

Director's Report

Dear Shareholders,

I herewith present to you the annual report and audited accounts for the year ended 31st December 2009. The year 2009 was a difficult year for many a businesses. I am pleased to report that the difficulties faced by us in the aftermath of global financial crisis and ensuing losses suffered by our company particularly investment losses on the stock market have been fully accounted for and we can now expect a turnaround in business with profitable results in the future. As we move forward in the year 2010 we expect the company to recoup and regain its lost ground and profitability. While the world's major economies talk of an economic rebound, unfortunately in Pakistan the future remains uncertain and tied in confusion. In an indebted economy compounded with a war like situation in the northern areas, disturbed law and order situation and growing economic imbalances, frankly speaking, no easy solution exists. The situation is however not insurmountable and we believe the government has the maturity and the ability to tide things over.

Capital Compliance Requirements:

The SECP, in May of last year, issued a directive without the mandatory show cause, asking us to stop business as the company failed to meet the minimum capital requirements as prescribed under the Insurance ordinance 2000. We had no recourse but to seek relief from the Sind High Court. Amongst the issues in contention was fact that the regulator, in May of 2009, gave a two year extension in meeting the capital requirements to NBFC (Leasing and Modarba companies) on account of a poor investment climate prevailing in the country. However, for some reason insurance companies were denied such an extension, although we too had well in time requested the SECP for such an extension, citing that there was very little investor confidence in our markets.

The penetration of the insurance industry in our society is abysmally low when compared to other developing countries in our region. There exists a much greater need for the proliferation of more insurance companies with good reinsurance arrangements to meet the development needs of the country. In these existing circumstances, when the investment climate in the country is not favourable, we expected better maturity in deciding the capital and solvency requirements which must be assessed in line with our country's needs. It was expected that the SECP would reconsider the matter in light of the changed situation in the country. We believe a better basis for capital and solvency requirements, in existing circumstances, could be on the basis of business underwritten. I am pleased to inform you that the reinsurance treaty renewals for the year 2010 were completed well in time with our existing AA rated reinsurers. In a difficult national environment, I wish to thank the reinsurers for having reposed their continued confidence in our company.

The salient details of our operating results for the last three years are given below. During the year we followed a cautious business policy. We adopted improved risk management practices and restricted credit. SECP directives also had its toll on our business and we continued to face difficulties with the banks and with small single risk bank limits. I wish to take this opportunity to thank all our clients who continued to repose their confidence in the company. The motor department was the focus of our attention during the year as we tried to reduce its share in our

overall business mix. We discontinued with a large part of our motorcycle business as our experience was unsatisfactory. As a result, there was an expected drop in premium in our motor business. Our operational profits for the year were accordingly rendered thin. However we expect that the measures undertaken by the management will help improve the underwriting profitability and financial health of our company.

	2009	2008	2007	%
Gross Premium	132,579,281	175,567,208	197,212,378	(24.48)
Net Premium	105,363,790	140,800,091	170,280,661	(25.17)
Investment Income	(25,008,889)	(9,010,802)	(19,392,772)	(177.54)
(Loss)/Profit Before Tax	(43,378,915)	(37,399,074)	26,086,171	15.98
(Loss)/Profit After Tax	(30,482,845)	(37,728,837)	24,035,996	(19.20)
Total Assets	237,776,231	286,698,340	310,798,156	(17.06)
Earning Per Share(EPS)	(2.52)	(3.14)	2.19	(19.74)

Future Business Plans:

During the year we were engaged in discussions with several companies for merger, acquisition and or amalgamation. Our preliminary talks with some companies after a positive start, as reported to you in my last annual report, could not materialize. After great efforts we were able to find a company which suited our needs and met our requirements. I am pleased to report that we are now in an advanced stage of our negotiations/discussions wherein Crescent Star will be the acquisition company and the surviving entity. We expect to keep our stakeholders fully informed and will make a formal announcement very soon in the near future. The synergies and addition of financial muscle to our company will be of great benefit to all the stakeholders.

The company continues to enjoy BBB rating from JCR and once the merger / acquisition is completed, we expect Crescent Star's IFS rating to improve for the better. We also expect that the easing of single risk bank limits and other restraining factors, which hamper our growth and progress, will be overcome and we expect to become a significant player in the market.

The details of loss appropriation for the year is as follows.

(Loss)/Profit Before Tax	(43,378,915)
Add: Provision for Tax	<u>12,896,071</u>
(Loss)/Profit After Tax	(30,482,845)
Un-appropriated (loss)/ Profit (from last year)	<u>(37,617,181)</u>
Balance Un appropriated Loss at the end of the year	(68,100,026)

The auditor's qualification on capital requirements as required under insurance ordinance 2000 will hopefully be met by the acquisition merger and we are confident that hopefully we will soon be in full compliance with the insurance ordinance.

The value of investment Provident Fund maintained by the company based on latest audited financial statement a at 31st December 2008 is Rs. 13,928,260.

Auditors: The retiring auditors M/S. Mochala Gangat & Company have offered themselves for reappointment for the year ending December 31, 2010.

Compliance with the Code of Corporate Governance:

The requirements of the code set out by the stock exchanges in the listing regulations, relevant for the year ended December 31, 2009, have been duly complied with. A statement to this effect is annexed with the report.

Statement of Directors responsibilities under the code of corporate governance:

The directors confirm compliance with the corporate and Financial Reporting Framework of the SECP Code of Governance for the followings:-

- a) The financial statements, prepared by the Company present fairly its state of affair the results of its operations, cash flows and changes in equity.
- b) The Company has maintained proper books of accounts as required under the Companies Ordinance, 1984.
- c) The Company has followed consistently appropriate accounting policies in preparation of the financial statements, changes where made, have been adequately disclosed and accounting estimates area on the basis of prudent and reasonable judgement.
- d) Financial statements have been prepared by the company in accordance with the International Accounting Standards, as applicable in Pakistan, requirement of Companies Ordinance.1984, Insurance Ordinance, 2000, and the Securities and Exchange Commission (Insurance) Rules, 2002.
- e) The system of internal control is sound, effectively implemented and monitored. The process of review will continue to strengthen the system for its effective implementation.
- f) There is no significant doubts upon the Company's ability to continue as a going concern..

The Company has followed the best practices of corporate governance, as laid down in the listing regulations of the stock exchanges and there has been no material departure.

Board Meetings and Attendance:

During the year four meetings of the Board of Directors were held and the number of meetings attended by each director is given hereunder:-

Name of Director	Number of Board Meetings Attended
Mr. Ardeshir Cowasjee	4
Mr. Razzak E. Jaffer	3
Mr. Outubddin A. Millwala	4
Mr. Munir I. Millwala	4
Mr. Fida Hussain Samoo	2
Mr. Fayyaz F. Millwala	3
Mr. Hussainai I. Millwala	4
Mr. Mohammadi H. Millwala	3

Leave of absence was granted to directors unable to attend a meeting.

Auditors:

The present auditor M/s Moochhala Gangat & Co, Chartered Accountant retires and present themselves for re-appointment as external auditors for the year ended 31st December 2010.

Audit Committee:

The Company has an audit Committee, and had four meetings during the year 2009.

STATEMENT OF ETHICS AND BEST BUSINESS PRACTICES

The Board has adopted "the Statement of Ethics and Business Practices" and circulated to all the directors and employees for their acknowledgement and acceptance.

Company Reporting:

The company reports to the shareholders 4 times a year with its 1st quarter, half-yearly, 3rd quarter and full year results, along with the director's reports on the operations and future outlook for the company. All reports are sent to Stock exchanges and to the registered with the Company.

Pattern of Shareholding:

A pattern of shareholding is shown separately

Acknowledgement:

On conclusion of my report, I wish to thank the Board of Directors for their valuable advices. In difficult times their support and advices have indeed been very valuable to me and motivating for

the management. My thanks are also for the General Manager, officers, staff and the field force whose loyalty and dedication made us ever more determined to succeed. My thanks are also for our reinsurers namely Mitsui Sumitomo, Pakistan Reinsurance Company and Korea Re, whose cooperation and support during the year was invaluable to us. My thanks are also due to The Securities and Exchange Commissions (Insurance Department) for their support and assistance. Finally, I also wish to thank our valuable clients and shareholders for having reposed their continuing trust in our company.

Munir I. Millwala
Chairman & CEO