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Corporate Information

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

Notice of 6th Annual Review Meeting

Notice is hereby given that 6th Annual Review Meeting of certificate holders of **First Treet Manufacturing Modaraba** will be held on Wednesday October 31, 2012 at 10.00 A.M. at registered office of the Modaraba situated at 72-B, Kotlakhpat Industrial Area, Lahore for the year ended June 30, 2012.

The Management of the Modaraba is pleased to announce Final Cash Dividend @ 6.5% i.e. Re. 0.65 per certificate to existing Certificate Holders of the Modaraba.

The Certificate Transfer Books will remain closed from October 25, 2012 to October 31, 2012 (both days inclusive) for the purpose of determination of names of the certificate holders for above dividend and 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 24, 2012 will be eligible for payment of dividend as well as to attend the Annual Review Meeting.

By order of the Board



(AYAZ AHMED)

Company Secretary
Global Econo Trade (Private) Limited
Managers of First Treet Manufacturing Modaraba

LAHORE:

October 02, 2012

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 exceed the needs of our customers, providing our products and services with only the best quality, adjusted to their needs and preferences and to create value for our stakeholders. In order to accomplish this, we will continue our emphasis on being the industry's lowest cost producer that responds to customer needs with value-added products and services. We will strive to exceed customer expectations.

It is our belief that we can fulfill this mission through a unique combination of industry vision, supply chain expertise and innovative technology.

VISION STATEMENT

To be an innovative market leader in our businesses that benefit society. We will be differentiated from our competitors by technology, quality, engineering, sales and marketing expertise, while ensuring financial strength and sustainable growth of the **Treet Group** for the benefit of its stakeholders.

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 6th annual accounts of FTMM for the year ended June 30, 2012. These accounts have been audited by statutory auditors of the Modaraba and are accompanied by their audit report.

Economic Outlook

The rate of growth in national product is on a declining trend. Hence, stalling GDP growth means increasing poverty and unemployment, and widening gap in average incomes of the relatively better performing areas in the Country and those that are more backward. This is clearly not sustainable situation. Unless arrested with the adoption of right set of policies, economic troubles will also produce those that are political and social in nature.

There are multiple concerns surrounding the economy, attributing the institutional weakness to the extremely poor governance indicators and to the deteriorated business environment. This way Pakistan performed the poorest of all South Asian neighbours. Moreover, Pakistan dropped eight places in the list of the best countries for doing business, slipping from 75 in 2010 to 83 in 2011.

The need for drastic measures to fix some of the most pressing problems that Pakistan faces is apparent, although both domestic and global factors are responsible for the poor performance, but we believe that domestic issues are more decisive and chronic. These include the collapse of fixed investment, acute energy shortages, urban violence and lawlessness, poor physical infrastructure and institutional fragility. Loss-making public sector enterprises are continued to hemorrhage and drain scarce fiscal resources.

Alarmingly, the forecast for 2012 is not encouraging at all. International oil prices are likely to soar beyond \$100 per barrel. Debt servicing will cross a whopping \$4.2 bn, with no hope of a substantial cut in non-productive activities, continued decline in FDI, dismal law & order situation, power outages, rupee depreciation etc. all set to augment the difficulties of doing business in Pakistan.

Under these volatile and unwieldy circumstances, maintaining good margins would be challenging and these can only be achieved through conscious approach and candid efforts by bringing in price rationalization, production efficiencies, improvement in operations [and keeping motivational thrust alive among stakeholders] and raw material sourcing.

FINANCIAL RESULTS

Rs. in 000'	2011-2012	2010-2011	% Change
Sales (net)	2,259,353	1,790,217	26.21%
Net Profit	188,177	123,228	52.71%
Earnings per Certificate	2.35	1.70	-
Transfer to Statutory Reserve (50%)	94,088	61,614	52.71%
Book Value per Certificate	11.62	10.98	5.83%

SEGMENT-WISE ANALYSIS

Rs. in 000'	Corrugated Packaging		Paper & Board		Soap	
	2011-2012	2010-2011	2011-2012	2010-2011	2011-2012	2010-2011
Gross Sales	1,431,549	1,127,943	266,624	147,958	951,385	870,810
Inter-Segment Sales	64,547	58,562	316,789	355,506	-	-
Less: Sales Tax, Excise & Discount	(192,925)	(167,332)	(35,322)	(23,342)	(161,958)	(165,820)
Total Sales	1,303,171	1,019,173	548,091	480,122	789,427	704,990
Gross Profit	143,532	80,956	13,890	9,629	122,233	95,087
Gross Profit %	11.01%	7.94%	2.53%	2.01%	15.48%	13.49%
Operating Profit	56,671	22,448	9,692	8,132	119,543	94,201

CORRUGATED PACKAGING

Gross margins are improved through increased quantitative volumes coupled with price rationalization and change in product mix. Moreover, operating margins have also improved despite of provisions against doubtful debts.

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. Moreover, raw material costs remained on the rising trend [and uncertain] despite reduction in international prices of wooden pulp and straws due to inflationary pressures in conversion costs.

PAPER & BOARD

Paper & Board Mill has shown good volume growth during the year and size of the project is capable to produce an average of 30~40 Tons of papers per day but with some modifications this capacity can be increased. Most of the supplies are fed to the Corrugation Division and with this vertical integration, your Modaraba is able not only to bring cost of paper down but also have better control on quality [and lead time]. Moreover, it has also strengthen your Modaraba's bargaining position vis-à-vis outside sources.

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 excellent growth over last period due to effective marketing mix. Material costs remained stable during the period. Moreover, fuel cost is economized through biomass energy sources and use of noodles instead of tallow in soap making. However, influx of imported soaps through unofficial channels was the major area of concern during the year.

Sales & Marketing of Soap is being handled by Global Econo Trade (Private) Limited (GET). Despite of stringent conditions [due to fragile economy] your Modaraba is able to capitalize all possible opportunities through GET's strong distribution network.

DIVIDEND

The Board is pleased to announce final cash dividend @ 6.5% i.e. Re. 0.65 per Certificate of Rs. 10/- each.

APPROPRIATIONS

	Rs. in '000
Profit for the Year	188,177
Un-appropriated loss brought forward	(7,683)
Available for Appropriation	180,494
Transferred to Statutory Reserves – 50% of the profit for the year	94,088
Profit distribution for the year – 90% of the [profit less reserves]	84,760
Un-appropriated profit carried forward	1,646

FUTURE OUTLOOK

With an impaired future productive capacity, it seems difficult to revive the economic growth prospects in the medium term based on investment. Even if agriculture sector performs as per historical trends in FY13, revival in industrial performance is not likely since the problem of energy has not been resolved yet. Broad money is expected to grow between 13 and 14 percent during FY13. Fiscal deficit financing is likely to remain the major driving force behind monetary expansion in the current year as well. This monetary expansion coupled with the falling investment explains the stickiness of inflation in double digits.

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 reduction in 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

Industrial growth is pivotal to the growth of your Modaraba since the demand of Corrugation is derived demand stemming from industrial [and to some extent agriculture] growth, while severe energy shortages, challenging security conditions, and overall low business confidence continued to affect the industrial production, especially the Large-Scale Manufacturing (LSM). The contraction in private investment is even more pronounced at 13 percent in FY12. Consequently, total investment, as a percentage of GDP, has fallen to 12.5 percent in FY12. This is an extremely worrisome trend as it essentially means decline in the future productive capacity of the economy. However, sustained efforts are being made to increase the sale volumes and margins through market penetration/development and production development (e.g. corrugated trays etc.).

PAPER & BOARD

Per-capita consumption of paper and board in Pakistan is still at very low levels. In the long run, paper and board industry in Pakistan is likely to flourish but in the medium term, Pakistan's economy is experiencing fiscal difficulties and if not addressed in time they do have a tendency to spillover to other sectors and disrupt real economic activities further. In the short run, pulp prices, are expected to decelerate but to stay on high levels; electricity shortage, fuel costs, unfair competition posed by imported paper being dumped in the market etc. are the major area of concerns.

SOAP

Tallow Prices [along with Palm Oil Prices] are expected to calm down further in the coming financial year that would have positive impact on the margins. However, influx of imported soaps through informal sources in the market is major area of concern for the soap industry.

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 Controls is 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 has not 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
• Syed Shahid Ali	03
• Muhammad Shafique Anjum	05
• Shahid Zia	05
• Syed Sheharyar Ali	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. Mr. Shafique Anjum	Chairman
2. Syed Shahid Ali	Member
3. Shahid Zia	Member

ELECTION OF DIRECTORS

The tenure of present directors [of Modaraba Company] was ended on September 30, 2011 and accordingly election was held on September 30, 2011 to elect four directors of the Company for next term of three years commencing from October 01, 2011. The retiring directors being eligible filed their intentions to contest the election and following persons were elected directors (after necessary approval from the Registrar Modaraba) for next term of three years:-

1. Syed Shahid Ali
2. Syed Sheharyar Ali
3. Mr. Muhammad Shafique Anjum
4. Mr. Shahid Zia

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.

PATTERN OF CERTIFICATE-HOLDING

The pattern of certificate-holding of your Modaraba as on June 30, 2012 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" who 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 02, 2012

Statement Of Compliance With Best Practices of The Code Of Corporate Governance for the Year Ended June 30, 2012

This statement is being presented to comply with the Code of Corporate Governance contained in the Regulations of the Lahore Stock Exchange (Guarantee) Limited the purpose of establishing framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Modaraba has applied the principles contained in the Code in the following manner:

1. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
2. All the directors of the Company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
3. The Modaraba has prepared a Statement of Ethics and Business Practices, which has been signed by all directors of the Modaraba.
4. The Board has developed a vision/ mission statement, overall corporate strategy and significant policies of the Modaraba along with the dates on which they were approved or amended has been maintained.
5. 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 they are nominees of Treet Corporation Limited (holding Company of the Modaraba Company).
6. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working paper were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
7. The directors are fully aware of the relevant laws applicable to the Modaraba, its policies and procedures and provisions of the Prospectus to manage the affairs of the Modaraba on behalf of the certificate holders.
8. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
9. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.
10. The Directors, CEO and Executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of holding of certificates.
11. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
12. The meetings of the audit committee are held at least once every quarter prior to approval of interim and final results of the Modaraba as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
13. The Board has set-up an effective internal audit function.

14. The statutory auditors of the Modaraba had 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 of 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.
15. The statutory auditors or the person associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
16. We confirm that all other material principles contained in the Code have been substantially complied with.

For and on behalf of the Board of Directors



Syed Shahid Ali
Chief Executive Officer

LAHORE:
October 02, 2012

Review Report to the Certificate Holders on Statement of Compliance with Best Practices of the Code Of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Global Econo Trade (Private) Limited (“the Modaraba Management Company”) in respect of First Treet Manufacturing Modaraba (the Modaraba) to comply with the Listing Regulations 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 Modaraba Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Modaraba’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 Modaraba’s personnel and review of various documents prepared by the company to comply with the Code. As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control systems to enable us to express an opinion as to whether the Board’s statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Listing Regulations of Lahore Stock Exchange 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 undertaken at arm’s length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended 30 June 2012.

LAHORE:
October 02, 2012

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

Auditors' Report to the Certificate-Holders

We have audited the annexed balance sheet of First Treet Manufacturing Modaraba ("the Modaraba") as at 30 June 2012 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 2012 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.

The financial statements of the Modaraba for the year ended 30 June 2011 were audited by another firm of auditors, whose report dated 06 October 2011 expressed an unqualified opinion on those financial statements.

LAHORE:
October 02, 2012

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

Balance Sheet

as at June 30, 2012

	Note	2012 (Rupees in thousand)	2011
ASSETS			
Non-current assets			
Property, plant and equipment	4	322,813	341,557
Long term deposits and prepayments	5	29,001	11,492
		351,814	353,049
Current assets			
Stores and spares	6	74,322	57,155
Stock-in-trade	7	433,749	386,669
Trade debtors	8	245,645	262,662
Advances, deposits, prepayments and other receivables	9	129,528	240,094
Tax refunds due from the Government	10	62,934	70,251
Cash and bank balances	11	367,208	58,762
		1,313,386	1,075,593
Total assets		1,665,200	1,428,642
Equity and liabilities			
Certificate capital and reserves			
Authorized certificate capital 150,000,000 (2011: 100,000,000) Modaraba certificates of Rs. 10 each		1,500,000	1,000,000
Issued, subscribed and paid-up certificate capital	12	800,000	800,000
Certificate deposit money		504,000	-
Statutory reserve	13	179,960	85,872
Accumulated profit / (loss)		30,886	(7,683)
Certificate holders' equity		1,514,846	878,189
Non-current liabilities			
Due to Modaraba Company	14	-	457,111
Current liabilities			
Trade and other payables	15	150,354	93,342
Contingencies and commitments			
	16		
Total equity and liabilities		1,665,200	1,428,642

The annexed notes 1 to 29 form an integral part of these financial statements.

LAHORE:
October 02, 2012



Syed Shahid Ali
Chief Executive Officer



Muhammad Shafique Anjum
Director

Profit and Loss Account

for the year ended June 30, 2012

	Note	2012 (Rupees in thousand)	2011 (Rupees in thousand)
Sales - net	17	2,259,353	1,790,217
Cost of goods sold	18	(1,979,698)	(1,604,545)
Gross profit		279,655	185,672
Administration expenses	19	(12,820)	(9,285)
Distribution expenses	20	(80,929)	(51,606)
		(93,749)	(60,891)
Operating profit		185,906	124,781
Finance cost	21	(2,978)	(7,936)
Other operating income	22	5,249	6,383
Net profit for the year		188,177	123,228
Earning per modaraba certificate			
- basic and diluted	(Rupees)	2.35	1.70

The annexed notes 1 to 29 form an integral part of these financial statements.

LAHORE:
October 02, 2012



Syed Shahid Ali
Chief Executive Officer



Muhammad Shafique Anjum
Director

Statement of Comprehensive Income

for the year ended June 30, 2012

	2012 (Rupees in thousand)	2011
Profit for the year	188,177	123,228
Other comprehensive income	-	-
Total comprehensive income	188,177	123,228

The annexed notes 1 to 29 form an integral part of these financial statements.

LAHORE:
October 02, 2012



Syed Shahid Ali
Chief Executive Officer



Muhammad Shafique Anjum
Director

Cash Flow Statement

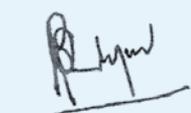
for the year ended June 30, 2012

	2012	2011
	(Rupees in thousand)	
Cash flow from operating activities		
Profit before taxation	188,177	123,228
Adjustment for non-cash and other items:		
Depreciation	28,446	26,144
Provision for doubtful debts	18,738	10,460
Finance cost	2,978	7,936
	50,162	44,540
Operating profit before working capital changes	238,339	167,768
(Increase) / decrease in current assets:		
Stores and spares	(17,167)	(17,734)
Stock-in-trade	(47,080)	(204,225)
Trade debts	(1,722)	(34,263)
Advances, deposits, prepayments and other receivables	110,566	(161,800)
Tax refunds due from the Government	7,317	(35,502)
	51,914	(453,524)
Increase in current liabilities:		
Trade and other payables	57,013	28,821
Cash inflow / (outflow) after working capital changes	347,266	(256,935)
Finance cost paid	(2,978)	(7,936)
Net cash inflow / (outflow) from operating activities	344,288	(264,871)
Cash flow from investing activities		
Fixed capital expenditure	(9,702)	(43,996)
Long term deposits and prepayments	(17,509)	422
Net cash outflow from investing activities	(27,211)	(43,574)
Cash flow from financing activities		
Profit distributed	(55,520)	(21,840)
Issue of certificate capital	-	300,000
Certificate deposit money received	504,000	-
Short term borrowings	-	(200,000)
Due to Modaraba Company	(457,111)	250,420
Net cash (outflow) / inflow from financing activities	(8,631)	328,580
Net increase in cash and cash equivalents	308,446	20,135
Cash and cash equivalents at beginning of the year	58,762	38,627
Cash and cash equivalents at end of the year	367,208	58,762

The annexed notes 1 to 29 form an integral part of these financial statements.

LAHORE:
October 02, 2012


Syed Shahid Ali
Chief Executive Officer


Muhammad Shafique Anjum
Director

Statement of Changes in Equity

for the year ended June 30, 2012

	Certificate deposit money	Certificate Capital	Statutory Reserve	Accumulated Profit/(Loss)	Total
(Rupees in thousand)					
Balance as at 01 July 2010	-	500,000	24,258	(47,457)	476,801
Profit distribution @ 2.73% for the year ended 30 June 2010	-	-	-	(21,840)	(21,840)
Certificate capital issued	-	300,000	-	-	300,000
Total comprehensive income for the year	-	-	-	123,228	123,228
Transfer to statutory reserve @ 50%	-	-	61,614	(61,614)	-
Balance as at 30 June 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)	-
Balance as at 30 June 2012	504,000	800,000	179,960	30,886	1,514,846

The annexed notes 1 to 29 form an integral part of these financial statements.

LAHORE:
October 02, 2012



Syed Shahid Ali
Chief Executive Officer



Muhammad Shafique Anjum
Director

Notes to the Financial Statements

for the year ended June 30, 2012

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 sale of Corrugated Boxes, Paper and Soap.

2. BASIS OF PREPARATION

2.1 Change in accounting estimate

During the year the Modaraba has changed the basis of depreciation rate of buildings on leasehold land from 5% to 10%. The said change has been accounted for as changes in accounting estimates in accordance with the requirements of International Accounting Standards (IAS) 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The effect of this change in accounting estimate has been recognized prospectively in the profit and loss account during the current year. Had there been no change in estimate, the net profit would have been higher by PKR 240,000.

2.2 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.

2.3 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.

2.4 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.

2.5 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	3.3
- Provision for doubtful debts	3.6
- Provisions and contingencies	3.13

2.6 New Accounting Standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are effective from the dates specified below and are either not relevant to Modaraba's operations or are not expected to have significant impact on the Modaraba's financial statements other than certain increased disclosures:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measure during the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Modaraba.
- 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 recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize 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 recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendment has no impact on financial statements of the Modaraba.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendment has 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 amendment has 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 amendment has 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 five 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.

- 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 amendment in IAS 16 has 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 amendment has no impact on financial statements of the Modaraba.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Staff retirement benefits

Complete HR function is outsourced to associated undertaking TCL Labor-Hire Company (Private) Limited, which is labor hire company specialized in providing workforce to host companies under service agreement and took all responsibilities of the staff retirement benefits of the workforce.

3.2 Taxation

3.2.1 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.

3.2.2 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.

3.3 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 when there is an indication of impairment.

3.4 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.

3.5 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.

3.6 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.

3.7 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.

3.8 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.

- 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.

3.9 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.

3.10 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.

3.11 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.

3.12 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.

3.13 Provisions

Provisions are recognized when the Modaraba has a present legal or constructive obligation as a result of past events, 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.

3.14 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.

3.15 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 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.

3.16 Profit distribution

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

3.17 Related party transactions

All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes as admissible, except in extremely rare circumstances where, subject to approval of the Board of Directors, it is in the interest of the Modaraba to do so.

	Note	2012 (Rupees in thousand)	2011
4. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets - Tangible	4.1	283,070	307,875
Capital work-in-progress		39,743	33,682
		322,813	341,557

4.1 Operating fixed assets

2 0 1 2

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)								
Owned								
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

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PARTICULARS	C O S T			RATE %	ACCUMULATED DEPRECIATION			Net book value as at June 30, 2011
	As at July 01, 2010	Additions / Transfers	As at June 30, 2011		As at July 01, 2010	For the year	As at June 30, 2011	
(Rupees in thousand)								
Owned								
Land - freehold	43,000	-	43,000	-	-	-	-	43,000
Buildings and civil works on freehold land	108,255	-	108,255	5	10,396	5,413	15,809	92,446
Buildings and civil works on leasehold land	-	4,791	4,791	5	-	-	-	4,791
Plant and machinery	205,453	16,524	221,977	10	34,531	20,553	55,084	166,893
Furniture and equipment	315	115	430	10	10	38	48	382
Computer equipment	560	-	560	25	57	140	197	363
	357,583	21,430	379,013		44,994	26,144	71,138	307,875

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

	Note	2012 (Rupees in thousand)	2011
Packaging Solutions - Corrugated boxes	18.1	12,953	12,854
Paper and Board Mill - Paper	18.2	12,815	12,742
Soap	18.3	2,678	548
		28,446	26,144

	Note	2012 (Rupees in thousand)	2011
5. LONG TERM DEPOSITS AND PREPAYMENTS			
Utility deposits		11,090	11,090
Others		794	402
Long term prepayment	5.1	20,169	-
Less: Current maturity	9	(3,052)	-
		17,117	-
		29,001	11,492

5.1 This represents advance given to Khatoon Industries (Private) Limited (“KIL”) for equipment installation services (PKR 2.96 million) and civil works (PKR 17.21 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 100 and 36 equal monthly installments respectively.

	Note	2012 (Rupees in thousand)	2011
6. STORES AND SPARES			
Stores		45,374	36,210
Spares	6.1	28,948	20,945
		74,322	57,155

6.1 This includes spares in transit amounting to PKR 3.44 million (2011: PKR 1.83 million).

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

7. STOCK-IN-TRADE			
Raw material and chemicals	7.1	330,582	310,804
Packing material		23,037	24,382
Work-in-process		38,148	18,256
Finished goods	7.2	41,982	33,227
		433,749	386,669

7.1 This includes raw material in transit amounting to PKR 36.33 million (2011: PKR 94.24 million).

7.2 The amount charged to profit and loss account on account of write down of finished goods to net realizable value amounted to PKR 0.84 million (2011: Nil).

	Note	2012 (Rupees in thousand)	2011
8. TRADE DEBTORS			
Trade debtors - unsecured:			
Considered good		245,645	262,662
Considered doubtful		29,199	10,460
		274,844	273,122
Less: Provision for doubtful debts		(29,199)	(10,460)
		245,645	262,662
9. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advances to suppliers		123,060	235,423
Prepayments		631	2,491
Other receivables		2,785	1,405
		126,476	239,319
Current portion of long term prepayment/deposit	5	3,052	775
		129,528	240,094
10. TAX REFUNDS DUE FROM THE GOVERNMENT			
Sales tax receivable		12,072	30,021
Income tax refundable		50,862	40,230
		62,934	70,251
11. CASH AND BANK BALANCES			
Cash in hand		118	15
Cash at bank:			
Current accounts		1,484	1,981
Saving accounts	11.1	365,606	56,766
		367,090	58,747
		367,208	58,762

11.1 The balances in saving accounts carry profit ranging between 7% to 10%. (2011: 11.25% to 12.00%).

12. ISSUED, SUBSCRIBED AND PAID-UP CERTIFICATE CAPITAL**12.1 Issued, subscribed and paid-up certificate capital**

2012	2011		2012	2011
Number of Certificates			(Rupees in thousands)	
79,999,998	79,999,998	Certificates of Rs 10 each fully paid up in cash	800,000	800,000

12.2 Reconciliation of number of certificates

Number of certificates as at 01 July	79,999,998	49,999,999
Right issue during the year	-	29,999,999
Number of certificates as at 30 June	79,999,998	79,999,998

12.3 The Modaraba Company i.e. Global Econo Trade (Private) Limited holds 10% (8,012,500 certificates of Rs. 10 each) (2011: 8,012,500) certificates and Treet Corporation Limited, holding Company of the Modaraba Company holds 90% (71,855,897 certificates of Rs. 10 each) (2011: 71,855,897).

	2012	2011
	(Rupees in thousand)	
13. STATUTORY RESERVES		
Statutory reserve	179,960	85,872

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

14. DUE TO MODARABA COMPANY

Global Econo Trade (Private) Limited	-	457,111
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This amount represents finance extended by Modaraba Company out of the total approved limit of PKR 650 million (2011: PKR 650 million) to meet the initial financial requirements of the Modaraba's projects. It is repayable as and when deemed appropriate by the Modaraba either partially or in full instead of regular periodic installments. Full amount is repaid in the Financial Year 2012.

	2012	2011
	(Rupees in thousand)	
15. TRADE AND OTHER PAYABLES		
Creditors	75,536	22,839
Payable to associated undertakings:		
TCL Labor-Hire Company (Private) Limited	16,833	-
Treet Corporation Limited	3,080	-
Packages Limited	765	-
DIC Pakistan Limited	685	330
	96,899	23,169
Accrued liabilities	51,607	66,486
Advance from customers	1,828	1,331
Income tax deducted at source	20	2,356
	150,354	93,342

16. CONTINGENCIES AND COMMITMENTS

Commitments in respect of:

16.1 Letter of credit	68,705	1,827
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16.2 Operating leases as lessee

The Modaraba leases a number of warehouses and factory facilities under operating leases. The leases run for the maximum period of 10 years, with an option to renew after that date. Lease payments are increased every year to reflect market rentals.

	Note	2012	2011
		(Rupees in thousand)	
Future lease payments under the lease agreements are:			
Not later than one year		10,954	8,952
Later than one year but not later than five years		46,744	43,285
Later than five years		47,193	60,151
		104,891	112,388

17. SALES - NET

Packaging Solutions - Corrugated boxes	17.1	1,303,171	1,019,173
Paper and Board Mill - Paper	17.2	548,091	480,122
Soap	17.3	789,427	704,990
Total sales for reportable segments		2,640,689	2,204,285
Elimination of inter-segment sales		(381,336)	(414,068)
		2,259,353	1,790,217

	2012	2011
	(Rupees in thousand)	
17.1 Packaging Solutions - Corrugated boxes		
Local Sales:		
External customers	1,413,471	1,113,651
Inter-segment	64,547	58,562
Associated undertaking - Treet Corporation Limited	5,121	6,976
Sale of waste paper	12,957	7,316
	1,496,096	1,186,505
Less:		
Sales tax	(192,116)	(153,656)
Excise duty	-	(13,676)
Trade discount	(809)	-
	1,303,171	1,019,173
17.2 Paper and Board Mill - Paper		
Local Sales:		
External customers	265,950	147,285
Inter-segment	316,789	355,506
Sale of waste paper	674	673
	583,413	503,464
Less:		
Sales tax	(35,322)	(21,185)
Excise duty	-	(2,157)
	548,091	480,122
17.3 Soap		
Local Sales:		
External customers	246,467	19,218
Modaraba Company - Global Econo Trade (Pvt) Limited	704,918	850,486
Associated undertaking - Treet Corporation Limited	-	1,106
	951,385	870,810
Less:		
Sales tax	(161,883)	(154,920)
Excise duty	-	(10,900)
Trade discount	(75)	-
	789,427	704,990

	Note	2012 (Rupees in thousand)	2011
18. COST OF GOODS SOLD			
Packaging Solutions - Corrugated boxes	18.1	1,159,639	938,217
Paper and Board Mill - Paper	18.2	534,201	470,493
Soap	18.3	667,194	609,903
Total Cost of sales for reportable segments		2,361,034	2,018,613
Elimination of inter-segment purchases		(381,336)	(414,068)
		1,979,698	1,604,545
18.1 Cost of goods sold - Packaging Solutions			
Opening stock		142,616	33,515
Add: Purchases			
Inter-segment		316,789	355,506
Others		719,288	543,589
		1,036,077	899,095
Less: Closing stock		(217,506)	(142,616)
Raw and packing material consumed		961,187	789,994
Stores and spares consumed		33,878	29,945
Outsourced manpower cost		80,633	59,935
Fuel and power		49,569	38,572
Depreciation	4.2	12,953	12,854
Repair and maintenance		12,054	4,064
Traveling and conveyance		5,107	1,038
Insurance		1,500	1,332
Rent, rates and taxes		173	83
Legal and professional		26	5
Other manufacturing expenses		2,521	1,484
		1,159,601	939,306
Work-in-process			
Add: Opening stock		3,575	5,108
Less: Closing stock		(3,044)	(3,575)
		531	1,533
		1,160,132	940,839
Finished goods			
Add: Opening stock		7,712	5,090
Less: Closing stock		(8,205)	(7,712)
		(493)	(2,622)
		1,159,639	938,217

	Note	2012 (Rupees in thousand)	2011
18.2 Cost of goods sold - Paper and Board Mill			
Opening stock		42,412	12,378
Add: Purchases			
Inter-segment		60,726	51,932
Others		246,858	279,594
		307,584	331,526
Less: Closing stock		(24,252)	(42,412)
Raw and packing material consumed		325,744	301,492
Stores and spares consumed		20,742	16,158
Fuel and power		126,514	99,678
Outsourced manpower cost		44,939	36,863
Depreciation	4.2	12,815	12,742
Repair and maintenance		3,789	5,152
Insurance		940	1,017
Traveling and conveyance		398	-
Legal and professional		213	-
Rent, rates and taxes		196	192
Other manufacturing expenses		628	990
		536,918	474,284
Work-in-process			
Add: Opening stock		-	-
Less: Closing stock		(191)	-
		(191)	-
		536,727	474,284
Finished goods			
Add: Opening stock		6,688	2,897
Less: Closing stock		(9,214)	(6,688)
		(2,526)	(3,791)
		534,201	470,493

	Note	2012 (Rupees in thousand)	2011
18.3 Cost of goods sold - Soap			
Opening stock		55,918	80,835
Add: Purchases			
Inter-segment		3,821	6,629
Others		632,891	493,745
		636,712	500,374
Less: Closing stock		(75,527)	(55,918)
Raw and packing material consumed		617,103	525,291
Stores and spares consumed		5,695	6,094
Fuel and power		32,387	38,621
Outsourced manpower cost		23,607	19,275
Plant Rental		7,776	7,740
Depreciation	4.2	2,678	548
Legal and professional		1,250	-
Repair and maintenance		1,112	637
Insurance		489	507
Travelling and conveyance		351	470
Fee and subscription		5	166
Other manufacturing expenses		708	1,443
		693,161	600,792
Work-in-process			
Add: Opening stock		14,682	23,868
Less: Closing stock		(34,913)	(14,682)
		(20,231)	9,186
		672,930	609,978
Finished goods			
Add: Opening stock		18,827	18,752
Less: Closing stock		(24,563)	(18,827)
		(5,736)	(75)
		667,194	609,903
19. ADMINISTRATION EXPENSES			
Outsourcing of manpower		8,518	5,991
Legal and professional		2,577	2,064
Auditors' remuneration	19.1	775	750
Vehicle running and maintenance		333	-
Printing and stationery		168	229
Travelling and conveyance		147	-
Postage and telephone		58	97
Others	19.2	244	154
		12,820	9,285

	2012	2011
	(Rupees in thousand)	
19.1 Auditors' remuneration		
Audit fee	600	500
Half yearly review	150	200
Out of pocket expenses	25	50
	775	750
19.2 This includes an amount of PKR 50,000 (2011: Nil) donated to Shoukat Khanum Memorial Trust. None of the directors of the Modaraba Company or their spouses have any interest in, or otherwise associated with recipient of donations made by the Modaraba during the year.		
	2012	2011
	(Rupees in thousand)	
20. DISTRIBUTION EXPENSES		
Freight and forwarding	48,174	34,295
Provision for doubtful debts	18,738	10,460
Outsourcing of manpower	6,603	4,870
Rent, rates and taxes	2,960	691
Advertisement	1,709	158
Traveling and conveyance	1,186	92
Postage and telephone	578	615
Printing and stationery	390	358
Legal and professional charges	-	32
Staff training	-	35
Others	591	-
	80,929	51,606
21. FINANCE COST		
Profit on demand finance	-	6,554
Bank charges	957	980
Exchange loss on import	2,021	402
	2,978	7,936
22. OTHER OPERATING INCOME		
Profit from bank on saving accounts	2,775	4,203
Sale of scrap	2,363	2,180
Others	111	-
	5,249	6,383

23. 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.

23.1 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 PKR 627.52 million (2011: PKR 333.90 million) financial assets which are subject to credit risk amount to PKR 627.40 million (2011: PKR 333.89 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:

	2012	2011
	(Rupees in thousand)	
Receivables from customers	245,645	262,662
Refundable deposits	11,884	11,492
Other Receivables	2,785	986
Bank balances	367,090	58,747
	627,404	333,887

	2012	2011
	(Rupees in thousand)	
The aging of receivable from customers at the reporting date is:		
Less than 30 days	200,989	-
Past due 1 - 3 months	34,856	262,662
Past due 3 - 6 months	8,644	-
Past due 6 - 12 months	1,156	-
Above one year	-	-
	245,645	262,662

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 Agency	2012	2011
	Short term	Long term			
(Rupees in thousand)					
MCB Bank Limited	A1+	AA+	PACRA	52,205	501
United Bank Limited	A-1+	AA+	JCR-VIS	3,047	1,482
Bank Islami Pakistan Limited	A1	A	PACRA	586	846
Barclays Bank PLC, Pakistan	A-1+	AA-	Standard & Poor's	733	15,629
National Bank of Pakistan	A-1+	AAA	JCR-VIS	702	414
Habib Bank Limited	A-1+	AA+	JCR-VIS	137	354
Bank Alfalah Limited	A1+	AA	PACRA	761	10,010
NIB Bank Limited	A1+	AA-	PACRA	782	2,234
Faysal Bank Limited	A-1+	AA	JCR-VIS	50,725	27,277
Dubai Islamic Bank Pakistan Limited	A-1	A	JCR-VIS	257,412	-
				367,090	58,747

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.

23.2 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 2012:

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

The following are the contractual maturities of financial liabilities as on 30 June 2011:

	Carrying Amount	Contractual Cash flow	6 Months or less	6-12 months	1-2 years	More than 2 years
------(Rupees in thousand)-----						
Due to Modaraba Company	457,111	457,111	457,111	-	-	-
Trade and other payables	89,655	89,655	66,486	23,169	-	-

23.3 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.

23.3.1 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:

	2012 (Rupees in thousand)	2011
Payables against imports	236	-

The following significant exchange rate have been applied:

	Average rate		Reporting date rate	
	2012	2011	2012	2011
USD to PKR	89.93	86.25	94.20	86.05

23.3.2 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.

23.3.3 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.

23.3.4 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.

23.4 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.

23.5 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 2012 and at 30 June 2011 were as follows:

	2012	2011
	(Rupees in thousand)	
Total debt	-	457,111
Total equity and debt	1,514,846	1,335,300
Gearing ratio	-	34%

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.

24. 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	2012	2011
		(Rupees in thousand)	
IGI Insurance Limited	Services received	72	2,250
Packages Limited	Purchases	85,120	80,228
Global Econo Trade (Private) Limited - Modaraba Company	Sales	704,918	687,385
TCL Labor-Hire Company (Private) Limited	Services received	104,099	92,313
Treet Corporation Limited	Sales	5,121	6,831
DIC Pakistan Limited	Purchases	13,037	10,932

24.1 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.

24.2 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.

25. PLANT CAPACITY AND PRODUCTION

	Annual rated capacity (Metric tons)		Annual production (Metric tons)	
	2012	2011	2012	2011
Corrugated boxes and sheets	30,000	30,000	21,699	19,187
Paper and board	15,000	15,000	10,878	9,907
Soap	5,000	5,000	4,657	4,800

26. BUSINESS SEGMENTS

As at 30 June 2012 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	
		2012	2011	2012	2011	2012	2011	2012	2011
-----Rupees in thousand-----									
Sales	17								
Inter-segment		64,547	58,562	316,789	355,506	-	-	381,336	414,068
Others		1,431,549	1,127,943	266,624	147,958	951,385	870,810	2,649,558	2,146,711
		1,496,096	1,186,505	583,413	503,464	951,385	870,810	3,030,894	2,560,779
Less:									
Sales tax		(192,116)	(153,656)	(35,322)	(21,185)	(161,883)	(154,920)	(389,321)	(329,761)
Excise duty		-	(13,676)	-	(2,157)	-	(10,900)	-	(26,733)
Trade discount		(809)	-	-	-	(75)	-	(884)	-
		(192,925)	(167,332)	(35,322)	(23,342)	(161,958)	(165,820)	(390,205)	(356,494)
Net sales		1,303,171	1,019,173	548,091	480,122	789,427	704,990	2,640,689	2,204,285
Cost of sales	18	(1,159,639)	(938,217)	(534,201)	(470,493)	(667,194)	(609,903)	(2,361,034)	(2,018,613)
Gross profit		143,532	80,956	13,890	9,629	122,233	95,087	279,655	185,672
Administration expenses		(10,012)	(7,615)	(1,059)	(937)	(1,749)	(733)	(12,820)	(9,285)
Distribution expenses		(76,849)	(50,893)	(3,139)	(560)	(941)	(153)	(80,929)	(51,606)
		(86,861)	(58,508)	(4,198)	(1,497)	(2,690)	(886)	(93,749)	(60,891)
Operating profit		56,671	22,448	9,692	8,132	119,543	94,201	185,906	124,781
Finance cost								(2,978)	(7,936)
Other operating income								5,249	6,383
Net profit for the year								188,177	123,228

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

	Corrugated boxes		Paper & board		Soaps		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
-----Rupees in thousand-----								
26.2 Segment assets	1,008,434	1,271,263	304,137	14,727	352,629	142,652	1,665,200	1,428,642
26.3 Segment liabilities	79,355	532,453	38,350	12,273	32,649	5,727	150,354	550,453

		2012	2011
27.	EARNING PER MODARABA CERTIFICATE - BASIC AND DILUTED		
	Profit for the year <i>Rupees in thousands</i>	188,177	123,228
	Number of certificates <i>Numbers in thousands</i>	80,000	72,685
	Earning per certificate <i>Rupees</i>	2.35	1.70

There was no dilutive effect on the basic earnings per modaraba certificate.

28. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 02, 2012 by the Board of Directors of Global Econo Trade (Private) Limited (Modaraba Company).

29. GENERAL

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

29.2 The Board of Directors in its meeting held on 02 October 2012 has proposed a final cash dividend of PKR 0.65 per certificate (2011: PKR 0.69 per certificate) for the year ended 30 June 2012 amounting to PKR 84.76 Million (2011: PKR 55.52 Million) for the approval of the certificate holders at the Annual Review Meeting to be held on 31 October 2012. These financial statements do not reflect this proposed dividend payable.

LAHORE:
 October 02, 2012



Syed Shahid Ali
 Chief Executive Officer



Muhammad Shafique Anjum
 Director

Pattern of Certificate-Holding as at June 30, 2012

NUMBER OF CERTIFICATE HOLDERS	CERTIFICATE HOLDING		TOTAL NUMBER OF CERTIFICATE HELD
	FROM	TO	
25	1	500	11,800
4	501	1,000	4,000
1	5,001	10,000	5,000
1	15,001	20,000	20,000
1	95,001	100,000	90,801
1	8,000,001	8,500,000	8,012,500
1	71,500,001	72,000,000	71,855,897
34			79,999,998

Categories of Certificate Holders	No. of Certificate Holders	Certificates Held	Percentage %
DIRECTORS			
SYED SHEHARYAR ALI	1	90,801	0.12
INDIVIDUALS	31	40,800	0.05
INVESTMENT COMPANIES	NIL	NIL	-
INSURANCE COMPANIES	NIL	NIL	-
JOINT STOCK COMPANIES	1	71,855,897	89.82
FINANCIAL INSTITUTIONS	NIL	NIL	-
MODARABA COMPANY	1	8,012,500	10.01
OTHERS	NIL	NIL	-
	34	79,999,998	100

CERTIFICATE-HOLDERS HOLDING 10% CERTIFICATES

Sr. No.	Name of Shareholder	Shares
1	TREET CORPORATION LIMITED	71,855,897
2	GLOBAL ECONO TRADE (PRIVATE) LIMITED	8,012,500

Key Operating Financial Data

	Rs.(000)	2012	2011	2010	2009	2008
Sales		2,259,353	1,790,217	1,476,843	695,983	489,112
Gross Profit		279,655	185,672	119,001	13,696	(23,459)
Profit before Taxation		188,177	123,228	48,516	(40,507)	(15,618)
Profit after Taxation		188,177	123,228	48,516	(40,507)	(15,618)
Certificate-holders' Equity		1,514,846	878,189	476,801	428,285	111,649
Fixed Assets - Net		322,813	341,557	323,704	229,996	156,266
Total Assets		1,665,200	1,428,642	948,012	755,783	535,238
Total Liabilities		150,354	550,453	471,211	327,498	423,589
Current Assets		1,313,386	1,075,593	612,394	525,747	378,932
Current Liabilities		150,354	93,342	264,521	327,498	39,754
Dividend Declared		6.50%	6.94%	2.73%	0.00%	0.00%
Certificates Outstanding		79,999,998	79,999,998	49,999,999	49,999,999	14,285,714

IMPORTANT RATIOS

	2012	2011	2010	2009	2008
Profitability					
Gross Profit	12.38%	10.37%	8.06%	1.97%	-4.80%
Profit before Tax	8.33%	6.88%	3.29%	-5.82%	-3.19%
Profit after Tax	8.33%	6.88%	3.29%	-5.82%	-3.19%
Return to Equity					
Return on Equity before Tax	12.42%	14.03%	10.18%	-9.46%	-13.99%
Return on Equity after Tax	12.42%	14.03%	10.18%	-9.46%	-13.99%
Earning per Certificates	2.35	1.70	0.97	(1.39)	(1.09)
Liquidity/Leverage					
Current Ratio	8.74	11.52	2.30	1.61	9.53
Break-up Value per Certificate	18.94	10.98	9.54	8.57	7.82
Total Liabilities to Equity	0.10	0.63	0.99	0.76	3.79

	% Change	2012	2011	2010	2009	2008
Sales		26.21%	21.22%	112.20%	42.30%	773.88%
Gross Profit		50.62%	56.03%	768.87%	-158.38%	116.85%
Profit before Taxation		52.71%	153.99%	-219.77%	159.36%	0.18%
Profit after Taxation		52.71%	153.99%	-219.77%	159.36%	0.18%
Certificateholders' Equity + Revaluation Surplus		72.50%	84.18%	11.33%	283.60%	-12.27%
Fixed Assets - Net		-5.49%	5.52%	40.74%	47.18%	-7.09%
Total Assets		16.56%	50.70%	25.43%	41.21%	70.36%
Total Liabilities		-72.69%	16.82%	43.88%	-22.68%	126.63%
Current Assets		22.11%	75.64%	16.48%	38.74%	159.63%
Current Liabilities		61.08%	-64.71%	-19.23%	723.81%	28.13%
Dividend		-6.20%	153.85%	-	-	-
Certificates Outstanding		0.00%	60.00%	0.00%	250.00%	0.00%

