	30.000	30.000	30.000	30.000	30.000	30.000	30.000
Statutory reserve & surplus	72.508	62.442	66.776	56.681	50.160	34.847	33.612	28.484	24.380	22.229
Certificate holders' equity	102.508	92.442	96.776	86.681	80.160	64.847	63.612	58.484	54.380	52.229
Deferred liability - staff gratuity	6.820	4.861	3.574	3.169	2.562	2.096	1.938	1.673	1.744	1.557
Qard-e-Hasna from Modaraba management company	-	-	-	-	-	0.500	-	-	-	6.300
Short term borrowing - Morabaha finances	-	22.320	-	40.955	61.063	20.165	25.157	-	-	15.439
Current liabilities	76.989	110.573	45.296	93.370	83.199	67.659	90.974	89.200	52.383	99.283
Fixed Assets	5.439	6.746	5.054	5.821	5.793	5.656	4.613	4.369	5.979	5.298
Stock-in-trade	65.925	102.736	51.081	108.794	121.430	88.685	109.660	79.761	52.065	113.668
Trade debtors	59.763	36.461	37.612	40.696	24.922	24.344	22.633	18.219	17.586	17.729
Investments	0.796	2.476	4.613	3.938	10.007	9.524	9.290	8.875	3.366	2.254
Current assets	180.878	201.130	140.591	177.397	160.128	128.946	151.911	144.988	102.528	147.771
<b>Operational Results</b>										
Sales	474.517	429.742	402.845	427.015	310.484	366.790	332.556	300.083	395.804	399.927
Cost of sales	415.738	378.537	346.812	366.781	265.199	318.583	289.942	254.922	340.873	357.843
Gross profit	58.779	51.205	56.033	60.234	45.285	48.207	42.614	45.161	54.931	42.084
Other income	1.760	3.977	2.982	3.725	3.097	1.289	6.784	4.608	0.755	1.026
Operating expenses	22.507	20.795	18.709	20.639	14.392	15.204	12.243	11.486	13.196	12.431
(Diminution)/unrealised appreciation on remeasurement of investments	(1.727)	(0.490)	1.563	(0.503)	0.834	1.484	4.872	0.920	(0.151)	0.383
Operating profit	32.589	33.897	41.869	42.818	34.825	35.776	42.027	39.203	42.339	31.062
Modaraba company's management fee	2.607	2.712	2.931	2.997	2.438	2.504	2.942	2.744	2.117	2.174
Profit before tax	29.982	31.185	38.938	39.821	32.387	33.272	39.085	36.459	40.222	28.888
Taxation	7.917	16.018	15.684	19.200	17.074	22.288	18.957	17.355	24.271	19.105
Profit after tax	22.065	15.167	23.254	20.621	15.313	10.984	20.128	19.104	15.951	9.783
Transfer to statutory reserve	2.206	3.030	4.997	4.124	3.063	2.197	4.026	3.821	1.595	0.978
	10%	20%	20%	20%	20%	20%	20%	20%	10%	10%
<b>Profit Distribution</b>										
Profit distribution	18.900	12.000	19.500	15.600	14.100	9.750	15.000	15.000	13.800	9.000
Rate per certificate	63%	40%	65%	52%	47%	32.5%	50%	50%	46%	30%
<b>Financial Ratios</b>										
Gross profit - % of sales	12.39%	11.91%	13.91%	14.11%	14.59%	13.14%	12.81%	15.05%	13.88%	10.52%
Operating expenses - % of sales	4.74%	4.83%	4.64%	4.83%	4.64%	4.15%	3.68%	3.83%	3.33%	3.11%
Operating profit - % of sales	7.64%	7.08%	9.27%	10.03%	11.22%	9.75%	12.64%	13.06%	10.70%	7.77%
Profit before tax - % of sales & other income	6.30%	7.19%	9.59%	9.24%	10.33%	9.04%	11.52%	11.97%	10.14%	7.20%
Profit after tax - % of sales & other income	4.63%	3.50%	5.73%	4.79%	4.88%	2.98%	5.93%	6.27%	4.02%	2.44%
<b>Return to Certificateholders</b>										
Return on equity - before tax	29.25%	33.73%	40.23%	45.94%	40.40%	51.31%	61.44%	62.34%	73.96%	55.31%
Return on equity - after tax	21.53%	16.40%	24.03%	23.79%	19.10%	16.94%	31.64%	32.67%	29.33%	18.73%
Earning per certificate - Rs.	7.36	5.06	7.75	6.87	5.10	3.66	6.71	6.37	5.32	3.26
Profit distribution per certificate - Rs.	6.30	4.00	6.50	5.20	4.70	3.25	5.00	5.00	4.60	3.00
Market price per certificate - Rs.	32.00	36.20	42.00	35.50	58.25	42.75	37.50	28.25	33.00	36.00
Break-up value per certificate - Rs.	34.17	30.81	32.25	28.89	26.72	21.62	21.20	19.49	18.13	17.41

## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed Balance Sheet of **First Imrooz Modaraba** as at June 30, 2009 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 account and are further in agreement with accounting policies consistently applied;





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## BALANCE SHEET AS AT JUNE 30, 2009

	Note	2009 Rupees	2008 Rupees
<b>NON CURRENT ASSETS</b>			
Property and equipment	5	5,247,538	6,623,924
Intangible assets	6	191,190	122,399
		<u>5,438,728</u>	<u>6,746,323</u>
<b>CURRENT ASSETS</b>			
Stock in trade	7	65,924,925	102,735,769
Trade debtors - unsecured, considered good		59,762,613	36,461,074
Deposits, prepayments and other receivables	8	5,068,409	959,566
Investments	9	796,473	2,475,985
Taxation	10	1,271,172	747,896
Cash at bank	11	48,053,916	57,749,835
		<u>180,877,508</u>	<u>201,130,125</u>
		<u>186,316,236</u>	<u>207,876,448</u>
<b>CAPITAL AND RESERVES</b>			
Authorised certificate capital 10,000,000 Modaraba Certificates of Rs. 10/- each		<u>100,000,000</u>	<u>100,000,000</u>
Issued certificate capital	12	30,000,000	30,000,000
Statutory reserve	13	49,329,334	47,122,826
Revenue reserve	14	23,178,550	15,319,974
		<u>102,507,884</u>	<u>92,442,800</u>
<b>NON-CURRENT LIABILITY</b>			
Staff Gratuity	15	6,819,710	4,860,584
<b>CURRENT LIABILITIES</b>			
Obligation under murabaha finances	16	—	22,319,390
Creditors, accrued and other liabilities	17	76,988,642	88,253,674
		<u>76,988,642</u>	<u>110,573,064</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	18	<u>186,316,236</u>	<u>207,876,448</u>

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

**Naveed Riaz**  
Chief Executive

**Ameed Riaz**  
Director

**Saadat Ikram**  
Director



FIRST IMROOZ MODARABA

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2009**

	Note	2009 Rupees	2008 Rupees
Sales		474,517,108	429,742,188
Cost of sales	19	415,737,857	378,537,449
Gross profit		58,779,251	51,204,739
Operating expenses	20	22,506,772	20,794,511
Operating profit		36,272,479	30,410,228
Murabaha charges		(3,715,712)	–
Other income	21	1,760,198	3,976,876
Diminution on re-measurement of investments		(1,727,402)	(489,920)
		32,589,563	33,897,184
Modaraba Company's management fee		2,607,165	2,711,775
Profit before taxation		29,982,398	31,185,409
Taxation	22	7,917,314	16,018,110
Profit for the year*		22,065,084	15,167,299
Earnings per certificate - basic & diluted	23	7.36	5.06

\* For more than 90% profits distribution please see note 27.

The annexed notes 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, 2009**

	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	29,982,398	31,185,409
Adjustments:		
Depreciation on property and equipment	2,327,606	2,696,855
Amortization of intangible assets	52,175	10,550
Loss/(gain) on disposal of property and equipment	2,617	(1,722,758)
Gain on sale of investments	–	(347,226)
Dividend income	(850)	(146,472)
Diminution on re-measurement of investments	1,727,402	489,920
Provision for staff gratuity	1,959,126	1,367,094
	6,068,076	2,347,963
	36,050,474	33,533,372
 Changes in operating assets and liabilities		
Decrease/(Increase) in current assets		
Stock in trade	36,810,844	(51,654,451)
Trade debtors	(23,301,539)	1,150,501
Deposits, prepayments and other receivables	(4,108,843)	277,656
	9,400,462	(50,226,294)
(Decrease)/Increase in current liabilities		
Creditors, accrued and other liabilities	(11,657,771)	42,369,387
Cash generated from operations	33,793,165	25,676,465
Gratuity paid	–	(80,500)
Taxes paid	(8,440,590)	(15,898,215)
Profit paid	(11,607,261)	(18,911,745)
Net cash generated from / (used in) operating activities	13,745,314	(9,213,995)
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(988,416)	(4,722,176)
Purchase of intangible assets	(120,966)	(120,000)
Proceeds from disposal of property and equipment	34,579	2,165,440
Dividend received	850	146,472
Investments - net	(47,890)	1,994,305
Net cash used in investing activities	(1,121,843)	(535,959)



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	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from murabaha finances	70,401,783	56,998,276
Repayment of murabaha finances	<u>(92,721,173)</u>	<u>(34,678,886)</u>
Net cash (used in)/generated from financing activities	<u>(22,319,390)</u>	<u>22,319,390</u>
Net (decrease)/increase in cash and bank balances A+B+C	(9,695,919)	12,569,436
Bank balances at the beginning of the year	57,749,835	45,180,399
Bank balances at the end of the year	<u><u>48,053,916</u></u>	<u><u>57,749,835</u></u>

The annexed notes 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, 2009

	Issued, subscribed and paid up certificate capital	Statutory reserve	Revenue reserve (Un- appropriated profit)	Total
	..... Rupees .....			
Balance at June 30, 2007 as restated	30,000,000	44,089,366	22,686,135	96,775,501
Profit distribution for the year ended June 30, 2007 @ Rs. 6.50 per certificate	–	–	(19,500,000)	(19,500,000)
Profit for the year ended June 30, 2008	–	–	15,167,299	15,167,299
Transfer to statutory reserve	–	3,033,460	(3,033,460)	–
Balance at June 30, 2008	30,000,000	47,122,826	15,319,974	92,442,800
Profit distribution for the year ended June 30, 2008 @ Rs. 4.00 per certificate	–	–	(12,000,000)	(12,000,000)
Profit for the year ended June 30, 2009	–	–	22,065,084	22,065,084
Transfer to statutory reserve	–	2,206,508	(2,206,508)	–
Balance at June 30, 2009	30,000,000	49,329,334	23,178,550	102,507,884

The annexed notes 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, 2009

### 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 the Karachi Stock Exchange.

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

### 2. STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with the requirements of the Modaraba Companies & Modaraba (Floatation & Control) Ordinance, 1980, the 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 Financial Reporting Standards (IFRS) issued by International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP), as are 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 Adoption of new International Financial Reporting Standards

In the current year, the Modaraba has adopted all new Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and as notified by the Securities and Exchange Commission of Pakistan that are relevant to its operations and effective for modaraba's accounting period beginning on July 01, 2008. The adoption of these new Standards and Interpretations has resulted in changes to the Modaraba's accounting policies in the following areas:

#### **Standards and Interpretations**

#### **Effective date (accounting periods beginning on or after)**

IFRS 7 - Financial Instruments: Disclosures

April 28, 2008



**Standards and Interpretations**

**Effective date (accounting periods beginning on or after**

IFRS 7 requires extensive disclosures about the significance of financial instruments for the Modaraba's financial position and performance, and quantitative and qualitative disclosures on the nature and extent of risks. These requirements incorporate many of the requirements previously in IAS 32 - Financial Instruments : Presentation. The Modaraba has adopted this standard from the financial year beginning July 01, 2008 and its initial application has led to extensive disclosures in the Modaraba's financial statements.

IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

January 01, 2008

IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The adoption of this Interpretation will have no material impact on the Modaraba's financial statements.

**2.2.1 New accounting standards and IFRS interpretations that are not yet effective**

The following International Financial Reporting Standards and Interpretations as notified by the Securities and Exchange Commission of Pakistan are only effective for accounting periods, beginning on or after the date mentioned against each of them.

IFRS 8 - Operating Segments

January 01, 2009

IFRS 8 replaces IAS 14 and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard will have no material impact on the financial statements in the year of application.

IFRIC 15 - Agreements for the Construction of Real Estate

January 01, 2009

IFRIC 15 is applicable for accounting for revenue and associated expenses by entities undertaking the construction of real estate directly or through sub-contractors. The Interpretation clarifies situations in which the relevant contract is to be treated either as a contract for providing goods, providing services or construction contract under IAS 11. Since the Modaraba is not engaged in providing real estate services, the initial adoption of this Interpretation is unlikely to affect its financial statements.

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation

October 01, 2008

This Interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. The adoption of this standard is not expected to affect the financial statements of the Modaraba as it has no foreign investments.



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## **Standards and Interpretations**

## **Effective date (accounting periods beginning on or after)**

IFRIC 17 - Distributions of Non-cash Assets to Owners

July 01, 2009

This Interpretation deals with the situations when transfer of non-cash assets qualify for as dividends and the accounting treatment of distribution of such assets. This Interpretation is likely to affect the financial statements in case the entity decides to declare specie dividend to its certificate holders.

IFRIC 18 - Transfer of Assets from Customers

July 01, 2009

IFRIC 18 is applied in situations where the customer transfers an item of property, plant and equipment or provides cash to acquire or construct such item and the entity must then use the item either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. The Modaraba does not have any such assets and therefore, the adoption of this interpretation is unlikely to affect its financial statements.

### **2.2.2 Interpretations to existing standards that are effective and not relevant for the Modaraba's operations**

The following interpretation to existing standards has been published and is mandatory for the Modaraba's accounting year beginning on July 01, 2008 but is not relevant for the Modaraba's operations:

IFRIC 12 - Service Concession Agreements

January 01, 2008

IFRIC 13 - Customer Loyalty Programs

July 01, 2008

## **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.

## **4. SIGNIFICANT ACCOUNTING POLICIES**

### **4.1 Property and equipment**

Property and equipment is stated at cost less accumulated depreciation. Depreciation is charged to income at the rates specified in Note 5 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 asset is available for use while no depreciation is charged from the month in which an asset is disposed off.

Gains / (losses) on disposal of property and equipment 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.

#### **4.2 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 asset is acquired or capitalized, while no amortization is charged from the month in which an asset is disposed off.

#### **4.3 Stock in trade**

Stock-in-trade are stated at the lower of cost determined by first in first out method and net realizable value. The cost includes expenditure incurred in acquiring the stock items and other costs incurred in bringing them to use. Net realizable value represents the estimated selling price in the ordinary course of business less cost to be incurred to make sale. Goods in transit are stated at invoice value plus other charges paid thereon, wherever applicable.

#### **4.4 Trade debtors and other receivables**

Trade debts 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.

#### **4.5 Investments**

##### ***Regular way purchase or sale of investments***

All purchases and sales of investments are recognised using trade date accounting. Trade date is the date that the Modaraba commits to purchase or sell the investment.

##### ***Held for trading - at fair value through profit or loss***

These include investments held for trading and those that are designated at fair value through profit or loss at inception. Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. They are initially measured at fair value and changes on re-measurement are taken to profit and loss account.

##### ***Derecognition***

All investments are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and either (a) the Modaraba has transferred substantially all risks and rewards of ownership or (b) the Modaraba has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred the control of the asset.

#### **4.6 Taxation**

Provision for taxation is based on taxable income for 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 was made according to the presumptive tax rates provided in the Income Tax Ordinance, 2001. The Modaraba



followed the recommendations of the Institute of Chartered Accountants of Pakistan issued vide its Technical Release TR-30 dated May 06, 2008, wherein it has been recommended that "tax paid at import stage under Final Tax Regime should be recognized as a tax expense in the period in which the related goods are sold. Accordingly, the portion of the tax paid that pertains to the unsold inventory should be carried forward in the balance sheet as pre-paid tax". However, this policy change does not affect the tax declaration which are to be filed with the tax department according to the prevalent provisions of the Income Tax Ordinance, 2001.

#### **4.7 Cash and cash equivalent**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of balances with banks.

#### **4.8 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. Most recent valuation was carried out by a qualified actuary in accordance with IAS 19 "Employees Benefits" on June 11, 2008 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.

#### **4.9 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 whether billed to the Modaraba or not.

#### **4.10 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.

#### **4.11 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, cancelled or expired.



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

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet, if the Modaraba has a legal enforceable right to set off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### **4.13 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.

#### **4.14 Impairment**

##### **Financial Assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

##### **Non-financial Assets**

The Modaraba assesses at each balance sheet date whether there is any indication that 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 recognised 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 for other assets subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. Reversal of impairment loss is recognised as income.

#### **4.15 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 been established.



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Profit on PLS savings account is recognized on accrual basis.

#### 4.16 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Modaraba's accounting policies. Estimates and judgment are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The assumptions and estimates used for preparation of the Modaraba's financial statements are not significant.

### 5. PROPERTY AND EQUIPMENT

	2009							
	Cost			Depreciation			Carrying value as at June 30, 2009	Rate of Depreciation per annum
	As at July 01, 2008	Additions/ (disposals) during the year	As at June 30, 2009	As at July 01, 2008	For the year/ (disposals)	As at June 30, 2009		
	..... Rupees .....							
Furniture and fixtures	660,202	60,000	720,202	339,560	57,065	396,625	323,577	10%
Vehicles	10,639,720	787,168 (41,700)	11,385,188	5,531,642	1,800,920 (27,105)	7,305,457	4,079,731	20%
Office equipment and appliances	1,850,401	52,100 (77,000)	1,825,501	1,200,171	238,027 (67,237)	1,370,961	454,540	20%
Computer equipment	2,776,263	89,148 (90,147)	2,775,264	2,231,289	231,594 (77,309)	2,385,574	389,689	25%
2009	15,926,586	988,416 (208,847)	16,706,155	9,302,662	2,327,606 (171,651)	11,458,617	5,247,538	
	..... Rupees .....							
	2008							
	Cost			Depreciation			Carrying value as at June 30, 2008	Rate of Depreciation per annum
	As at July 01, 2007	Additions/ (disposals) during the year	As at June 30, 2008	As at July 01, 2007	For the year/ (disposals)	As at June 30, 2008		
		..... Rupees .....						
Furniture and fixtures	660,202	–	660,202	282,855	56,705	339,560	320,642	10%
Vehicles	10,046,759	3,877,711 (3,284,750)	10,639,720	6,236,533	2,185,340 (2,890,231)	5,531,642	5,108,078	20%
Office equipment and appliances	1,655,861	464,225 (269,685)	1,850,401	1,226,695	199,640 (226,164)	1,200,171	650,230	20%
Computer equipment	2,665,123	380,240 (269,100)	2,776,263	2,240,577	255,170 (264,458)	2,231,289	544,974	25%
2008	15,027,945	4,722,176 (3,823,535)	15,926,586	9,986,660	2,696,855 (3,380,853)	9,302,662	6,623,924	

5.1 Cost of fully depreciated assets still in use was Rs.7,422,784 (2008 : Rs.4,926,878).



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**5.2 The following assets were disposed off during the year:-**

	Cost	Accumulated depreciation	Carrying value	Sale Proceeds	Gain/(loss) on disposal	Mode of disposal	Particulars of Purchasers
	Rupees						
Vehicle	41,700	27,105	14,595	14,000	(595)	Negotiation	Mr. Furqan Ishaq Flat No. A-16, Crescent Complex, FL-19, Block-11, Gulshan-e-Iqbal, Karachi.
Office equipment & appliances	77,000	67,237	9,763	7,579	(2,184)	Negotiation	Scrap Sales
Computer equipment	90,147	77,309	12,838	13,000	162	Negotiation	Scrap Sale
2009	208,847	171,651	37,196	34,579	(2,617)		
2008	3,823,535	3,380,853	442,682	2,165,440	1,722,758		

**6. INTANGIBLE ASSETS**

	2009						
	Cost			Amortization			Carrying value as at June 30, 2009
	As at July 01, 2008	Additions during the year	As at June 30, 2009	As at July 01, 2008	For the year	As at June 30, 2009	
	Rupees						
Licensed Computer Software	1,029,200	120,966	1,150,166	906,801	52,175	958,976	191,190
2009	1,029,200	120,966	1,150,166	906,801	52,175	958,976	191,190
	2008						
	Cost			Amortization			Carrying value as at June 30, 2008
	As at July 01, 2007	Additions during the year	As at June 30, 2008	As at July 01, 2007	For the year	As at June 30, 2008	
	Rupees						
Licensed Computer Software	909,200	120,000	1,029,200	896,251	10,550	906,801	122,399
2008	909,200	120,000	1,029,200	896,251	10,550	906,801	122,399

**6.1 Cost of fully amortized intangible assets still in use was Rs.887,000 (2008 : Rs. 887,000).**





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## 12. ISSUED CERTIFICATE CAPITAL

2009 Number of Certificates	2008 Number of Certificates		2009 Rupees	2008 Rupees
<b>Issued, subscribed and paid up</b>				
<u>3,000,000</u>	<u>3,000,000</u>	Modaraba certificates of Rs. 10/- each fully paid in cash	<u>30,000,000</u>	<u>30,000,000</u>

## 13. STATUTORY RESERVE

Balance at beginning of the year	47,122,826	44,089,366
Transferred during the year	2,206,508	3,033,460
	<u>49,329,334</u>	<u>47,122,826</u>

Statutory Reserve represents profit set aside to comply with the Prudential Regulations for Modarabas issued by the SECP vide Circular No. 4 of 2004 dated January 28, 2004 and subsequent amendments made therein. These regulations require Modaraba to transfer not less than 20% and not more than 50% of its after tax profits till such time that the reserve equals 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profits is to be transferred. For the year the Modaraba transferred 10% of its after tax profits to statutory reserve.

	2009 Rupees	2008 Rupees
<b>14. REVENUE RESERVE</b>		
Balance at the beginning of the year	15,319,974	22,686,135
Profit for the year ended	22,065,084	15,167,299
Transferred to statutory reserve during the year	(2,206,508)	(3,033,460)
	<u>35,178,550</u>	<u>34,819,974</u>
Profit distribution	(12,000,000)	(19,500,000)
	<u>23,178,550</u>	<u>15,319,974</u>

As per Rule 10, Part IV of Prudential Regulations for Modarabas issued by the SECP vide Circular No. 4 of 2004 dated January 28, 2004, a Modaraba is required to distribute 90% of its net annual profits, after appropriation to reserve, amongst its certificate holders.



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Accordingly, after the balance sheet date the directors of the management company have approved the following final profit distribution out of available unappropriated profit:

	<b>2009 Rupees</b>	<b>2008 Rupees</b>
Profit @ Rs. 6.30 per Certificate (2008: Rs. 4.00 per Certificate)	<u>18,900,000</u>	<u>12,000,000</u>

**15. STAFF GRATUITY**

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 assumptions:

Discount rate	12% per annum
Expected rate of eligible salary increase	12% per annum
Average expected remaining working life time of employees	8 years

	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>Movement in defined benefit obligation</b>		
Opening balance of defined benefit obligation as at July 01	4,860,584	3,573,990
<b>Charge for the year</b>		
Current service cost	1,026,938	1,000,380
Actuarial loss	137,473	4,903
Financing cost	794,715	361,811
	1,959,126	1,367,094
Benefits paid during the year	-	(80,500)
Closing balance of defined benefit obligation as at June 30	<u>6,819,710</u>	<u>4,860,584</u>
<b>Represented by</b>		
Present value of defined benefit obligations as at June 30	7,919,491	6,622,628
Unrecognized actuarial (losses)	(1,099,781)	(1,762,044)
	<u>6,819,710</u>	<u>4,860,584</u>



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	2009 Rupees	2008 Rupees
<b>Present value of defined benefit obligation liability</b>		
Present value of defined benefit obligations as at July 01	6,622,628	4,020,126
Current service cost	1,026,938	1,000,380
Financing cost	794,715	361,811
Benefits paid during the year	–	(80,500)
Unrecognized actuarial (losses) / gain	(524,790)	1,320,811
Present value of defined benefit obligations as at June 30	<u>7,919,491</u>	<u>6,622,628</u>

**16. OBLIGATION UNDER MURABAHA FINANCES - Secured**

The Modaraba has not availed this facility at the year end (2008 : 22,319,390). Its sanctioned limit is Rs.60 million. The facility is secured against pledge of stock in trade of the Modaraba.

**17. CREDITORS, ACCRUED AND OTHER LIABILITIES**

Import bills payable	70,369,318	73,299,093
Creditors	701,343	1,441,599
Management fee payable to Modaraba Company	2,607,165	2,711,775
Accrued liabilities	524,690	439,355
Custom duty and sales tax	–	7,968,465
Unclaimed profit distribution	2,786,126	2,393,387
	<u>76,988,642</u>	<u>88,253,674</u>

**18. CONTINGENCIES AND COMMITMENTS**

**18.1 Contingencies**

Post dated cheques to Collector of Customs amounting to Rs.18,121,493/- (2008 : Rs. 19,508,715).

**18.2 Commitments**

Commitments in respect of outstanding letters of credit for trading stock amounting to Rs. 2,386,045/- (2008 : Rs.11,969,171).



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	Note	2009 Rupees	2008 Rupees
<b>19. COST OF SALES</b>			
Opening stock as at July 01		82,795,475	44,900,936
Add: Purchases	19.1	388,373,752	416,431,988
Closing stock as at June 30		(55,431,370)	(82,795,475)
		<u>415,737,857</u>	<u>378,537,449</u>

#### 19.1 Contingencies

Purchases include exchange loss amounting to Rs. 9,604,828 (2008 : 5,380,934).

		2009 Rupees	2008 Rupees
<b>20. OPERATING EXPENSES</b>			
Salaries and other staff benefits	20.1	10,634,166	9,948,715
Depreciation	5	2,327,605	2,696,855
Staff gratuity	15	1,959,126	1,367,094
Rent, rates and taxes		1,261,272	1,290,642
Vehicle running and maintenance		971,331	796,121
Freight and forwarding		965,441	689,142
Electricity		285,550	627,746
Security charges		619,509	546,075
Travelling and conveyance		793,216	496,041
Fees and subscriptions		317,770	402,189
Postage and telephone		316,091	355,760
Repairs and maintenance		287,077	328,919
Insurance		354,357	327,275
Printing and stationery		227,449	220,288
Auditors' remuneration	20.2	260,000	190,000
Entertainment		170,930	181,498
Bank charges		236,939	132,915
Legal and professional		206,608	60,000
Advertisement and publicity		24,750	24,750
Sales promotion		29,629	35,071
Packing material		144,972	25,075
Cleaning and washing		29,829	18,648
Donation	20.3	18,288	12,392
Zakat		850	-
Staff training	6	11,842	10,750
Amortization of intangible assets		52,175	10,550
		<u>22,506,772</u>	<u>20,794,511</u>



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**20.1 Remuneration of officers and employees**

	2009			2008		
	Officers	Employees	Total	Officers	Employees	Total
	Rupees					
Remuneration	3,929,826	2,870,452	6,800,278	3,744,960	2,699,073	6,444,033
Allowances	1,588,352	1,210,224	2,798,576	1,212,936	1,098,952	2,311,888
Medical expenses	287,083	211,700	498,783	155,546	589,102	744,648
Provident Fund	264,608	184,621	449,229	202,048	158,030	360,078
EOBI Contribution	21,000	50,400	71,400	19,872	54,096	73,968
SESSI Contribution	–	15,900	15,900	–	14,100	14,100
	6,090,869	4,543,297	10,634,166	5,335,362	4,613,353	9,948,715

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

	2009 Rupees	2008 Rupees
<b>20.2 Auditors' remuneration</b>		
Annual audit fee	190,000	140,000
Half yearly review fee	50,000	30,000
Fee Review of Code of Corporate Governance	10,000	10,000
CDC certification fee	10,000	10,000
	<u>260,000</u>	<u>190,000</u>

**20.3 Donation**

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

	Note	2009 Rupees	2008 Rupees
<b>21. OTHER INCOME</b>			
Dividend Income		850	146,472
Gain on sale of investments		–	347,226
(Loss)/gain on disposal of property and equipment	5.2	(2,617)	1,722,758
Return on PLS savings account		1,761,965	1,760,420
		<u>1,760,198</u>	<u>3,976,876</u>
<b>22. TAXATION</b>			
For the year		7,917,314	16,018,110
		<u>7,917,314</u>	<u>16,018,110</u>



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**Current**

In view of ICAP's Technical Release TR-30 of May 06, 2008, the proportionate tax paid at import stage attributable to closing stock is shown as advance tax at balance sheet date and shall be charged upon sale of such stock.

As per Clause (18), Part II, 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 is not provided on temporary differences as 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.

	<b>2009</b>	<b>2008</b>
<b>23. EARNINGS PER CERTIFICATE</b>		
<b>- Basic &amp; diluted</b>		
Profit for the year (Rupees)	<u>22,065,084</u>	<u>15,167,299</u>
Number of modaraba certificates	<u>3,000,000</u>	<u>3,000,000</u>
Earnings per certificate (Rupees)	<u>7.36</u>	<u>5.06</u>

**24. CAPITAL RISK MANAGEMENT**

The Modaraba's objectives, policies and processes for managing capital are as follows:

The Modaraba's objectives when managing capital are to safeguard the Modaraba's ability to continue as a going concern in order to provide returns for certificate holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Modaraba's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The debt-to-equity ratio as at June 30, was as follows:

	<b>2009</b>	<b>2008</b>
	<b>Rupees</b>	<b>Rupees</b>
Total debt	–	22,319,390
Total equity	102,507,884	92,442,800
Debt-to-equity ratio	0:1	0.24:1



## **25. FINANCIAL RISK MANAGEMENT**

The Modaraba's principal financial liabilities comprise import bills, trade and other payables and facility under murabaha finance. The main purpose of these financial liabilities and facility is to raise finance for the Modaraba's operations. The Modaraba has trade debtors and balances with banks that arrive directly from its operations. The Modaraba also holds investment which is held for trading.

The Modaraba's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow profit rate risk and price risk), credit risk and liquidity risk.

The Modaraba's senior management oversees the management of these risks.

### **25.1 Credit risk and concentration of credit risk**

Credit risk represents the accounting loss that would be recognised at the reporting date if counter party to the financial instrument fails to perform as contracted. Out of the total financial assets of Rs.109,442,153 (2008 : Rs.97,383,846), the financial assets which are subject to credit risk amounted to Rs.59,762,613 (2008 : Rs.36,461,074).

The Modaraba is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including bank account, foreign exchange transactions and other financial instruments.

#### **25.1.1 Credit risk related to receivables**

The Modaraba has adopted a policy of only dealing with creditworthy counterparties. The Modaraba's exposure and the credit ratings of its counterparties are continuously monitored. The Modaraba does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

At June 30, 2009, Modaraba had approximately 7 major customers (2008 : 7 customers) that owed the Modaraba more than Rs 1 million each and accounted for approximately 87% of all receivables. (2008 : 90%). The Modaraba does not hold collateral as security against any trade debtor.

#### **25.2 Liquidity Risk Management**

Liquidity risk reflects the Modaraba's inability in raising funds to meet commitments. Management closely monitors the Modaraba's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customer.



## **25.3 MARKET RISK MANAGEMENT**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include held-for-trading investment.

### **25.3.1 Profit Rate Risk Management**

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market profit rates.

As the Modaraba has no significant profit-bearing assets, the Modaraba's income and operating cash flows are substantially independent of changes in market profit rates.

### **25.3.2 Foreign exchange risk management**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Modaraba's exposure to the risk of changes in foreign exchange rates relates primarily to the Modaraba's operating activities. As at June 30, 2009, the total foreign currency risk exposure was Rs.70,062,175 (2008 : Rs.73,186,211) in respect of bills payable.

The Modaraba is exposed to foreign exchange risk however fluctuations of exchange rate are embedded in prices of the products.

#### **25.3.2.1 Foreign Currency Sensitivity Analysis**

At June 30, 2009, if the Rupee had weakened by 5% against the US dollar and UK pound with all other variables held constant, post-tax profit for the year would have been Rs.19,153,682 (2008 : Rs.11,800,729) lower, mainly as a result of foreign exchange losses on translation of US dollar-denominated import bills payables if it could not be passed over to customers.

### **25.3.3 Equity Price Risk Management**

The Modaraba's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. Reports on the equity portfolio are submitted to the Modaraba's senior management on a regular basis.

At the balance sheet date, the exposure to listed equity securities at fair value was Rs.796,473. A decrease of 10% on the KSE market index would have an impact of approximately Rs.41,398 on the income or equity attributable to the Modaraba, depending on whether or not the decline is significant and prolonged. An increase of 10% in the value of the listed securities would impact equity in a similar amount but will not have an effect on income unless there is an impairment charge associated with it.



## 25.4 Determination of fair values

### Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction other than in a forced or liquidation sale.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

	<b>2009</b> <b>Rupees</b>	<b>2008</b> <b>Rupees</b>
<b>26. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS</b>		
Sale of goods	522,000	582,209
Share of common expenses	271,754	462,061
Share of common software purchase	120,966	–
Payment of Modaraba Company's Management fee	2,711,775	2,930,850
Receipts of Qard-e-Hasna from Modaraba Management Company	5,000,000	5,200,000
Repayments of Qard-e-Hasna to Modaraba Management Company	5,000,000	5,200,000

### 27. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Modaraba Management Company in its meeting held on 25-09-2009 approved a final profit distribution of Rs. 6.30 per certificate, amounting to Rs. 18,900,000 for the year ended June 30, 2009.

### 28. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors of the Modaraba Management Company and authorized for issue on 25-09-2009.

### 29. GENERAL

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

**29.2** 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, 2009**

(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	:	–
11	:	51	:	100	:	835
265	:	101	:	500	:	131,065
10	:	501	:	1000	:	10,000
25	:	1001	:	5000	:	96,000
3	:	5001	:	10000	:	23,700
20	:	10001	:	above	:	2,738,400
334						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	:	331	:	2,398,000	:	79.93
Investment Companies	:	–	:	–	:	–
Insurance Companies	:	–	:	–	:	–
Joint Stock Companies	:	1	:	500	:	00.02
Financial Institutions	:	1	:	1,500	:	00.05
Modaraba Company	:	1	:	600,000	:	20.00
Others	:	–	:	–	:	–
	:	334	:	3,000,000	:	100.00



FIRST IMROOZ MODARABA

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

**ASSOCIATED COMPANIES** **SHARES HELD**

A R Management Services (Pvt) Limited  
Modaraba Management Company 600,000

**DIRECTORS, CEO THEIR  
SPOUSE & MINOR CHILDREN**

Mr. Naveed Riaz	Chief Executive	240,300
Mrs. Ismat Riaz w/o Mr. Naveed Riaz		259,000
Mr. Aameed Riaz	Director	240,200
Mrs. Roqaiya Riaz w/o Mr. Aameed Riaz		259,200
Mr. Ikramul Haque		53,400

**BANKS, DEVELOPMENT FINANCE INSTITUTIONS,  
NON-BANKING FINANCE INSTITUTIONS, INSURANCE  
COMPANIES, MODARABAS, MUTUAL FUNDS, ETC.**

First Dawood Investment Bank	1,500
N H Securities (Pvt) Limited	500

**EXECUTIVES OF THE MODARABA**

Mr. Mohammad Amjad Khalid	500
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**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 THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2009**

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37(xiv) of the Listing Regulations of Karachi Stock Exchange for the purpose 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 the 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 as taxpayers and none of them has defaulted in payment of any loan to a banking company, DFI or NBFI. 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 the employees of the Modaraba.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of Chief Executive Officer (CEO) and other executive directors have been taken by the Board.
8. The related party transactions and pricing methods have been placed before the audit committee and approved by the board of directors with necessary justification for pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions.
9. The meetings of the Board were presided over by the Chairman and held at-least once in each quarter. Written notices of the Board meetings were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
10. The directors have been provided with the copies of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Companies Ordinance, 1984, Listing Regulations, Code of Corporate Governance, Prudential Regulations, Company's



FIRST IMROOZ MODARABA

Memorandum and Article of Association and all other relevant rules and regulations and hence are conversant with the relevant laws applicable to the Modaraba, its policies and procedures and are aware of their duties and responsibilities.

11. The Board had approved the appointment of Chief Financial Officer (CFO), Company Secretary and Head of Internal in previous years. There was no new appointment during the year.
12. 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.
13. The financial statements of the Modaraba were duly endorsed by the CEO and CFO before approval of the Board.
14. The directors, CEO and Executives do not hold any interest in the Certificates of the Modaraba other than that disclosed in the pattern of Certificates holding.
15. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has already formed an Audit Committee. It comprises of three members including the chairman, of whom two are non- executive directors.
17. The meetings of the audit committee were held every quarter prior to approval of financial results of the Modaraba as required by the Code. The terms of references of the committee have already been framed and duly approved by the board and advised to the committee for compliance.
18. 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 procedure of the Modaraba and they are involved in the internal audit function on a full time basis.
19. 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 Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold Certificate of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

September 25, 2009

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.

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

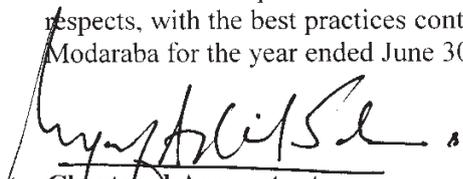
We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of A.R. Management Services (Private) Limited (the Modaraba Company) representing **FIRST IMROOZ MODARABA** [the Modaraba] to comply with the relevant 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.

The Code of Corporate Governance requires board of directors to approve related party transactions bifurcating between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price. In this connection we are only required and have ensured compliance of requirement to the extent of board of directors approving the related party transactions in the aforesaid manner. We have not carried out any procedures to enable us to express an opinion as to whether the related party transactions were carried out at arm's length price.

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, 2009.

  
Chartered Accountants

Karachi

Date: September 25, 2009

Member of  
**Deloitte Touche Tohmatsu**



FIRST IMROOZ MODARABA

## NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given to the certificate holders that tenth Annual Review Meeting of First Imrooz Modaraba will be held on Thursday the 22 October, 2009 at 11:30 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 25, 2009

Shabbir Ahmed Jamsa  
COMPANY SECRETARY

### Notes:

1. The Certificate Transfer Book of the Modaraba will remain closed from October 16, 2009 to October 22, 2009 (both days inclusive).
2. Certificate holders are requested to inform promptly of any change in their address to our Certificate Registrar, Progressive Management Services (Pvt.) Limited, 10<sup>th</sup> 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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Fax: (+92-21) 3522 2668  
e-mail: [inquiries@imrooz.com](mailto:inquiries@imrooz.com)  
Website: [www.firstimrooz.com](http://www.firstimrooz.com)