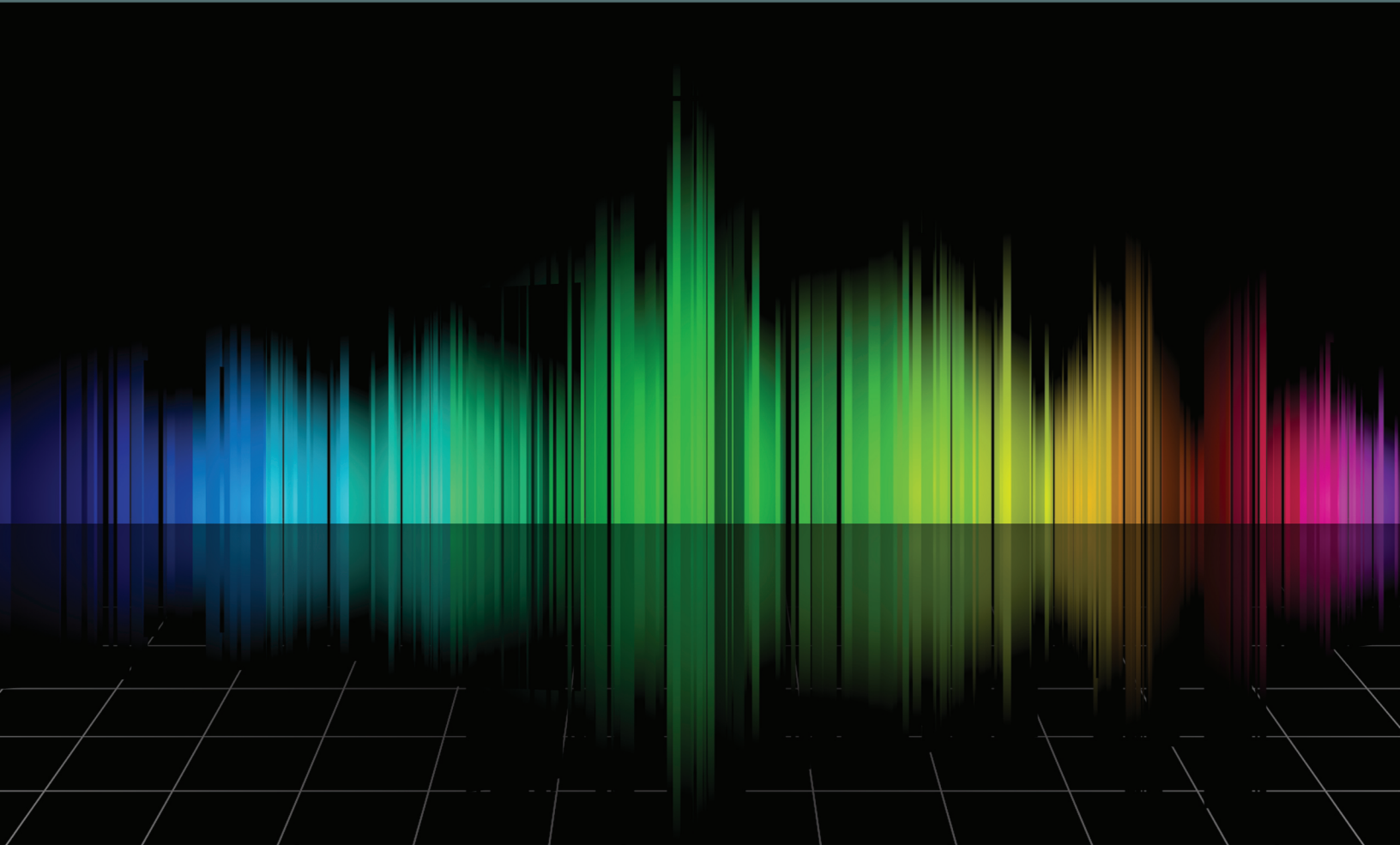




FIRST TREET MANUFACTURING MODARABA



**ANNUAL REPORT**  
**2012 - 2013**

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## Corporate Information

<b>Chief Executive Officer / Director</b>	Syed Shahid Ali
<b>Directors</b>	Syed Sheharyar Ali Muhammad Shafique Anjum Shahid Zia
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>● Muhammad Shafique Anjum - Chairman</li> <li>● Syed Shahid Ali - Member</li> <li>● Shahid Zia - Member</li> </ul>
<b>Chief Accountant – Modaraba Company</b>	Sohail Habib
<b>Chief Accountant – Modaraba</b>	Sajjad Haider Khan
<b>Company Secretary</b>	Rana Shakeel Shaukat
<b>Auditors of the Modaraba</b>	KPMG Taseer Hadi & Co. Chartered Accountants
<b>Auditors of the Modaraba Company</b>	Hyder Bhimji & Company Chartered Accountants
<b>Principal Place of Business</b>	72-B, Kot Lakhpat, Industrial Area, Lahore Ph: 042- 35830881, 35156567 Fax: 042-35114127, 35215825 E-mail: info@treetonline.com Homepage: www.packsol.com.pk
<b>Modaraba Company and Registered Office</b>	Global Econo Trade (Private) Limited 72-B, Kot Lakhpat, Industrial Area, Lahore
<b>Packaging Solutions - Plant Location</b>	Kacha Tiba Rohi Nala, 22-KM, Ferozpur Road, Lahore
<b>Paper &amp; Board Mill - Plant Location</b>	31-KM Lahore Sheikhupura Road
<b>Soap – Plant Location</b>	Ghakkar [under Toll Manufacturing Arrangement]
<b>Share Registrar</b>	Scarlet I.T. Systems (Private) Limited 24-Ferozpur Road, Lahore Phone: (042) 37087113, 37570202 Fax: (042) 37570303 E-mail: treet@scarletsystem.com
<b>Legal Advisors</b>	Saleem & Baig - Advocates
<b>Shariah Advisor</b>	Mufti Iftikhar Baig
<b>Bankers to the Modaraba</b>	<ol style="list-style-type: none"> <li>1. Allied Bank Limited</li> <li>2. BankIslami Pakistan Limited</li> <li>3. Bank Alfalah Limited</li> <li>4. Barclays Bank PLC, Pakistan</li> <li>5. Dubai Islamic Bank Pakistan Limited</li> <li>6. Faysal Bank Limited</li> <li>7. Habib Bank Limited</li> <li>8. MCB Bank Limited</li> <li>9. National Bank of Pakistan</li> <li>10. NIB Bank Limited</li> <li>11. United Bank Limited</li> </ol>

## Notice of 7th Annual Review Meeting

Notice is hereby given that 7th Annual Review Meeting of certificate holders of **First Treet Manufacturing Modaraba** will be held on Thursday October 31, 2013 at 10.00 A.M. at Principal place of business of Modaraba situated at 72-B, Kotlakhpat Industrial Area, Lahore for the year ended June 30, 2013.

The Management of the Modaraba also pleased to announced Final Cash Dividend @ 3.7% i.e. Re. 0.37 per certificate to existing Certificate Holders of the Modaraba. This is in addition to the interim dividend already paid @ 3.0% i.e. 0.30 per certificate, thus making total distribution of 6.7% i.e. Re. 0.67 per certificate.

The Certificate Transfer Books will remain closed from October 24, 2013 to October 31, 2013 (both days inclusive) for the purpose of determination of names of the certificate holders for attendance of Annual Review Meeting. The certificate holders whose names appear on the Register of Certificate Holders of **First Treet Manufacturing Modaraba** as on October 23, 2013 will be eligible to attend the Annual Review Meeting.

By order of the Board



**(Rana Shakeel Shaukat)**

Company Secretary

Global Econo Trade (Private) Limited

Managers of First Treet Manufacturing Modaraba

**LAHORE:**

October 01, 2013

### Notes:

1. In case of individuals, the account holder and/or person whose securities are in CDC sub account or investor account shall show their identity by showing original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting, CDC sub account holders/investor account holders are also requested to bring their account numbers maintained with CDC.
2. In case of corporate entity, Board of Director's resolution/power of attorney with specimen signatures of the nominee shall be produced (unless it has been provided earlier) at the time of meeting.

# Mission, Vision Statements

## MISSION STATEMENT

Our MISSION is, to satisfy and meet the needs of our customers, providing our products and services with the quality, adjusted to their needs and preferences and to create value for our stakeholders through originality and strict adherence to our principles. We being a conscientious producer, and having stood the test of time, will continue our emphasis on responding to customer need with value added products and services. It is our belief that we can fulfill this mission through a unique combination of industry vision, effective supply chain management and innovative technology.

## VISION STATEMENT

To be innovative in our field to the benefit of society, we will fairly compete in quality, technology, sales and marketing expertise, while ensuring sound financial and sustainable growth of the Treet Group for the sake of its stakeholders and reputation.

## PRINCIPLE

We will base our human resources systems on our proven principles reflective of our core values and our commitment to attract, reward, develop and motivate sophisticated people. They will reflect the global scope of our business while demonstrating responsibility and flexibility with respect to cultural diversity, and statutory and regional business realities.

## EMPHASIS

Our emphasis on continuous improvement in all aspects of our business will enable us to reward our shareholders and employees.

## SOCIAL RESPONSIBILITY

We will continually strive to be environmentally responsible and support the communities where we operate and the industries in which we participate.

## CORPORATE VALUES

- Total Customer Services
- Long-Term Business Focus
- Technology Oriented
- Quality & Reliability
- Staff Development & Teamwork
- Effective Resources & Cost Management
- Corporate Responsibility

# Statement of Ethics and Business Practices

## Guidelines to Business Conduct

### EMPLOYEES

- No one should ask any employee to break the law, or go against **Treet Group** policies and values.
- We treat all employees equally and fairly.
- We do not tolerate any form of harassment.
- Information and necessary facilities are provided to perform jobs in a safe manner.
- Employees must not use, bring, or transfer illegal drugs or weapons on **Treet Group** property.
- Employees should report suspicious people and activities.

### BUSINESS PARTNERS

- Avoid conflicts of interest and identify situations where they may occur.
- Do not accept or give gifts, favors, or entertainment if it will appear to obligate the person who receives it.
- Use and supply only safe, reliable products and services.
- Respect our competitors and do not use unfair business practices to hurt our competition.
- Do not have formal or informal discussions with our competitors on prices, markets or products, or production or inventory levels.
- Manufacture and produce products according to contract specifications.
- Market our products and services in an honest and fair manner.
- Do not compromise our values to make a profit.

### BUSINESS RESOURCES

- Do not use inside information about the **Treet Group** for personal profit. Do not give such information to others.
- Do not use **Treet Group** resources for personal gain or any non-business purpose.
- Protect confidential and proprietary information.
- Do not use **Treet Group** resources to send, receive, access or save electronic information that is sexually explicit, promotes hate, violence, gambling, illegal drugs, or the illegal purchase or use of weapons.
- Do not make false or misleading entries into the companies' books or records (within a **Treet Group**).

### COMMUNITIES

- Follow all laws, regulations and **Treet Group** policies that apply to your work.
- Do not entice or give money or anything of value to government officials to influence their decisions.
- We measure and assess our performance, and are open and clear in our environmental communications.
- When **Treet Group's** standards are higher than what is required by local law, we meet the higher standards.

# Corporate Social Responsibility

**Treet Group** believes that a responsible attitude toward society and the environment can make a business more competitive, more resilient to shocks, and more likely to attract and hold both consumers and the best employees.

**Treet Group** feels that social attitude is a significant part of its risk management and reputation strategy. In a world where brand value and reputation are increasingly seen as a **Treet Group's** most valuable assets, responsible social attitude can build the loyalty and trust that ensure a bright sustainable future.

***Fundamental to success for Treet Group (and to our vision and corporate values) are based on following premises:***

## **CUSTOMERS**

Our future existence relies on understanding and satisfying our customers' present and future needs. Our goal is to be recognized by our customers as a high quality, innovative and cost effective supplier, and the most desirable to do business with. We recognize that, as a result, the next person in the process is our customer.

## **OUR PEOPLE**

We value our family of employees as essential to the success of our Treet Group. We aim to develop a long term trusting relationship with each employee, encouraging their contributions and assisting in their personal development and education. In all dealings we will be fair and consistent.

## **PRODUCTS AND SERVICES**

We are recognized at large by our end products and services. We will endeavor to produce technologically advanced products and services that offer superior quality and value. Continued innovation and improvement are critical to our survival and growth.

## **SUPPLIERS**

We view suppliers of goods and services as an extension of our Treet Group, with whom we wish to develop long term trusting relationships. We expect our suppliers to embrace our quality improvement philosophy in their dealing with us.

## **SHAREHOLDERS**

We aim to be a Group in whom our shareholders have trust and pride. We will keep our shareholders properly informed of our Treet Group's performance and prospects. We recognize the need to provide our shareholders with an excellent return on investment, consistent with long term growth.

## **PLANNING**

All short term decisions will be consistent with long term objectives that balance the needs of our people, customers, suppliers and shareholders. Each year these objectives will be widely communicated within our Treet Group.

## **QUALITY IMPROVEMENT**

We believe in step by step continual improvement of everything that we are engaged in, including our administration, marketing, sales, design, service, distribution and manufacturing. We will encourage cross-functional communication and co-operation to aid this.

## **ENVIRONMENT**

Reflecting our commitment to a cleaner world, we aim to develop products and manufacturing processes which are as friendly to the environment as practicable.

## **SOCIETY**

We will conduct our business at all times in a fair, ethical, consistent and professional manner. We accept our responsibilities to be a responsible community neighbour, and will continue to support community affairs.

## **HEALTH, SAFETY AND ENVIRONMENT POLICY**

It is Treet Group policy to;

- Minimize its environmental impact, as much as economically and practically possible
- Save raw material, water and energy and avoid wastage (and reprocess the waste to the maximum possible extent)
- Ensure that all its present and future activities are conducted safely without endangering the health of its employees, its customers and the public
- Develop plans and procedures and provide resources to successfully implement the policy and for dealing effectively with any emergency
- Provide environmental, health and safety training to all employees and other relevant persons to enable them to carry out their duties safely without causing harm to themselves, others and to the environment
- Ensure that all its activities comply with national environmental, health and safety regulations

## **DONATIONS, CHARITIES, CONTRIBUTIONS AND OTHER PAYMENTS OF A SIMILAR NATURE;**

Companies within Treet Group are, subject to Board's approval, encouraged to provide support to local communities through donations, charities etc. to fulfill its duty towards social cause. But companies in our Treet Group will not, in any case, contribute any amount;

- (a) to any political party; or
- (b) for any political purpose to any individual or body.

Moreover, companies in **Treet Group** shall not distribute gifts in any form to its members in its meeting.



# Investment / Funding and Dividend Policies

## INVESTMENT POLICY

The Executive Committee of the Directors is responsible for seeking/evaluating and recommending either;

- Portfolio Investments (i.e. in Shares/ Securities etc. (Fresh Issues or Market Purchase) or Financial claims); or
- Investment in New Projects (either equity based or loan based); or
- Joint Ventures; or
- Investment in Intangibles (Goodwill/ Trade Marks/ Patents etc.)

Moreover, Executive Committee ensures that Proposed Investments are set out in Treet Group's vision and Strategic domain.

## FUNDING POLICY

It is Treet Group's policy not only to utilize funds efficiently but also to seek funds from the cheapest source(s).

Treet Group advertently evaluates, from time to time, different funding options for;

- Working Capital Requirements (including import/export financing)
- Medium Term Rollovers/Capital Requirements
- Long Term Project Based Requirements

These funding options may include;

- Internally Generated Funds\*
- Bank Borrowings (Short Term as well as Long Term)
- Trade & Sundry Credits
- Debt Instruments (Commercial Papers/ Bonds/ TFC etc.) issued to Institutions or Public in general
- Subordinate- Debts
- Leasing (Operating as well as Capital)
- Equity Financing etc.

\*This includes Intra-Treet Group resource sharing. Corporate strategy (by the parent company i.e. Treet Corporation Limited) will seek to develop synergies by sharing and coordinating staff and other resources across business units, investing financial resources across business units, and using business units to complement other corporate business activities.

Moreover, the above funding options may augment other ancillary financial products (i.e. derivatives like shares options etc.).

## DIVIDEND POLICY

The companies in Treet Group in general meeting may declare dividends; but no dividend shall exceed the amount recommended by the directors; and

- No dividend shall be declared or paid by a company for any financial year out of the profits of the company made from the sale or disposal of any immovable property or assets of a capital nature comprised in the undertaking or any of the undertaking of the company; and
- No dividend shall be paid by a company otherwise than out of profits of the company; and
- The Board may approve and pay to the Members such interim dividends as appears to be justified by the profits of the Company; and
- The Board may, before recommending any dividend, set aside out of the profits of the Company, such sums as they think proper as a reserve(s), which shall, at the discretion of the Board, be applicable for meeting contingencies etc.; and
- Company's dividend decision will be auxiliary to Company's Financing Policy

## DIVIDEND POLICY FOR FIRST TREET MANUFACTURING MODARABA

Not less than 90% of the net income in respect of the Modaraba's business [non-trading] activities, determined after setting aside the mandatory reserves as per Prudential Regulations for Modaraba, is to be distributed at least once in every year to the certificate holders in proportion to the number of certificates held by them. Distribution will be in the form of cash dividend. No dividend shall be paid otherwise than out of the profits of the Modaraba for the year or any other distributed profits.

## Directors' Report

Board of Directors of Global Econo Trade (Private) Limited (GET), the Modaraba Company of First Treet Manufacturing Modaraba (FTMM), is pleased to present the Directors' Report on the 7th annual accounts of FTMM for the year ended June 30, 2013. These accounts have been audited by statutory auditors of the Modaraba and are accompanied by their audit report.

### ECONOMIC OUTLOOK

Year 2012-2013 yet remained another year when the country struggled to manage its fiscal and external deficits. Sharp increase in fiscal borrowings and declining trend in both domestic and foreign investment are a manifestation of structural issues faced by the economy. Structural issues like electricity and gas shortage are still hindering the capacity utilization of the manufacturing sector, which also affects the industrial output and the overall credit demand.

### FINANCIAL RESULTS

	Rs. in 000'	2012-2013	2011-2012	% Change
Sales (net)		2,180,217	2,259,353	-3.50%
Net Profit		128,522	188,177	-31.70%
Earnings per Certificate		0.99	2.35	-57.87%
Transfer to Statutory Reserve 25% (2012: 50%)		32,131	94,088	-65.85%
Book Value per Certificate		11.65	11.62	0.26%

### SEGMENT-WISE ANALYSIS

Rs. in 000'	Corrugated Packaging		Paper & Board		Soap	
	2012-2013	2011-2012	2012-2013	2011-2012	2012-2013	2011-2012
Gross Sales	1,523,859	1,431,549	168,692	266,624	861,673	951,385
Inter-Segment Sales	65,371	64,547	356,784	316,789	-	-
Less: Sales Tax & Excise & Discounts	(207,734)	(192,925)	(22,963)	(35,322)	(143,310)	(161,958)
Total Sales	1,381,496	1,303,171	502,513	548,091	718,363	789,427
Gross Profit	149,975	143,532	13,362	13,890	78,755	122,233
Gross Profit %	10.86%	11.01%	2.66%	2.53%	10.96%	15.48%
Operating Profit	54,753	56,671	10,029	9,692	43,816	119,543

### CORRUGATED PACKAGING

Gross margins are improved through increased quantitative volumes coupled with price rationalization and change in product mix. But operating margins are slightly decreased due to increased transportation and warehousing costs.

Increase in tariff rates and power outages [and burden is felt in the shape of expensive in-house generation] and inflationary impact on salaries & wages [outsourced services], transportation costs were negative factors on net profitability during the year.

Efforts are being made to broaden the customer base through market diversification, particularly this stratagem is apparent to avoid bad debts in the ailing industries.

#### PAPER & BOARD

Paper & Board Mill has shown negative volume growth during the year due to unavailability of power. Most of the supplies are fed to the Corrugation Division.

Fuel cost [that is the major component in the total cost] is the major area of concern. Power outages and non-availability of Gas are adding difficulties to this sector.

#### SOAPS

Soaps sales showed decline due to clearance of stock at distribution level. However, new brands are introduced and volumes are restored. Moreover, fuel cost is economized through biomass energy sources and use of noodles instead of tallow in soap making.

Sales & Marketing of Soap is now being directly handled by your Modaraba due to the changed circumstances.

#### DIVIDEND

The Board is pleased to announce final cash dividend @ 3.7% i.e. Re. 0.37 per Certificate of Rs. 10/- each. This is in addition to interim dividend already paid @ 3.0% i.e. Re. 0.30 per Certificate of Rs. 10/- each, thus making total distribution of 6.7% i.e. Re. 0.67 per Certificate of Rs. 10/- each.

#### APPROPRIATIONS

	Rs. in '000
Profit for the Year	128,522
Un-appropriated profit brought forward	30,886
Available for Appropriation	159,408
Transferred to Statutory Reserves – 25% of the profit for the year	32,131
Final dividend paid @ 6.5% for the year ended June 30, 2012	84,760
Interim Dividend @ Rs. 0.30 per certificate (i.e. 3.00%)	39,120
Un-appropriated profit carried forward	3,397
Final Dividend for the year ended June 30, 2013 @ Rs. 0.37 per certificate (i.e. 3.7%)	48,248
Total profit distribution for the year ended June 30, 2013 – 90.64% of the [profit less reserves]	87,368

#### FUTURE OUTLOOK

The impact of upward adjustments in electricity prices, already announced for industrial and commercial consumers and expected for household consumers, on inflation outlook cannot be under-estimated. In addition to having a considerable direct effect on CPI inflation, there is a high likelihood of substantial indirect effects as well. Similarly, increase in the GST together with removal of certain exemptions could put further pressure on inflation in the coming months of FY14. Finally, the pace and scale of fiscal borrowings from the banking system is worrisome. There is a risk that inflation may catch up with high growth in fiscal driven monetary expansion.

Persistent shortages of electricity and gas are the main reasons for low demand of credit by the private sector. These shortages are adding to the cost of production, making business planning quite difficult and forcing the productive sectors to operate below capacity. As a result, businesses prefer to avoid significant commitments in terms of expansion and long term fixed investments despite of moderate KIBOR rates.

*The management of your Modaraba is well aware of the posed challenges and is deploying most feasible marketing mix at trade and retail levels and is taking all possible measures to meet these challenges. Moreover, your Modaraba is continually reviewing its business strategy to cope with the threats and has been incessantly endeavoring not only to tap alternative inexpensive sources of raw material/inputs but also trying to optimize the throughput.*

***A comprehensive growth strategy is being evolved, to increase productivity, efficiency, and competitiveness of the Modaraba, and to ensure high growth rates that are both sustainable as well as more profitable.***

#### **CORRUGATED PACKAGING**

Recent budgetary changes and non-budgetary administrative measures spawned the inflationary pressure on input side. Pass through impact in the short run is limited but in the long run, your Modaraba will be able to increase the prices and will maintain its margins.

#### **PAPER & BOARD**

Consistent power outages and skyrocketing prices of bio-mass (for fuel) are the real challenges to this sector. As already indicated above, if fuel charges are adjusted upward (as already announced by the Government) would further add difficulties to this Sectors (since it is power intensive), but your Modaraba is considering alternate sources of fuels and may revamp the whole operation in the coming months.

#### **SOAP**

Link of Tallow Prices is broken with the Palm Oil Prices. Palm oil prices are expected to calm down further but tallow prices are quite sticky. Efforts are being made to move towards palm oil (i.e. vegetarian soap). This will help to reduce material cost considerably.

#### **CORPORATE AND FINANCIAL REPORTING FRAMEWORK**

In compliance with the Code, the Board of Directors of Modaraba Company states that:

- The financial statements, prepared by the management of Modaraba, fairly present 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 are consistently applied by your Modaraba in the preparation of financial statements, and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of these financial statements and any departure there from, if any, has been adequately disclosed.
- The system of Internal Control, being implemented in your Modaraba is sound and has been effectively persisted throughout the year.
- Keeping in view the financial position of your Modaraba, we do not have any significant doubt upon its continuance as a going concern.
- There also hasn't been any material departure from the best practices of corporate governance, as detailed in the listing regulations, during the year under review.

**MEETINGS OF THE BOARD OF DIRECTORS**

During the year the Board of Directors of Modaraba Company has met 05 times and the attendance at each of these meetings is as follows:-

	No. of Meetings attended
<ul style="list-style-type: none"> <li>• Syed Shahid Ali</li> <li>• Muhammad Shafique Anjum</li> <li>• Shahid Zia</li> <li>• Syed Sheharyar Ali</li> </ul>	04 05 05 05

**AUDIT COMMITTEE**

In compliance with the Code, the Board of Directors of your Modaraba Company has established an Audit Committee. Currently Audit Committee has following members;

1. Muhammad Shafique Anjum	Chairman
2. Syed Shahid Ali	Member
3. Shahid Zia	Member

**INTERNAL AUDIT**

In compliance with the Code, the Board of Directors of your Modaraba Company has also established an Internal Audit Function to monitor and review the adequacy and implementation of Internal Control at each level of your Modaraba.

**AUDITORS**

The Audit Committee of your Modaraba Company has recommended that, the present auditors, Messers KPMG Taseer Hadi & Co., Chartered Accountants due to retire and being eligible, are offering themselves for reappointment, may be appointed as auditors of your Modaraba Company for another term. Subject to approval by the Registrar of Modaraba Companies and Modarabas, their appointment has been confirmed by the Board.

**SHARI'AH ADVISOR**

Mufti Muhammad Iftikhar Baig is the Shari'ah advisor to the Modaraba. Annual Shari'ah Advisor's Report is attached with this report.

**PATTERN OF CERTIFICATE-HOLDING**

The pattern of certificate-holding of your Modaraba as on June 30, 2013 is annexed with this report. This statement is in accordance with the amendments made through the Code.

## HR & ADMINISTRATION

Complete HR Function is outsourced to associated company TCL Labor-Hire Company (Private) Limited which is labor hire company specialized in providing workforce to host companies under service agreement and taking all responsibilities of the workforce.

## ACKNOWLEDGEMENT

The Board would like to take this opportunity to express gratitude and thanks to our valuable customers for their patronage and support, the Securities and Exchange Commission of Pakistan, the Lahore Stock Exchange (Guarantee) Limited and Modaraba Association of Pakistan for their continuous support and guidance.

Special thanks to our certificate holders for the trust and confidence reposed in us.

For and on behalf of the Board



**Syed Shahid Ali**  
Chief Executive Officer

**LAHORE:**  
October 01, 2013

## Statement of Compliance With the Code of Corporate Governance for the Year Ended June 30, 2013

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in regulation No.35 of listing regulations of the Lahore Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed Modaraba is managed in compliance with the best practices of corporate governance.

The Modaraba Management Company (hereafter referred to as the Company) has applied the principles contained in the Code in the following manner:

- At present the Board comprises of four Directors of which three are Non-Executive and only the Chief Executive Officer (CEO) is an Executive Director. None of the director is an independent director. The Board includes:

Name of the Director	Status
Syed Shahid Ali	Executive Director
Syed Sheharyar Ali	Non-Executive Director
Muhammad Shafique Anjum	Non-Executive Director
Shahid Zia	Non-Executive Director

- The directors have confirmed that none of them is serving as a director in more than seven listed companies, including this Company.
- All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- No casual vacancy occurred during the year.
- The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
- 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.
- All the powers of the Board have been duly exercised and decisions on material transactions have been taken on the Board. The terms of appointment and remuneration package of the CEO and Directors are not approved by the Board as these are the nominees of Treet Corporation Limited (Holding Company of the Company).
- The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.
- The board arranged no training program for its directors during the year as three out of four directors are having more than 15 years experience of listed companies.
- The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment. No appointment of CFO, Company Secretary and Head of Internal Audit has been made during the year.

11. The Directors' report for this year has been prepared in compliance with the requirements of the Code of Corporate Governance and fully describes the salient matters required to be disclosed.
12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and Executives do not hold any interest in the certificates 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 of Corporate Governance.
15. The Board has formed an audit committee. It comprises of three members, of whom two are Non-Executive Directors and Chairman of the committee is a Non-Executive Director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the Code of Corporate Governance. The terms of reference of the committee have been formulated and advised to the committee for compliance.
17. The Board has set up an effective internal audit function which is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Modaraba.
18. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold certificates 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.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Modaraba's securities, was determined and intimated to directors, employees and relevant stock exchange.
21. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.
22. We confirm that all other material principles enshrined in the Code of Corporate Governance have been complied with except for the following:
  - ◆ The number of directors of the Company is four and there is no independent director on the Board. Appointment of independent director as well as separation of offices of Chairman and CEO will be done at the time of next election of the Board of Directors that is due in 2014. Moreover, re-composition of the Audit committee will also be done accordingly.
  - ◆ The Board of Directors have not formed a Human Resource and Remuneration (HR&R) Committee as required under the revised Code of Corporate Governance due to fact that complete HR function is outsourced to the associated company TCL Labor-Hire Company (Private) Limited, which is labor hire company specialized in providing workforce to host companies under service agreement and taking all responsibilities of the workforce.

**For and Behalf of the Board of Directors**



**Syed Shahid Ali**  
Chief Executive Officer

**LAHORE:**  
October 01, 2013



## 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 for the year ended June 30, 2013 prepared by the Board of Directors of **Global Econo Trade (Private) Limited ("the Modaraba Management Company")** in respect of **First Treet Manufacturing Modaraba (the Modaraba)** to comply with the Listing Regulations 35 of the Lahore 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 Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, sub regulation (x) of Listing Regulation No. 35 notified by the Lahore Stock Exchange (Guarantee) Limited requires the Modaraba to place before the Board of Directors for their consideration and approval related party transactions distinguishing 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 recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price or not.

We report that as per the requirements of the Companies Ordinance 1984, every listed company shall have not less than seven directors to be elected in general meeting. At present, Modaraba Management Company has only four directors.

Based on our review, except for the matter as described above, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 June 2013.

LAHORE:  
October 01, 2013

**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**  
**(Farid Uddin Ahmed)**

## Annual Shari'ah Advisor's Report

I have conducted the Shari'ah review of **First Treet Manufacturing Modaraba** managed by **Global Econo Trade (Private) Limited** for the financial year ended **June 30, 2013** in accordance with the requirements of the **Shari'ah Compliance and Shari'ah Audit Mechanism for Modarabas** and report that except the Pre-transaction approvals should be obtained from Shari'ah Advisor before booking any investment transaction and record of receipt of donation should also be maintained, in my opinion:

- i. the Modaraba has introduced a mechanism which has strengthened the Shari'ah compliance, in letter and spirit and the systems, procedures and policies adopted by the Modaraba are in line with the Shari'ah principles;
- ii. no major developments took place in the following during the year:
  - a) Research and new product development
  - b) Training and Development (No training is conducted by the Shari'ah Advisor of the Modaraba management and staff)
- iii. the agreement(s) entered into by the Modaraba are Shari'ah compliant and the financing agreement(s) have been executed on the formats as approved by the Religious Board and all the related conditions have been met;
- iv. to the best of my information and according to the explanations given to me, the business transactions undertaken by the Modaraba and all other matters incidental thereto are in conformity with the Shari'ah requirements as well as the requirements of the Prospectus, Islamic Financial Accounting Standards as applicable in Pakistan and the Shari'ah Compliance and Shari'ah Audit Regulations for Modarabas.
- v. profit sharing ratios, profits and charging of losses relating to any deposit raising products etc. are not applicable to this Modaraba.
- vi. the earnings that have been realized from the sources or by means prohibited by Shari'ah have been credited to charity accounts.

### Recommendation:

- Pre-transaction approvals must be obtained from Shari'ah Advisor before booking any investment transaction.
- Record of receipt of donation must also be maintained.



**Mufti Muhammad Iftikhar Baig**  
Shari'ah Advisor  
First Treet Manufacturing Modaraba

Dated: September 17, 2013

## Auditors' Report to the Certificate-Holders

We have audited the annexed balance sheet of **First Treet Manufacturing Modaraba ("the Modaraba")** as at 30 June 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the Modaraba Company's [Global Econo Trade (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 above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the 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 the Modaraba as required by 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;
  - ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba.
- 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, statement of comprehensive income, 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 30 June 2013 and of the profit, total comprehensive income, 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 and deposited in the central Zakat fund established under section 7 of that Ordinance.

LAHORE:  
October 01, 2013

**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**  
**(Farid Uddin Ahmed)**

# Balance Sheet

as at June 30, 2013

	Note	2013 (Rupees in thousand)	2012
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	445,653	322,813
Long term loans and advances	5	13,837	17,117
Long term deposits	6	13,354	11,884
		472,844	351,814
<b>Current assets</b>			
Stores and spares	7	64,886	74,322
Stock-in-trade	8	365,626	433,749
Trade debtors	9	320,159	247,645
Advances, deposits, prepayments and other receivables	10	98,138	127,528
Tax refunds due from the Government	11	82,531	62,934
Cash and bank balances	12	240,288	367,208
		1,171,628	1,313,386
<b>Total assets</b>		<b>1,644,472</b>	<b>1,665,200</b>
<b>Equity and liabilities</b>			
<b>Certificate capital and reserves</b>			
Authorized certificate capital 150,000,000 (2012: 150,000,000) Modaraba certificates of Rs. 10 each		1,500,000	1,500,000
Issued, subscribed and paid-up certificate capital	13	1,304,000	800,000
Certificate deposit money		-	504,000
Statutory reserve	14	212,091	179,960
Accumulated profit		3,397	30,886
Certificate holders' equity		1,519,488	1,514,846
<b>Non-current liabilities</b>			
Retention money	15	1,510	-
<b>Current liabilities</b>			
Trade and other payables	16	123,474	150,354
<b>Contingencies and commitments</b>			
	17		
<b>Total equity and liabilities</b>		<b>1,644,472</b>	<b>1,665,200</b>

The annexed notes 1 to 31 form an integral part of these financial statements.

LAHORE:  
October 01, 2013



Syed Shahid Ali  
Chief Executive Officer



Muhammad Shafique Anjum  
Director

# Profit and Loss Account

for the year ended June 30, 2013

	Note	2013 (Rupees in thousand)	2012
Sales - net	18	2,180,217	2,259,353
Cost of goods sold	19	(1,938,125)	(1,979,698)
<b>Gross profit</b>		242,092	279,655
Administration expenses	20	(16,869)	(12,820)
Distribution cost	21	(116,625)	(80,929)
		(133,494)	(93,749)
<b>Operating profit</b>		108,598	185,906
Finance cost	22	(2,608)	(2,978)
Other income	23	22,532	5,249
<b>Profit before taxation</b>		128,522	188,177
Taxation	24	-	-
<b>Profit after tax</b>		128,522	188,177
<b>Earning per modaraba certificate</b>			Restated
- basic and diluted (Rupees)		0.99	2.35

The annexed notes 1 to 31 form an integral part of these financial statements.

LAHORE:  
October 01, 2013



Syed Shahid Ali  
Chief Executive Officer



Muhammad Shafique Anjum  
Director

# Statement of Comprehensive Income

for the year ended June 30, 2013

	2013 (Rupees in thousand)	2012
<b>Profit after tax</b>	128,522	188,177
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	128,522	188,177

The annexed notes 1 to 31 form an integral part of these financial statements.

LAHORE:  
 October 01, 2013



**Syed Shahid Ali**  
 Chief Executive Officer



**Muhammad Shafique Anjum**  
 Director

# Cash Flow Statement

for the year ended June 30, 2013

	2013	2012
	(Rupees in thousand)	
<b>Cash flow from operating activities</b>		
Profit before taxation	128,522	188,177
Adjustment for non-cash and other items:		
Depreciation	28,969	28,446
Provision for doubtful debts	7,398	16,738
Provision for doubtful advances	-	2,000
Finance cost	2,608	2,978
	38,975	50,162
<b>Operating profit before working capital changes</b>	167,497	238,339
(Decrease) / Increase in current assets:		
Stores and spares	9,436	(17,167)
Stock-in-trade	68,123	(47,080)
Trade debts	(79,912)	(1,722)
Advances, deposits, prepayments and other receivables	29,390	110,566
	27,037	44,597
(Decrease) / Increase in current liabilities:		
Trade and other payables	(26,880)	57,013
<b>Cash generated from operations</b>	167,654	339,949
Finance cost paid	(2,608)	(2,978)
Taxes (paid) / refund	(19,597)	7,317
<b>Net cash generated from operating activities</b>	145,449	344,288
<b>Cash flow from investing activities</b>		
Fixed capital expenditure	(151,809)	(9,702)
Long term loans and advances	3,280	-
Long term deposits	(1,470)	(17,509)
Retention money	1,510	-
<b>Net cash used in investing activities</b>	(148,489)	(27,211)
<b>Cash flow from financing activities</b>		
Profit distributed	(123,880)	(55,520)
Certificate deposit money received	-	504,000
Due to Modaraba Company	-	(457,111)
<b>Net cash used in financing activities</b>	(123,880)	(8,631)
<b>Net (decrease) / increase in cash and cash equivalents</b>	(126,920)	308,446
<b>Cash and cash equivalents at beginning of the year</b>	367,208	58,762
<b>Cash and cash equivalents at end of the year</b>	240,288	367,208

The annexed notes 1 to 31 form an integral part of these financial statements.

LAHORE:  
October 01, 2013



Syed Shahid Ali  
Chief Executive Officer



Muhammad Shafique Anjum  
Director

# Statement of Changes in Equity

for the year ended June 30, 2013

	Certificate deposit money	Certificate capital	Statutory reserve	Accumulated (loss) / profit	Total
(Rupees in thousand)					
Balance as at 01 July 2011	-	800,000	85,872	(7,683)	878,189
Profit distribution @ 6.94% for the year ended 30 June 2011	-	-	-	(55,520)	(55,520)
Certificate capital subscription	504,000	-	-	-	504,000
Total comprehensive income for the year	-	-	-	188,177	188,177
Transfer to statutory reserve @ 50%	-	-	94,088	(94,088)	-
<b>Balance as at 30 June 2012</b>	<b>504,000</b>	<b>800,000</b>	<b>179,960</b>	<b>30,886</b>	<b>1,514,846</b>
Profit distribution @ 6.5% for the year ended 30 June 2012	-	-	-	(84,760)	(84,760)
Interim profit distribution @ 3%	-	-	-	(39,120)	(39,120)
Certificate capital issued	(504,000)	504,000	-	-	-
Total comprehensive income for the year	-	-	-	128,522	128,522
Transfer to statutory reserve @ 25%	-	-	32,131	(32,131)	-
<b>Balance as at 30 June 2013</b>	<b>-</b>	<b>1,304,000</b>	<b>212,091</b>	<b>3,397</b>	<b>1,519,488</b>

The annexed notes 1 to 31 form an integral part of these financial statements.

LAHORE:  
October 01, 2013



**Syed Shahid Ali**  
Chief Executive Officer



**Muhammad Shafique Anjum**  
Director



# Notes to the Financial Statements

for the year ended June 30, 2013

## 1. LEGAL STATUS AND NATURE OF BUSINESS

First Treet Manufacturing Modaraba (“the Modaraba”) is a multipurpose, perpetual and multi dimensional Modaraba formed on 27 July 2005 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and rules framed there-under and is managed by Global Econo Trade (Private) Limited (a wholly owned subsidiary of Treet Corporation Limited), incorporated in Pakistan under the Companies Ordinance, 1984 and registered with the Registrar of Modaraba Companies. The registered office of the Modaraba is situated at 72 - B, Kot Lakhpat, Industrial Area, Lahore. The Modaraba is listed on the Lahore Stock Exchange (Guarantee) Limited. The Modaraba is engaged in the manufacture and sale of Corrugated Boxes, Paper and Soap.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Ordinance, 1984, provisions of and directives issued under Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981, and Companies Ordinance, 1984. In case requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984, Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Modaraba Companies and Modaraba Rules, 1981 shall prevail.

### 2.2 Basis of measurement

These financial statements have been prepared on the historical cost basis. In these financial statements, except for the cash flow statement, all the transactions have been accounted for on accrual basis.

### 2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupee (PKR) which is the Modaraba’s functional currency. All financial information presented in PKR has been rounded off to the nearest thousand, unless otherwise stated.

### 2.4 Significant accounting estimates

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amount of assets and liabilities and income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revision to accounting estimates are recognized prospectively commencing from the period of revision.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to the Modaraba's financial statements or where judgments were exercised in application of accounting policies are as follows:

	Note
- Residual values and useful lives of property, plant and equipment	3.2
- Provision for doubtful debts	3.5
- Provisions and contingencies	3.12

## 2.5 Standards, Interpretations and Amendments not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2013:

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on financial statements of the Modaraba.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Modaraba.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Modaraba.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.

Annual Improvements 2009–2011 (effective for annual periods beginning on or after 1 January 2013). The new cycle of improvements contains amendments to the following standards, with consequential amendments to other standards and interpretations:

- IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the ‘third statement of financial position’, when required, is only required if the effect of restatement is material to statement of financial position. The amendments have no impact on financial statements of the Modaraba.
- IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of ‘property, plant and equipment’ in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories. The amendments have no impact on financial statements of the Modaraba.
- IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.
- IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.
- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Modaraba.

- IFRIC 21- Levies ‘an Interpretation on the accounting for levies imposed by governments’ (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.
- IAS 39 Financial Instruments: Recognition and Measurement- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective for annual periods beginning on or after 1 January 2014). The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).
- Amendment to IAS 36 “Impairment of Assets” Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

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

#### **3.1 Taxation**

##### **3.1.1 Current tax**

Under the current tax law, the income of a Modaraba is exempt from income tax provided it distributes at least 90% of its profits as cash dividend to the certificate holders out of current year’s total profit after appropriating statutory reserves under section 37 of the Modaraba Companies and Modaraba (floatation and control) Ordinance, 1980.

Where such profit is not distributed, provision for tax is made on taxable income at the current tax rates applicable to Modaraba after taking into account the available tax exemptions and tax credits, if any.

##### **3.1.2 Deferred tax**

The Modaraba accounts for deferred taxation on all material temporary differences using the liability method. However, deferred tax liability has not been recognized in these financial statements as the management believes that the future income of Modaraba will not be taxable in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption through profit distribution of at least ninety percent of distributable profits.

### 3.2 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any except for freehold land and capital work-in-progress, which are stated at cost less impairment loss, if any. Cost in relation to property, plant and equipment comprises acquisition and other directly attributable costs. The cost of self constructed assets includes the cost of materials, direct labor and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Depreciation is provided on straight-line method at rates specified in note 4 to the financial statements so as to write off the cost of property, plant and equipment over their estimated useful life. Depreciation on additions to property, plant and equipment is charged from the day that an asset is available for use till the day the asset is retired from active use or the asset is disposed off.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Modaraba and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss account as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within 'other income' in profit or loss account.

Capital work-in-progress is stated at cost less accumulated impairment losses, if any, and is transferred to the respective item of property, plant and equipment when available for intended use.

Impairment tests for property, plant and equipment are performed annually or whenever there is an indication of impairment.

### 3.3 Stores and spares

Stores, spare parts and loose tools are valued at the lower of cost and net realizable value less allowance for slow moving and obsolete items except for items in transit, which are valued at invoice price and related expenses incurred up to the balance sheet date. Cost is determined on the moving average basis and comprises cost of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale.

### 3.4 Stock-in-trade

Stock of raw materials, packing materials, work-in-process and finished goods is valued at lower of moving average cost and net realizable value except for stock in transit which is valued at invoice price and related expenses. Cost in relation to work-in-process and finished goods includes prime cost and appropriate proportion of production overheads. Net realizable value signifies the estimated selling price in the ordinary course of business less estimated costs to complete and to make the sale.

### **3.5 Trade and other receivables**

These are carried at amounts recognized at the time of transaction less an estimate of doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified, while debts considered doubtful of recovery, if any, are fully provided for in these financial statements.

### **3.6 Foreign currency translation**

Transactions denominated in foreign currencies are translated to Pakistani Rupees, at the foreign exchange rate prevailing at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees at the foreign exchange rates at the balance sheet date. Foreign exchange gains and losses are taken to the profit and loss account.

### **3.7 Revenue recognition**

- i) Revenue represents the fair value of the consideration received or receivable for goods sold, net of discounts and sales tax. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Modaraba and the amount of revenue, and the associated cost incurred, or to be incurred, can be measured reliably.

Revenue from sale of goods is recognized when the significant risk and rewards of ownership of the goods are transferred to the buyer i.e. on the dispatch of goods to the customers in case of local sale and at the time of preparation of bill of lading in case of export sale.

- ii) Return on bank deposits, investments and interest on loans is accounted for on a time proportion basis using the applicable rate of return/interest.
- iii) Other revenues are recorded on accrual basis.

### **3.8 Borrowing costs**

Borrowing costs are interest or other costs incurred by the Modaraba in connection with the borrowing of funds. Borrowing cost that is directly attributable to qualifying assets is capitalized as part of cost of that assets until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to profit and loss account whenever incurred.

### 3.9 Financial instruments

#### **Recognition and measurement**

The financial assets and liabilities are recognized at cost when the Modaraba becomes a party to the contractual provisions 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. Financial instruments includes trade debts, advances, deposits, cash and bank balances, trade and other payables, demand finance and due to Modaraba Company. Any gain or loss on subsequent re-measurement to fair value of financial assets and financial liabilities is taken to profit and loss account on occurrence.

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

A financial asset and liability is offset against each other and the net amount is reported in the balance sheet if the Modaraba has legally enforceable right to set off the recognized amount and intends either to settle on net basis or realize the asset and settle the liability simultaneously.

### 3.10 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, current and deposit account balances with banks and outstanding balance of running finance facilities availed by the Modaraba, if any.

### 3.11 Trade and other payables

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

### 3.12 Provisions and contingencies

Provisions are recognized when the Modaraba has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate. Where outflow of resources embodying economic benefits is not probable, a contingent liability is disclosed, unless the possibility of outflow is remote.

### 3.13 Impairment

The carrying amounts of the Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of such assets is estimated and impairment loss is recognized in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the initial cost of the asset. A reversal of the impairment loss is recognized as income in the profit and loss account.

### 3.14 Segment reporting

Segment reporting is based on the operating (business) segments of the Modaraba. An operating segment is a component of the Modaraba that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Modaraba's other components. An operating segment's operating results are reviewed regularly by the CEO (Chief Executive Officer) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

The business segments are engaged in providing products which are subject to risks and rewards which differ from the risks and rewards of other segments. Segments reported are Packaging Solutions, Paper and Board Mill and Soap, which also reflects the management structure of the Modaraba.

### 3.15 Profit distribution

Profit distribution is recognized in the period in which it is legally declared and distributed.

	Note	2013 (Rupees in thousand)	2012
<b>4. PROPERTY, PLANT AND EQUIPMENT</b>			
Operating fixed assets	4.1	444,996	283,070
Capital work-in-progress		657	39,743
		445,653	322,813



## 4.1 Operating fixed assets

2 0 1 3

PARTICULARS	C O S T			RATE %	ACCUMULATED DEPRECIATION			Net book value as at June 30, 2013
	As at July 01, 2012	Additions / Transfers	As at June 30, 2013		As at July 01, 2012	For the year	As at June 30, 2013	
(Rupees in thousand)								
<b><i>Owned</i></b>								
Land - freehold	43,000	68,577	111,577	-	-	-	-	111,577
Buildings and civil works on freehold land	108,255	41,917	150,172	5	21,237	5,413	26,650	123,522
Buildings and civil works on leasehold land	4,791	-	4,791	10	480	479	959	3,832
Plant and machinery	224,940	80,159	305,099	10	77,430	22,795	100,225	204,874
Furniture and equipment	999	60	1,059	10	97	104	201	858
Computer equipment	669	182	851	25	340	178	518	333
	382,654	190,895	573,549		99,584	28,969	128,553	444,996

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PARTICULARS	C O S T			RATE %	ACCUMULATED DEPRECIATION			Net book value as at June 30, 2012
	As at July 01, 2011	Additions / Transfers	As at June 30, 2012		As at July 01, 2011	For the year	As at June 30, 2012	
(Rupees in thousand)								
<b><i>Owned</i></b>								
Land - freehold	43,000	-	43,000	-	-	-	-	43,000
Buildings and civil works on freehold land	108,255	-	108,255	5	15,809	5,428	21,237	87,018
Buildings and civil works on leasehold land	4,791	-	4,791	10	-	480	480	4,311
Plant and machinery	221,977	2,963	224,940	10	55,084	22,346	77,430	147,510
Furniture and equipment	430	569	999	10	48	49	97	902
Computer equipment	560	109	669	25	197	143	340	329
	379,013	3,641	382,654		71,138	28,446	99,584	283,070

## 4.2 The depreciation charge for the year has been allocated to cost of sales as under:

	Note	2013 (Rupees in thousand)	2012
Packaging Solutions - Corrugated boxes	19.1	13,349	12,953
Paper and Board Mill - Paper	19.1	12,932	12,815
Soap	19.1	2,688	2,678
		28,969	28,446

	Note	2013 (Rupees in thousand)	2012
<b>5. LONG TERM LOANS AND ADVANCES</b>			
Long term prepayment	5.1	17,003	20,169
Less: Current maturity	10	(3,166)	(3,052)
		13,837	17,117

**5.1** This represents advance given to Khatoon Industries (Private) Limited ("KIL") for equipment installation services amounting to Rs. 15.06 million (2012: Rs. 17.21 million) and civil works amounting to Rs. 1.95 million (2012: Rs. 2.96 million) carried out on rice husk boiler. Advance against equipment installation services and civil works will be adjusted against rent payable to KIL in lieu of use of soap manufacturing facility in 97 and 36 equal monthly installments respectively.

	Note	2013 (Rupees in thousand)	2012
<b>6. LONG TERM DEPOSITS</b>			
Utility deposits		11,090	11,090
Others		2,264	794
		13,354	11,884

<b>7. STORES AND SPARES</b>			
Stores		35,142	45,374
Spares	7.1	29,744	28,948
		64,886	74,322

**7.1** This includes spares in transit amounting to Rs. 3.85 million (2012: Rs. 3.44 million).

**7.2** Stores and spares includes items which may result in fixed capital expenditure but are not distinguishable.

	Note	2013 (Rupees in thousand)	2012
<b>8. STOCK-IN-TRADE</b>			
Raw material and chemicals	8.1	235,009	330,582
Packing material		19,556	23,037
Work-in-process		37,523	38,148
Finished goods	8.2	73,538	41,982
		365,626	433,749

**8.1** This includes raw material in transit amounting to Rs. 49.16 million (2012: Rs. 36.33 million).

**8.2** The amount charged to profit and loss account on account of write down of finished goods to net realizable value amounting to Rs. Nil (2012: Rs. 0.84 million).

	Note	2013 (Rupees in thousand)	2012
<b>9. TRADE DEBTORS</b>			
Trade debtors - unsecured:			
Considered good		320,159	247,645
Considered doubtful		20,495	27,199
		340,654	274,844
Less: Provision for doubtful debts	9.1	(20,495)	(27,199)
		320,159	247,645
<b>9.1 Provision for doubtful debts</b>			
Balance as at 01 July		27,199	10,461
Provision for the year		7,398	16,738
Written off during the year		(3,923)	-
Reversal of provision for doubtful debts		(10,179)	-
Balance as at 30 June		20,495	27,199
<b>10. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Current portion of long term loans and advances		3,166	3,052
Advances to employees		330	-
Prepayments		3,838	631
Other receivables		19,668	2,785
		27,002	6,468
Advance to suppliers			
Considered good		71,136	121,060
Considered doubtful		2,000	2,000
		73,136	123,060
Less: Provision for doubtful advance	10.1	(2,000)	(2,000)
		71,136	121,060
		98,138	127,528
<b>10.1 Provision for doubtful advance</b>			
Balance as at 01 July		2,000	-
Addition during the year		-	2,000
Written off during the year		-	-
Balance as at 30 June		2,000	2,000
<b>11. TAX REFUNDS DUE FROM THE GOVERNMENT</b>			
Sales tax receivable		2,422	12,072
Income tax refundable		80,109	50,862
		82,531	62,934

	Note	2013 (Rupees in thousand)	2012 (Rupees in thousand)
<b>12 CASH AND BANK BALANCES</b>			
Cash in hand		439	118
Cash at bank:			
Current accounts		5,171	1,484
Saving accounts	12.1	234,678	365,606
		239,849	367,090
		240,288	367,208

**12.1** The balances in saving accounts carry profit ranging between 6% to 7% per annum (2012: 7% to 10% per annum).

**13. ISSUED, SUBSCRIBED AND PAID-UP CERTIFICATE CAPITAL**

**13.1 Issued, subscribed and paid-up certificate capital**

2013 Number of Certificates	2012 Number of Certificates	2013 (Rupees in thousands)	2012 (Rupees in thousands)
130,399,996	79,999,998	1,304,000	800,000
Certificates of Rs 10 each fully paid-up in cash			

**13.2 Reconciliation of number of certificates**

Number of certificates as at 01 July 2012	79,999,998	79,999,998
Right issue during the year	50,399,998	-
Number of certificates as at 30 June 2013	130,399,996	79,999,998

**13.3** As at 30 June 2013, Treet corporation Limited, the holding company holds 117,149,871 (2012: 71,855,897) certificates of the Modaraba. In addition, 13,060,375 (2012: 8,012,500) certificates are held by the Modaraba Company i.e. Global Econo Trade (Private) Limited.

	2013 (Rupees in thousand)	2012 (Rupees in thousand)
<b>14. STATUTORY RESERVES</b>		
Statutory reserve	212,091	179,960

This represents profit set aside in compliance with the requirements of Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan and is not available for distribution.

**15. RETENTION MONEY**

These represents interest free deposits received from janitorial service providers and other contractors adjustable after performance of contracts.

	2013	2012
	(Rupees in thousand)	
<b>16. TRADE AND OTHER PAYABLES</b>		
Creditors	54,035	75,536
Payable to associated undertakings:		
TCL Labor-Hire Company (Private) Limited	-	16,833
Treet Corporation Limited	7,539	3,080
Packages Limited	2,485	765
DIC Pakistan Limited	712	685
Global Econo Trade (Private) Limited	135	-
	10,871	21,363
Accrued liabilities	16,229	32,678
Sales tax payable	16,223	18,929
Advances from customers	23,883	1,828
Income tax deducted at source	2,233	20
	123,474	150,354

## 17. CONTINGENCIES AND COMMITMENTS

### 17.1 Contingencies

For the tax year 2011, the Deputy Commissioner of Inland Revenue, RTO, Lahore has passed an order u/s 161/205 and arbitrarily created a tax demand of Rs. 1.52 million. Against this order, the Company filed appeal before the Commissioner of Inland Revenue (Appeal-II), Lahore which is pending adjudication at this point in time. The Company is of the view that favourable outcome is expected as the Company is fully compliant of withholding tax provisions.

	2013	2012
	(Rupees in thousand)	
<b>17.2 Guarantees</b>		
Outstanding guarantees	-	-
Un-utilized portions	50,000	-
<b>17.3 Letter of Credit</b>		
Outstanding letters of credit	81,276	52,913
Un-utilized portion	18,724	47,087
<b>17.4</b> The Company is also contingently liable for Rs. 19.25 million (2012: Nil) in respect of post dated cheques issued in favour of Collector of Customs Karachi.		

### 17.5 Operating leases as lessee

The Modaraba leases a factory facility under operating leases. This lease run for the maximum period of 10 years, with an option to renew after that date.

	Note	2013 (Rupees in thousand)	2012
Future lease payments under the lease agreements are:			
Not later than one year		9,070	10,954
Later than one year but not later than five years		44,140	46,744
Later than five years		27,720	47,193
		80,930	104,891
<b>18. SALES - NET</b>			
Packaging Solutions - Corrugated boxes	18.1	1,381,496	1,303,171
Paper and Board Mill - Paper	18.2	502,513	548,091
Soap	18.3	718,363	789,427
Total sales for reportable segments		2,602,372	2,640,689
Elimination of inter-segment sales		(422,155)	(381,336)
		2,180,217	2,259,353
<b>18.1 Packaging Solutions - Corrugated boxes</b>			
Local Sales:			
External customers		1,514,158	1,413,471
Inter-segment		65,371	64,547
Associated undertaking - Treet Corporation Limited		4,377	5,121
Sale of waste paper		5,324	12,957
		1,589,230	1,496,096
Less:			
Sales tax		(207,575)	(192,116)
Trade discount		(159)	(809)
		1,381,496	1,303,171

	Note	2013 (Rupees in thousand)	2012
<b>18.2 Paper and Board Mill - Paper</b>			
Local sales:			
External customers		167,953	265,950
Inter-segment		356,784	316,789
Sale of waste paper		739	674
		525,476	583,413
Less:			
Sales tax		(22,543)	(35,322)
Trade discount		(420)	-
		502,513	548,091
<b>18.3 Soap</b>			
Local Sales:			
External customers		861,673	951,385
Less:			
Sales tax		(143,310)	(161,883)
Trade discount		-	(75)
		718,363	789,427
<b>19. COST OF GOODS SOLD</b>			
Packaging Solutions - Corrugated boxes	19.1	1,231,521	1,159,639
Paper and Board Mill - Paper	19.1	489,151	534,201
Soap	19.1	639,608	667,194
Total cost of sales for reportable segments		2,360,280	2,361,034
Elimination of inter-segment purchases		(422,155)	(381,336)
		1,938,125	1,979,698

### 19.1 Cost of goods sold

	Packaging Solutions		Paper & Board Mill		Soaps		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	-----Rupees in thousand-----							
Opening stock	217,506	142,616	24,252	42,412	75,527	55,918	317,285	240,946
Add: Purchases								
Inter-segment	354,424	316,789	56,413	60,726	11,318	3,821	422,155	381,336
Others	609,323	719,288	217,520	246,858	530,801	632,891	1,357,644	1,599,037
	963,747	1,036,077	273,933	307,584	542,119	636,712	1,779,799	1,980,373
Less: Closing stock	(135,390)	(217,506)	(17,515)	(24,252)	(52,495)	(75,527)	(205,400)	(317,285)
Raw and packing material consumed	1,045,863	961,187	280,670	325,744	565,151	617,103	1,891,684	1,904,034
Stores and spares consumed	30,814	33,878	16,351	20,742	6,584	5,695	53,749	60,315
Out sourced manpower cost	88,705	80,633	43,202	44,939	32,638	23,607	164,545	149,179
Fuel and power	47,685	49,569	120,023	126,514	44,281	32,387	211,989	208,470
Depreciation	13,349	12,953	12,932	12,815	2,688	2,678	28,969	28,446
Repair and maintenance	7,971	12,054	5,272	3,789	762	1,112	14,005	16,955
Traveling and conveyance	4,517	5,107	567	398	406	351	5,490	5,856
Insurance	1,612	1,500	1,125	940	571	489	3,308	2,929
Rent, rates and taxes	1,763	173	1,359	196	-	-	3,122	369
Plant Rental	-	-	-	-	8,398	7,776	8,398	7,776
Fee and Subscription	-	-	-	-	15	5	15	5
Legal and professional	-	26	20	213	34	1,250	54	1,489
Other manufacturing expenses	2,045	2,521	543	628	1,150	708	3,738	3,857
	1,244,324	1,159,601	482,064	536,918	662,678	693,161	2,389,066	2,389,680
<b>Work-in-process</b>								
Add: Opening stock	3,044	3,575	191	-	34,913	14,682	38,148	18,257
Less: Closing stock	(5,198)	(3,044)	(223)	(191)	(32,102)	(34,913)	(37,523)	(38,148)
	1,242,170	1,160,132	482,032	536,727	665,489	672,930	2,389,691	2,369,789
<b>Finished goods</b>								
Add: Opening stock	8,205	7,712	9,214	6,688	24,563	18,827	41,982	33,227
Add: Purchases	-	-	-	-	2,145	-	2,145	-
	1,250,375	1,167,844	491,246	543,415	692,197	691,757	2,433,818	2,403,016
Less: Closing stock	(18,854)	(8,205)	(2,095)	(9,214)	(52,589)	(24,563)	(73,538)	(41,982)
	1,231,521	1,159,639	489,151	534,201	639,608	667,194	2,360,280	2,361,034



	Note	2013 (Rupees in thousand)	2012 (Rupees in thousand)
<b>20. ADMINISTRATION EXPENSES</b>			
Out-sourcing of manpower		11,353	8,518
Legal and professional		3,048	2,577
Auditors' remuneration	20.1	1,490	775
Vehicle running and maintenance		35	333
Printing and stationery		201	168
Traveling and conveyance		111	147
Postage and telephone		45	58
Others	20.2	586	244
		16,869	12,820
<b>20.1 Auditors' remuneration</b>			
Audit fee		1,210	600
Half yearly review		200	150
Out of pocket expenses		80	25
		1,490	775

**20.2** This includes an amount of Rs. 0.078 million (2012: Rs. 0.050 million) donated to Gulab Devi Chest Hospital whereas last year donation was given to Shaukat Khanum Memorial Trust. None of the directors of the Modaraba Company or their spouses have any interest in, or are otherwise associated with the recipient of donations made by the Modaraba during the year.

	2013 (Rupees in thousand)	2012 (Rupees in thousand)
<b>21. DISTRIBUTION COST</b>		
Freight and forwarding	61,775	48,174
Provision for doubtful debts	7,398	16,738
Provision for doubtful advance	-	2,000
Out-sourcing of manpower	7,604	6,603
Rent, rates and taxes	7,422	2,960
Advertisement	28,394	1,709
Traveling and conveyance	1,750	1,186
Postage and telephone	891	578
Printing and stationery	360	390
Staff training	90	-
Others	941	591
	116,625	80,929

	2013	2012
	(Rupees in thousand)	
<b>22. FINANCE COST</b>		
Bank charges	508	957
Exchange loss on import	2,100	2,021
	2,608	2,978
<b>23. OTHER INCOME</b>		
Profit from bank on saving accounts	7,243	2,775
Sale of scrap	2,427	2,363
Profit on disposal of investments held for trading	2,491	-
Reversal of provision for doubtful debts	10,179	-
Others	192	111
	22,532	5,249

**24. TAXATION**

The Modaraba intends to avail the tax exemption by distributing 90% of its profits to the certificate holders.

**25. FINANCIAL INSTRUMENTS**

The Modaraba has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors has overall responsibility for the establishment and oversight of Modaraba's risk management framework. The Board is also responsible for developing and monitoring the Modaraba's risk management policies.

This note presents information about the Modaraba's exposure to each of the above risks, the Modaraba's objectives, policies and processes for measuring and managing risk, and the Modaraba's management of capital.

The Modaraba's risk management policies are established to identify and analyse the risks faced by the Modaraba to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to react to changes in market conditions and the Modaraba's activities.

**25.1 Credit risk**

Credit risk is the risk of financial loss to the Modaraba if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Modaraba's receivables from customers, refundable deposits, other receivables and bank balances. Out of the total financial assets of Rs. 593.47 million (2012: Rs. 629.52 million) financial assets which are subject to credit risk amount to Rs. 593.03 million (2012: Rs. 629.40 million).

The Modaraba believes that it is not exposed to significant credit risk.

The carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date is:

	Note	2013 (Rupees in thousand)	2012
Trade debtors	9	320,159	247,645
Long term deposits	6	13,354	11,884
Advances, deposits, prepayments and other receivables	10	19,668	2,785
Bank balances	12	239,849	367,090
		593,030	629,404
The aging of receivable from customers at the reporting date is:			
Less than 30 days		279,371	202,989
Past due 1 - 3 months		22,993	34,856
Past due 3 - 6 months		4,942	8,644
Past due 6 - 12 months		-	1,156
Above one year		12,853	-
		320,159	247,645

The credit quality of major financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

Banks	Rating		Rating	2013	2012
	Short term	Long term	Agency		
<b>(Rupees in thousand)</b>					
MCB Bank Limited	A1+	AAA	PACRA	14,948	52,205
United Bank Limited	A-1+	AA+	JCR-VIS	121,965	3,047
BankIslami Pakistan Limited	A1	A	PACRA	3,207	586
Barclays Bank PLC Limited	A-1	A	Standard & Poor's	-	733
National Bank of Pakistan	A-1+	AAA	JCR-VIS	104	702
Habib Bank Limited	A-+1	AAA	JCR-VIS	32	137
Bank Alfalah Limited	A1+	AA	PACRA	1,078	761
NIB Bank Limited	A1+	AA-	PACRA	781	782
Faysal Bank Limited	A-+1	AA	JCR-VIS	509	50,725
Dubai Islamic Bank Pakistan Limited	A-1	A	JCR-VIS	97,225	257,412
				239,849	367,090

Due to the Modaraba's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Modaraba. Accordingly, the credit risk is minimal.

## 25.2 Liquidity risk

Liquidity risk is the risk that the Modaraba will not be able to meet its financial obligations as they fall due. The Modaraba's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. For this purpose the Modaraba has effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

The following are the contractual maturities of financial liabilities as on 30 June 2013:

	Carrying Amount	Contractual Cash flow	6 Months or less	6-12 months	1-2 years	More than 2 years
------(Rupees in thousand)-----						
Retention money	1,510	1,510	1,510	-	-	-
Trade and other payables	81,135	81,135	81,135	-	-	-

The following are the contractual maturities of financial liabilities as on 30 June 2012:

	Carrying Amount	Contractual Cash flow	6 Months or less	6-12 months	1-2 years	More than 2 years
------(Rupees in thousand)-----						
Trade and other payables	129,577	129,577	32,678	96,899	-	-

### 25.3 Market risk

Market risk is the risk that changes in market prices will affect the Modaraba's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

#### 25.3.1 Currency risk

The Modaraba is exposed to currency risk on import of raw materials and stores and spares mainly denominated in US Dollars. The Modaraba's exposure to foreign currency risk for US Dollars is as follows:

	2013	2012
	(Rupees in thousand)	
Payables against imports	247	236

The following significant exchange rate have been applied:

	Average rate		Reporting date rate	
	2013	2012	2013	2012
USD to PKR	96.5	89.9	98.6	94.2

#### 25.3.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. At the reporting date the interest rate risk profile of the Modaraba is negligible as the Modaraba does not have any interest bearing liabilities.

#### 25.3.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Modaraba is not exposed to any price risk as there are no financial instruments at the reporting date that are sensitive to price fluctuations.

#### 25.3.4 Fair value of financial instruments

The carrying values of the financial assets and financial liabilities approximate their fair values. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### 25.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Modaraba's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Modaraba's operations.

The Modaraba's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Modaraba's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within the Modaraba. This responsibility is supported by the development of overall Modaraba standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans ;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

## 25.5 Capital management

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Modaraba defines as operating income divided by total capital employed.

The Modaraba's objectives when managing capital are:

- (i) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- (ii) to provide an adequate return to shareholders.

The Modaraba manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets.

The Modaraba monitors capital on the basis of the gearing ratio.

The gearing ratios as at 30 June 2013 and at 30 June 2012 were as follows:

	2013	2012
	(Rupees in thousand)	
Total debt	-	-
Total equity and debt	1,519,488	1,514,846
Gearing ratio	-	-

Neither there were any changes in the Modaraba's approach to capital management during the year nor the Modaraba is subject to externally imposed capital requirements.

**26. RELATED PARTY TRANSACTIONS**

The related parties and associated undertakings comprise of associated companies, directors and key management personnel. Amounts due from/to related parties are disclosed in respective notes to these financial statements. Other significant transactions with related parties are as follows:

Name of the party	Nature of transactions	2013	2012
		(Rupees in thousand)	
IGI Insurance Limited	Services received	184	72
Packages Limited	Purchases	67,886	85,120
Bulleh Shah Packaging (Private) Limited	Purchases	3,290	-
Global Econo Trade (Private) Limited - Modaraba Company	Sales	2,411	704,918
TCL Labor-Hire Company (Private) Limited	Services received	118,325	104,099
Treet Corporation Limited	Sales	4,377	5,121
DIC Pakistan Limited	Purchases	-	13,037

**26.1** All the transactions with the related parties are executed in the normal course of business, on an arm's length basis. All other transactions have been carried out on the basis of mutually agreed terms and conditions.

**26.2** All the executives, officers and other employees of the Modaraba have been outsourced from its related party namely Messers TCL Labor-Hire Company (Private) Limited.

**27. PLANT CAPACITY AND PRODUCTION**

	Annual rated capacity	
	(Metric Tons)	
	2013	2012
Corrugated boxes and sheets	30,000	30,000
Paper and board	15,000	15,000
Soap	5,000	5,000
	Annual production	
	(Metric Tons)	
	2013	2012
Corrugated boxes and sheets	22,278	21,699
Paper and board	9,132	10,878
Soap	4,200	4,657

**27.1** Under utilization of capacity in Corrugated boxes and sheets and paper and board mill was mainly due to energy crises.

**27.2** Under utilization of capacity in soap division was due to decrease in demand of soap.

## 28. BUSINESS SEGMENTS

As at 30 June 2013 the Modaraba is engaged into three main business segments:

- (i) Manufacture and sale of corrugated boxes;
- (ii) Manufacture and sale of paper & board; and
- (iii) Manufacture and sale of soaps.

	Note	Corrugated boxes		Paper & board		Soaps		Total	
		2013	2012	2013	2012	2013	2012	2013	2012
-----Rupees in thousand-----									
Sales	18								
Inter-segment		65,371	64,547	356,784	316,789	-	-	422,155	381,336
Others		1,523,859	1,431,549	168,692	266,624	861,673	951,385	2,554,224	2,649,558
		1,589,230	1,496,096	525,476	583,413	861,673	951,385	2,976,379	3,030,894
Less:									
Sales tax		(207,575)	(192,116)	(22,543)	(35,322)	(143,310)	(161,883)	(373,428)	(389,321)
Trade discount		(159)	(809)	(420)	-	-	(75)	(579)	(884)
		(207,734)	(192,925)	(22,963)	(35,322)	(143,310)	(161,958)	(374,007)	(390,205)
<b>Net sales</b>		<b>1,381,496</b>	<b>1,303,171</b>	<b>502,513</b>	<b>548,091</b>	<b>718,363</b>	<b>789,427</b>	<b>2,602,372</b>	<b>2,640,689</b>
<b>Cost of sales</b>	19	<b>(1,231,521)</b>	<b>(1,159,639)</b>	<b>(489,151)</b>	<b>(534,201)</b>	<b>(639,608)</b>	<b>(667,194)</b>	<b>(2,360,280)</b>	<b>(2,361,034)</b>
<b>Gross profit</b>		<b>149,975</b>	<b>143,532</b>	<b>13,362</b>	<b>13,890</b>	<b>78,755</b>	<b>122,233</b>	<b>242,092</b>	<b>279,655</b>
Administration expenses		(12,744)	(10,012)	(918)	(1,059)	(3,207)	(1,749)	(16,869)	(12,820)
Distribution expenses		(82,478)	(76,849)	(2,415)	(3,139)	(31,732)	(941)	(116,625)	(80,929)
		(95,222)	(86,861)	(3,333)	(4,198)	(34,939)	(2,690)	(133,494)	(93,749)
<b>Operating profit</b>		<b>54,753</b>	<b>56,671</b>	<b>10,029</b>	<b>9,692</b>	<b>43,816</b>	<b>119,543</b>	<b>108,598</b>	<b>185,906</b>
Finance cost								(2,608)	(2,978)
Other income								22,532	5,249
<b>Profit for the year</b>								<b>128,522</b>	<b>188,177</b>

28.1 Transactions among the business segments are recorded at arm's length prices using admissible valuation methods.

	Corrugated boxes		Paper & board		Soaps		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
-----Rupees in thousand-----								
<b>28.2 Segment assets</b>	1,071,201	1,008,434	230,352	304,137	342,919	352,629	1,644,472	1,665,200
<b>28.3 Segment liabilities</b>	64,992	79,355	19,494	38,350	40,498	32,649	124,984	150,354



		2013	2012 Restated
<b>29.</b>	<b>EARNING PER MODARABA CERTIFICATE - BASIC AND DILUTED</b>		
	<b>Basic</b>		
	Profit for the year	<i>Rupees in thousands</i> 128,522	188,177
	Number of certificates	<i>Numbers in thousands</i> 130,400	80,000
	Earning per certificate	<i>Rupees</i> 0.99	2.35

**29.1** The earning per share of prior year has been adjusted to reflect the changes of the right shares issued for the year ended 30 June 2013.

**Diluted**

There is no dilutive effect on the basic earnings per modaraba certificate as there are no such commitments.

**30. DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on October 01, 2013 by the Board of Directors of Global Econo Trade (Private) Limited (Modaraba Company).

**31. GENERAL**

**31.1** Figures in the financial statements have been rounded off to the nearest thousand rupees.

**31.2** Corresponding figures have been re-arranged or reclassified wherever necessary, for the purposes of comparison. Significant reclassification for better presentation includes provisions for doubtful advance amounting to Rs. 2 million, previously included in trade debtors now presented in advances, deposits, prepayments and other receivables.

**31.3** The Board of Directors of the Management Company in their meeting held on 01 October 2013 has approved final cash dividend @ 3.7% i.e. Re. 0.37 per Certificate for the year ended 30 June 2013. These financial statements do not reflect this proposed dividend payable. This is in addition to interim dividend already paid @ 3.0% i.e. Re. 0.30 per Certificate of Rs. 10/- each, thus making total distribution of 6.7% i.e. Re. 0.67 per Certificate of Rs. 10/- each (2012: Re. 0.65 per Certificate) amounting to Rs. 87.37 million (2012: Rs. 84.76 million).

LAHORE:  
October 01, 2013



**Syed Shahid Ali**  
Chief Executive Officer



**Muhammad Shafique Anjum**  
Director

## Pattern of Certificate-Holding as at June 30, 2013

NUMBER OF CERTIFICATE HOLDERS	CERTIFICATE HOLDING		TOTAL NUMBERS OF CERTIFICATE HELD
	FROM	TO	
27	1	500	10,500
5	501	1,000	4,615
2	1,501	2,000	6,630
1	15,001	20,000	20,000
1	145,001	150,000	148,005
1	13,060,001	13,065,000	13,060,375
1	117,145,001	117,150,000	117,149,871
<b>38</b>			<b>130,399,996</b>

Categories of Certificate Holders	No. of Certificates Holders	Certificates Held	Percentage Holding
<b>DIRECTORS</b>			
SYED SHEHARYAR ALI	1	148,005	0.11%
INDIVIDUALS	35	41,745	0.03%
INVESTMENT COMPANIES	Nil	Nil	-
INSURANCE COMPANIES	Nil	Nil	-
JOINT STOCK COMPANIES	1	117,149,871	89.84%
FINANCIAL INSTITUTIONS	Nil	Nil	-
MODARABA COMPANY	1	13,060,375	10.02%
OTHERS	Nil	Nil	Nil
	<b>38</b>	<b>130,399,996</b>	<b>100.00%</b>

### CERTIFICATE HOLDERS HAVING MORE THAN 5% CERTIFICATES

Sr. No.	Name of Shareholder	Shares	Percentage
1.	Treet Corporation Limited	117,149,871	89.84%
2.	Global Econo Trade (Private) Limited	13,060,375	10.02%

## Key Operating Financial Data

	Rs.(000)	2013	2012	2011	2010	2009
Sales		2,180,217	2,259,353	1,790,217	1,476,843	695,983
Gross Profit		242,092	279,655	185,672	119,001	13,696
Profit before Taxation		128,522	188,177	123,228	48,516	(40,507)
Profit after Taxation		128,522	188,177	123,228	48,516	(40,507)
Certificateholders' Equity		1,519,488	1,514,846	878,189	476,801	428,285
Fixed Assets - Net		445,653	322,813	341,557	323,704	229,996
Total Assets		1,644,472	1,665,200	1,428,642	948,012	755,783
Total Liabilities		124,984	150,354	550,453	471,211	327,498
Current Assets		1,171,628	1,313,386	1,075,593	612,394	525,747
Current Liabilities		123,474	150,354	93,342	264,521	327,498
Dividend Declared		6.70%	6.50%	6.94%	2.73%	0.00%
Certificates Outstanding		130,399,996	79,999,998	79,999,998	49,999,999	49,999,999
<b>IMPORTANT RATIOS</b>						
		<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Profitability</b>						
Gross Profit		11.10%	12.38%	10.37%	8.06%	1.97%
Profit before Tax		5.89%	8.33%	6.88%	3.29%	-5.82%
Profit after Tax		5.89%	8.33%	6.88%	3.29%	-5.82%
<b>Return to Equity</b>						
Return on Equity before Tax		8.46%	12.42%	14.03%	10.18%	-9.46%
Return on Equity after Tax		8.46%	12.42%	14.03%	10.18%	-9.46%
Earning per Certificates		0.99	2.35	1.70	0.97	-1.39%
<b>Liquidity/Leverage</b>						
Current Ratio		9.49	8.74	11.52	2.30	1.61
Break-up Value per Certificate		11.65	18.94	10.98	9.54	8.57
Total Liabilities to Equity		0.08	0.10	0.63	0.99	0.76
	<b>% Change</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Sales		-3.50%	26.21%	21.22%	112.20%	42.30%
Gross Profit		-13.43%	50.62%	56.03%	768.87%	-158.38%
Profit before Taxation		-31.70%	52.71%	153.99%	-219.77%	159.36%
Profit after Taxation		-31.70%	52.71%	153.99%	-219.77%	159.36%
Certificateholders' Equity + Revaluation Surplus		0.31%	72.50%	84.18%	11.33%	283.60%
Fixed Assets - Net		38.05%	-5.49%	5.52%	40.74%	47.18%
Total Assets		-1.24%	16.56%	50.70%	25.43%	41.21%
Total Liabilities		-16.87%	-72.69%	16.82%	43.88%	-22.68%
Current Assets		-10.79%	22.11%	75.64%	16.48%	38.74%
Current Liabilities		-17.88%	61.08%	-64.71%	-19.23%	723.81%
Dividend		3.08%	-6.20%	153.85%	-	-
Certificates Outstanding		63.00%	0.00%	60.00%	0.00%	250.00%



**TREET GROUP OF COMPANIES**



**TREET CORPORATION LIMITED**



**GLOBAL ECONO TRADE (PVT.) LIMITED**  
*(A wholly owned subsidiary of Treet Corporation Ltd.)*



**PACKAGING SOLUTIONS**

*(A Project Under FTMM)*



**MOTOR BIKE PROJECT**



*Paper and Board Mills*

**(PACKAGING SOLUTIONS)**

*A Project Under FTMM*



**TCL LABOR-HIRE COMPANY (Pvt.) LIMITED**

*(A wholly owned subsidiary of GLOBAL ECONO TRADE (PVT.) LIMITED)*