

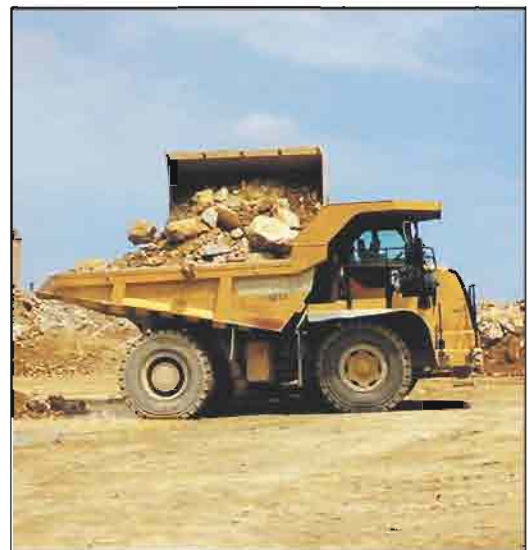


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Our Vision

To be the market leader through
Innovative and Reliable
Equipment Rental Solution of
Caterpillar range of products.



Our Mission



To Provide best value to our customers through innovative and reliable Power Generation, Earth Moving and Material handling Equipment Rental solutions.

To Maintain the market leadership in Power Generation Equipment Rental through continuous growth of Rental Fleet.



To continuously strive for Modaraba Certificate Holders' value by aggressively pursuing growth and profit opportunities that leverage our engineering and financial services expertise.

To pursue profitable growth opportunities in Caterpillar Earth Moving, Material Handling and other Equipment Rental Solutions, diversifying our portfolio to other areas of Equipment Rental solutions.



To provide its countrywide workforce with an environment that stimulates innovation, teamwork, continuous learning and improvement.

Core Values

No document Allied Rental Modaraba has published is more important than our Code of Conduct. From time to time we may revise its words to reflect our constantly evolving enterprise, but the Code's basic principle - our integrity - has never changed.

Modaraba's reputation for integrity is our most valuable asset. Integrity encompasses all that defines and sustains us as a Modaraba - the values we believe in, the high ethical standards we live by, our honesty and behavior in dealing with others, and our commitment to deliver on the promises we make to customers, certificate holders and each other.

Business Ethics

As Modaraba employees, we believe in the importance of working and living according to strong ethical values. As a company and as individuals, we hold ourselves to the highest standard of integrity and ethical behavior: We must always tell the truth.

Human Relationship

Modaraba's continued success requires that we continually seek ways to do our jobs and make our products and services better. Using our individual skills and talents, we must each take personal responsibility for meeting our shared goals and keeping our commitments. We must always consider an "enterprise point of view" that promotes the best results for our Modaraba as a whole.

Business Practices

We know that we can achieve long-term business success only when everyone involved behaves honestly and responsibly. We guide our business practices by this principle and expect everyone who does business with us to do the same.

Social Responsibility

Wherever we conduct business or invest our resources, we know that our commitment to financial success must also take into account social, economic, political and environmental priorities. We believe that our success should also contribute to the quality of life and the prosperity of communities where we work and live.

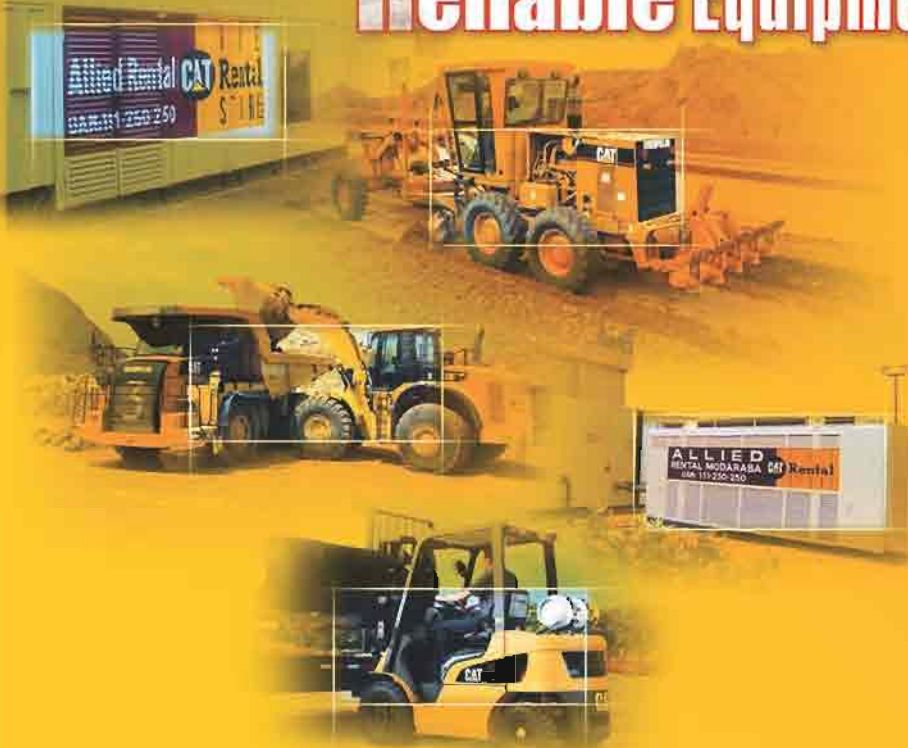
Living by the Code

Without the commitment of all Modaraba employees to guide their professional and personal behavior according to our Code of Conduct, its principles become only words. Each of us must accept personal responsibility to read the Code, understand what it means, and apply it consistently.



WE ARE THERE
Whenever and Wherever
YOU NEED US...

Dependable
Reliable Equipment Rental Solutions



- **Gas & Diesel Generators on Rent (100-2450 kVA)**
- **Powerhouse O&M Contracts**
- **Construction Equipment Rental**
- **Cement Quarry Operations**
- **Forklifts Rental**
- **HVAC O&M Contracts**

Mobile Lighting Towers

We are there
Whenever & Wherever
You need us...



- Ease of Setup and Mobility
- Plug and Play Units
- Powered by Self Mounted Caterpillar Engine
- SHO-HD (Super High Output - High Definition) Lamps Provide 150,000 Lumens Per Fixture
- Intuitive Lamp Positioning for Adjustments of Fixtures from Ground
- Enhanced Safety
- Environment Friendly

Modaraba Information

Directors of Modaraba Company	<p>Mr. Khwaja Asif Rahman Chairman</p> <p>Mr. Murtaza Ahmed Ali Chief Executive</p> <p>Mr. Shams Ghani Director Finance & Company Secretary</p> <p>Syed Feisal Ali Director</p> <p>Mr. Ali Akbar Director</p> <p>Mr. Raees A. Khan Director</p> <p>Mr. Tajdar A. Shah Director</p>
Audit Committee	<p>Syed Feisal Ali (Chairman)</p> <p>Mr. Murtaza Ahmed Ali (Member)</p> <p>Mr. Ali Akbar (Member)</p> <p>Mr. Ilyas Asif (Internal Auditor & Secretary)</p>
Auditors	<p>KPMG Taseer Hadi & Co. Chartered Accountants</p>
Bankers/Lending Institutions	<p>Soneri Bank Ltd</p> <p>BankIslami Pakistan Limited</p> <p>MCB Bank Ltd</p> <p>National Bank of Pakistan</p> <p>Pak Kuwait Investment Company Ltd</p> <p>Standard Chartered Modaraba</p> <p>First Habib Modaraba</p>
Legal Advisor	<p>Mr. Khalil Ahmed Siddiqui, Advocate</p>
Registered & Head Office	<p>21/3 Sector 22, Korangi Industrial Area, Karachi - 74900</p> <p>UAN 111 250 250</p>
Registrar	<p>Gangjees Registrar Services (Pvt.) Limited</p> <p>516, Clifton Centre, Khayaban-e-Roomi</p> <p>Block-5, Clifton, Karachi.</p> <p>Phone: (021) 35375714</p>
Website	<p>www.arm.com.pk</p>

Credit Rating



Long Term



Short Term

JCR-VIS Credit Rating Company Limited

Affiliate of Japan Credit Rating Agency, Ltd.

Founder Shareholder – Islamic International Rating Agency (IIRA), Bahrain
Joint Venture Partner – Credit Rating & Information Services Ltd. (CRISL), Bangladesh
Member – Association of Credit Rating Agencies in Asia (ACRAA)

Press Release

JCR-VIS assigns initial Entity Ratings of A-/A-2 to Allied Rental Modaraba with a stable Outlook

Karachi, May 13, 2010: JCR-VIS Credit Rating Company Ltd. (JCR-VIS) has assigned initial entity rating of 'A-/A-2' (Single A Minus/ A- Two) to Allied Rental Modaraba (ARM). Outlook on the rating is 'Stable'.

Allied Rental Modaraba (ARM) is managed by Allied Engineering Management Company (Private) Limited, which is in-turn a wholly owned subsidiary of Allied Engineering and Services Limited (AESL): sole distributor of Caterpillar Inc. (CAT) products in Pakistan. The modaraba commenced operations in January 2007 and is primarily engaged in Providing CAT products on rental basis together with offering operation and maintenance services on CAT equipment to clients. Power generation sets comprise major portion of ARM's rental fleet though the modaraba also offers forklift trucks, industrial engines, earth moving equipment and allied products.

With a net worth of over Rs. 1b and low reliance on debt funding, financial position of ARM has remained sound despite the currently turbulent macro economic environment on account of the modaraba's unique business model. The modaraba has been profitable from the first year of its operations on account of high utilization of rental fleet due to increasing demand for power generation equipment offered because of the deepening energy crisis. In view of the rising energy demand expansion of the generator rental fleet is expected to continue, which may allow the modaraba to maintain momentum of growth of profitability. While current ratio has remained below 1x thus far there has been improvement in this regard: moreover, ARM has been able to comfortably meet its debt repayment and growth needs via continuous stream of inflow on account of operating lease rentals and operation and maintenance revenues.

The Board and senior management of ARM comprises qualified personnel with sound industry experience. Steps have been taken for improvement in controls including implementation of an IT system, expected to be completed shortly, improvement in governance structure and corporate governance practice along with ability to meet budgeted performance targets will be key rating drivers going forward.

Product Profile

Power Generation Equipment

Allied Rental offers a wide range of Caterpillar power generation equipment to meet the most specific power requirements from all areas of industry for various types of applications. Caterpillar generators have an unrivaled reputation world-wide for quality, strength and reliability, are all produced under ISO 9001 standards and to meet the highest safety standards. Our Rental fleet comprises of both Gas and Diesel Generators ranging from 100 – 2450 kVA. Our key strength is the ability to offer customized solutions to match each customer's unique requirements. This we effectively accomplish through our highly qualified, trained and motivated human resource and state of the art facilities in Karachi,

Lahore and Islamabad. Thanks to our expertise and equipment, we have a long list of satisfied customers including almost all reputed national and multi-national companies and business houses from various sectors.



Powerhouse Operation and Maintenance (O&M)

Besides Power Generation Rental Services, the company also provides unmatched and exclusive CATERPILLAR powerhouse Operation and Maintenance (O&M) services to a large number of clients that include all major national and multi-national corporations / organizations in diverse fields as Textiles, Spinning, Pharmaceuticals, Oil & Gas, Petrochemical, Process & Chemical plants, Hotels, Institutes, Hospitals, etc. With its professionally trained technical staff having rich experience in CATERPILLAR Gensets and effective back-to-back support system with AESL, ARM offers total powerhouse management including complete Operation and Maintenance for the customer owned equipment.



Construction Machines

The company also operates in Construction Machines rental business. Caterpillar machines are leaders in earth moving applications. This segment also holds promise, especially in view of increased construction activities in the country. The construction machines fleet includes Wheel Loaders, Soil Compactors and Motor Graders. Robustness, fitness and reliability are the hallmarks of our machines rental services. These are ensured by strict compliance of manufacturer's recommendations regarding operation and maintenance of machines by our technical experts.



Product Profile

Lighting Towers

This is a new addition to our Rental fleet and a quick fix solution pertaining temporary lighting problems at various sites and situations. The utility of this equipment spans to Process Industries, Event Management, Construction sites, Oil and Gas fields, Outdoor Games, Exhibitions, and Shopping Malls etc. Ease of setup and Mobility is a key feature of our plug and play mobile units. The use of Caterpillar Engine in these lighting towers ensures reliability, performance and enhanced safety in an environment friendly manner.



Forklifts

Realizing the need for expert Forklift rental services in the market, the company has ventured in to this segment as well. The results have been very encouraging and the existing customers are extremely satisfied with our performance. The essence of our Forklifts services solution is “Total Outsourcing Concept” where all aspects of Forklifts’ Ownership, Operation, Maintenance and Management are handled through one window, keeping in view customer’s unique and customized requirement thus relieving the customer to concentrate on his core business activity. The result is the maximum efficiency and peace of mind for our customers for their inbound logistics.



Cement Quarry Operations

Allied Rental also offers Cement Quarry handling solutions with state of the art Caterpillar Machines. Currently Allied is engaged in a long term contract with a cement plant for handling its Quarry operations. The equipment deployed at Cement plant includes Off-highway Trucks, Wheel Loaders, Dozers and Motor Graders.



Staff Activities



Winner of Allied Premier League 2010
(Rental Titans)



Cricket Team (Rental Titans) Karachi



Cricket Team (Rental Falcons) Karachi



Table Tennis Team

Staff Activities

Inter Regional - Cricket Championship



Rental Titans - Khi v/s Rental Gladiators - Lhr



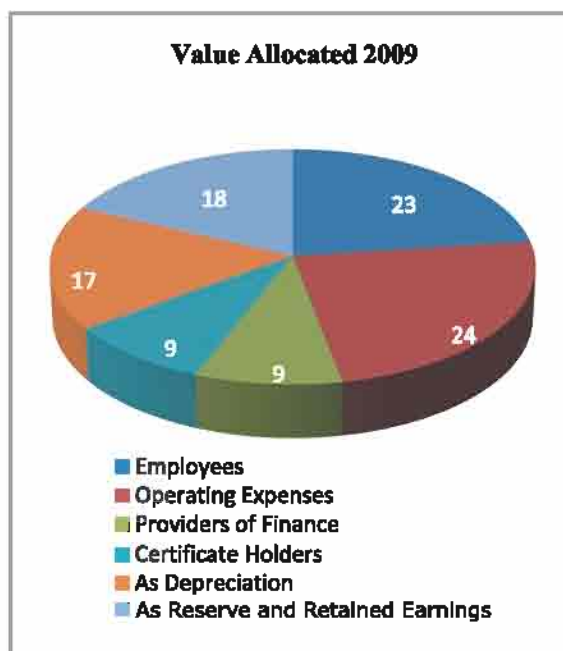
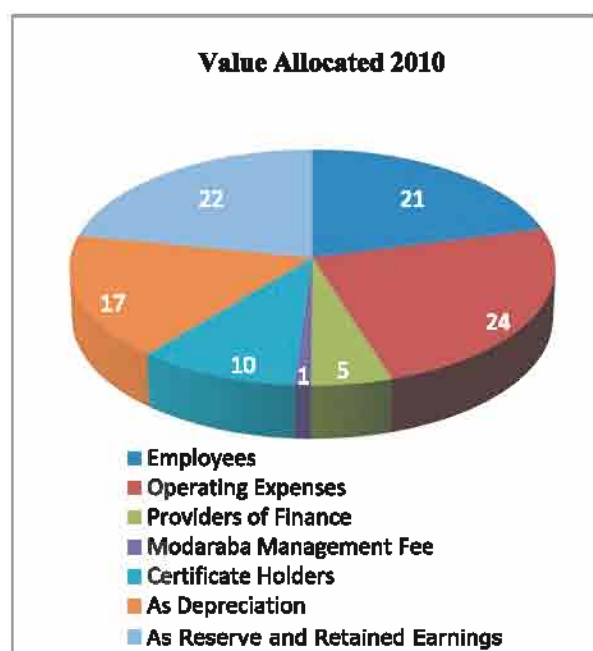
Winner of the Inter Regional Championship
(Rental Titans - Karachi)

Key Financial Data

		2010	2009	2008
Total Assets	Rs. Million	1,511	1,273	976
Current Assets	Rs. Million	205	183	223
Current Liabilities	Rs. Million	317	203	283
Paid-up Capital	Rs. Million	600	600	300
Reserves	Rs. Million	550	362	156
Stock Holders' Equity	Rs. Million	1,150	962	456
Gross Profit	Rs. Million	338	250	188
Net Profit	Rs. Million	278	176	128
Profit after Tax Ratio	%	32	27	28
Return on Asset	%	20	16	15
Return on Equity	%	26	25	31
Return on Capital Employed	%	22	17	18
Expense Ratio	%	68	73	72
Current Ratio	times	0.65 : 1	0.90 : 1	0.79 : 1
Price Earning Ratio	times	3.24	3.75	5.04
Earning per Certificate - basic and diluted	Rs.	4.63	3.60	3.37
Dividend Yield Ratio	%	12	9	13
Dividend Pay out Ratio	%	49	42	59
Cash Dividend	%	22.5	15	20
Cash Dividend per Certificate	Rs.	2.25	1.50	2.00
Book Value per Certificate	Rs.	19.16	16.03	15.18

Value Added Statement

	2010		2009	
	Rs in '000	(%)	Rs. In '000	(%)
VALUE ADDED				
Revenue from Operation	813,624	95	613,871	94
Profit on Ijarah Finance	15,773	2	19,464	3
Other Income	27,528	3	16,645	3
	856,925	100	649,980	100
VALUE ALLOCATED				
Employees	181,609	21	150,656	23
Operating Expenses	205,230	24	157,095	24
Providers of Finance	40,674	5	55,533	9
Modaraba Management Fee	8,597	1	-	-
Certificate Holders	90,000	11	60,000	9
Expansion & Growth				
As Depreciation	142,842	17	110,555	17
As Reserve and Retained Earnings	187,973	22	116,141	18
	856,925	100	649,980	100



Vertical Analysis

BALANCE SHEET

ASSETS

Current Assets

Bank balances	6%	3%	12%
Trade debts - unsecured, considered good	5%	6%	7%
Advances, prepayments and other receivable	1%	2%	1%
Current portion of investment in Ijarah finance / asset under ijarah arrangement	1%	4%	3%

Non-Current Assets

Investment in Ijarah finance / assets under ijarah arrangements	14%	14%	23%
Long term security deposits	5%	7%	12%
Fixed assets - tangible	1%	2%	4%

2010 2009 2008

	14%	14%	23%
	86%	86%	77%
	100%	100%	100%

LIABILITIES AND EQUITY

Current Liabilities

Trade and other payables	9%	6%	8%
Borrowing from an associated company - unsecured	0%	0%	6%
Due to Management Company	1%	0%	0%
Current maturity of Diminishing Musharakah	8%	0%	0%
Current maturity of Ijarah Finance	4%	10%	15%

Long Term and Deferred Liabilities

Deferred liabilities	21%	16%	29%
Security deposits from lessees	1%	1%	1%
Liabilities against assets subject to Ijarah Finance	0%	0%	1%

Equity

Certificate capital	3%	8%	24%
Certificate premium	40%	47%	31%
Statutory (mandatory) reserve	6%	7%	0%
Unappropriated profit	21%	14%	9%

	21%	16%	29%
	3%	8%	24%
	76%	76%	47%
	100%	100%	100%

PROFIT AND LOSS ACCOUNT

Operating lease rentals	77%	74%	71%
Operation and maintenance income	18%	21%	23%
Profit on finance lease arrangements	2%	3%	5%
Other income	3%	3%	1%

Gross Revenue

Operating expenses	100%	100%	100%
Administrative and distribution expenses	57%	59%	58%
Finance Expenses	6%	7%	7%
Workers Welfare Fund	2%	7%	7%

Total Expenses

Modaraba management fee	1%	0%	0%
Profit Margin	32%	27%	28%

	67%	73%	72%
	1%	0%	0%
	32%	27%	28%

Horizontal Analysis

BALANCE SHEET

ASSETS

Current Assets

Bank balances	151%	-71%	53%
Trade debts - unsecured, considered good	2%	10%	96%
Advances, prepayments and other receivable	-5%	242%	71%
Current portion of investment in Ijarah finance / asset under ijarah arrangement	-66%	84%	199%

Non-Current Assets

Investment in Ijarah finance / assets under ijarah arrangements	-17%	-30%	319%
Long term security deposits	-35%	-29%	134%
Fixed assets - tangible	24%	64%	21%

LIABILITIES AND EQUITY

Current Liabilities

Trade and other payables	57%	8%	12%
Borrowing from an associated company - unsecured	0%	-100%	187%
Due to Management Company	4110%	-88%	-77%
Current maturity of Diminishing Musharakah	100%	0%	0%
Current maturity of Ijarah Finance	-46%	-18%	69%

Long Term and Deferred Liabilities

Deferred liabilities	81%	26%	1350%
Security deposits from lessees	-100%	-82%	382%
Liabilities against assets subject to Ijarah Finance	-69%	-56%	37%

Equity

Certificate capital	0%	100%	0%
Certificate premium	0%	100%	0%
Statutory (mandatory) reserve	78%	98%	245%
Unappropriated profit	52%	43%	106%

PROFIT AND LOSS ACCOUNT

Operating lease rentals	38%	47%	131%
Operation and maintenance income	12%	25%	238%
Profit on finance lease arrangements	-19%	-21%	1158%
Other income	65%	304%	-62%

Gross Revenue

Operating expenses	29%	42%	201%
Administrative and distribution expenses	-2%	49%	31%
Finance Expenses	-52%	32%	212%
Workers Welfare Fund	100%	0%	0%

Total Expenses

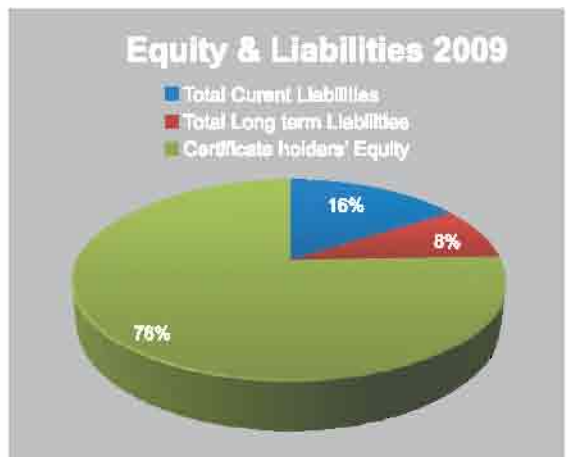
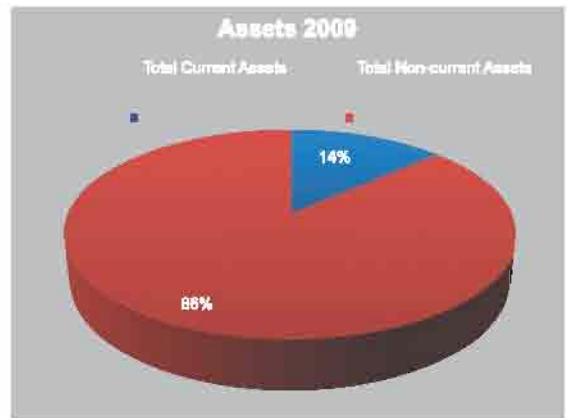
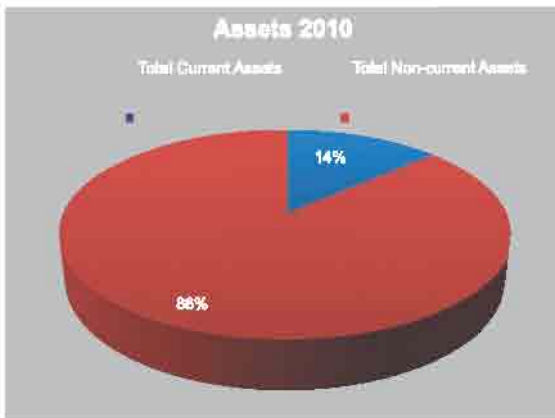
Modaraba Management Fee	100%	0	-100%
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Profit Margin

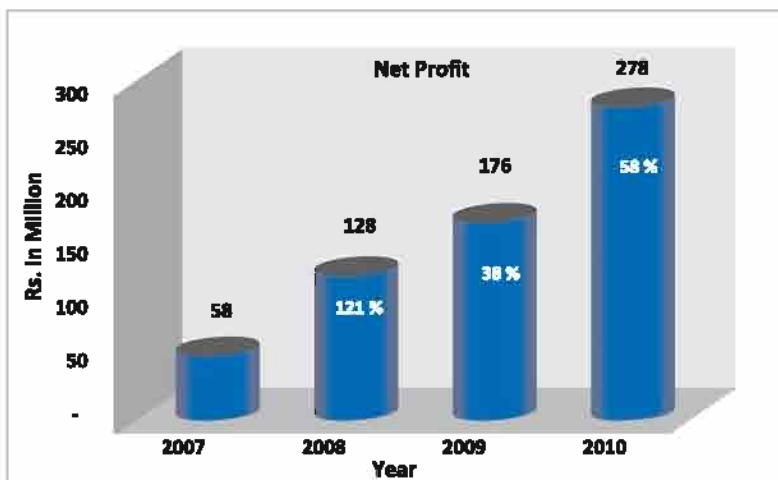
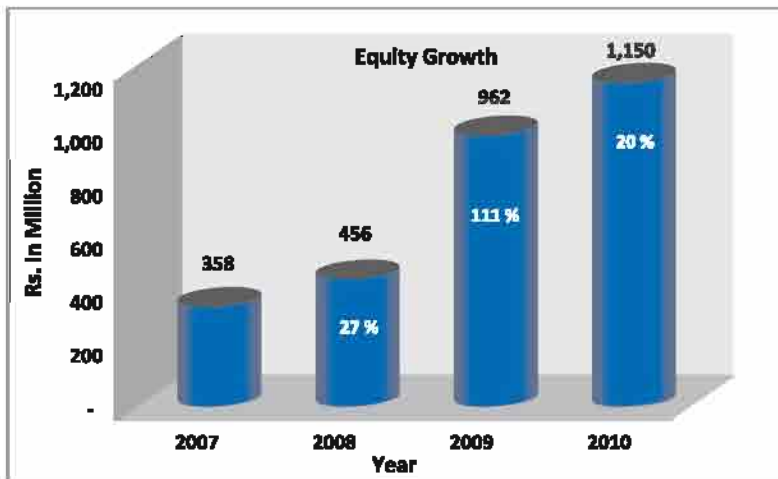
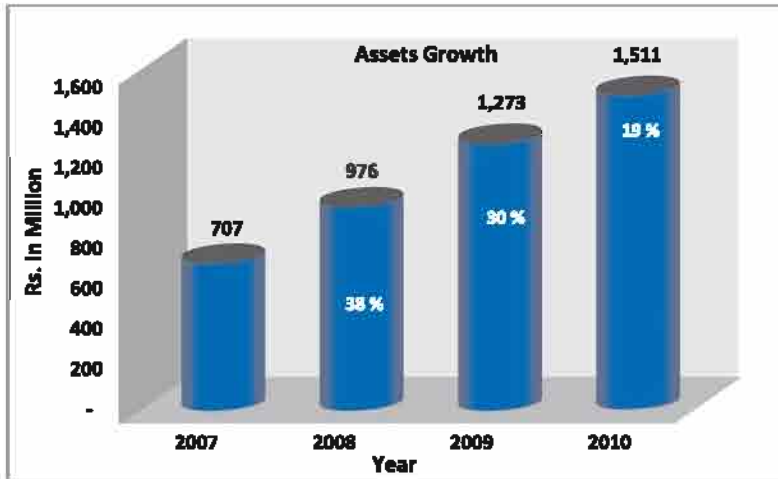
2010 2009 2008

12%	-18%	33%
19%	30%	38%
56%	-28%	55%
81%	26%	1350%
-59%	-55%	43%
0%	100%	0%
0%	100%	0%
78%	98%	245%
52%	43%	106%
20%	111%	27%
19%	30%	38%
32%	41%	149%
29%	42%	201%
-2%	49%	31%
-52%	32%	212%
100%	0%	0%
20%	42%	169%
100%	0	-100%
58%	38%	120%

Balance Sheet Composition



Financial Summary at a Glance



Notice of Annual Review Meeting

Notice is hereby given that the Fourth Annual Review Meeting of certificate holders of Allied Rental Modaraba will be held on Friday October 22, 2010 at 4.00 P.M. at the registered office 21/3, Sector 22, Korangi Industrial Area, Karachi, to review the performance of the Modaraba for the year ended June 30, 2010.

The certificate holders whose names appear on the Register of certificate holders of Allied Rental Modaraba as on October 15, 2010 will be eligible to attend the Annual Review Meeting.

By Order of the Board

Shams Ghani
Company Secretary
Allied Engineering Management
Company (Pvt.) Ltd
Managers of Allied Rental Modaraba

Karachi: September 21, 2010

Note:

1. The Certificate Transfer Book will remain closed from October 16, 2010 to October 22, 2010 (both days inclusive) for the purposes of entitlement of dividend and attending Annual Review Meeting. All transfers received in order, up to close of business on October 15, 2010 at our Registrar's office M/s Gangjees Registrar Services (Pvt) Limited, 516 Clifton Centre, Khayaban-e-Roomi, Block 5, Clifton, Karachi, will be considered in time.
2. CDC Certificate holders desiring to attend the meeting are requested to bring their original CNIC, Account And Participant's ID number for identification purposes.

Directors' Report

The Board of Directors of Allied Engineering Management Company (Pvt.) Limited, the management company of Allied Rental Modaraba, is pleased to present to its certificate holders the Directors' Report together with Audited Financial Statements of the Modaraba for the year ended June 30, 2010.

Financial Highlights

	Rs in '000
Profit for the year	277,973
Un-appropriated profit brought forward	<u>3,738</u>
Available for Appropriation	281,711
Transfer to Statutory Reserve @ 50% of profit for the year	138,986
Proposed cash dividend @ 22.5% (Rs. 2.25 per certificate)	<u>135,000</u>
Un-appropriated profit carried forward	<u>7,725</u>
Net profit margin	32 %
Return on equity	26 %
Earning per certificate	Rs. 4.63
Break-up value per Certificate	Rs. 19.16

Business Review

The year under review being the 4th year of operation, the Modaraba made new records in terms of volume and profits. The gross revenue soared to Rs. 829 million as against 633 million, an increase of 31% over last year. The profit also jumped to Rs. 278 million as against Rs. 176 million earned during last year, thus an increase of 58%. Despite high inflationary pressure, the management managed to contain its impact to a minimum and the operational cost to income ratio was maintained, thus improving the bottom line significantly.

Dividend

The Board is pleased to announce a cash dividend of 22.5% i.e. Rs. 2.25- per Certificate of Rs. 10/- each.

Credit Rating

The Management of the Modaraba is pleased to inform that JCR-VIS Credit Rating Company Limited assigned a rating of "A-" (Single A minus) as Long Term and "A-2" (Single A minus two) as Short Term with Outlook as Stable.

Future Outlook

The Management is continuously investing in the Power Generation Equipment to retain its leadership position in the Power Generation Rental segment. It is also investing in Caterpillar Earth moving equipment to diversify its business portfolio and cater for the Machine Rental segment, which though

Directors' Report

presently is slow due to lack of funding on infrastructure development, but is expected to grow as projects come on stream and contractors look for quality rental equipment to meet completion deadlines. The Management is exploring new avenues with regard to induction of new product lines in the Rental Fleet. It is also negotiating long term Rental / BOT projects in Power Generation and Material Handling Equipment, which if materialize will help in achieving the growth targets of the Modaraba.

Corporate & Financial Reporting Framework

- The financial statements prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Modaraba have been maintained
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.
- The system of internal control, which is in place, is being continuously reviewed by internal audit and other such procedures. The process of review will continue and any weakness in controls will be removed.
- There are no significant doubts upon the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in listing regulations.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on June 30, 2010 except for those disclosed in the financial statements.
- The numbers of board meetings held during the year 2009 – 2010 were four. Attendance of each director was as follows;

Mr. Khwaja Asif Rahman	4
Mr. Murtaza Ahmed Ali	4
Syed Feisal Ali	4
Mr. Shams Ghani	4
Mr. Ali Akbar	4
Mr. Raees Akhtar Khan	3
Mr. Tajdar A.Shah	0

Leave of absence was granted to directors who could not attend the above meeting.

- The pattern of holding of certificates by the certificate-holders is annexed to this report.

The trading in certificates carried out by the Directors, CEO, CFO, Company Secretary, their spouses and minor children is reported as under.

Name	Designation	Purchase	Sale
Mr. Murtaza Ahmed Ali	Chief Executive Officer	11,400	-
Syed Feisal Ali	Director	50,000	-

Auditors

On the recommendation of the Audit Committee, the Board has approved the appointment of the present auditors Messrs. KPMG Taseer Hadi & Co. Chartered Accountants as auditors for the year ending June 30, 2011 subject to the approval of Registrar of Modaraba Companies & Modarabas.

Acknowledgement

The Board wishes to place on record its sincere gratitude to the Registrar Modaraba, Religious Board, financial institutions and its business partners for their continued support and guidance; and its customers for their continued patronage and business.

On Behalf of the Board

Murtaza Ahmed Ali
Chief Executive

September 21, 2010

Statement of Compliances with the Code of Corporate Governanve

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of the Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed modaraba is managed in compliance with the best practices of corporate governance.

Allied Engineering Management Company (Private) Limited (Modaraba Company) is not listed. However, Allied Rental Modaraba is listed at Karachi Stock Exchange. The Board of Directors of the Modaraba Management Company is responsible for managing the affairs of the Modaraba.

Allied Rental Modaraba has applied principles contained in Code in the following manner:

1. The Board presently comprises seven directors including five non-executive directors.
2. The directors have confirmed that none of them is serving as director in more than ten listed companies, including this Company.
3. All the directors of the Modaraba Management 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 NBFIs or, being a member of a stock exchange, has been declared as defaulter by that stock exchange.
4. No casual vacancy on the Board occurred during the year.
5. The Modaraba has prepared a Code of Conduct encompassing the Modaraba's principles of ethics and business practices, which has been signed by all directors and has been circulated to all employees of the Modaraba and signed by them.
6. The Board has developed a vision / mission statement, overall corporate strategy and is in process of developing the significant policies and a complete record of the particulars of these significant policies.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer of the Modaraba Management Company, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman whenever present. The Board met at least once in every quarter to approve the quarterly accounts of the Modaraba. Written notices of the Board meetings including agendas were appropriately circulated before the meeting. The minutes of the meetings were recorded and approved / signed by the directors shortly after the Board meetings..
9. The majority of the Directors, being members of professional accountancy bodies, are conversant with their duties and responsibilities under the relevant laws applicable to Modaraba and provisions of Code of Corporate Governance. Nevertheless, an orientation course for all the Directors is planned to be conducted to acquaint them with their duties and responsibilities under the relevant laws.

Statement of Compliances with the Code of Corporate Governance

10. The appointment, remuneration and the terms and conditions of the employment of Chief Financial Officer, Company Secretary (both being the same person) and Internal Auditor of Modaraba, have been determined by the CEO, with the approval of the Board.
11. 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.
12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of holding of certificates.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It presently comprise of three members majority of whom are non-executive directors including Chairman of the committee.
16. The meetings of the audit committee was held at least once every quarter prior to the approval of interim and final results of the Company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set up the internal audit function with the appointment of an Internal Auditor. Further arrangements will be made to improve the effectiveness of the internal audit function in accordance with the needs of the Modaraba.
18. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the 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.
20. The related party transactions have been placed and approved by the board of directors with necessary justifications for non arm's length transactions, if any, and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated. Arrangements shall be made by their review by the audit committee prior to approval by the Board of Directors.
21. We confirm that all other material principles contained in the code have been complied with.

On behalf of the Board

Murtaza Ahmed Ali
Chief Executive
September 21, 2010

Review report to the members on statement of compliance with best practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Allied Engineering Management Company (Private) Limited (Modaraba Management Company) in respect of Allied Rental Modaraba to comply with the Listing Regulations of Karachi Stock Exchange, where the Company 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 Management Company personnel and review of various documents prepared by the Modaraba Management Company to comply with the Code.

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

Further, sub-regulation (xiii a) of Listing Regulations No. 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Modaraba Management Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm's length transactions and transaction 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.

Date: 21 September 2010

Karachi

**KPMG Taseer Hadi & Co.
Chartered Accountants**

Auditors' Report to the Certificate Holders

We have audited the annexed balance sheet of Allied Rental Modaraba as at 30 June 2010 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 (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the Modaraba Company's [Allied Engineering Management Company (Private) Limited] responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by the Modaraba Company, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of Allied Rental Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in accordance with the accounting policies consistently applied except for the changes as described in note 2.4 with which we concur;
 - 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.

Auditors' Report to the Certificate Holders

- 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 the 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 2010 and of the profit, 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.

Date: 21 September 2010

Karachi

KPMG Taseer Hadi & Co.

Chartered Accountants

Amyr Pirani

Balance Sheet

As at 30 June 2010

	Note	2010	2009
		(Rupees)	
ASSETS			
Current Assets			
Bank balances	4	87,624,137	34,978,716
Trade debts - unsecured, considered good	5	78,744,538	77,215,049
Advances, deposits and other receivables	6	21,807,837	22,851,026
Current portion of net investment in ijarah finance / assets under Ijarah arrangements	7	16,423,270	47,657,916
<i>Total current assets</i>		<u>204,599,782</u>	<u>182,702,707</u>
Non-current assets			
Net investment in ijarah finance / assets under ijarah arrangements	7	69,678,325	83,642,456
Long term security deposits	8	16,893,843	26,128,622
Fixed assets - tangible	9	1,219,699,585	980,382,386
<i>Total non-current assets</i>		<u>1,306,271,753</u>	<u>1,090,153,464</u>
Total assets		<u>1,510,871,535</u>	<u>1,272,856,171</u>
LIABILITIES			
Current Liabilities			
Creditors, accrued and other liabilities	10	128,598,742	81,738,886
Payable to the Management Company	11	8,668,096	205,904
Musharakah finance	12	113,331,152	-
Current maturity of Ijarah finance	13	66,035,916	121,454,931
<i>Total current liabilities</i>		<u>316,633,906</u>	<u>203,399,721</u>
Long term and deferred liabilities			
Deferred liabilities	14	9,909,326	7,858,801
Other long-term employee benefits	15	4,332,865	-
Security deposits from lessees	16	-	1,185,000
Liabilities against assets subject to Ijarah finance	17	30,343,016	98,733,391
<i>Total long term and deferred liabilities</i>		<u>44,585,207</u>	<u>107,777,192</u>
Total liabilities		<u>361,219,113</u>	<u>311,176,913</u>
NET ASSETS		<u>1,149,652,422</u>	<u>961,679,258</u>
FINANCED BY			
CAPITAL AND RESERVES			
Authorised Certificate capital 75,000,000 Modaraba certificates of Rs.10 each		750,000,000	750,000,000
Issued, subscribed and paid up	18	600,000,000	600,000,000
Premium on issue of right certificates		90,000,000	90,000,000
Statutory (mandatory) reserve	19	316,928,095	177,941,513
Unappropriated profit		142,724,327	93,737,745
		<u>1,149,652,422</u>	<u>961,679,258</u>

The annexed notes 1 to 32 form an integral part of these financial statements.

**For Allied Engineering Management Company (Private) Limited
(Management Company)**

Murtaza Ahmed Ali
Chief Executive

Khwaja Asif Rahman
Chairman

Shams Ghani
Director

Profit and Loss Account

For the year ended 30 June 2010

	<i>Note</i>	2010	2009
		(Rupees)	
Operating lease rentals		663,185,391	479,189,400
Operation and maintenance income		150,439,143	134,681,329
Profit on Ijarah finance		15,772,555	19,463,812
		829,397,089	633,334,541
Operating expenses	20	(491,197,095)	(383,415,223)
Gross profit		338,199,994	249,919,318
Administrative and distribution expenses	21	(49,197,884)	(46,968,140)
Finance charges	22	(20,947,024)	(43,455,865)
Workers' welfare fund	23	(9,013,201)	-
Other income	24	27,528,387	16,645,301
		286,570,272	176,140,614
Modaraba management fee	11	(8,597,108)	-
Profit for the year		277,973,164	176,140,614
Earnings per certificate - basic & diluted	26	4.63	3.60

The annexed notes 1 to 32 form an integral part of these financial statements.

**For Allied Engineering Management Company (Private) Limited
(Management Company)**

Murtaza Ahmed Ali
Chief Executive

Khwaja Asif Rahman
Chairman

Shams Ghani
Director

Statement of Comprehensive Income

For the year ended 30 June 2010

	2010	2009
	(Rupees)	
Profit for the year	277,973,164	176,140,614
Other comprehensive income	-	-
Total comprehensive income for the year	<u>277,973,164</u>	<u>176,140,614</u>

The annexed notes 1 to 32 form an integral part of these financial statements.

**For Allied Engineering Management Company (Private) Limited
(Management Company)**

Murtaza Ahmed Ali
Chief Executive

Khwaja Asif Rahman
Chairman

Shams Ghani
Director

Cash Flow Statement

For the Year ended 30 June 2010

	2010	2009
	(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	277,973,164	176,140,614
<i>Adjustments for non-cash and other items:</i>		
Depreciation	142,841,577	110,554,866
Impairment of investment in ijarah finance	4,370,006	-
Provision against impaired debts	-	3,000,000
Provision for deferred liabilities	2,050,525	1,635,478
Provision for compensated absences	4,332,865	-
Finance cost	20,947,024	43,455,865
Profit on disposal of fixed assets	(16,027,488)	(3,881,479)
	436,487,673	330,905,344
<i>(Increase) / decrease in operating assets</i>		
Trade debts	(1,529,489)	(10,130,427)
Investment in ijarah finance / assets under ijarah arrangements	39,643,771	9,065,890
Advances, prepayments and other receivables	1,043,189	(364,749)
	39,157,471	(1,429,286)
<i>Increase / (decrease) in operating liabilities</i>		
Trade and other payables	46,823,256	5,982,041
Payable to Associated Company	-	(57,323,000)
Payable to Management Company	8,462,192	(1,448,045)
	55,285,448	(52,789,004)
Cash generated from operations	530,930,592	276,687,054
Financial charges paid	(871,934)	(1,547,041)
Net cash flows from operating activities	530,058,658	275,140,013
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure	(478,227,283)	(533,983,737)
Proceed from disposal of fixed assets	112,095,995	43,085,023
Net cash flows from Investing activities	(366,131,288)	(490,898,714)
CASH FLOWS FROM FINANCING ACTIVITIES		
Profit Distribution	(89,963,400)	(59,952,760)
Proceeds from Issue of certificates - net	-	390,000,000
Musharakah financing availed	113,331,152	-
Lease rentals paid	(134,649,701)	(199,364,226)
Net cash flows from financing activities	(111,281,949)	130,683,014
Net cash increase / (decrease) during the year	52,645,421	(85,075,687)
Cash and cash equivalents at beginning of the year	34,978,716	120,054,403
Cash and cash equivalents at end of the year	87,624,137	34,978,716

The annexed notes 1 to 32 form an integral part of these financial statements.

For Allied Engineering Management Company (Private) Limited
(Management Company)

Murtaza Ahmed Ali
Chief Executive

Khwaja Asif Rahman
Chairman

Shams Ghani
Director

Statement of Changes in Equity

For the Year ended 30 June 2010

	Paid up certificate capital	Premium on right certificates	Statutory (mandatory) reserve (Rupees)	Unappropriated profit	Total
Balance as on 1 July 2008	300,000,000	-	89,871,206	65,667,438	455,538,644
Changes in equity for the year ended 30 June 2009					
Total comprehensive income for the year ended 30 June 2009 - profit for the year	-	-	-	176,140,614	176,140,614
Transactions with owners recognised directly in equity					
Profit distribution for the year ended 30 June 2008 @ Rs. 2 per certificate	-	-	-	(60,000,000)	(60,000,000)
100 % right issue at a premium of Rs. 3 per certificate during the year	300,000,000	90,000,000	-	-	390,000,000
	300,000,000	90,000,000	-	(60,000,000)	330,000,000
Transfer to statutory (mandatory) reserve	-	-	88,070,307	(88,070,307)	-
Balance as at 30 June 2009	600,000,000	90,000,000	177,941,513	93,737,745	961,679,258
Changes in equity for the year ended 30 June 2010					
Total comprehensive income for the year ended 30 June 2010 - profit for the year	-	-	-	277,973,164	277,973,164
Transactions with owners recognised directly in equity					
Profit distribution for the year ended 30 June 2009 @ Rs. 1.50 per certificate	-	-	-	(90,000,000)	(90,000,000)
Transfer to statutory (mandatory) reserve	-	-	138,986,582	(138,986,582)	-
Balance as at 30 June 2010	600,000,000	90,000,000	316,928,095	142,724,327	1,149,652,422

The annexed notes 1 to 32 form an integral part of these financial statements.

**For Allied Engineering Management Company (Private) Limited
(Management Company)**

Murtaza Ahmed Ali
Chief Executive

Khwaja Asif Rahman
Chairman

Shams Ghani
Director

Notes to the Financial Statements

For the Year ended 30 June 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 The Securities and Exchange Commission of Pakistan (SECP), vide its certificate No. SC/M/RW/ARM/2006-166 dated 10 May 2006, authorised Allied Engineering Management Company (Private) Limited ("the Management Company") to float Allied Rental Modaraba ("the Modaraba").

The Modaraba was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed there under and is managed by the above Management Modaraba, which is wholly owned by Allied Engineering and Services Limited. The Management Modaraba is incorporated in Pakistan under the Companies Ordinance, 1984 and is registered with the Registrar of Modaraba Companies and Modarabas under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.

The Modaraba is a perpetual Modaraba and is engaged in Ijarah (leasing under operating and finance lease arrangements) and operation & maintenance of Caterpillar and other equipments (i.e. generators, forklifters, compactors, etc.). The registered office of Modaraba is located at 21/3, Sector 22, Korangi Industrial Area, Karachi. The Modaraba is listed on the Karachi Stock Exchange. The Modaraba commenced its operations from 10 January 2007.

- 1.2 Effective from 10 January 2007, the Modaraba took over the rental business transactions and the related equipments of Allied Rental Services (Private) Limited (ARSL - an associated undertaking). The assets and liabilities acquired by the Modaraba comprise of certain fixed assets, net investment in finance lease (note 7) and the related lease liabilities. These were taken over under a prospectus floated by the Modaraba and approved by the SECP.
- 1.3 The Modaraba has also entered in a long term outsourcing arrangement with a cement company. Under this agreement, the Modaraba has provided certain machinery for use in quarry operation of the cement Modaraba along with loading, dozing, transportation of limestone and operation & maintenance of the above equipment and certain other equipment of the cement Company. The related assets and net investment in ijarah under the above arrangement have been disclosed in note 7.1 to these financial statements.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

These financial statements have been prepared in accordance with 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 the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Modaraba Companies and Modaraba Rules, 1981 and Companies Ordinance, 1984. In case requirements differ, the provisions of or directives issued under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under historical cost convention.

2.3 Functional and presentation currency

These financial statements are presented in Pakistani Rupees which is the functional currency of the Modaraba. All financial information presented in Pakistani rupee has been rounded to the nearest rupee.

2.4 Changes in accounting policies

Starting 1 July 2009, the Modaraba has changed its accounting policies in the following areas:

- Revised IAS 1 Presentation of Financial Statements (2007); became effective from 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owne changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). The Modaraba has opted to present two statements; a profit and loss account and a statement of comprehensive income.
- IFRS 8 - Operating Segments (effective from 1 January 2009). This standard requires the Modaraba to determine and present operating segments based on the information that is provided internally to the Modaraba's Chief Operating Decision Maker, that is, the organisation's function which allocates resources to and assesses performance of its operating segments. The application of this standard has resulted in certain additional disclosures given in note 30 to these financial statements.

Comparative information has been re-presented so that it is in conformity with the revised / new standards. Since the change in accounting policies only affect the presentation / disclosures of the financial statements, there is no impact on profit for the year and earnings per certificate.

2.5 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning on or after 1 January 2010:

- Improvements to IFRSs 2009 – Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in IFRS 5. These amendments are unlikely to have an impact on the Modaraba's financial statements.

Notes to the Financial Statements

For the Year ended 30 June 2010

- Improvements to IFRSs 2009 – Amendments to IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker. The amendment is unlikely to have a significant impact on Modaraba's financial statements.
- Improvements to IFRSs 2009 – Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments. These amendments are unlikely to have an impact on the Modaraba's financial statements.
- Improvements to IFRSs 2009 – Amendments to IAS 7 Statement of Cash Flows (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. These amendments are unlikely to have a significant impact on the Modaraba's financial statements.
- Improvements to IFRSs 2009 – Amendments to IAS 17 Leases (effective for annual periods beginning on or after 1 January 2010). The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 – 13 of IAS 17, taking account of the fact that land normally has an indefinite economic life. The amendment is unlikely to have an impact on Modaraba's financial statements.
- Improvements to IFRSs 2009 – Amendments to IAS 36 Impairment of Assets (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8. The amendments apply prospectively. The amendment is not relevant to the Modaraba's operations.
- Improvements to IFRSs 2009 – Amendments to IAS 39 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2010). The amendments provide additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; clarify that the scope exemption in IAS 39 paragraph 2(g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss. The amendments apply prospectively to all unexpired contracts from the date of adoption. These amendments are unlikely to have an impact on the Modaraba's financial statements.

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010). The IASB provided additional optional exemptions for first-time adopters of IFRSs that will permit entities not to reassess the determination of whether an arrangement contains a lease if the same assessment as that required by IFRIC 4 was made under previous GAAP; and allow entities in the oil and gas industry to use their previous GAAP carrying amounts as deemed cost at the date of transition for oil and gas assets. The amendment is not relevant to the Modaraba’s operations.
- Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). Amendment provides guidance on the accounting for share based payment transactions among group entities. The amendment is not relevant to the Modaraba’s operations.
- Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 January 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity’s own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro-rata to all of its existing owners of the same class of its own non-derivative equity instruments. These amendments are unlikely to have an impact on the Modaraba’s financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for accounting periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. The amendment is not relevant to the Modaraba’s operations.
- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for accounting periods beginning on or after 1 July 2010). The amendment provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the Amendments to IFRS 7. The amendment also clarifies the transitional provisions of the Amendments to IFRS 7. The amendment is not relevant to the Modaraba’s operations.

Improvements to IFRSs 2010 (effective for annual periods beginning on or after 1 July 2010). The IASB issued amendments to various standards effective. Below is a summary of the amendments that are effective for either annual periods beginning on or after 1 July 2010 or annual periods beginning on or after 1 January 2011:

Notes to the Financial Statements

For the Year ended 30 June 2010

- Improvements to IFRSs 2010 – Amendments to IFRS 3 Business Combinations (effective for accounting periods beginning on or after 1 July 2010). The amendments clarify that contingent consideration arising in a business combination previously accounted for in accordance with IFRS 3 (2004) that remains outstanding at the adoption date of IFRS 3 (2008) continues to be accounted for in accordance with IFRS 3 (2004); limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. These amendments are unlikely to have an impact on the Modaraba's financial statements.
- Improvements to IFRSs 2010 – Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2010). The amendments clarify that the consequential amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 and IAS 31 resulting from IAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. These amendments are unlikely to have an impact on the Modaraba's financial statements.
- IAS 24 Related Party Disclosures (revised 2009) (effective for accounting periods beginning on or after 1 January 2011). The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. These amendments are unlikely to have an impact on the Modaraba's financial statements other than increase in disclosures.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. These amendments are unlikely to have an impact on the Modaraba's financial statements.
- Improvements to IFRSs 2010 – IFRS 1 First-time Adoption of IFRSs (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that IAS 8 is not applicable to changes in accounting policies occurring during the period covered by an entity's first IFRS financial statements; introduce guidance for entities that publish interim financial information under IAS 34 Interim Financial Reporting and change either their accounting policies or use of the IFRS 1 exemptions during the period covered by their first IFRS financial statements; extend the scope of paragraph D8 of IFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first IFRS financial statements; and introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to IFRSs for items of property, plant and equipment or intangible assets used in certain rate-regulated activities. The amendment is not relevant to the Modaraba's operations.

- Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures (effective for accounting periods beginning on or after 1 January 2011). The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. These amendments would result in increase in disclosures in the financial statements of the Modaraba.
- Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendment is not likely to have an impact on Modaraba's financial statements other than increase in disclosure.
- Improvements to IFRSs 2010 – IAS 34 Interim Financial Reporting (effective for accounting periods beginning on or after 1 January 2011). The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures. The amendment is not likely to have an impact on Modaraba's financial statements other than increase in disclosure.
- Improvements to IFRSs 2010 – IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendment is not relevant for the Modaraba's operation.

2.6 Use of estimates and judgment

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and reported amount of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is as follows:

Notes to the Financial Statements

For the Year ended 30 June 2010

Operating fixed assets and assets under ijarah arrangements

The Modaraba's management determines the useful lives and related depreciation charge and the residual values of its operating fixed assets and assets under ijarah arrangements on a regular basis. These are reviewed at the end of each reporting period and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets and the residual values, the same is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Staff retirement benefits

Certain actuarial assumptions have been adopted (as disclosed in note 14 to these financial statements) for the actuarial valuation of staff retirement benefits. Changes in these assumptions in future years may effect the liability under these schemes in those years.

Provision against non-performing leasing portfolio, trade debts and other receivables

The Modaraba reviews its loan portfolio of lease (Ijarah finance), trade debts and other receivables on each reporting date to assess the amount of non-performing portfolio / balances and provision required there against on a regular basis. A change of circumstances may require the Modaraba to recognise a provision for impairment against these balances which may then be recognised in the period in which these circumstances have changed.

Income taxes

No provision has been made in these financial statements for income taxes (both current and deferred) as the Modaraba expects to distribute at least 90% of its profits (after appropriation to mandatory reserves as required under Modaraba Regulations) to the certificate holders in current and future years.

For the above purposes, and also in respect of making an estimates for income tax currently payable by the Modaraba (if so required), the management considers the current income tax laws and the decisions of the appellate authorities on certain issues.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, except for the changes mentioned in note 2.4 to these financial statements.

3.1 Net Investment in Ijarah Finance / Assets leased under Ijarah arrangements

Ijarah agreements commencing upto 30 June 2008 are accounted for as finance lease and are included in the financial statements as "Net investment in Ijarah finance" at an amount equal to the present value of the lease payments, including estimated residual value.

Assets under Ijarah commencing on or after 1 July 2008 are accounted for under Islamic Financial Accounting Standard 2- Ijarah. These assets are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged on these assets using straight line method over the period of the lease. Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the corresponding assets.

Allowance for non-performing leases is made in accordance with Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan (SECP) and is charged to the profit and loss account currently.

3.2 Fixed assets

3.2.1 *Tangible - owned*

The operating fixed assets, including those let out on operating lease, are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation on these assets is charged to income applying the straight line method whereby the cost of an asset (net of its estimated residual value at the end of its useful life) is written off over its estimated useful life. Depreciation is charged from the month the asset is available for intended use up to the month of disposal.

Subsequent costs are included in the asset's carrying value or recognised as separate asset, as appropriate, only when it is probable that the future economic benefits associated with the items will flow to the Modaraba and the cost of the items can be measured reliably. Repairs and maintenance is charged to the profit and loss account as and when incurred. Renewals and improvements are capitalised and the asset so replaced, if any, are retired. Gain or loss on disposal of assets, if any, is taken to the profit and loss account currently.

3.2.2 *Tangible - leased*

Assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of minimum lease payments at the inception of lease less accumulated depreciation and impairment losses, if any. Finance charge on lease obligation is recognised in the profit and loss account over the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding balance.

Depreciation, repair and maintenance, overhaul costs and gain on disposal of assets subject to finance lease is recognised in the same manner as for owned assets.

Change in accounting estimate

During the year, the Modaraba revised its estimate of the residual values of generators. This revision has been accounted for as a change in accounting estimates in accordance with the requirements of International Accounting Standard 8, "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly, the effect of this change in accounting estimate has been recognised prospectively in the profit and loss account from the current year. Had there been no change in the accounting estimate, the carrying amount of these assets, profit for the year and equity as at 30 June 2010 would have been lower by Rs. 9.624 million.

3.2.3 *Capital work-in-progress*

Capital work-in-progress, if any, is stated at cost (less impairment losses, if any) and represents expenditure on fixed assets in the course of construction and installation and advances for capital expenditure. Transfers are made to relevant operating fixed assets category as and when the assets are available for intended use.

Notes to the Financial Statements

For the Year ended 30 June 2010

3.3 Receivable from terminated / matured contracts

These are stated net of impairment losses, if any. Impairment loss is recognised for doubtful receivables on the basis of Prudential Regulations for Modarabas issued by the SECP or based on the judgment of management, whichever is higher. Bad debts are written off when identified.

3.4 Trade debts

Trade debts are carried at cost (invoiced amount, which is fair value of consideration receivable for use of leased assets) less an estimate of impaired receivables. Bad debts are written off when identified. Provision against these balances are made in accordance with the requirements of prudential regulations.

3.5 Investments

3.5.1 All investments are initially recognised at cost, being the fair value of the consideration given including the transaction cost associated with the investment, except in case of held for trading investments, in which case the transaction costs are charged off to the income statement.

3.5.2 The Modaraba classifies its investments in the following categories:

Held for trading

Investments which are acquired principally for the purposes of generating profit from short term fluctuation in price or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading.

After initial recognition, above investments are remeasured at fair value determined with reference to the period-end quoted rates. Gains or losses on re-measurement of these investments are recognised in income statement.

Held to maturity

These are the investments with fixed maturity where the management has both the intent and ability to hold till maturity. These investments are stated at amortised cost less impairment losses, if any. Amortisation of premium / discount on acquisition of the investments is carried out using the effective yield method.

3.6 Staff retirement benefits

3.6.1 *Staff Gratuity scheme - defined benefit plan*

The Modaraba operates an unfunded approved gratuity scheme for all permanent employees who have completed minimum qualifying period of service. Expense for the period are made in accordance with the independent actuarial valuation using Projected Unit Credit method.

Actuarial gains or losses are recognised as income or expense when the cumulative unrecognized actuarial gains or losses at the end of previous reporting period exceeded 10% of the higher of defined benefit obligation at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan. Past service cost, to the extent benefits are already vested, is recognized immediately and remaining unrecognized past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested.

3.6.2 Staff Provident fund - defined contribution plan

The Modaraba also operates an approved contributory provident fund scheme for employees eligible under the scheme. Equal monthly contributions are made both by the Modaraba and the employees at 10% of the basic salary.

3.7 Trade and other payables

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

3.8 Revenue recognition

3.8.1 Ijarah income

The Modaraba follows the finance method for recognising income on Ijarah contracts commencing prior to 30 June 2008 and accounted for as finance leases. Under this method the unearned income i.e. the excess of aggregate Ijarah rentals (including residual value) over the cost of the asset under Ijarah facility is deferred and then amortised over the term of the Ijarah, so as to produce a constant rate of return on net investment in the Ijarah.

For Ijarah arrangements commencing on or after 1 July 2008, Ijarah rentals are recognized as income on accrual basis, as and when rentals become due.

Documentation charges, front-end fee and other Ijarah income are recognised as income on receipt basis. Unrealized lease income pertaining to non-performing leases is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations.

3.8.2 Leases in which a significant portion of the risk and reward is retained by the Modaraba are classified as operating lease. Rental income from operating leases is recognised on straight line under the time proportion basis (on an accrual basis).

3.8.3 Operation and maintenance services

Revenue from operation and maintenance services is recognised when the related services have been rendered.

3.8.4 Income on deposits with banks

This is recognised on a time proportion basis under the effective yield method and is recognized in the profit and loss account.

3.8.5 Unrealised income on non-performing Ijarah portfolio

Unrealized income is suspended, where necessary on non-performing lease portfolio, in accordance with the requirements of the Prudential Regulations for Modarabas issued by the SECP. The unrealised suspended income is recognised in income on receipt basis.

Notes to the Financial Statements

For the Year ended 30 June 2010

3.9 Taxation

3.9.1 Current

The charge for current taxation is based on taxable income at the current rates of taxation after taking into account tax credit and tax rebates realizable, if any. Under clause 100 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, the non-trading income of modarabas is exempt from income tax, provided not less than 90% of its profits {after appropriation to statutory (mandatory) reserves as required under Modaraba Regulations} are distributed to the certificate holders. Accordingly, no provision for taxation for the current year has been made in these financial statements (refer note 31 to the financial statements regarding the details of dividend distribution).

3.9.2 Deferred

The Modaraba accounts for deferred taxation on all material temporary differences using the liability method. However, deferred tax liability has not been recognised in these financial statements as the management believes that the temporary differences will not reverse in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption.

3.10 Impairment

Financial assets

Impairment / provision against the ijarah / leasing arrangements is recognised in accordance with the requirements of the prudential regulations.

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

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets

The carrying amounts of the other assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated in order to determine the extent of impairment loss, if any. Impairment losses are recognised as expense in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

3.11 Provisions

Provisions are recognised in the balance sheet when the Modaraba has a legal or constructive obligation as a result of a past event, 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 the obligation. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

3.12 Long term Musharakah financing (borrowings)

Musharakah finance is recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, this is stated at original cost less principal repayments.

3.13 Foreign currency transactions

Transactions in foreign currencies are converted into Pakistani Rupees at the rate of exchange ruling on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees at the rate of exchange ruling at the balance sheet date. All exchange differences arising on the translations are included in the profit and loss account currently.

3.14 Off-Setting of financial assets and financial liabilities

A financial asset and a financial liability is set-off and the net amount is reported in the balance sheet if the Modaraba has a legal right to set-off the transactions and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.15 Segment reporting

A business segment is a distinguishable component of the Modaraba that is engaged in providing related products or services and which is subject to risks and rewards that are different from those of other segments. The Modaraba's primary format for segment reporting is based on 'business segments' as the Modaraba conducts its operations only in Pakistan.

3.16 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statements, cash and cash equivalents comprise of cash and bank balances.

3.17 Profit distribution to the certificate holders

Profit distributions to the certificate holders is recognised as a liability in the period in which the distributions are approved by the Board of Directors of the management company.

3.18 Liabilities against assets acquired under ijarah finance / assets acquired under ijarah arrangements

Lease obligations against assets acquired under ijarah arrangements up to 30 June 2008 are accounted for by recording the asset and corresponding liability there against determined on the basis of discounted value of total minimum lease payment. Financial charges is recognised in the profit and loss account using the effective mark-up method (refer note 3.2.2 also). Ijarah arrangements commencing on or after 1 July 2008 are accounted for under Islamic Financial Accounting Standard 2- Ijarah. Rental payments due under these arrangements are recognised as an expense in the profit and loss account on a straight line basis over the ijarah (lease) term under the accrual basis.

3.19 Compensated absences

The Modaraba also makes provision in the financial statements for its liability towards compensated absences based on the leaves accumulated up to the balance sheet in accordance with the service rules (and accumulated up to a specified limit). Under this policy, the employees shall be entitled to the encashment of their unavailed leaves at the time of their retirement / cessation of services.

Notes to the Financial Statements

For the Year ended 30 June 2010

4. BANK BALANCES	Note	2010	2009
		(Rupees)	
Cash with banks in :			
- current accounts		17,484,313	7,102,386
- profit and loss sharing accounts	4.1	<u>70,139,824</u>	<u>27,876,330</u>
		<u>87,624,137</u>	<u>34,978,716</u>
4.1 These accounts carry profit rates ranging from 5% to 10% per annum (2009 : 5% to 14.5% per annum).			
5. TRADE DEBTS - unsecured			
Considered good		78,744,538	77,215,049
Considered doubtful		<u>3,737,594</u>	<u>5,937,288</u>
		<u>82,482,132</u>	<u>83,152,337</u>
Provision against impaired debts	5.1	<u>(3,737,594)</u>	<u>(5,937,288)</u>
		<u>78,744,538</u>	<u>77,215,049</u>
This represents the rentals due under operating lease arrangements and amount due for operation and maintenance services.			
5.1 Provision against impaired debts			
Opening balance		5,937,288	3,290,788
Charge for the year		-	3,000,000
Write-off during the year		<u>(2,199,694)</u>	<u>(353,500)</u>
Closing balance		<u>3,737,594</u>	<u>5,937,288</u>
6. ADVANCES, DEPOSITS AND OTHER RECEIVABLES			
Income tax	6.1	3,523,174	3,386,152
Advances (unsecured) :			
- to contractors		550,055	416,703
- to suppliers		640,625	2,545,000
- to employees against salary		488,969	467,556
- against expenses	6.2	<u>137,500</u>	<u>95,000</u>
		<u>5,340,323</u>	<u>6,910,411</u>
Security deposits	6.3	16,445,351	15,895,810
Others		<u>22,163</u>	<u>44,805</u>
		<u>21,807,837</u>	<u>22,851,026</u>
6.1 This represents tax deducted at source from various payments to Modaraba.			
6.2 This represents advance given to employees for expenses. The maximum amount outstanding during any month of the current year was Rs. 0.303 million (2009 : Rs. 0.135 million).			
6.3 This includes security deposits of Rs. 16.112 million (2009 : Rs. 15.802 million) paid against ijarah finance contracts and are refundable / adjustable on the expiry of lease period (which is within one year - note 8).			
7. IJARAH FINANCE			
Ijarah contracts commencing upto 30 June 2008			
- accounted for as finance leases (under IAS 17)	7.1	84,701,595	129,100,372
Ijarah contracts commencing 1 July 2008 - accounted for under IFAS 2	7.2	<u>1,400,000</u>	<u>2,200,000</u>
		<u>86,101,595</u>	<u>131,300,372</u>
Current portion of net investment in Ijarah finance		<u>(16,423,270)</u>	<u>(47,657,916)</u>
		<u>69,678,325</u>	<u>83,642,456</u>

7.1 Investment in Ijarah Finance

	2010				2009			
	Due within one year	Due after one year but within five years	Due after five years but within ten years	Total	Due within one year	Due after one year but within five years	Due after five years but within ten years	Total
	(Rupees)				(Rupees)			
Minimum lease payments receivable	19,130,000	72,000,000	43,500,000	134,630,000	66,116,343	74,081,316	61,500,000	201,697,659
Residual value of leased assets	10,227,101	-	-	10,227,101	4,200,000	6,027,101	-	10,227,101
Lease contract receivables	29,357,101	72,000,000	43,500,000	144,857,101	70,316,343	80,108,417	61,500,000	211,924,760
Unearned lease income	(12,933,831)	(38,798,297)	(8,423,378)	(60,155,506)	(18,174,497)	(44,376,504)	(15,789,457)	(78,340,458)
Mark-up held in suspense	-	-	-	-	(4,483,930)	-	-	(4,483,930)
	<u>16,423,270</u>	<u>33,201,703</u>	<u>35,076,622</u>	<u>84,701,595</u>	<u>47,657,916</u>	<u>35,731,913</u>	<u>45,710,543</u>	<u>129,100,372</u>

The Modaraba has entered into various lease agreements with profit rates ranging between 3% and 35.71% (2009: 3% and 35.71%) per annum. The agreements are for a period of 3 to 10 years (2009: 3 to 10 years). These are generally secured against the leased assets and promissory notes given by the lessees. This includes Rs. 7.013 million (2009: Rs. 11.088 million) as at 30 June 2010 which were transferred from Allied Rental Services (Private) Limited (refer note 1.2 for details).

Net investment in finance lease in respect of arrangement disclosed in note 1.3 amounted to Rs. 73.488 (2009: Rs. 77.847 million) {including current maturity of Rs. 5.210 million (2009: Rs. 4.359 million)} as at 30 June 2010.

7.2 Assets under Ijarah arrangements

The following is a statement of assets leased out:

	Cost		Accumulated depreciation			Written down value as at 30 June 2010	Life (years)
	As at 01 July 2009	As at 30 June 2010	As at 01 July 2009	For the year	As at 30 June 2010		
	(Rupees)						
Forklifts	3,000,000	3,000,000	800,000	800,000	1,600,000	1,400,000	3

The Modaraba has leased out assets under ijarah arrangement at the implicit rate of return of 20% (2009 : 20%).

	Cost		Accumulated depreciation			Written down value as at 30 June 2009	Life (years)
	As at 01 July 2008	As at 30 June 2009	As at 01 July 2008	For the year	As at 30 June 2009		
	(Rupees)						
Forklifts	-	3,000,000	-	800,000	800,000	2,200,000	3

7.2.1 Contractual rentals receivable

	2010				2009			
	Due within one year	Due after one year but within five years	Due after five years but within ten years	Total	Due within one year	Due after one year but within five years	Due after five years but within ten years	Total
	(Rupees)				(Rupees)			
Total future rentals receivable	1,670,304	-	-	1,670,304	1,070,304	1,670,304	-	2,740,608

8. LONG TERM SECURITY DEPOSITS

Security deposits on Ijarah finance / assets under Ijarah arrangements Repayable / adjustable within one year

Note	2010	2009
(Rupees)		
	33,005,944	41,930,782
	(16,112,101)	(15,802,160)
	<u>16,893,843</u>	<u>26,128,622</u>

These include security deposits of Rs. 16.843 million (2009 : Rs. 26.079 million) paid against finance lease contracts and are refundable / adjustable on the expiry of lease period.

9. FIXED ASSETS - tangible

Fixed assets held for leasing under operating lease arrangements	9.1	1,184,199,247	946,677,727
Fixed assets in own use	9.2	20,003,735	20,913,077
Capital work-in-progress	9.5	15,496,603	12,791,582
		<u>1,219,699,585</u>	<u>980,382,386</u>

Notes to the Financial Statements

For the Year ended 30 June 2010

9.1 Fixed assets held for leasing under operating lease arrangements

	2010							Life (years)		
	Cost			Depreciation		Written down				
	As at 01 July 2009	Additions / *(transfers)	For the period (Disposals) / *(transfers)	As at 01 July 2009	For the year	As at 30 June 2010	value as at 30 June 2010			
	(R upees)									
Owned:										
Generators, forklifts and related parts	9.1.1	760,595,001	424,060,208	(22,553,629) * 127,408,310	1,289,509,890	136,774,304	125,476,265 * (9,207,595) 34,456,190	287,499,164	1,002,010,726	1 to 9
Machines	9.1.1	124,114,753	31,887,315	(81,796,652) * 14,669,000	88,874,416	9,075,821	3,069,909 * (3,711,022) 3,803,533	12,238,241	76,636,175	4 to 7
		884,709,754	455,947,523	37,727,029	1,378,384,306	145,850,125	128,546,174	299,737,405	1,078,646,901	
Leased:										
Generators		234,997,559	1,190,650	(3,367,869)	105,412,030	48,724,591	9,647,133	23,360,268	82,051,762	3 to 10
Machines		26,686,996	13,636,134	-	25,654,130	5,141,866	815,213	2,153,546	23,500,584	2 to 5
		261,684,555	(127,250,526)	(3,367,869)	131,066,160	53,866,457	10,462,346	25,513,814	105,552,346	
		1,146,394,309	328,696,997	34,359,160	1,509,450,466	199,716,582	139,008,520	325,251,219	1,184,199,247	

		2009					Life (years)
		Cost		Depreciation		Written down value as at 30 June 2009	
		For the period	For the period	For the period	For the period		
As at 01 July 2008	As at 30 June 2009	As at 01 July 2008	As at 30 June 2009	As at 01 July 2008	As at 30 June 2009		
Owned:							
Generators, forklifts and related parts	9.1.1	295,313,437	422,438,243	69,563,168	73,570,891	623,820,697	
			(58,553,441)		(23,218,165)		
			* 101,396,762		* 16,858,410		
Machines	9.1.1	11,104,000	97,422,753	577,007	5,667,290	115,038,932	
			* 15,588,000		* 2,831,524		
						4 to 7	
		306,417,437	519,860,996	70,140,175	79,238,181	738,859,629	
			58,431,321		(3,528,231)		
			884,709,754		145,850,125		
Leased:							
Generators		340,078,916	(101,396,762)	41,127,367	25,470,290	186,272,968	
			(3,684,595)		(1,014,656)		
					*	(16,858,410)	
Machines		42,274,996	(15,588,000)	5,782,811	2,190,579	21,545,130	
			-		*	2 to 5	
		382,353,912	(116,984,762)	46,910,178	27,660,869	207,818,098	
			(3,684,595)		(20,704,590)		
		688,771,349	402,876,234	117,050,353	106,899,050	946,677,727	
			54,746,726		(24,232,821)		

9.1.1 During the year, the Modaraba acquired certain equipments and parts amounting to Rs. 193.98 million (2009: Rs. 122.469 million) from Allied Engineering and Services limited (a related party). Furthermore, additions during the year include assets of Rs. 113.3321 million, title to which is held by a bank against a borrowing from them.

9.3 Details of disposal of fixed assets are as follows:

	Cost of assets	Accumulated depreciation	Carrying value (Rupees)	Sales proceeds	Gain / (loss) on disposal	Mode of disposal	Purchaser
Generator*	1,131,492	491,492	640,000	798,000	158,000	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Generator*	2,047,000	697,000	1,350,000	1,255,000	(95,000)	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Generator*	3,132,000	1,332,000	1,800,000	1,802,440	2,440	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Generator*	1,950,000	550,000	1,400,000	1,620,000	220,000	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Generator*	3,231,000	1,702,411	1,528,589	1,577,000	48,411	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Generator*	979,000	499,000	480,000	792,000	312,000	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Generator*	2,039,500	519,500	1,520,000	2,432,000	912,000	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Generator*	743,108	-	743,108	766,500	23,392	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Generator*	1,478,012	339,191	1,138,821	1,169,106	30,285	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Generator	4,091,000	2,038,502	2,052,498	2,757,500	705,002	Negotiation	Nazir & Co. Lahore
Generator*	1,440,000	640,000	800,000	604,517	(195,483)	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Generator	3,367,869	555,266	2,812,603	2,500,000	(312,603)	Negotiation	Iqbal Engineering Works Plot # D-9, Nauras Chowrangi S.I.T.E. Karachi
Canopy*	265,000	100,111	164,889	-	(164,889)	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Canopy*	305,000	128,778	176,222	-	(176,222)	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Canopy*	119,000	48,922	70,078	-	(70,078)	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Canopy*	153,000	62,900	90,100	-	(90,100)	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Canopy*	192,625	57,788	134,837	-	(134,837)	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22 Korangi Industrial Area Karachi
Computer	26,000	12,711	13,289	14,000	711	Negotiation	Mr. Tariq Raza (Ex-Employee)
Machine	16,352,726	757,071	15,595,655	18,600,000	3,004,345	Negotiation	Baharia Town, Rawalpindi Road, Lahore
Machine	16,352,726	757,071	15,595,655	18,600,000	3,004,345	Negotiation	Baharia Town, Rawalpindi Road, Lahore
Machine	16,352,726	757,071	15,595,655	18,600,000	3,004,345	Negotiation	Baharia Town, Rawalpindi Road, Lahore
Machine	16,352,726	757,071	15,595,655	18,600,000	3,004,345	Negotiation	Baharia Town, Rawalpindi Road, Lahore
Machine	16,385,750	682,740	15,703,010	18,600,000	2,896,990	Negotiation	Baharia Town, Rawalpindi Road, Lahore
Vehicles	62,900	3,145	59,755	60,000	245	Insurance Claim	Adamjee Insurance Company Limited I. I Chundrigarh Road, Karachi
Vehicles	62,900	3,145	59,755	60,000	245	Insurance Claim	Adamjee Insurance Company Limited I. I Chundrigarh Road, Karachi
Vehicles	349,000	155,111	193,889	134,496	(59,393)	Negotiation	Mr. Raghav Waqas (Employee)
Vehicles	479,000	212,889	266,111	185,712	(80,399)	Negotiation	Mr. Ali Ahsan (Employee)
Vehicles	879,000	390,667	488,333	567,724	79,391	Negotiation	Mr. Babar Sohail (Ex-Employee)
2010	110,320,060	14,251,553	96,068,507	112,095,995	16,027,488		
2009	63,787,036	24,583,492	39,203,544	43,085,023	3,881,479		

* represents transactions with a related party (resulting in total proceeds of Rs. 12.816 million and net gain of Rs. 0.80 million).

Notes to the Financial Statements

For the Year ended 30 June 2010

9.4	The depreciation charge has been allocated as under :	<i>Note</i>	2010	2009
			(Rupees)	
	Operating expenses	20	139,808,520	107,699,052
	Administrative and distribution costs	21	3,033,057	2,855,814
			142,841,577	110,554,866

9.5 Capital work-in-progress

This represents advance for certain equipments that would be transferred to the operating fixed assets when the goods are received.

10. CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors for goods	10.1	54,021,651	32,337,980
Creditors for expenses		11,280,586	14,677,979
Advances from customers		33,451,946	8,357,163
Security deposits	10.2	800,000	6,265,000
Employee car scheme - deductions	10.3	3,412,478	3,227,588
Dividend payable		116,380	79,780
<i>Accrued expenses</i>			
- Accrued commission		1,248,197	924,157
- Accrued bonus		7,739,625	6,564,500
- Auditors' remuneration		456,773	421,785
- Accrued financial charges		2,477,368	1,122,083
- Miscellaneous		880,799	3,614,704
		12,802,762	12,647,229
Rental payable	10.4	7,153,476	4,146,167
Workers' welfare fund		5,559,463	-
		128,598,742	81,738,886

10.1 This includes Rs. 41.665 million (2009: Rs. 19.620 million) payable to Allied Engineering and Services Limited (an associated Company) for the purchases of fixed assets, spares, etc and maintenance services availed by the Modaraba.

10.2 This includes Rs. 0.60 million (2009: Rs. 6.165 million) received from lessees against Ijarah finance contracts that are repayable / adjustable on the expiry of lease period (which is within one year - refer note 16).

10.3 This represents amounts deducted from the monthly salaries of the employees who have been given vehicles by the Modaraba under the terms of their employment and is adjustable on the sale of said vehicles.

10.4 This represents rentals payable against ijarah agreement. Details of contractual rentals payable are as follows:

	2010				2009			
	Due within one year	Due after one year but within five years	Due after five years but within ten years	Total	Due within one year	Due after one year but within five years	Due after five years but within ten years	Total
	(Rupees)				(Rupees)			
Total future rentals payable	48,560,014	89,381,316	-	137,941,330	18,427,408	23,494,945	-	41,922,353

For details of the above obligation, please refer note 3.18 to these financial statements. Assets acquired under the above arrangement have been sub-let under operating lease arrangement. During the year, an expense of Rs. 20.481 million (2009 : Rs. 13.624 million) and income of Rs. 26.836 million (2009: Rs. 20.065 million) was recognised under the obligation under above Ijarah arrangement and as at the year end, Rs. 3.303 million (2009: Rs. 1.796 million) was due under the said operating lease arrangement.

11. PAYABLE TO THE MANAGEMENT COMPANY

This includes Rs. 8.597 million on account of management fee. The Management Company is entitled to a remuneration for services rendered to the Modaraba under the provisions of the Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980 up to a maximum of 10% per annum of the net annual profits of the Modaraba. The fee for the year ended 30 June 2010 has been recognised at 3% of profit for the year.

12. MUSHARAKAH FINANCE

The total facility for musharakah finance available from BankIslami Pakistan Limited amounts to Rs. 130 million (2009: nil). The estimated share of profit is payable @ 3 month KIBOR plus 1.4% per annum. The facility is secured against exclusive charge over certain brand new generators amounting to Rs. 137million and demand promissory notes. The amount is payable in May 2011 and June 2011 in the instalments of Rs. 56.67 million each.

13. CURRENT MATURITY OF LONG TERM LIABILITIES

Liabilities against assets subject to ijarah finance	17	66,035,916	121,454,931
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14. DEFERRED LIABILITIES

Deferred liability for staff gratuity	14.2	9,909,326	7,858,801
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14.1 Defined benefit plan - gratuity

The Modaraba operates an unfunded scheme to provide gratuity to the permanent employees on retirement. The latest actuarial valuation of this scheme was carried out by an independent qualified Actuary as at 30 June 2010 under the Project Unit Credit Method. Principal actuarial assumptions used in the valuation of the schemes are as follows:

	Note	2010	2009
		%	%
Valuation discount rate		12.75	11
Salary increase rate		12.75	11

Under the service rules, eligible employees are entitled to gratuity after ten years of service and there after depends on the number of years of service completed by them and at different entitlement rates.

14.2 Present value of obligation

		2010	2009
		(Rupees)	
Present value of defined benefit obligation	14.4	9,999,824	7,170,500
Unrecognised actuarial (loss) / gain		(275,649)	688,301
Unrecognised past service cost		185,151	-
Net liability recognised on the balance sheet	14.3	<u>9,909,326</u>	<u>7,858,801</u>

14.3 Movement in amount payable to the defined benefit plan

Opening balance		7,858,801	6,223,323
Charge for the year	14.5	2,370,525	1,635,478
Payments		(320,000)	-
Closing balance		<u>9,909,326</u>	<u>7,858,801</u>

14.4 Movement in the present value of defined benefit obligation is as follow

Present value of defined benefit obligation		7,841,832	5,525,324
Current service cost		1,364,326	1,070,040
Mark-up cost		1,079,449	575,136
Actuarial loss		292,618	-
Payments		(320,000)	-
Past service cost		(258,401)	-
		<u>9,999,824</u>	<u>7,170,500</u>

14.5 Amount charged to the profit and loss account

The following amounts have been charged to the profit and loss account during the current year in respect of this scheme:

Current service cost	1,364,326	1,070,040
Mark-up cost	1,079,449	575,136
Past service cost - vested	(11,533)	-
Amortization of non-vested past service cost	(61,717)	-
Actuarial gain	-	(9,698)
	<u>2,370,525</u>	<u>1,635,478</u>

15. OTHER LONG TERM EMPLOYEE BENEFITS

This represents accrual for staff compensated absences and includes liability in respect of key management personnel amounting to Rs. 0.737 million (refer note 3.19 also).

16. SECURITY DEPOSITS FROM LESSEES

Security deposits on Ijarah finance / assets under Ijarah arrangements	600,000	7,350,000
Repayable / adjustable within one year	(600,000)	(6,165,000)
	<u>-</u>	<u>1,185,000</u>

This represents security deposits received against Ijarah finance contracts that are repayable / adjustable on the expiry of lease period.

Notes to the Financial Statements

For the Year ended 30 June 2010

17. LIABILITIES AGAINST ASSETS SUBJECT TO IJARAH FINANCE

These represent liabilities against assets acquired under finance lease arrangements. Against a total facility limit of Rs. 563.058 million (2009: Rs. 563.058 million) from various banks, facilities of Rs. 527.908 million (2009: Rs. 527.908 million) have been availed by the Modaraba. During the year no new facility was utilized by the Modaraba.

	2010			2009		
	Due within one year	Due after one year but within five years	Total	Due within one year	Due after one year but within five years	Total
	(Rupees)			(Rupees)		
Minimum lease payments	72,385,107	32,241,309	104,626,416	141,610,816	108,649,194	250,260,010
Finance charge for future periods	(6,349,191)	(1,898,293)	(8,247,484)	(20,155,885)	(9,915,803)	(30,071,688)
Principal outstanding	<u>66,035,916</u>	<u>30,343,016</u>	<u>96,378,932</u>	<u>121,454,931</u>	<u>98,733,391</u>	<u>220,188,322</u>

These liabilities (for assets obtained under Ijarah arrangements) carry profit rates ranging between 3 month KIBOR plus 1.75% to 6 month KIBOR plus 3% per annum and are repayable by June 2012 in monthly / quarterly instalments. The above obligation includes Rs. 77.688 million (2009: Rs. 108.768 million) whose related assets have been sub-leased by the Modaraba under finance lease arrangements.

18. ISSUED, SUBSCRIBED AND PAID-UP CERTIFICATES

	2010		2009	
	Number of certificates	Rupees	Number of certificates	Rupees
Modaraba certificates of Rs. 10 each fully paid in cash	<u>60,000,000</u>	<u>600,000,000</u>	<u>60,000,000</u>	<u>600,000,000</u>

18.1 Following certificates are held by the associated companies of Modaraba:

Allied Engineering and Services Limited	18,169,715	181,697,150	18,169,715	181,697,150
Allied Engineering Management Company (Private) Limited	12,000,000	120,000,000	12,000,000	120,000,000
	<u>30,169,715</u>	<u>301,697,150</u>	<u>30,169,715</u>	<u>301,697,150</u>

19. STATUTORY (MANDATORY) RESERVE

The above reserve represents profits set aside in accordance with the provisions of Prudential Regulations for Modarabas promulgated by the Securities and Exchange Commission of Pakistan. In the current year, 50% of the profit has been transferred to the statutory reserve (2009: 50%).

20. OPERATING EXPENSES

	Note	2010	2009
(Rupees)			
Salaries, wages and other staff benefits	20.1	162,526,443	134,480,922
Depreciation expense	9.4	139,808,520	107,699,052
Repair and maintenance	20.2	149,960,582	108,301,324
Transportation costs		965,079	4,439,255
Insurance cost - equipments		13,074,972	11,597,586
Lease Rental		20,598,834	13,624,033
Travelling and conveyance		2,280,115	1,886,929
Rent expense		1,982,550	1,386,122
		<u>491,197,095</u>	<u>383,415,223</u>

20.1 This includes contribution of Rs. 1.869 million (2009: 1.851 million) to the staff provident fund.

20.2 This includes expenses of Rs. 129.904 million (2009: Rs. 87.457 million) for parts purchased and services availed from Allied Engineering and Services Limited, an associated company.

21. ADMINISTRATIVE AND SELLING COSTS	Note	2010	2009
(Rupees)			
Salaries, wages and other staff benefits	21.1	10,517,108	8,203,563
Commission		8,565,137	7,971,455
Vehicle running costs		8,133,547	7,814,803
Travelling and conveyance		5,476,750	4,210,424
Provision against impaired debts		-	3,000,000
Impairment of investment in ijarah finance		4,370,006	-
Depreciation expense	9.4	3,033,057	2,855,814
Legal and professional charges		3,086,391	1,462,922
Expenses against issuance of right certificates		-	4,351,063
Auditors' remuneration	21.2	612,000	587,000
Telephone, postage and fax charges		911,069	1,012,089
Advertisement and sales promotion		1,160,462	1,516,970
Printing and stationery		1,004,478	736,882
Insurance cost - vehicles		669,026	593,062
Training, meetings and tender participation		198,014	104,200
Miscellaneous		1,460,839	2,547,893
		<u>49,197,884</u>	<u>46,968,140</u>

21.1 This includes contribution of Rs. 0.596 million (2009: 0.25 million) to the staff provident fund.

21.2 Auditors' remuneration

Audit fee	325,000	325,000
Fee for review of interim financial information	150,000	125,000
Code of corporate governance	50,000	50,000
Other certifications	45,000	45,000
Out of pocket expenses	42,000	42,000
	<u>612,000</u>	<u>587,000</u>

22. FINANCE COST

Financial charges on obligation against assets under Ijarah lease arrangements	18,035,130	41,908,824
Finance cost on Musharika finance (borrowing)	2,039,961	-
Exchange loss	-	1,150,439
Bank charges and commission	871,933	396,602
	<u>20,947,024</u>	<u>43,455,865</u>

23. WORKERS' WELFARE FUND

This represents accrual for Workers' Welfare Fund liability under the Workers' Welfare Ordinance (WWF), 1971.

24. OTHER INCOME

Profit on bank deposits	5,612,626	7,321,786
Profit on Musharakah certificates	2,411,507	2,105,206
Gain on redemption on mutual fund units	-	868,798
Proceeds from disposal of scrap	2,769,987	2,468,032
Gain on disposal of fixed assets	9.3	16,027,488
Exchange gain	706,779	-
	<u>27,528,387</u>	<u>16,645,301</u>

25. TAXATION

25.1 The income of non-trading modaraba is exempt from tax provided that not less than 90% of their profits are distributed to the certificate- holders. As the management company of the modaraba, subsequent to the year end, has approved the distribution of dividend as stated above, no provision for taxation has been made in these financial statements. For the details of dividend, please refer note 31 to these financial statements.

25.2 The income tax returns of the Modaraba have been filed up to the financial year ended 30 June 2009 which is deemed to be an assessment order under the Income Tax Ordinance 2001, unless selected for audit by the taxation authorities.

Notes to the Financial Statements

For the Year ended 30 June 2010

26. EARNINGS PER CERTIFICATE - basic and diluted

Basic earnings per certificate is worked out as under:	2010	2009
Profit for the year	<i>Rupees</i> 277,973,164	176,140,614
Number of ordinary certificates at year end	<i>Number</i> 60,000,000	48,900,000
Earnings per certificate - basic	<i>Rupees</i> 4.63	3.60

No figure for diluted earnings per certificate has been presented as the Modaraba has not issued any instrument which would have an impact on earnings per certificate when exercised.

27. REMUNERATION OF OFFICERS AND OTHER EMPLOYEES

	2010			2009		
	Officers (Key management personnel)	Other employees	Total	Officers (Key management personnel)	Other employees	Total
	(Rupees)			(Rupees)		
Basic salary	3,631,980	21,956,373	25,588,353	3,708,540	17,737,576	21,446,116
Bonus	1,153,143	5,696,982	6,850,125	1,125,361	5,022,770	6,148,131
House rent allowance	1,634,460	9,887,922	11,522,382	1,668,840	7,981,765	9,650,605
Utility allowance	363,198	2,193,638	2,556,836	370,860	1,773,777	2,144,637
Conveyance allowance	208,362	2,156,467	2,364,829	234,990	1,773,777	2,008,767
Provident fund	363,198	2,101,661	2,464,859	370,848	1,727,192	2,098,040
Gratuity	324,959	2,045,666	2,370,625	282,813	1,352,665	1,635,478
Contribution to Employees'						
Old Age	12,960	720,360	733,320	8,640	689,210	697,850
Medical benefits	463,987	2,680,992	3,144,979	473,288	2,263,690	2,736,978
	8,156,247	49,440,061	57,596,308	8,244,180	40,322,422	48,566,602
	----- (Number) -----					
Number of persons	3	173	176	4	150	154

27.1 Certain executives and officers are also provided free use of vehicles maintained by the Modaraba and petrol allowance.

28. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

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.

Risk management framework

The Modaraba's objective in managing risk is the creation and protection of certificate holders' value. Risk is inherent in the Modaraba's activities, but it is managed through monitoring and controlling activities which are primarily set up based on limits established by the management company, Modaraba's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Modaraba as well as the level of the risk that Modaraba is willing to accept. The Board of Directors of the management company has overall responsibility for the establishment and oversight of the Modaraba's risk management framework.

28.1 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Modaraba, resulting in a financial loss to the Modaraba. At the year end it arises principally from trade debts, net investment in ijarah finance, bank balances, deposits and other receivables.

Management of credit risk

The Modaraba's policy is to enter into financial contracts in accordance with internal risk management policies and requirements of the Prudential Regulations for Modarabas issued by the SECP. The Modaraba seeks to manage its credit risk exposure through diversification of leasing / Ijarah activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate. Cash is held only with reputable banks with high quality credit worthiness.

Exposure to credit risk

The maximum exposure to credit risk at the reporting date is as follows:

	Note	2010	2009
		(Rupees)	
Trade debts		78,744,538	77,215,049
Net investment in ijarah finance / assets under ijarah arrangements	28.1.1	85,501,595	123,950,372
Bank balances		87,624,137	34,978,716
Deposits		33,339,194	42,024,432
Other receivables		22,163	44,805
Total carrying value (and maximum exposure to credit risk)		<u>285,231,627</u>	<u>278,213,374</u>
28.1.1 Investment in ijarah finance / assets under ijarah arrangements	7	86,101,595	131,300,372
Security deposits held	16	(600,000)	(7,350,000)
		<u>85,501,595</u>	<u>123,950,372</u>

28.1.2 The Modaraba's Ijarah leases (including the operating leases) are secured against assets leased out.

Credit risk ratings and collaterals held

Credit risk ratings of the Bank and balances are given below:

Rating	Balance	
	2010	2009
	(Rupees)	
AAA	84,350	84,350
AA+	621,171	1,173,098
AA	-	1,660
AA-	83,855,274	31,518,014
A	3,063,342	2,201,594
	<u>87,624,137</u>	<u>34,978,716</u>

The assets leased out by the Modaraba (note 7) are secured against the related assets leased out, title to which are held by the Modaraba. Title to the assets leased under operating lease arrangements are also held by the Modaraba (note 5).

Notes to the Financial Statements

For the Year ended 30 June 2010

Impairment losses and past due balances

The age analysis of ijarah finance and trade debts at the balance sheet date was as follows:

	2010		2009	
	Gross	Impairment loss recognised	Gross	Impairment loss recognised
	(Rupees)			
Not past due	85,501,595	-	114,706,531	-
Past due 1-90 days	73,447,943	-	71,437,692	-
Past due 91 days - 180 days	4,170,020	1,200,000	5,817,257	1,200,000
Past due 181 days to one year	3,084,438	1,785,858	12,422,859	2,435,804
Past due one year to two years	1,478,971	492,976	2,524,770	2,107,884
More than two years	300,760	258,760	193,600	193,600
Total	167,983,727	3,737,594	207,102,709	5,937,288

Impairment is recognized by the Modaraba on the basis of provision requirements of Prudential regulations for Modarabas issued by the SECP which includes subjective evaluation of investment portfolio carried by the Modaraba on an ongoing basis (and consideration of forced sales value of properties, wherever considered necessary and available, in accordance with the prudential regulations). Based on the past experience, consideration of financial position, past track records and recoveries, the Modaraba believes that additional provision against past due balances is not required.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Modaraba's total credit exposure. Concentrations of credit risk indicate the relative sensitivity of the Modaraba's performance to developments affecting a particular industry.

Details of Modaraba's concentration of credit risk of financial instruments by industrial distributions are as follows:

	2010		2009	
	(Rupees)	%	(Rupees)	%
Automobiles	177,000	0.06	-	-
Banks and development financial institutions	121,627,537	42.64	77,686,170	27.92
Cement industry	78,437,586	27.50	81,303,780	29.22
Chemicals and pharmaceutical	2,404,036	0.84	5,286,480	1.90
Construction	5,994,711	2.10	39,267,952	14.11
Dairy and poultry	186,212	0.07	1,483,827	0.53
Education	180,400	0.06	290,490	0.10
Energy, oil and gas	17,287,997	6.06	8,217,828	2.95
Engineering	1,310,828	0.46	3,554,875	1.28
Food and beverages	17,828,963	6.25	17,287,158	6.21
Glass and ceramics	1,010,000	0.35	872,000	0.31
Health care	3,280,890	1.15	2,590,490	0.93
Hotels	1,016,167	0.36	29,906	0.01
Information technology and communication	3,357,738	1.18	3,827,958	1.38
Paper and board	693,178	0.24	674,975	0.24
Packaging	1,394,795	0.49	1,401,572	0.50
Printing and publishing	1,316,143	0.46	1,641,666	0.59
Fast Moving consumer goods	5,944,741	2.08	7,724,364	2.78
Tannery	402,743	0.14	161,000	0.06
Textile and cotton	17,077,941	5.99	11,435,198	4.11
Transport	427,150	0.15	2,820,583	1.01
Travel services	-	-	3,361,664	1.21
Steel Mills	9,900	0.00	339,900	0.12
Mining	1,038,364	0.36	524,749	0.19
Insurance	12,624	0.00	44,806	0.02
Event Management	205,000	0.07	-	-
Others	2,272,658	0.80	6,383,983	2.29
Airline	336,325	0.12	-	-
	285,231,627	100	278,213,374	100

28.2 Liquidity risk

Liquidity risk is the risk that the Modaraba will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Modaraba. Liquidity risk arises because of the possibility that the Modaraba could be required to pay its liabilities earlier than expected.

Management of liquidity risk

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, without incurring unacceptable losses or risking damage to the Modaraba's reputation. In an urgent situation, the Modaraba may also opt for getting funds from its related parties and even from other Banks.

Maturity analysis of financial liabilities

The table below analyses the Modaraba's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to maturity date and represents the undiscounted cash flows. The amounts in the table are the gross nominal undiscounted cash flows.

Non-derivative Financial liabilities	2010				
	Carrying Amount	Contractual cash flows	Six months or less (Rupees)	Six to twelve months	One to five years
Security deposits from lessees	600,000	600,000	-	600,000	-
Creditors, accrued and other liabilities	82,897,487	82,897,487	82,897,487	-	-
Payable to the management company	8,668,096	8,668,096	8,668,096	-	-
Liabilities against assets subject to ijarah finance	96,378,932	104,626,416	44,541,647	27,843,460	32,241,309
Musharakah finance	113,331,152	130,543,321	7,649,852	122,893,469	-
	<u>301,875,667</u>	<u>327,335,320</u>	<u>143,757,082</u>	<u>151,336,929</u>	<u>32,241,309</u>
Non-derivative Financial liabilities	2009				
	Carrying Amount	Contractual cash flows	Six months or less (Rupees)	Six to twelve months	One to five years
Security deposits from lessees	7,350,000	7,350,000	-	6,165,000	1,185,000
Creditors, accrued and other liabilities	66,602,019	66,602,019	66,602,019	-	-
Payable to the management company	205,904	205,904	205,904	-	-
Liabilities against assets subject to ijarah finance	220,188,322	250,260,010	68,456,368	73,154,448	108,649,194
	<u>294,346,245</u>	<u>324,417,933</u>	<u>135,264,291</u>	<u>79,319,448</u>	<u>109,834,194</u>

The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rates effective as at year end (and includes both principal and profit payable thereon). The rates of mark-up have been disclosed in note 28.3.2 to these financial statements.

28.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will effect 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 optimising the return on risk.

Management of market risks

The Management Company manages market risk by monitoring exposure on securities by following the internal risk management policies and investment guidelines approved by the Board of Directors of the Management company. The maximum risk resulting from financial instruments equals their fair values.

The Modaraba is exposed to currency risk and interest rate risk only.

Notes to the Financial Statements

For the Year ended 30 June 2010

28.3.1 Currency risk

Foreign currency risk is the risk that the value of financial liability will fluctuate due to a change in foreign exchange rates. It arises mainly where payables exist due to transactions entered into foreign currencies.

Modaraba uses forward foreign exchange contracts to hedge its foreign currency risk, when considered appropriate. At 30 June 2010, Modaraba's exposure to foreign currency risk was in respect of its obligation of Rs. 7.120 million (\$ 84,500) {2009: Rs. 5.897 million (\$ 72,485)}.

Above net exposure is payable by the Modaraba in Rupees at the rate on which these are settled by the Modaraba. Currently, the Modaraba does not obtain forward cover against the net exposure.

The following significant exchange rates applied during the year:

	Average rates		Balance sheet date rate	
	2010	2009	2010	2009
Rupees / US Dollars	84.216	81.000	85.610	81.360

Sensitivity risk

A five percent strengthening / (weakening) of the Rupee against US Dollar at 30 June would have increased / (decreased) equity and profit and loss account by Rs. 0.356 million (2009: Rs. 0.294 million). This analysis assumes that all other variables, in particular interest rates, remaining constant. The analysis is performed on the same basis for 2009.

28.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At the reporting date, the interest rate profile of the Modaraba's interest bearing financial instruments and the periods in which these will mature are as follows (based on the earlier of repricing and contractual maturity):

	Effective yield / profit rate	2010							Not exposed to yield / profit rate	Total carrying value
		Upto one month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 years		
(Rupees)										
ASSETS										
Bank balances	5% - 10%	70,139,824	-	-	-	-	-	-	17,484,313	87,624,137
Trade debts		-	-	-	-	-	-	-	78,744,538	78,744,538
Deposits and other receivables		-	-	-	-	-	-	-	33,361,357	33,361,357
Net investment in ijarah finance / assets under ijarah arrangement	3% - 35.71%	5,018,065	6,936,012	1,553,824	4,315,367	13,670,980	19,530,724	35,076,623	-	86,101,595
		75,157,889	6,936,012	1,553,824	4,315,367	13,670,980	19,530,724	35,076,623	129,590,208	285,831,627
LIABILITIES										
Creditors and other liabilities		-	-	-	-	-	-	-	82,897,487	82,897,487
Payable to the Management Company		-	-	-	-	-	-	-	8,668,096	8,668,096
Security deposits		-	-	-	-	-	-	-	600,000	600,000
Liabilities against assets subject to ijarah finance	14.13% - 18.76%	2,203,592	15,028,180	27,311,779	21,492,365	30,343,016	-	-	-	96,378,932
Musharakah finance	13.50%	-	-	-	113,331,152	-	-	-	-	113,331,152
		2,203,592	15,028,180	27,311,779	134,823,517	30,343,016	-	-	92,165,583	301,875,667
Net assets		72,954,297	(8,092,168)	(25,757,955)	(130,508,150)	(16,672,036)	19,530,724	35,076,623	37,424,625	(16,044,040)
Cumulative interest rate gap		72,954,297	64,862,129	39,104,174	(91,403,976)	(108,076,012)	(88,545,288)	(53,468,665)	(16,044,040)	-
2009										
	Effective yield / profit rate	Upto one month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 3 to 5 years	More than 5 years	Not exposed to yield / profit rate	Total carrying value
(Rupees)										
ASSETS										
Bank balances	5% - 14.5%	27,876,330	-	-	-	-	-	-	7,102,385	34,978,715
Trade debts		-	-	-	-	-	-	-	77,215,049	77,215,049
Deposits and other receivables		-	-	-	-	-	-	-	42,069,237	42,069,237
Net investment in ijarah finance	3% - 35.71%	11,372,640	4,374,825	6,867,797	26,142,654	20,491,652	16,340,261	45,710,543	-	131,300,372
		39,248,970	4,374,825	6,867,797	26,142,654	20,491,652	16,340,261	45,710,543	126,386,671	285,563,373
LIABILITIES										
Creditors and other liabilities	14.61%	-	-	-	-	-	-	-	66,502,019	66,502,019
Borrowing from an associated company		-	-	-	-	-	200,952,517	-	-	-
Payable to the Management Company		-	-	-	-	-	-	-	205,904	205,904
Security deposits		-	-	-	-	-	-	-	7,450,000	7,450,000
Liabilities against assets subject to ijarah finance	14.13% - 18.76%	6,184,031	21,879,621	27,841,804	65,580,768	98,702,098	-	-	-	220,188,322
		6,184,031	21,879,621	27,841,804	65,580,768	98,702,098	200,952,517	-	74,157,923	495,298,762
Net assets		33,064,939	(17,504,796)	(20,974,007)	(39,438,114)	(78,210,446)	(184,612,256)	45,710,543	52,228,748	(209,735,389)
Cumulative interest rate gap		33,064,939	15,560,143	(5,413,864)	(44,851,978)	(123,062,424)	(307,674,680)	(261,964,137)	(209,735,389)	-

Modaraba's interest rate exposure arises on deposits with banks, net investment in Ijarah finance / assets under ijarah arrangements, Musharakah finance and liability against assets subject to ijarah finance lease. At the balance sheet date the interest rate profile of the Modaraba's interest-bearing financial instrument was as follows:

	Carrying amount	
	2010	2009
	(Rupees)	
Fixed rate instruments		
Financial assets (net investment in finance lease)	86,101,595	131,300,372
Variable rate instruments		
Financial assets (bank balances)	70,139,824	27,876,330
Financial liabilities (musharakah finance and liabilities against assets subject to ijarah)	209,710,084	220,188,322

Fair value sensitivity analysis for fixed rate instruments

The Modaraba does not account for any fixed rate financial assets at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not effect profit and loss account and the equity of the Modaraba.

Cash flow sensitivity for variable interest rate instruments

A change in interest rates on financial assets at the reporting date would not have had a material effect on equity and profit for the year.

A change of 100 basis points in interest rates on financial liabilities at the reporting date would have increased / decreased equity and profit for the year by Rs. 0.140 million.

28.4 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Modaraba's operations either internally within the Modaraba or externally at the Modaraba's service providers, 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 investment management behaviour. Operational risks arise from all of the Modaraba's activities.

The Modaraba's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its objective of generating returns for certificate holders.

The primary responsibility for the development and implementation of controls over operational risk rests with the board of directors of the management company. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- 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;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

Notes to the Financial Statements

For the Year ended 30 June 2010

28.5 Capital risk management

The Modaraba's objective when managing capital is to safe guard the Modaraba's ability to continue as a going concern so that it can continue to provide optimum returns to its certificate holders' and benefits of other stake holders and to maintain a strong capital based to support the sustained development of its businesses.

The Modaraba manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Modaraba may adjust the amount of profit paid to certificate holders or issue new certificates.

The Modaraba is not subject to externally imposed capital requirements.

28.6 Fair value of financial assets and liabilities

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. Consequently differences can arise between carrying values and the fair value estimates.

The carrying amounts of all financial assets and liabilities reflected in the financial statements are expected to approximate their fair values except for advances to employees and net investments in ijarah finance / assets under ijarah arrangements at fixed rate of return. The fair value of these financial assets cannot be estimated due to the absence of market for such assets.

29. RELATED PARTY TRANSACTIONS

The related parties comprise of major certificate holders and their close family members, directors of the management company and their close family members, key management personnel of the Management Company and their close family members, the provident fund and the entities with common directors or under common management.

Contribution to the provident fund is made in accordance with the services rules. The Modaraba management fee, if any, is accrued in accordance with the requirements of Modaraba Regulations. Remuneration of the key management personnel are in accordance with the terms of their employment. Other transactions are at agreed terms.

Details of transactions with related parties and balances with them as at the year-end were as follows:

Related party	Relationship	Details of transactions and balances <i>Note</i>
Allied Engineering Management Company (Private) Limited	Management Company	11, 17.1 & 18.1
Allied Engineering and Services Limited	Holding company of the Management Company	9.1.1, 9.3, 10.1, 20.2 & 18.1
Staff Provident Fund	Staff provident fund	20.1 & 21.1
Key management personnel	Key management personnel	27 & 15

30. SEGMENTAL INFORMATION

30.1 Details of segment revenue, profit, assets and liabilities are as follows:

	Operating and Ijarah Finance Rentals		Operation and Maintenance Income		Total	
	2010	2009	2010	2009	2010	2009
	(Rupees)					
Revenue	678,957,946	498,653,212	150,439,143	134,681,329	829,397,089	633,334,541
Costs	477,739,228	385,488,276	101,213,084	88,350,952	578,952,312	473,839,228
Reportable segment profit	<u>201,218,718</u>	<u>113,164,936</u>	<u>49,226,059</u>	<u>46,330,377</u>	<u>250,444,777</u>	<u>159,495,313</u>
Reportable segment assets:						
Trade debts	59,594,939	67,789,591	19,149,599	9,425,458	78,744,538	77,215,049
Net Investment in Ijarah Finance	86,101,595	131,300,372	-	-	86,101,595	131,300,372
Security deposits	33,339,194	42,024,432	-	-	33,339,194	42,024,432
Fixed assets	1,219,699,585	980,382,386	-	-	1,219,699,585	980,382,386
	<u>1,398,735,313</u>	<u>1,221,496,781</u>	<u>19,149,599</u>	<u>9,425,458</u>	<u>1,417,884,912</u>	<u>1,230,922,239</u>
Reportable segment liabilities:						
Creditors, accrued and other liabilities	115,675,182	71,248,763	12,923,560	4,225,123	128,598,742	75,473,886
Security deposits	-	7,450,000	-	-	-	7,450,000
Liabilities against assets subject to Ijarah Finance	96,378,932	220,188,322	-	-	96,378,932	220,188,322
Musharakah finance	113,331,152	-	-	-	113,331,152	-
	<u>325,385,266</u>	<u>298,887,085</u>	<u>12,923,560</u>	<u>4,225,123</u>	<u>338,308,826</u>	<u>303,112,208</u>

30.2 Reconciliation of reportable segments revenues, profit or loss, assets and liabilities is as follows:

	Note	2010	2009
		(Rupees)	
Revenues			
Total revenue for reportable segments	30.1	829,397,089	633,334,541
Other revenue	24	27,528,387	16,645,301
Total revenue		<u>856,925,476</u>	<u>649,979,842</u>
Profit or loss			
Total profit or loss for reportable segments	30.1	250,444,777	159,495,313
Other profit or loss	24	27,528,387	16,645,301
		<u>277,973,164</u>	<u>176,140,614</u>
Assets			
Total assets for reportable segments	30.1	1,417,884,912	1,230,922,239
Advances and other receivables		5,362,486	6,955,216
Cash and bank balances	4	87,624,137	34,978,716
		<u>1,510,871,535</u>	<u>1,272,856,171</u>
Liabilities			
Total liabilities for reportable segments	30.1	338,308,826	303,112,208
Payable to the Management Company	11	8,668,096	205,904
Deferred staff liability	14	9,909,326	7,858,801
Other long term employee benefits	15	4,332,865	-
		<u>361,219,113</u>	<u>311,176,913</u>

Segment revenue is based on balances based in Pakistan.

Revenue from one customer in the Modaraba's Operation and Maintenance income segment amounts to Rs. 60.103 million of the Modaraba's total revenue.

The Board of Directors and the Chief Executive Officer of the Management Company are the Modaraba's Chief Operating decision makers.

Notes to the Financial Statements

For the Year ended 30 June 2010

31. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company has approved dividend at the rate of Rs. 2.25 per certificate (2009: Rs. 1.5 per certificate) for the year ended 30 June 2010, resulting in a total distribution of profit amounting to Rs. 135 million (2009: Rs. 90 million), in its meeting held on 21 September 2010, which is more than 90% of the net profit for the year ended 30 June 2010, after appropriation to the statutory (mandatory) reserve as required under Modaraba Regulations. These financial statements do not reflect this distribution, which shall be recorded in the financial statements for the year ended 30 June 2010 in compliance with Circular No. 6/2006 dated 19 June 2006 of Institute of Chartered Accountants of Pakistan.

32. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company in its meeting held on 21 September 2010.

**For Allied Engineering Management Company (Private) Limited
(Management Company)**

Murtaza Ahmed Ali
Chief Executive

Khwaja Asif Rahman
Chairman

Shams Ghani
Director

Certificate Holding Pattern

As at 30 June 2010

No. of Certificateholders	Certificate Holding		Total Certificates Held
	From	To	
11	1	100	68
32	101	500	15,350
27	501	1,000	25,900
69	1,001	5,000	196,261
24	5,001	10,000	199,506
8	10,001	15,000	102,600
9	15,001	20,000	173,000
3	20,001	25,000	70,000
4	25,001	30,000	115,600
1	30,001	35,000	31,700
2	35,001	40,000	76,200
2	40,001	45,000	87,000
2	45,001	50,000	100,000
2	55,001	60,000	120,000
1	60,001	100,000	82,400
1	100,001	120,000	117,700
1	120,001	160,000	160,000
1	160,001	200,000	185,000
1	200,001	600,000	525,500
1	600,001	1,000,000	922,000
1	1,000,001	12,000,000	12,000,000
1	12,000,001	19,000,000	18,169,715
1	19,000,001	27,000,000	26,524,500
205			60,000,000

Categories of Certificateholders	Number	Certificate Held	Percentage
Individuals	198	2,363,785	3.94%
Management Company	1	12,000,000	20.00%
Joint Stock Companies	2	44,694,215	74.49%
Investment Companies	1	18,000	0.03%
Employees Provident Funds	3	924,000	1.54%
Total	205	60,000,000	100.00%

Certificate Holding Pattern

As at 30 June 2010

Categories of Certificateholders	Number	Certificate Held	Percentage
Associated Companies			
Allied Engineering & Services Limited	1	18,169,715	30.28%
Allied Engineering Management Company (Pvt) Limited	1	12,000,000	20.00%
Allied Engineering & Services Limited - Employees Provident Fund	1	922,000	1.54%
		31,091,715	51.82%
Directors, CEO & their Spouses & Minor Children			
1. Syed Feisal Ali	1	525,500	
2. Mr.Murtaza Ahmed Ali	1	60,000	
3. Mr.Shams Ghani	1	47,200	
4. Mr.Tajdar A. Shah	1	60,000	
5. Mr.Raees A. Khan	1	160,000	
6. Mr.Ali Akbar	1	30,000	
		882,700	1.47%
Executives	3	51,000	0.09%
Investment Companies	1	18,000	0.03%
Employees Provident Funds	2	2,000	0.00%
General Public	189	1,430,085	2.38%
Certificateholders holding ten percent or more			
Magenta International Limited	1	26,524,500	44.21%
	205	60,000,000	100.00%

Proxy Form

I / We _____
of _____
being a member of ALLIED RENTAL MODARABA and holder of _____
Certificates as per Certificate Register Folio No. _____ and / or CDC Participant I.D. No.
_____ and Sub Account No. _____ hereby appoint _____
of _____ or failing him _____
of _____

as my proxy to vote for me and on my behalf at the 4th annual review meeting of the Modaraba to be held on 22nd day of October, 2010 and at any adjournment thereof.

Signed this _____ day of _____ 2010.

WITNESSES:

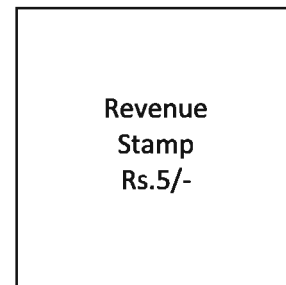
1. Signature: _____
Name: _____
Address: _____

CNIC or
Passport No. _____

2. Signature: _____
Name: _____
Address: _____

CNIC or
Passport No. _____

Signature



(Signature should agree with the specimen signature registered with the Modaraba)

Note: Proxies in order to be effective must be received by the Modaraba not less than 48 hours before the meeting. A proxy must be a member of the Modaraba. CDC Certificate holders and their proxies are each requested to submit attested photocopy of their Computerized National Identity Card or Passport with this proxy form.