

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed financial statements comprising of:

- i. balance sheet;
- ii. profit and loss account;
- iii. statement of changes in equity;
- iv. cash flow statement;
- v. statement of premiums;
- vi. statement of claims;
- vii. statement of expenses; and
- viii. statement of investment income;

of **The Crescent Star Insurance Company Limited (the Company)** as at 31 December 2009 together with notes forming part thereof, for the year then ended.

It is the responsibility of the Company's management to establish and maintain a system of internal control and prepare and present the financial statements in conformity with the approved accounting standards as applicable in Pakistan and the requirement of the Insurance Ordinance, 2000 (XXXIX of 2000) and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

Except as discussed in Paragraphs (i) below, we planned our audit in accordance with the auditing standards as applicable in Pakistan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 used and significant estimates made by management, as well as, evaluating the overall financial statement presentation.

We report that:

- (i) the following conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Further, the financial statements and notes thereto do not disclose this fact.
 - a) According to circular No. ID/01/2007 dated 10 April 2007, issued by the Securities and Exchange Commission of Pakistan (SECP), all non-life insurance companies are required to have a minimum paid up capital of Rs. 200 million as at 31 December 2009. However, the paid up share capital of the company was Rs.121 million at the end of the current year.
 - b) The company has incurred a loss of Rs.30.482 million during the current year which resulted in accumulated loss of Rs.68.100 million at the end of the current year.

However, the evidence available to us to confirm the appropriateness of preparing the financial statements on the going concern basis was limited because the Company has not demonstrated to us any plans to raise its Capital to meet the legal requirements and also not prepared any profit or cash flow projections for an appropriate period subsequent to the balance sheet date.

Accordingly, the effects of the above matters on the accompanying financial statements cannot presently be determined.

Because of the significance of the matters discussed in paragraphs (i) above, we are unable to form an opinion as to whether:

- a) proper books of account have been kept by the Company as required by the insurance Ordinance, 2000, and the Companies Ordinance, 1984;
- b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000, and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied except for the changes resulted on initial application of standards, amendments or an interpretation to existing standards and a change in accounting estimate, as stated in note 3.2 and 15.2, with which we concur; and

- c) the financial statement together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at 31st December 2009 and of the loss, its changes in equity and cash flows for the year then ended in accordance with approved accounting standards as applicable in Pakistan and give the information required to be disclosed by the Insurance Ordinance, 2000, and the Companies Ordinance, 1984.

In our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Mochhala Gangat & Co.
Chartered Accountants

Name of the audit engagement partner:
Mr. Hussaini Fakhruddin

Karachi
Date: