

**ALLIED RENTAL MODARABA**  
Managed by: Allied Engineering Management Company (Private) Limited



21/3, Sector No. 22, Korangi Industrial Area, Karachi-74900.  
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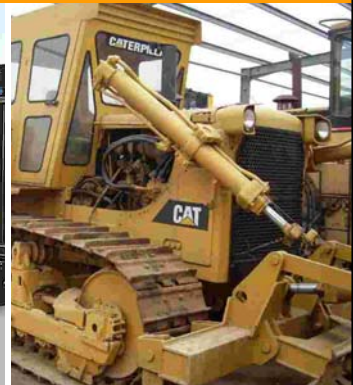


**ALLIED RENTAL MODARABA**

# Annual Report 2009



# OUR VISION



To be 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 continues 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 enviroment 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, shareholders, 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 Relationships**

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





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### Directors of Modaraba Company

Mr. Khwaja Asif Rahman  
Chairman

Mr. Murtaza Ahmed Ali  
Chief Executive

Mr. Shams Ghani  
Director Finance & Company Secretary

Syed Feisal Ali  
Director

Mr. Ali Akbar  
Director

Mr. Raees A. Khan  
Director

Mr. Tajdar A. Shah  
Director

### Audit Committee

Syed Feisal Ali (Chairman)  
Mr. Murtaza Ahmed Ali (Member)  
Mr. Ali Akbar (Member)  
Mr. Tariq Raza (Internal Auditor & Secretary)

### Auditors

KPMG Taseer Hadi & Co.  
Chartered Accountants

### Bankers/Lending Institutions

Soneri Bank Ltd  
Bank Islami Pakistan Limited  
MCB Bank Ltd  
National Bank of Pakistan  
Pak Oman Investment Company Ltd  
Standard Chartered Modaraba  
First Habib Modaraba

### Legal Advisor

Mr. Khalil Ahmed Siddiqui, Advocate

### Registered & Head Office

21/3 Sector 22, Korangi Industrial Area,  
Karachi 74900 UAN 111 250 250

### Registrar

Gangjees Registrar Services (Pvt.) Limited  
516, Clifton Centre, Khayaban-e-Roomi  
Block-5, Clifton, Karachi.  
Phone: (021) 3537 5714

### Website:

[www.arm.com.pk](http://www.arm.com.pk)

## Notice of Annual Review Meeting

Notice is hereby given that the 3rd Annual Review Meeting of certificate holders of Allied Rental Modaraba will be held on Friday October 30, 2009 at 4.00 pm 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, 2009.

The certificate holders whose names appear on the Register of certificate holders of Allied Rental Modaraba as on October 23, 2009 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: October 2, 2009

**Note:**

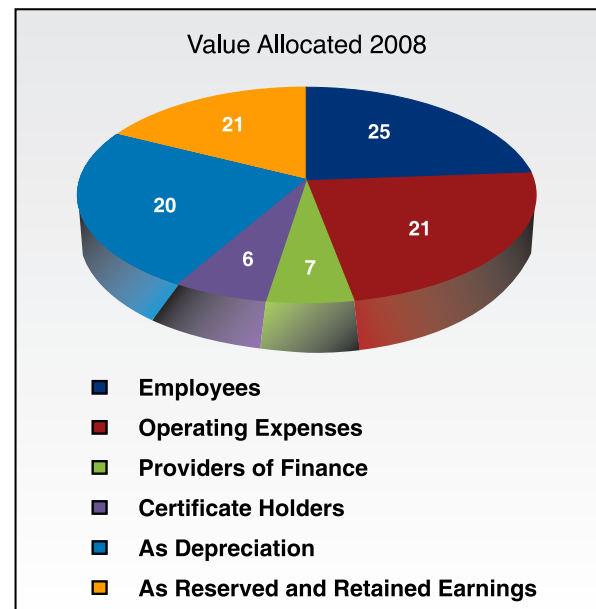
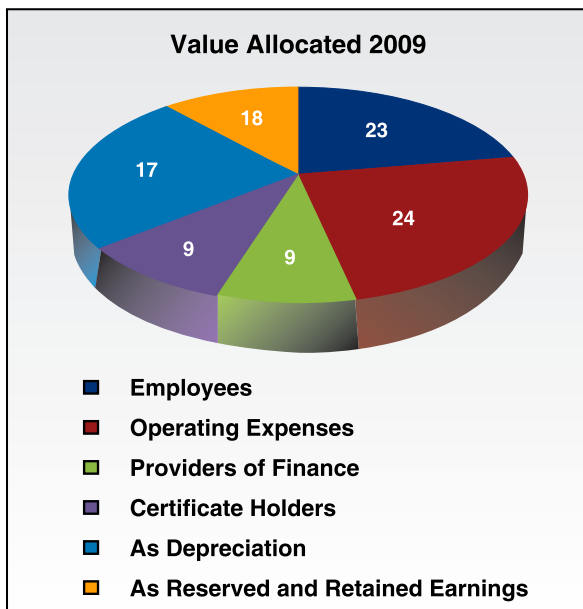
1. The Certificate Transfer Book will remain closed from October 24, 2009 to October 30, 2009 (both days inclusive) for the purposes of entitlement of dividend and attending Annual Review Meeting. All transfers received in order, up to close of business on October 23, 2009 at our Registrar's office M/s 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.

## Key Financial Data

		2009	2008
Total Assets	Rs. Million	1,273	976
Current Assets	Rs. Million	183	223
Current Liabilities	Rs. Million	203	283
Paid-up capital	Rs. Million	600	300
Reserves	Rs. Million	178	90
Stock holders' equity	Rs. Million	962	456
Gross Profit	Rs. Million	253	188
Net Profit	Rs. Million	176	128
Profit after Tax Ratio	%	28	28
Return on Asset	%	16	15
Return on Equity	%	25	31
Return on Capital employed	%	17	18
Expense Ratio	%	72	72
Current Ratio	times	0.90 : 1	0.79 : 1
Price Earning Ratio	times	3.75	5.04
Earning per certificate - basic and diluted	Rs.	3.60	3.37
Dividend yield Ratio	%	9	13
Dividend Pay out ratio	%	42	59
Cash dividend	%	15	20
Cash dividend per certificate	Rs.	1.50	2.00
Book Value per certificate	Rs.	16.03	15.18

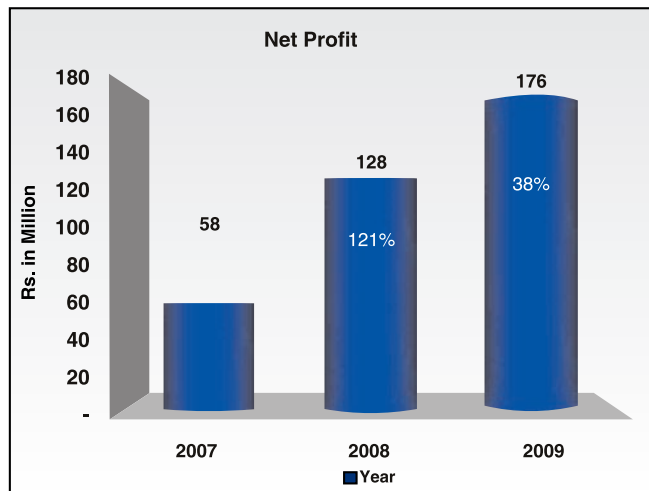
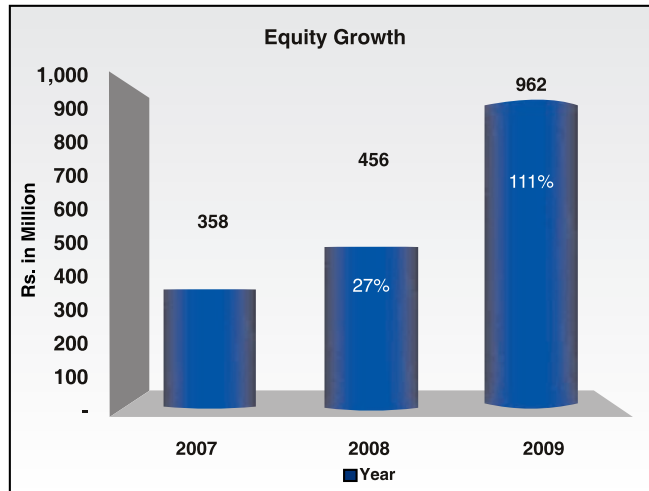
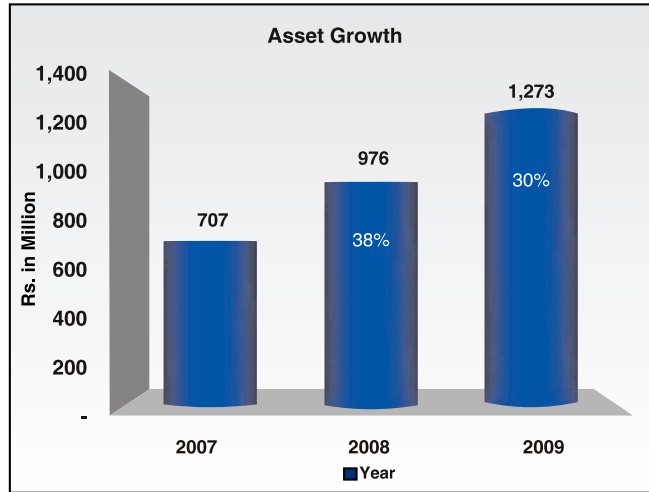
# Value Added Statement

	2009		2008	
	Rs in '000	%	Rs in '000	%
<b>VALUE ADDED</b>				
Revenue from Operation	613,871	94.44	433,147	93.77
Profit on Finance Leases	19,464	3.00	24,652	5.34
Other Income	16,645	2.56	4,117	0.89
	<b>649,980</b>	<b>100.00</b>	<b>461,916</b>	<b>100.00</b>
<b>VALUE ALLOCATED</b>				
Employees	150,656	23.18	114,481	24.78
Operating Expenses	157,095	24.17	95,233	20.62
Providers of Finance	55,533	8.54	32,917	7.13
Certificate Holders	60,000	9.23	30,000	6.49
Expansion & Growth				
As Depreciation	110,555	17.01	91,709	19.85
As Reserve and Retained Earnings	116,141	17.87	97,576	21.12
	<b>649,980</b>	<b>100.00</b>	<b>461,916</b>	<b>100.00</b>





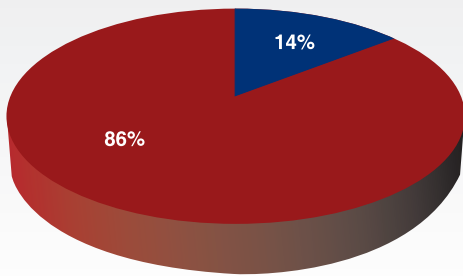
# Financial Summary at a Glance



# Balance Sheet Composition

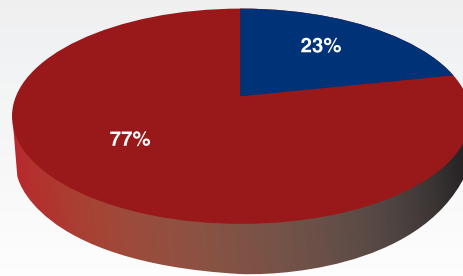
**Assets 2009**

■ Total Current Assets   ■ Total Non Current Assets



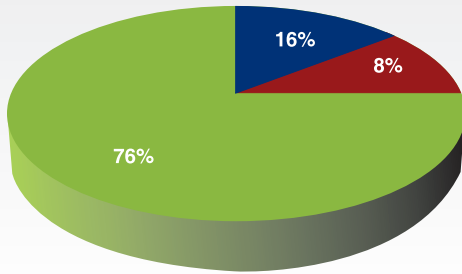
**Assets 2008**

■ Total Current Assets   ■ Total Non Current Assets



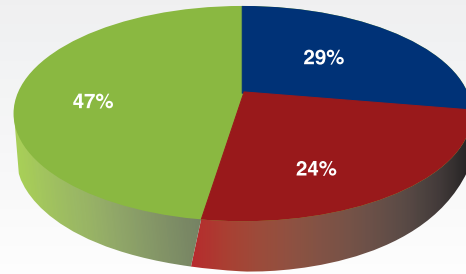
**Equity & Liabilities 2009**

■ Total Current Liabilities  
■ Total Long term Liabilities  
■ Certificate's holder's Equity



**Equity & Liabilities 2008**

■ Total Current Liabilities  
■ Total Long term Liabilities  
■ Certificate's holder's Equity



# Vertical Analysis

## BALANCE SHEET

### ASSETS

#### Current Assets

Bank balances	3%	12%
Trade debts - unsecured, considered good	6%	7%
Advances, prepayments and other receivable	2%	1%
Current portion of investment in Ijarah finance / asset under ijarah arrangement	3%	3%
	14%	23%

#### Non-Current Assets

Net Investment in Ijarah finance / assets under ijarah arrangements	7%	12%
Long term security deposits	2%	4%
Fixed assets - tangible	77%	61%
	86%	77%
	<b>100%</b>	<b>100%</b>

## LIABILITIES AND EQUITY

### Current Liabilities

Creditors, accrued and other liabilities	6%	8%
Borrowing from an associated company - unsecured	0%	6%
Payable to the Management Company	0%	0%
Current maturity of long term liabilities	10%	15%
	16%	29%

### Long Term and Deferred Liabilities

Deferred staff liability	1%	1%
Security deposits from lessees	0%	1%
Liabilities against assets subject to Ijarah finance	8%	22%
	9%	24%

### Equity

Certificate capital	47%	31%
Certificate premium	7%	0%
Statutory (mandatory) reserve	14%	9%
Unappropriated profit	7%	7%
	75%	47%
	<b>100%</b>	<b>100%</b>

## PROFIT AND LOSS ACCOUNT

Operating lease rentals	74%	71%
Operation and maintenance income	21%	23%
Profit on finance lease arrangements	3%	5%
Other income	2%	1%
<b>Gross Revenue</b>	<b>100%</b>	<b>100%</b>

Operating expenses	58%	58%
Administrative expenses	7%	7%
Expenses against issuance of right certificates	1%	0%
Finance expenses	6%	7%
<b>Total Expenses</b>	<b>72%</b>	<b>72%</b>

**Profit Margin**

**28%**

**28%**

# Horizontal Analysis

## BALANCE SHEET

### ASSETS

#### Current Assets

Bank balances	-71%	53%
Trade debts - unsecured, considered good	10%	96%
Advances, prepayments and other receivable	242%	71%
Current portion of investment in Ijarah finance / asset under ijarah arrangement	84%	199%
	-18%	33%

#### Non-Current Assets

Net Investment in Ijarah finance / assets under ijarah arrangements	-30%	319%
Long term security deposits	-29%	134%
Fixed assets - tangible	64%	21%
	45%	40%
	<b>30%</b>	<b>38%</b>

## LIABILITIES AND EQUITY

### Current Liabilities

Creditors, accrued and other liabilities	8%	12%
Borrowing from an associated company - unsecured	-100%	187%
Payable to the Management Company	-88%	-77%
Current maturity of long term liabilities	-18%	69%
	-28%	55%

### Long Term and Deferred Liabilities

Deferred staff liability	26%	1350%
Security deposits from lessees	-82%	382%
Liabilities against assets subject to Ijarah finance	-56%	45%
	-55%	43%

### Equity

Certificate capital	100%	0%
Certificate premium	100%	0%
Statutory (mandatory) reserve	98%	245%
Unappropriated profit	43%	106%
	111%	27%
	<b>30%</b>	<b>38%</b>

## PROFIT AND LOSS ACCOUNT

Operating lease rentals	47%	131%
Operation and maintenance income	25%	238%
Profit on finance lease arrangements	-21%	1158%
Other income	304%	-6225%
<b>Gross Revenue</b>	<b>41%</b>	<b>149%</b>

Operating expenses	41%	201%
Administrative expenses	45%	31%
Expenses against issuance of right certificates	100%	0%
Finance expenses	32%	212%
<b>Total Expenses</b>	<b>42%</b>	<b>169%</b>

### Profit Margin

	2009	2008
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
<b>Current Assets</b>		
Bank balances	-71%	53%
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Finance expenses	32%	212%
<b>Total Expenses</b>	<b>42%</b>	<b>169%</b>
<b>Profit Margin</b>	<b>38%</b>	<b>109%</b>

### **Power Equipment Rental**

We offer a range of power generation equipment wide enough to meet most specific power requirements, for all areas of industry, for all types of application. 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 key strength is the ability to offer customized solutions to match each customer's unique requirements. Thus 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 businesses from various sectors.

The Rental segment has shown tremendous growth and the company has kept pace with continuous additions in its fleet size comprising of both Gas and Diesel Generators ranging from 100 to 2000 kva.

### **Construction Machines Rental**

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, Compactors and Motor Graders. Robustness, fitness and reliability are the hallmarks of our machine rental services. These are ensured by strict compliance of manufacturer's recommendations regarding operation and maintenance of machines by our technical experts.

### **Forklifts Rental**

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 highlights of these services are customization in accordance with customer's unique requirements and complete one-window solution, where all aspects of forklifts ownership, operation, maintenance and management are our responsibility relieving the customer to concentrate on his / her core business activity.

### **Powerhouse O&M**

Besides rental services, the company also provides unmatched and exclusive CATERPILLAR powerhouse operation and management services to a large number of clients. With its professionally trained technical staff having rich experience in CATERPILLAR gensets, Allied Rental offers total powerhouse management.

With its proven expertise in CATERPILLAR generators operation & maintenance, and effective back-to-back support system with the original equipment manufacturer (OEM), Allied Rental Modaraba has acquired a distinctive place in powerhouse management which is second to none.

The company has a diversified portfolio of satisfied customers includes all major national and multi-national corporations / organizations in such diverse fields as textiles, spinning, pharmaceuticals, oil & gas, petrochemical, process & chemical plants, hotels, schools, hospitals, events etc.



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



**PROVIDING INNOVATIVE AND RELIABLE EQUIPMENT RENTAL SOLUTIONS**



## Our Products

- ▶ Power Generation Rental
  - 100 - 2000 kVA
  - Diesel and Gas Generators
- ▶ Powerhouse O&M Contracts
- ▶ Construction Equipment Rental
- ▶ Cement Quarry Operations
- ▶ Fork lift Rental
- ▶ HVAC O&M Contracts

Managed By: Allied Engineering Management Company (Pvt) Ltd.  
KARACHI LAHORE ISLAMABAD  
UAN: 111-250-250  
email: rental@aesl.com.pk  
website: www.arm.com.pk

ALLIED  THE  
Rental  
STORE



# Staff Activities







## KSE recomposes 100-Index

The Karachi Stock Exchange (Guarantee) Limited recomposed KSE 100-Index effective from April 1, 2009. According to KSE, the five companies namely **Allied Rental Modaraba**, Balochistan Wheels Ltd, Dreamworld Ltd, Engro Polymer Chemicals Ltd have been included in the Index. These incoming companies replaced First Habib Modaraba, Agriauto Industries Ltd, MyBank Ltd, JS Investments Ltd and Pioneer Cement Company Ltd. The recomposed Index, based on the prices of February 27, 2009, captures market capitalization to the extent of 87.10 % of the total market capitalization as compared to 86.38 % of the old Index. KSE carried out the re-composition exercise 100-Index companies for the review period from September 2008 to February 2009 as per re-composition Rules of KSE 100-Index.

# 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, 2009.

## Financial Highlights

	Rs. in '000
Profit for the year	176,141
Un-appropriated profit brought forward	<u>5,667</u>
Available for Appropriation	181,808
Transfer to Statutory Reserve @ 50% of profit for the year	88,070
Proposed cash dividend @ 15% (Rs. 1.50 per certificate)	<u>90,000</u>
Un-appropriated profit carried forward	<u>3,738</u>
Net profit margin	28 %
Return on equity	25 %
Earning per certificate	Rs. 3.60
Current Ratio	0.90 : 1

## Review of Operations

During the year under review the Modaraba continued to make progress in spite of the difficult market conditions. Revenue grew substantially and considerable advancement has been achieved in expanding our asset base. The gross revenue stood at Rs. 633 million, an increase of 38% over last year. The profit ratio over sales also remained constant at 28% despite difficult market conditions and recessionary pressures. This is also despite 32% increase in financial charges and Rs 4.4 million spent for various expenses for the rights issue. Despite high inflationary pressure, the management managed to contain its impact to a minimum and the cost to income ratio was maintained.

## Rights issue

During the year under review the Management of the Modaraba decided to enhance the Capital Fund by the issue of 100% Right Certificates at a premium of Rs. 3/- per certificate. The issue was fully subscribed and the proceeds amounting to Rs. 390 million were received in the month of February 2009. These funds were invested on the Rental Fleet expansion, which has started yielding positive results. However the full fledge benefits will start reaping from the current financial year.

## Dividend

The Board is pleased to announce a cash dividend of 15% i.e. Rs. 1.50- per Certificate of Rs. 10/- each.



## Future Outlook

The demand for the rental equipment in the power generation segment is on the rise and your Modaraba is maintaining its leadership position in this market segment with the largest and diversified variety of power generating equipments. The Modaraba offers both diesel and gas power generation equipment ranging from 100 kva to 2000 kva. However, due to the roll back of the development projects the demand for earth moving equipments is stagnant.

## 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. During the year 2007 Islamic Financial Accounting Standard (IFAS) - 2 "Ijarah" was issued by the Institute of Chartered Accountants of Pakistan and the same was notified by the Securities and Exchange Commission of Pakistan (SECP) vide an SRO dated 22 May 2007. Under the IFAS 2, the "Ijarah" transactions are required to be accounted for as operating leases. Originally the IFAS-2 was applicable to financial statements covering the periods beginning on or after 1 July 2007. Later on, due to practical difficulties in its application, the Securities and Exchange Commission of Pakistan extended its implementation date to 1 July 2008 and is required to be followed on those Ijarahs which commence on or after 1 July 2008. Accordingly, the Modaraba has adopted the above standard effective 1 July 2008.
- 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, 2009 except for those disclosed in the financial statements.
- The numbers of board meetings held during the year 2008 - 2009 were four. The attendance of the directors are as under:

Mr. Khwaja Asif Rahman	4
Syed Feisal Ali	4
Mr. Murtaza Ahmed Ali	4
Mr. Shams Ghani	4
Mr. Ali Akbar	4
Mr. Raees Akhtar Khan	1
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	Sales
Mr. Murtaza Ahmed Ali	Chief Executive Officer	24,300	-
Syed Feisal Ali	Director	247,100	-
Mr Tajdar A. Shah	Director	30,000	-
Mr. Raees A. Khan	Director	80,000	-
Mr. Ali Akbar	Director	15,000	-
Mr. Shams Ghani	CFO & Company Secretary	43,200	-

### Our People

During the year, 21 staff members of the Modaraba were enrolled for the web based Sales Certification program of Caterpillar University. All of them successfully completed this program, achieving 100% Sales Certification from Caterpillar University for the Allied Rental business. This truly reflects the investment of your Modaraba for the development of its Human Resource.

The Board would like to appreciate the efforts and dedication of the staff members who enabled the management to run the affairs of the Modaraba smoothly and efficiently.

### 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, 2010 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 29, 2009

# Statement of Compliance with the Code of Corporate Governance

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 of 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.
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 circulated amongst the Directors.
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.

10. There was no new appointment of Chief Financial Officer, Company Secretary and Internal Auditor during the year. The remuneration and the terms and conditions of the employment of Chief Financial Officer, Company Secretary and Internal Auditor, as determined by the Chief Executive, have been approved by the Board of Directors.
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 four members. two of them 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 Committee (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 before the audit committee and approved by the board of directors with necessary justifications for non arm's length transactions 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.
21. We confirm that all other material principles contained in the code have been complied with.

September 29, 2009

**On behalf of the Board**  
**Murtaza Ahmed Ali**  
**Chief Executive**

## 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) 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.

Dated: 29th Sep 2009  
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 2009 and the related profit and loss account, 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 3.1 and note 3.18 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2009 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.

Dated: 29 September 2009  
Karachi

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



# Balance Sheet

As at June 30, 2009

	Note	2009 (Rupees)	2008
<b>ASSETS</b>			
<b>Current Assets</b>			
Bank balances	4	34,978,716	120,054,403
Trade debts - unsecured, considered good	5	77,215,049	70,084,622
Advances, deposits and other receivables	6	22,851,026	6,684,117
Current portion of net investment in ijarah finance / assets under ijarah arrangements	7	47,657,916	25,882,285
<b>Total current assets</b>		<b>182,702,707</b>	<b>222,705,427</b>
<b>Non-current assets</b>			
Net investment in ijarah finance / assets under ijarah arrangements	7	83,642,456	120,048,977
Long term security deposits	8	26,128,622	37,051,702
Fixed assets - tangible	9	980,382,386	596,157,059
<b>Total non-current assets</b>		<b>1,090,153,464</b>	<b>753,257,738</b>
<b>Total assets</b>		<b>1,272,856,171</b>	<b>975,963,165</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Creditors, accrued and other liabilities	10	81,738,886	75,709,605
Borrowing from an associated company - unsecured		-	57,323,000
Payable to the Management Company	11	205,904	1,653,949
Current maturity of long term liabilities	12	121,454,931	148,163,306
<b>Total current liabilities</b>		<b>203,399,721</b>	<b>282,849,860</b>
<b>Long term and deferred liabilities</b>			
Deferred staff liability	13	7,858,801	6,223,323
Security deposits from lessees	14	1,185,000	6,750,000
Liabilities against assets subject to Ijarah finance	15	98,733,391	224,601,338
<b>Total long term and deferred liabilities</b>		<b>107,777,192</b>	<b>237,574,661</b>
<b>Total liabilities</b>		<b>311,176,913</b>	<b>520,424,521</b>
<b>NET ASSETS</b>		<b>961,679,258</b>	<b>455,538,644</b>
<b>FINANCED BY</b>			
<b>CAPITAL AND RESERVES</b>			
Authorised certificate capital	16.1	750,000,000	500,000,000
Issued, subscribed and paid up	16.2	600,000,000	300,000,000
Premium on issue of right certificates	16.2.1	90,000,000	-
Statutory (mandatory) reserve	17	177,941,513	89,871,206
Unappropriated profit		93,737,745	65,667,438
		<b>961,679,258</b>	<b>455,538,644</b>
<b>CONTINGENCY</b>	22.3		

The annexed notes 1 to 29 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 June 30, 2009

	Note	2009 (Rupees)	2008
Operating lease rentals		479,189,400	325,731,121
Operation and maintenance income		134,681,329	107,415,853
Profit on finance lease arrangements		19,463,812	24,651,886
		<u>633,334,541</u>	<u>457,798,860</u>
Operating expenses	18	<u>(380,228,691)</u>	<u>(269,847,190)</u>
Gross profit		253,105,850	187,951,670
Administrative expenses	19	(50,154,672)	(31,575,471)
Finance expenses	20	(43,455,865)	(32,916,556)
Other income	21	<u>16,645,301</u>	<u>4,116,673</u>
		176,140,614	127,576,316
Modaraba management fee	11	-	-
Profit for the year		<u><u>176,140,614</u></u>	<u><u>127,576,316</u></u>
Earnings per certificate - basic and diluted	23	<u><u>3.60</u></u>	<u><u>3.37</u></u>

The annexed notes 1 to 29 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 June 30, 2009

	2009	2008
	(Rupees)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the year	176,140,614	127,576,316
Adjustments for non-cash and other items:		
Depreciation	110,554,866	91,709,079
Provision against impaired debts	3,000,000	2,000,000
Provision for deferred staff liability	1,635,478	5,794,100
Finance cost	43,455,865	32,916,556
Profit on disposal of fixed assets	(3,881,479)	(272,989)
	<u>330,905,344</u>	<u>259,723,062</u>
<b>(Increase) / Decrease in operating assets</b>		
Trade debts	(10,130,427)	(36,387,688)
Equipment held for deployment	-	40,911,702
Investment in ijarah finance / assets under ijarah arrangements	9,065,890	(103,251,169)
Advances, prepayments and other receivables	(364,749)	(2,772,631)
	<u>(1,429,286)</u>	<u>(101,499,786)</u>
<b>(Decrease) / Increase in operating liabilities</b>		
Trade and other payables	5,982,041	8,099,992
Payable to associated companies	(57,323,000)	37,323,000
Payable to Management Company	(1,448,045)	(5,571,165)
	<u>(52,789,004)</u>	<u>39,851,827</u>
Cash generated from operations	276,687,054	198,075,103
Financial charges paid	(1,547,041)	(893,385)
Net cash flows from operating activities	<u>275,140,013</u>	<u>197,181,718</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditure	(533,983,737)	(198,237,993)
Proceed from disposal of fixed assets	43,085,023	5,083,000
Net cash flows from Investing activities	<u>(490,898,714)</u>	<u>(193,154,993)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Profit distribution to the certificate holders	(59,952,760)	(29,967,460)
Proceeds from issue of certificates - net	390,000,000	-
Ijarah financing (repaid) / availed	-	229,373,718
Musharaka financing repaid	-	(14,400,000)
Lease rentals paid	(199,364,226)	(147,652,394)
Net cash flows from financing activities	<u>130,683,014</u>	<u>37,353,864</u>
Net cash (decrease) / increase during the year	(85,075,687)	41,380,589
Cash and cash equivalents at beginning of the year	120,054,403	78,673,814
Cash and cash equivalents at end of the year	<u>34,978,716</u>	<u>120,054,403</u>

The annexed notes 1 to 29 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 June 30, 2009

	Note	Paid up certificate capital	Premium on right certificates	Statutory (mandatory) reserve (refer note 17)	Unappropriated profit	Total
Balance as on 1 July 2007	16	300,000,000	-	26,083,048	31,879,280	357,962,328
<b>Changes in equity for the year ended 30 June 2008</b>						
Profit distribution for the period ended 30 June 2007 at Re. 1 per certificate		-	-	-	(30,000,000)	(30,000,000)
Profit for the year		-	-	-	127,576,316	127,576,316
Transfer to statutory (mandatory) reserve	17	-	-	63,788,158	(63,788,158)	-
<b>Balance as at 30 June 2008</b>		<b>300,000,000</b>	<b>-</b>	<b>89,871,206</b>	<b>65,667,438</b>	<b>455,538,644</b>
<b>Changes in equity for the year ended 30 June 2009</b>						
Profit distribution for the year ended 30 June 2008 at Rs. 2 per certificate		-	-	-	(60,000,000)	(60,000,000)
100% right issue at premium of Rs. 3 per certificate during the year	16	300,000,000	90,000,000	-	-	390,000,000
Profit for the year		-	-	-	176,140,614	176,140,614
Transfer to statutory (mandatory) reserve	17	-	-	88,070,307	(88,070,307)	-
<b>Balance as at 30 June 2009</b>		<b>600,000,000</b>	<b>90,000,000</b>	<b>177,941,513</b>	<b>93,737,745</b>	<b>961,679,258</b>

The annexed notes 1 to 29 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 June 30, 2009

## 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 Company, which is wholly owned by Allied Engineering and Services Limited. The Management Company 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, fork lifters, 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 (note 15.2). 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 company 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, the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Modaraba Companies and Modaraba Rules, 1981, 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 Initial Application of a standard or an interpretation

Following standards, amendments and interpretations became effective during the current year

- Islamic Financial Accounting Standard-2 'Ijarah'- The Modaraba applied this standard to all Ijarah contracts entered on or after 1 July 2008 as allowed by Securities and Exchange Commission of Pakistan vide Letter No. SC/MR/RW/SCM/2009 dated 9 March 2009. The standard requires all Ijarah rentals to be recognised in income on accrual basis as and when the rentals become due and assets under Ijarah arrangements to be depreciated over the period of the lease in accordance with IAS 16 'Property, Plant and Equipment'. If the Modaraba had continued to account for Ijarah contracts commencing on or after 1 July 2008 as finance leases, the effect on the financial statements would have been as follows:

	(Rupees)
- Increase in profit for the year	152,451
- Increase in investment in Ijarah finance	152,451

In a similar manner, the above standard in respect of asset acquired under the Ijarah arrangements requires that Ijarah (lease) payments should be recognised as an expense in the profit and loss account on a straight line basis over the Ijarah (lease) term under the accrual basis. If the Modaraba had continued to account for these Ijarah contracts commencing on or after 1 July 2008 as finance lease liability, the effect on the financial statements would have been as follows:

	(Rupees)
- Increase in profit for the year	3,499,838
- Increase in liabilities against assets subject to finance lease	42,899,639
- Increase in fixed assets (written down value)	43,503,140

- IFRS 7 – Financial Instruments: Disclosures (effective for annual periods beginning on or after 28 April 2008) supersedes IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements of IAS 32 – Financial Instruments: Disclosure and Presentation. The application of the standard did not have any significant impact on the Modaraba's financial statements other than increase in disclosures.
- The other Standard/Interpretations that became effective during the period but did not affect the Modaraba's financial statements are as follows:
  - IAS 29 – Financial Reporting in Hyperinflationary Economies.
  - IFRIC 13 – Customer Loyalty Programmes.
  - IFRIC 14 – IAS 19- The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction.



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

Following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after 1 July 2009:

- Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.
- Revised IAS 23 - Borrowing costs (effective for annual periods beginning on or after 1 January 2009) removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on the Modaraba's financial statements.
- Amendments to IAS 32 - Financial instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which require retrospective application, are not expected to have any impact on the Modaraba's financial statements.
- Amendment to IFRS 2 - Share-based Payment – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard is not likely to have any effect on the Modaraba's financial statements.
- Revised IFRS 3 - Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognized in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. The application of this standard will not effect the Modaraba's financial statements.
- Amended IAS 27 - Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of this standard is not likely to have an effect on the Modaraba's financial statements.

# Notes to the Financial Statements

for the year ended June 30, 2009

- IFRS 8 - Operating Segments (effective for annual periods beginning on or after 1 January 2009) introduces the “management approach” to segment reporting. IFRS 8 will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Modaraba’s “chief operating decision maker” in order to assess each segment’s performance and to allocate resources to them. Since the Modaraba’s operations are limited to one segment only, the application of this standard will not have any effect on the Modaraba’s financial statements.
- IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, ‘off-plan’, that is, before construction is complete. The IFRIC is not relevant to the Modaraba’s operations.
- IFRIC 16 - Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity’s functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss. The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. The amendment is not relevant to the Modaraba’s operations.
- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Modaraba’s 2010 financial statements. These amendments are unlikely to have an impact on the Modaraba’s financial statements.
- Amendments to IAS 39 - Financial Instruments: Recognition and Measurement – Eligible hedged Items (effective for annual periods beginning on or after 1 July 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment is not likely to have an effect on the Modaraba’s financial statements.
- IAS 27 - ‘Consolidated and separate financial statements’ (effective for annual periods beginning on or after 1 January 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not likely to have an effect on Modaraba’s financial statements.
- IFRIC 17 - Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when a Modaraba distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement. As the Modaraba does not distribute non-cash assets to its certificate holders, this interpretation has no impact on the Modaraba’s financial statements.

- IFRIC 18 - Transfers of Assets from Customers (to be applied prospectively to transfers of assets from customers received on or after 1 July 2009). This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). The interpretation is not relevant to the Modaraba's operations.
- IFRS 4 - Insurance Contracts (effective for annual periods beginning on or after 1 January 2009). The IFRS makes limited improvements to accounting for insurance contracts until the Board completes the second phase of its project on insurance contracts. The standard also requires that an entity issuing insurance contracts (an insurer) to disclose information about those contracts. The standard is not applicable to the Modaraba's operations.
- Amendment to IFRS 7 - Improving disclosures about Financial Instruments (effective for annual periods beginning on or after 1 January 2009). These amendments have been made to bring the disclosure requirements of IFRS 7 more closely in line with US standards. The amendments introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. The amendment is not likely to have an effect on Modaraba's financial statements.
- Amendments to IAS 39 and IFRIC 9 - Embedded derivatives (effective for annual periods beginning on or after 1 January 2009). Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value. The amendments are not likely to have an effect on Modaraba's financial statements.
- The International Accounting Standards Board made certain amendments to existing standards as part of its Second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Modaraba's 2011 financial statements. These amendments are unlikely to have an impact on the Modaraba's financial statements.
- 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). Currently effective IFRSs requires attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.

## 2.6 Use of estimates and judgement

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 judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is as follows:

*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 13 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 recognize 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.

*Workers' welfare fund*

Refer note 22.3 for details.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in 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 (refer note 2.4 also).

During the year the Modaraba adopted Islamic Financial Accounting Standard 2-Ijarah for all Ijarah commencing on or after 1 July 2008. The assets subject to Ijarah commencing on or after 1 July 2008 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.



# Notes to the Financial Statements

for the year ended June 30, 2009

## *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 2009 would have been higher by Rs. 2.539 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.

### **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**

All investments are initially recognised at cost, being the fair value of the consideration given. 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.

Transaction costs associated with the acquisition of these investments are charged off to the profit and loss account.

After initial recognition, above investments are remeasured to fair values determined with reference to the quoted rates. These rates are determined with reference to the redemption / repurchase price per unit of the mutual funds prevailing as at the balance sheet date or the share prices quoted on the stock exchanges as of that date. Gains or losses on investments on remeasurement of these investments are recognised in income currently.

### **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.

### **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 service has been rendered.

#### **3.8.4 Income on deposits with banks**

This is recognised on a time proportion basis under the effective yield method.

#### **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.

## 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.

### 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.

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. A financial assets is 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 and 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 Musharaka financing (borrowings)**

Musharaka 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 transaction 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.

### **3.18 Liabilities against assets acquired under ijarah arrangements / 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). As mentioned in note 2.4, the Modaraba adopted Islamic Financial Accounting Standard 2 - Ijarah for all ijarah commencing on or after 1 July 2008. 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.

# Notes to the Financial Statements

for the year ended June 30, 2009

	Note	2009 (Rupees)	2008
<b>4. BANK BALANCES</b>			
Cash with banks in :			
- current accounts		7,102,386	6,473,236
- profit and loss sharing accounts	4.1	27,876,330	113,581,167
		<u>34,978,716</u>	<u>120,054,403</u>

4.1 These accounts carry profit rates ranging from 5% to 14.5% per annum (2008 : 9% to 10% per annum).

## 5. TRADE DEBTS - unsecured

Considered good		77,215,049	70,084,622
Considered doubtful		<u>5,937,288</u>	<u>3,290,788</u>
		83,152,337	73,375,410
Provision against impaired debts	5.1	<u>(5,937,288)</u>	<u>(3,290,788)</u>
		<u>77,215,049</u>	<u>70,084,622</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		3,290,788	1,290,788
Charged for the year		3,000,000	2,000,000
Write-off during the year		<u>(353,500)</u>	<u>-</u>
Closing balance		<u>5,937,288</u>	<u>3,290,788</u>

## 6. ADVANCES, DEPOSITS AND OTHER RECEIVABLES

Income tax recoverable	6.1	3,386,152	2,306,764
Advances (unsecured) :			
- to contractors		416,703	478,209
- to suppliers		2,545,000	3,412,249
- to employees against salary		467,556	411,645
- against expenses	6.2	95,000	55,000
Security deposits	6.3	15,895,810	20,250
Others		44,805	-
		<u>22,851,026</u>	<u>6,684,117</u>

6.1 This represents tax deducted at source from various payments to Modaraba.

	Note	2009 (Rupees)	2008
<b>6.2</b>	This represents advance given to employees for expenses. The maximum amount outstanding during any month of the current year was Rs. 0.135 million (2008 : Rs. 0.105 million).		
<b>6.3</b>	This includes security deposits of 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)		
<b>7. IJARAH FINANCE</b>			
Ijarah contracts commencing upto 30 June 2008			
- accounted for as finance leases	7.1	129,100,372	145,931,262
Ijarah contracts commencing 1 July 2008			
- accounted for under IFAS 2	7.2	<u>2,200,000</u>	<u>-</u>
		131,300,372	145,931,262
Current portion of net investment in Ijarah finance		<u>(47,657,916)</u>	<u>(25,882,285)</u>
		<u>83,642,456</u>	<u>120,048,977</u>

#### 7.1 NET INVESTMENT IN IJARAH FINANCE

	Due Within One Year	Due after one year but within five years	Due after five years but within ten years	Total
<b>2009</b>				
<b>(Rupees)</b>				
Minimum lease payments receivable	66,116,343	74,081,316	61,500,000	201,697,659
Residual value of leased assets	4,200,000	6,027,101	-	10,227,101
Lease contract receivables	70,316,343	80,108,417	61,500,000	211,924,760
Unearned lease income	(18,174,497)	(44,376,504)	(15,789,457)	(78,340,458)
Mark-up held in suspense	(4,483,930)	-	-	(4,483,930)
	<b>47,657,916</b>	<b>35,731,913</b>	<b>45,710,543</b>	<b>129,100,372</b>
<b>2008</b>				
<b>(Rupees)</b>				
Minimum lease payments receivable	47,189,572	108,802,788	79,500,000	235,492,360
Residual value of leased assets	2,500,000	10,227,101	-	12,727,101
Lease contract receivables	49,689,572	119,029,889	79,500,000	248,219,461
Unearned lease income	(23,807,287)	(53,588,263)	(24,892,649)	(102,288,199)
Mark-up held in suspense	-	-	-	-
	<b>25,882,285</b>	<b>65,441,626</b>	<b>54,607,351</b>	<b>145,931,262</b>

# Notes to the Financial Statements

for the year ended June 30, 2009

The Modaraba has entered into various lease agreements with profit rates ranging between 3% and 35.71% (2008: 3% and 35.71%) per annum. The agreements are for a period of 3 to 10 years (2008: 3 to 10 years). These are generally secured against the leased assets and promissory notes given by the lessees. This includes Rs.11.088 million (2008: Rs.18.201 million) as at 30 June 2009 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. 77.847 million (including current maturity of Rs. 4.359 million) as at 30 June 2009.

Above net investment in ijarah finance includes non-performing balance of Rs. 32.167 million. The Balance is considered to be adequately secured.

## 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 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	3,000,000	-	800,000	800,000	2,200,000	3

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

### 7.2.1 Contractual rentals receivable

	Due Within One Year	Due after one year but within five years	Due after five years but within ten years	Total
		2009		
	(Rupees)			
Total future rentals receivable	1,070,304	1,670,304	-	2,740,608
	2008			
	(Rupees)			
Total future rentals receivable	Nil			

## 8. LONG TERM SECURITY DEPOSITS

	Note	2009 (Rupees)	2008
Security deposits on Ijarah finance / assets under Ijarah arrangements		41,930,782	37,051,702
Repayable / adjustable within one year	6.3	<u>(15,802,160)</u>	<u>-</u>
		<u>26,128,622</u>	<u>37,051,702</u>

These include security deposits of Rs. 26.079 million paid against ijarah finance contracts and are refundable / adjustable on the expiry of lease period.

## 9. FIXED ASSETS - tangible

Fixed assets held for leased out under operating lease arrangements	9.1	946,677,727	571,720,996
Fixed assets in own use	9.2	20,913,077	19,128,811
Capital work-in-progress	9.5	<u>12,791,582</u>	<u>5,307,252</u>
		<u>980,382,386</u>	<u>596,157,059</u>

# Notes to the Financial Statements

for the year ended June 30, 2009

## 9.1 Fixed assets held for leased out under operating lease arrangements

2009	Description	Note	COST (Rupees)			DEPRECIATION (Rupees)			Written down value as at June 30, 2009	Life (Years)		
			As at July 1, 2008	Addition Transfer (Disposal)	For the period Transfer (Disposal)	As at June 30, 2009	For the Year For the Year (Disposal)	As at June 30, 2009				
	<b>Owned</b>											
	Generators, forklifts and related parts	9.1.1	295,313,437	422,438,243	(58,553,441) 101,396,762	760,595,001	69,563,168	73,570,891	(23,218,165) 16,858,410	136,774,304	623,820,697	5 to 9
	Machines	9.1.1	11,104,000	97,422,753	15,588,000	124,114,753	577,007	5,667,290	2,831,524	9,075,821	115,038,932	5 to 7
			306,417,437	519,860,996	58,431,321	884,709,754	70,140,175	79,238,181	(3,528,231)	145,850,125	738,859,629	
	<b>Leased</b>											
	Generators		340,078,916	(101,396,762)	(3,684,595)	234,997,559	41,127,367	25,470,290	(1,014,656) (16,858,410)	48,724,591	186,272,968	3 to 10
	Machines		42,274,996	(15,588,000)	-	26,686,996	5,782,811	2,190,579	(2,831,524)	5,141,866	21,545,130	5 to 7
			382,353,912	(116,984,762)	(3,684,595)	261,684,555	46,910,178	27,660,869	(20,704,590)	53,866,457	207,818,098	
			<b>688,771,349</b>	<b>402,876,234</b>	<b>54,746,726</b>	<b>1,146,394,309</b>	<b>117,050,353</b>	<b>106,899,050</b>	<b>(24,232,821)</b>	<b>199,716,582</b>	<b>946,677,727</b>	



9.1 Fixed assets held for leased out under operating lease arrangements

2008	COST			DEPRECIATION			Life (Years)			
	Note	As at July 1, 2007	For the period Addition (Disposal) As at June 30, 2008	For the period (Disposal) As at June 30, 2008	For the period (Disposal) As at June 30, 2008	Written down value as at June 30, 2008				
Description		(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)				
<b>Owned:</b>										
Generators, forklifts and related parts										
Machines		256,354,287	40,777,750 (1,818,600)	295,313,437	19,244,199	50,618,070 (299,101)	69,563,168	225,750,269	5 to 9	
Capital stores		4,171,000	6,933,000 -	11,104,000	65,808	511,199	-	577,007	10,526,993	5 to 7
		5,270,946	1,735,000 (7,005,946)	-	421,676	1,005,285 (1,426,961)	-	-	-	5
<b>Leased:</b>										
Generators		265,796,233	49,445,750 (8,824,546)	306,417,437	19,731,683	52,134,554 (1,726,062)	70,140,175	236,277,262		
Machines		213,893,140	127,342,398 (1,156,622)	340,078,916	8,468,190	32,659,177	-	41,127,367	298,951,549	3 to 10
		30,257,000	12,017,996 -	42,274,996	1,704,548	4,078,263	-	5,782,811	36,492,185	5 to 7
		244,150,140	139,360,394 (1,156,622)	382,353,912	10,172,738	36,737,440	-	46,910,178	335,443,734	
		<b>509,946,373</b>	<b>188,806,144 (9,981,168)</b>	<b>688,771,349</b>	<b>29,904,421</b>	<b>88,871,994 (1,726,062)</b>	<b>117,050,353</b>	<b>571,720,996</b>		

9.1.1 During the year, the Modaraba acquired certain equipments and parts amounting to Rs. 122.469 million (2008: Rs. 9.392 million) from Allied Engineering and Services Limited (a related party).

# Notes to the Financial Statements

for the year ended June 30, 2009

## 9.2 Fixed assets in own use

2009		COST			DEPRECIATION			Life (Years)			
Description	Note	As at July 1, 2008	For the period Addition	Transfer (Disposal)	As at June 30, 2009	For the period For the Year	Deletion / Adjustment		As at June 30, 2009	Written down value as at June 30, 2009	
		(Rupees)			(Rupees)						
Furniture, fixtures and office equipment		1,675,042	386,994	-	2,062,036	739,190	201,068	-	940,258	1,121,778	3 to 8
Vehicles		20,895,826	5,451,414	(1,549,000)	24,798,240	2,702,867	2,654,746	(350,672)	5,006,941	19,791,299	6 to 8
		<u>22,570,868</u>	<u>5,838,408</u>	<u>(1,549,000)</u>	<u>26,860,276</u>	<u>3,442,057</u>	<u>2,855,814</u>	<u>(350,672)</u>	<u>5,947,199</u>	<u>20,913,077</u>	
2008		COST			DEPRECIATION			Life (Years)			
Description	Note	As at July 1, 2007	Addition	Transfer (Disposal)	As at June 30, 2008	As at July 1, 2007	For the Year		Deletion / Adjustment	As at June 30, 2008	Written down value as at June 30, 2008
Furniture, fixtures and office equipment		1,158,606	516,436	-	1,675,042	122,207	616,983	-	739,190	935,852	3 to 8
Vehicles		12,364,500	10,958,326	(2,427,000)	20,895,826	775,875	2,220,102	(293,110)	2,702,867	18,192,959	6 to 8
		<u>13,523,106</u>	<u>11,474,762</u>	<u>(2,427,000)</u>	<u>22,570,868</u>	<u>898,082</u>	<u>2,837,085</u>	<u>(293,110)</u>	<u>3,442,057</u>	<u>19,128,811</u>	

**9.3** Details of disposal of fixed assets are as under:

Particulars	Cost of assets	Accumulated depreciation	Carrying value	Sale proceeds	Gain/(Loss) on disposal	Mode of disposal	Particulars of purchaser
Generator	3,459,000	1,401,033	2,057,967	2,600,000	542,033	Negotiation	Habib Knit Fabrics (Pvt.) Limited 80 A, B & C, Sector 27, Korangi Industrial Area, Karachi
Generator*	1,950,000	960,000	990,000	1,152,576	162,576	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22, Korangi Industrial Area, Karachi - related party
Generator*	1,900,000	1,090,000	810,000	628,851	(181,149)	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22, Korangi Industrial Area, Karachi - related party
Generator	3,132,000	1,332,000	1,800,000	2,150,000	350,000	Negotiation	Formation Engineering 19 KM, Main Multan Road, Near Wapda Grid Station, Lahore
Generator	3,338,000	-	3,338,000	4,500,000	1,162,000	Insurance claim	Adamjee Insurance Company Limited
Generator*	3,132,000	1,202,857	1,929,143	1,367,718	(561,425)	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22, Korangi Industrial Area, Karachi - related party
Generator	1,131,493	337,588	793,905	800,000	6,095	Negotiation	Iqbal Engineering Works Plot No. D-9, Nauras Chowrangi, S.I.T.E, Karachi
Generator	2,229,000	1,239,000	990,000	1,000,000	10,000	Negotiation	Iqbal Engineering Works Plot No. D-9, Nauras Chowrangi, S.I.T.E, Karachi
Generator	1,806,000	636,866	1,169,134	1,100,000	(69,134)	Negotiation	Iqbal Engineering Works Plot No. D-9, Nauras Chowrangi, S.I.T.E, Karachi
Generator	1,089,000	467,222	621,778	875,600	253,822	Negotiation	Mr. Shakoor Plot No. SA-6, ST-4, Sector-27, Korangi Industrial Area, Karachi
Generator	1,877,000	1,095,400	781,600	1,000,000	218,400	Negotiation	Mr. Shakoor Plot No. SA-6, ST-4, Sector-27, Korangi Industrial Area, Karachi.
Generator	2,232,125	543,277	1,688,848	2,000,000	311,152	Negotiation	Mr. Mahir Aslam (Star Speed CNG), Old Bus Stand, Multan Road, Sargodha.
Generator*	2,461,000	1,025,600	1,435,400	2,032,531	597,131	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22, Korangi Industrial Area, Karachi - related party
Generator*	1,806,095	579,607	1,226,488	1,374,319	147,831	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22, Korangi Industrial Area, Karachi - related party
Generator	14,070,026	4,411,448	9,658,578	10,000,000	341,422	Negotiation	Gentec Rentals C/O Khawaja Flat Glass Industries, Pindi Road, Fateh Jang
Generator	2,850,000	974,222	1,875,778	2,100,000	224,222	Negotiation	Mushtaq CNG PP-9 - Block No. 6, Rashid Minhas Road, Karachi

## Notes to the Financial Statements

for the year ended June 30, 2009

### 9.3 Details of disposal of fixed assets are as under:

Particulars	Cost of assets	Accumulated depreciation	Carrying value	Sale proceeds	Gain/(Loss) on disposal	Mode of disposal	Particulars of purchaser
Generator*	4,091,000	1,509,526	2,581,474	2,699,305	117,831	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22, Korangi Industrial Area, Karachi - related party
Generator*	2,940,297	2,020,926	919,371	859,193	(60,178)	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22, Korangi Industrial Area, Karachi - related party
Generator*	1,638,000	680,469	957,531	1,116,518	158,987	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22, Korangi Industrial Area, Karachi - related party
Generator*	2,673,000	1,017,779	1,655,221	1,393,115	(262,106)	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22, Korangi Industrial Area, Karachi - related party
Generator*	979,000	704,000	275,000	374,724	99,724	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22, Korangi Industrial Area, Karachi - related party
Generator*	1,454,000	1,004,000	450,000	679,525	229,525	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22, Korangi Industrial Area, Karachi - related party
Vehicle	450,000	33,750	416,250	327,648	(88,602)	Negotiation	Mr. Zubair Ahmed (ex-employee)
Vehicle	400,000	111,111	288,889	276,500	(12,389)	Negotiation	Mr. Yamin H.No. 875/3, Hussainabad, F.B. Area, Karachi
Vehicle*	350,000	101,111	248,889	347,900	99,011	Negotiation	Allied Engineering & Services Limited 21/3, Sector 22, Korangi Industrial Area, Karachi - related party
Vehicle	349,000	104,700	244,300	329,000	84,700	Negotiation	Mr. Mujahid H.No. 728, Insar Gali, Sahiwal
<b>2009</b>	<b>63,787,036</b>	<b>24,583,492</b>	<b>39,203,544</b>	<b>43,085,023</b>	<b>3,881,479</b>		
2008	5,402,222	592,211	4,810,011	5,083,000	272,989		

\* represents transactions with a related party (resulting in total proceeds of Rs. 14.026 million and net gain of Rs. 0.548 million)

	Note	2009 (Rupees)	2008
<b>9.4</b>	The depreciation charge has been allocated as under :		
Operating expenses	18	107,699,052	88,871,994
Administrative and selling costs	19	<u>2,855,814</u>	<u>2,837,085</u>
		<u>110,554,866</u>	<u>91,709,079</u>

#### 9.5 Capital work-in-progress

This includes advance for certain equipments that would be transferred to the operating fixed assets as and when available for intended use and certain expenses incurred on account of the assembling of equipments.

### 10. CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors for goods	10.1	32,337,980	48,367,711
Creditors for expenses		14,677,979	6,798,464
Advances from customers		8,357,163	5,592,265
Security deposits	10.2	6,265,000	100,000
Employee car scheme - deductions	10.3	3,227,588	2,673,676
Payable to Staff Provident Fund		-	1,212
Dividend payable		79,780	32,540

#### Accrued expenses

- Accrued commission	924,157	884,776
- Accrued staff bonus	6,564,500	5,354,839
- Auditor's remuneration	421,785	369,175
- Accrued financial charges	1,122,083	1,674,051
- Miscellaneous	3,614,704	3,009,394
	<u>12,647,229</u>	<u>11,292,235</u>

Rental payable	10.4	4,146,167	-
Other liabilities		-	851,502
		<u>81,738,886</u>	<u>75,709,605</u>

**10.1** This includes Rs. 19.620 million (2008: Rs. 31.761 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. 6.165 million (2008: nil) received from lessees against Ijarah finance contracts that are repayable / adjustable on the expiry of lease period (which is within one year - refer note 14).

**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.

# Notes to the Financial Statements

for the year ended June 30, 2009

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

	Due Within One Year	Due after one year but within five years	Due after five years but within ten years	Total
<b>2009</b>				
<b>(Rupees)</b>				
Total future rentals Payable	18,427,408	23,494,945	-	41,922,353

	Due Within One Year	Due after one year but within five years	Due after five years but within ten years	Total
<b>2008</b>				
<b>(Rupees)</b>				
Total future rentals Payable	-	-	-	-

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. 13.624 million was recognised under the obligation under above ijarah arrangement and as at the year-end, Rs. 1.796 million was due under the said operating lease arrangement.

## 11. PAYABLE TO THE MANAGEMENT COMPANY

- 11.1** 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. However, the management company has decided not to charge any remuneration from Modaraba and accordingly, no accrual of management fee for the year ended 30 June 2009 has been made in these financial statements.
- 11.2** At 30 June 2009, amount of Rs. 0.206 million payable to the management company represented certain expenses incurred by management company on behalf of Modaraba.

	Note	2009 (Rupees)	2008
<b>12. CURRENT MATURITY OF LONG TERM LIABILITIES</b>			
Liabilities against assets subject to ijarah finance	15	<u>121,454,931</u>	<u>148,163,306</u>
<b>13. DEFERRED STAFF LIABILITY</b>			
Deferred liability for staff gratuity		<u>7,858,801</u>	<u>6,223,323</u>



### 13.1 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 as at 30 June 2008 under the Project Unit Credit Method. Principal actuarial assumptions used in the valuation of the schemes are as follows:

	2009	2008
	%	%
Valuation discount rate	11	11
Salary increase rate	11	11

Based on the actuarial valuation of the liability carried out by an actuary as of 30 June 2008 (and the charge, etc. communicated by the actuary for the year ended 30 June 2009), details of the Modaraba's obligation under the scheme is as follows:

	2009	2008
	(Rupees)	
<b>Present value of obligation:</b>		
Present value of defined benefit obligation	7,170,500	5,525,324
Unrecognised actuarial gain	688,301	697,999
Net liability recognised on the balance sheet	<u>7,858,801</u>	<u>6,223,323</u>

#### Movement in amount payable to the defined benefit plan:

Opening balance	6,223,323	429,223
Charge for the year / period	1,635,478	5,794,100
Closing balance	<u>7,858,801</u>	<u>6,223,323</u>

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

Present value of defined benefit obligation	5,525,324	429,223
Current service cost	1,070,040	5,282,504
Mark-up cost	575,136	511,596
Unrecognised actuarial gain	-	(697,999)
	<u>7,170,500</u>	<u>5,525,324</u>

#### 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	1,070,040	5,282,504
Mark-up cost	575,136	511,596
Actuarial Gain	(9,698)	
	<u>1,635,478</u>	<u>5,794,100</u>

Valuation as of 30 June 2009, is not considered to have a material effect on the above results.

### 14. SECURITY DEPOSITS FROM LESSEES

Security deposits on Ijarah finance / assets under Ijarah arrangements	7,350,000	6,750,000
Repayable / adjustable within one year	(6,165,000)	-
	<u>1,185,000</u>	<u>6,750,000</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 June 30, 2009

## 15. LIABILITIES AGAINST ASSETS SUBJECT TO IJARAH FINANCE

15.1 These represent liabilities against assets acquired under finance lease arrangements. Against a total facility limit of Rs. 563.058 million (2008: Rs. 563.058 million) from various banks, facilities of Rs. 527.908 million (2008: Rs. 527.908 million) have been availed by the Modaraba. During the year no new facility was utilized by the Modaraba.

	Due Within One Year	Due after one year but within five years	Total
<b>2009</b>			
<b>(Rupees)</b>			
<b>Refer Note 12</b>			
Minimum lease payments	141,610,816	108,649,194	250,260,010
Finance charge for future periods	(20,155,885)	(9,915,803)	(30,071,688)
Principal outstanding	<b>121,454,931</b>	<b>98,733,391</b>	<b>220,188,322</b>
<b>2008</b>			
<b>(Rupees)</b>			
<b>Refer Note 12</b>			
Minimum lease payments	181,138,792	250,576,773	431,715,565
Finance charge for future periods	(32,975,486)	(25,975,435)	(58,950,921)
Principal outstanding	148,163,306	224,601,338	372,764,644

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 installments. The above obligation includes Rs. 108.768 million whose related assets have been sub-leased by the Modaraba under finance lease arrangements.

15.2 This includes Rs. 1.267 million (2008: Rs. 59.978 million) as at 30 June 2009 which were transferred from Allied Rental Services (Private) Limited (refer note 1.2 for details).

## 16. CERTIFICATE CAPITAL

### 16.1 Authorized certificate capital

2009	2008		2009	2008
(Number of certificates)			(Rupees)	
<u>75,000,000</u>	<u>50,000,000</u>	Modaraba certificates of Rs. 10 each	<u>750,000,000</u>	<u>500,000,000</u>

16.1.1 During the year, Board of Directors of the Management Company in its meeting held on 21 August 2008 had resolved (after the approval from the Registrar), to alter the prospectus of Modaraba floated by it in order to increase the Authorized Certificate Capital from Rs. 500 million to Rs. 750 million.

**16.2 Issued, subscribed and paid-up capital**

2009	2008	Note	2009	2008
<b>(Number of certificates)</b>			<b>(Rupees)</b>	
<u>60,000,000</u>	<u>30,000,000</u>		<u>600,000,000</u>	<u>300,000,000</u>

Modaraba certificates of Rs. 10 each issued as fully paid in cash

- 16.2.1** During the year, Board of Directors of the Management Company in its meeting held on 26 September 2008 had resolved to issue right certificates in the ratio of 1 right certificate for every 1 certificate held at a premium of Rs. 3 per certificate (i.e. total premium of Rs. 90 million) which has been fully subscribed by the certificate holders.

Following certificates are held by the associated companies of Modaraba:

	(Number of certificates)	
Allied Engineering and Services Limited	18,169,715	9,000,000
Allied Engineering Management Company (Private) Limited	<u>12,000,000</u>	<u>6,000,000</u>
	<u>30,169,715</u>	<u>15,000,000</u>

**17. 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 (2008: 50%).

**18. OPERATING EXPENSES****(Rupees)**

Salaries, wages and other staff benefits	18.1	134,480,922	103,382,885
Depreciation expense	9.4	107,699,052	88,871,994
Repair and maintenance	18.2	108,301,324	65,776,204
Transportation costs		4,439,255	2,330,170
Insurance cost - equipments		11,597,586	8,912,657
Lease rentals		13,624,033	-
Miscellaneous		86,519	573,280
		<u>380,228,691</u>	<u>269,847,190</u>

- 18.1** This includes contribution of Rs.1.85 million (2008: 1.373 million) to the staff provident fund.

- 18.2** This includes expenses of Rs. 87.46 million (2008: Rs. 50.391 million) for parts purchased and services availed from Allied Engineering and Services Limited, an associated company.

**19. ADMINISTRATIVE EXPENSES**

Salaries, wages and other staff benefits	19.1	8,203,563	6,894,367
Commission		7,971,455	4,203,380
Vehicle running costs		7,814,803	5,111,151
Travelling and conveyance		6,097,353	3,420,523
Provision against impaired debts	5.1	3,000,000	2,000,000
Depreciation expense	9.4	2,855,814	2,837,085
Legal and professional charges		1,462,922	1,817,336
Expenses against issuance of right certificates		4,351,063	-
Auditors' remuneration	19.2	587,000	446,675
Telephone, postage and fax charges		1,012,089	827,757
Advertisement and sales promotion		1,516,970	1,156,253
Printing and stationery		736,882	695,023
Insurance cost - vehicles		593,062	462,700
Rent expense		1,299,603	360,000
Training, meetings and tender participation		104,200	347,557
Miscellaneous		2,547,893	995,664
		<u>50,154,672</u>	<u>31,575,471</u>

# Notes to the Financial Statements

for the year ended June 30, 2009

19.1 This includes contribution of Rs.0.25 million (2008: 0.156 million) to the staff provident fund.

## 19.2 Auditors' remuneration

Note	2009	2008
	(Rupees)	
	325,000	300,000
	125,000	70,000
	50,000	40,000
	45,000	25,000
	42,000	11,675
	<u>587,000</u>	<u>446,675</u>

Audit fee  
 Fee for review of interim financial statements  
 Code of corporate governance  
 Other certifications  
 Out of pocket expenses

## 20. FINANCIAL EXPENSES

Financial charges on obligation against assets under ijarah lease arrangements	41,908,824	32,023,169
Bank charges and commission	396,602	346,204
Exchange loss	1,150,439	547,183
	<u>43,455,865</u>	<u>32,916,556</u>

## 21. OTHER INCOME

### Income from financial assets

Profit on bank deposits	7,321,786	2,834,831
Profit on Musharika certificate investments	2,105,206	-
Gain on redemption of mutual fund units	868,798	-

### Income from non financial assets

Proceeds from disposal of scrap	2,468,032	1,008,853
Gain on disposal of fixed assets	9.3 3,881,479	272,989
	<u>16,645,301</u>	<u>4,116,673</u>

## 22. TAXATION AND RELATED CONTINGENCY

22.1 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 28 to these financial statements.

22.2 The income tax returns of the Modaraba have been filed up to the financial year ended 30 June 2008 which is deemed to be an assessment order under the Income Tax Ordinance 2001, unless selected for audit by the taxation authorities.

22.3 The Finance Act 2008 made certain changes to Workers' Welfare Fund Ordinance, 1971. Through these amendments workers welfare fund (WWF) is payable at the rate 2% on the higher of the profit before taxation as per the financial statements of return of income. The management considers that since its income is exempt from tax as explain in note 3.9, it is not liable to pay WWF. Accordingly no provision has been made in these financial statements for WWF amounting to Rs. 3.52 million.

### 23. EARNINGS PER CERTIFICATE - basic and diluted

	2009	2008
Basic earnings per certificate is worked out as under:		
Profit for the year	Rupees <u>176,140,614</u>	<u>127,576,316</u>
		Restated
Weighted average number of Modaraba certificates	Number <u>48,900,000</u>	<u>37,800,000</u>
Earnings per certificate - basic	Rupees <u>3.60</u>	<u>3.37</u>

Previous year's earning per certificate have been adjusted due to the issuance of right shares in current year.

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

### 24. REMUNERATION OF OFFICERS AND OTHER EMPLOYEES

	2009		
	Officers (Key management personnel)	Other employees	Total
	(Rupees)		
Basic salary	3,708,540	17,737,576	21,446,116
Bonus	1,125,361	5,022,770	6,148,131
House rent allowance	1,668,840	7,981,765	9,650,605
Utility allowance	370,860	1,773,777	2,144,637
Conveyance allowance	234,990	1,773,777	2,008,767
Provident fund	370,848	1,727,192	2,098,040
Gratuity	282,813	1,352,665	1,635,478
Contribution to Employees' Old Age	8,640	689,210	697,850
Medical benefits	473,288	2,263,690	2,736,978
	<u>8,244,180</u>	<u>40,322,422</u>	<u>48,566,602</u>
Number of person	4	150	154
	2008		
	(Rupees)		
Basic salary	2,067,060	14,338,493	16,405,553
Bonus	632,888	3,320,014	3,952,902
House rent allowance	930,186	6,452,322	7,382,508
Utility allowance	206,706	1,433,849	1,640,555
Conveyance allowance	206,706	1,433,849	1,640,555
Provident fund	206,706	1,324,932	1,531,638
Gratuity	715,196	5,078,904	5,794,100
Contribution to Employees' Old Age	7,728	570,443	578,171
Medical benefits	247,464	1,757,343	2,004,807
	<u>5,220,640</u>	<u>35,710,149</u>	<u>40,930,789</u>
Number of person	2	160	162

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

# Notes to the Financial Statements

for the year ended June 30, 2009

## 25. FINANCIAL INSTRUMENTS

Financial risk management

The Board of Directors of the management company has overall responsibility for the establishment and oversight of the Modaraba's risk management framework. The Modaraba has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

### 25.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. The risk is generally limited to principal amounts and accrued profit thereon, if any. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Modaraba's performance to developments affecting a particular industry.

Credit risk of the Modaraba arises principally from trade debts, net investment in ijarah finance, bank balances, deposits and other receivables. The carrying amount of financial assets represents the maximum credit exposure. 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.

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

	Note	2009 (Rupees)	2008
Trade debts		77,215,049	70,084,622
Net investment in ijarah finance / assets under ijarah arrangements	25.1.1	123,950,372	139,181,262
Bank balances		34,978,716	120,054,403
Deposits		42,024,432	37,071,952
Other receivables		44,805	-
		<u>278,213,374</u>	<u>366,392,239</u>
<b>25.1.1 Investment in ijarah finance / assets under ijarah arrangements</b>	7	131,300,372	145,931,262
Security deposits held	14	(7,350,000)	(6,750,000)
		<u>123,950,372</u>	<u>139,181,262</u>

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

**25.1.3 Details of the industry sector analysis of the Modaraba's above financial instruments exposed to credit risk is given below:**

	2009		2008	
	(Rupees)	%	(Rupees)	%
Automobiles	-	-	130,000	0.04
Banks and development financial institutions	77,686,170	27.92	147,153,317	40.16
Cement industry	81,303,780	29.22	86,321,207	23.56
Chemicals and pharmaceutical	5,286,480	1.90	1,152,258	0.31
Construction	39,267,952	14.11	55,910,909	15.26
Dairy and poultry	1,483,827	0.53	543,197	0.15
Education	290,490	0.10	111,600	0.03
Energy, oil and gas	8,217,828	2.95	6,091,854	1.66
Engineering	3,554,875	1.28	1,463,875	0.40
Food and beverages	17,287,158	6.21	33,535,128	9.15
Glass and ceramics	872,000	0.31	3,538,993	0.97
Health care	2,590,490	0.93	2,190,992	0.60
Hotels	29,906	0.01	432,050	0.12
Information technology and communication	3,827,958	1.38	963,596	0.26
Paper and board	674,975	0.24	1,050,000	0.29
Plastic industries	-	-	541,700	0.15
Packaging	1,401,572	0.50	-	0.00
Printing and publishing	1,641,666	0.59	1,285,068	0.35
Fast Moving consumer goods	7,724,364	2.78	-	0.00
Sugar industry	-	-	159,000	0.04
Tannery	161,000	0.06	8,000	0.00
Textile and cotton	11,435,198	4.11	9,029,487	2.46
Transport	2,820,583	1.01	3,772,592	1.03
Travel services	3,361,664	1.21	8,500,483	2.32
Steel Mills	339,900	0.12	-	0.00
Mining	524,749	0.19	-	0.00
Insurance	44,806	0.02	-	0.00
Others	6,383,983	2.29	2,506,933	0.68
	<u>278,213,374</u>	<u>100.00</u>	<u>366,392,239</u>	<u>100.00</u>

**25.1.4 Impairment losses and past due balances**

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

	2009		2008	
	Gross	Impairment loss recognised	Gross	Impairment loss recognised
	(Rupees)		(Rupees)	
Not past due	114,706,531	-	248,219,461	-
Past due 1-90 days	71,437,692	-	54,883,336	-
Past due 91 days - 180 days	5,817,257	1,200,000	8,115,138	-
Past due 181 days to one year	12,422,859	2,435,804	6,325,600	1,265,120
Past due one year to two years	2,524,770	2,107,884	4,051,336	2,025,668
More than two years	193,600	193,600	-	-
Total	<u>207,102,709</u>	<u>5,937,288</u>	<u>321,594,871</u>	<u>3,290,788</u>

Impairment is recognized by the Modaraba on the basis of provision requirements of Prudential regulations for Modarabas issued by the SECP and subjective evaluation of investment portfolio carried by the Modaraba on an ongoing basis (and consideration of forced sales value of properties, where ever considered necessary, 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.



# Notes to the Financial Statements

## for the year ended June 30, 2009

### 25.2 LIQUIDITY RISK

Liquidity risk is the risk that the Modaraba will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Modaraba could be required to pay its liabilities earlier than expected. 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.

The following are the contractual maturities of financial liabilities, including interest payments:

	2009				
	Carrying Amount	Contractual cash flows	Six months or less (Rupees)	Six to twelve months	One to five years
<b>Non-derivative Financial liabilities</b>					
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 finance lease	<u>220,188,322</u>	<u>250,260,010</u>	<u>68,456,368</u>	<u>73,154,448</u>	<u>108,649,194</u>
	<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>
<b>2008</b>					
	Carrying Amount	Contractual cash flows	Six months or less (Rupees)	Six to twelve months	One to five years
<b>Non-derivative Financial liabilities</b>					
Security deposits from lessees	6,750,000	6,750,000	-	-	6,750,000
Creditors, accrued and other liabilities	70,107,946	70,107,946	56,940,226	-	-
Borrowing from an associated company	57,323,000	57,323,000	57,323,000	-	-
Payable to the management company	1,653,949	1,653,949	1,653,949	-	-
Liabilities against assets subject to finance lease	<u>372,764,644</u>	<u>431,715,565</u>	<u>85,686,755</u>	<u>95,452,037</u>	<u>250,576,773</u>
	<u>508,599,539</u>	<u>567,550,460</u>	<u>201,603,930</u>	<u>95,452,037</u>	<u>257,326,773</u>

**25.2.1** 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 15 to these financial statements.

### 25.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Modaraba is exposed to currency risk and interest rate risk only.

#### 25.3.1 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.

The Modaraba is exposed to foreign currency risk that is denominated in a foreign currency (U.S. Dollar). Modaraba uses forward foreign exchange contracts to hedge its foreign currency risk, when considered appropriate. At 30 June 2009, Modaraba's exposure to foreign currency risk was in respect of its obligation of Rs. 5.897 million (\$ 72,485) (2008: Nil).

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	
	2009	2008	2009	2008
Rupees/US Dollars	<u>81.000</u>	<u>61.300</u>	<u>81.360</u>	<u>68.200</u>

#### 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. 0.294 million (2008: Nil). This analysis assumes that all other variables, in particular interest rates, remaining constant. The analysis is performed on the same basis for 2008.

# Notes to the Financial Statements

for the year ended June 30, 2009

## 25.3.2 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:

		2009							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			
		Effective yield / profit rate	(Rupees)							Not exposed to yield / profit rate	
<b>ASSETS</b>											
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 / assets under ijarah arrangement	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	
<b>LIABILITIES</b>											
Creditors and other liabilities	14.61%	-	-	-	-	-	-	-	-	66,502,019	66,502,019
Borrowing from an associated company		-	-	-	-	-	-	-	-	-	-
Payable to the Management Company		-	-	-	-	-	-	-	-	205,904	205,904
Security deposits		-	-	-	-	-	-	-	-	7,450,000	7,450,000
Liabilities against assets subject to finance lease	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	-	-	-	74,157,923	294,346,245
<b>Net assets</b>		<b>33,064,939</b>	<b>(17,504,796)</b>	<b>(20,974,007)</b>	<b>(39,438,114)</b>	<b>(78,210,446)</b>	<b>16,340,261</b>	<b>45,710,543</b>	<b>52,228,748</b>	<b>(8,782,872)</b>	

2008

	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 3 years	Over 3 to 5 years	Over 5 years	Not exposed to yield / profit rate	Total carrying value
(Rupees)										
<b>ASSETS</b>										
Bank balances	9% - 10%	113,581,167	-	-	-	-	-	-	6,473,236	120,054,403
Trade debts		-	-	-	-	-	-	-	70,084,622	70,084,622
Deposits and other receivables		-	-	-	-	-	-	-	37,071,952	37,071,952
Net investment in finance leases	3% - 35.71%	2,106,011	6,429,663	5,537,682	11,808,929	51,770,649	13,670,977	54,607,351	-	145,931,262
		115,687,178	6,429,663	5,537,682	11,808,929	51,770,649	13,670,977	54,607,351	113,629,810	373,142,239
<b>LIABILITIES</b>										
Creditors and other liabilities		-	-	-	-	-	-	-	70,017,340	70,017,340
Borrowing from an associated company		-	-	-	-	-	-	-	57,323,000	57,323,000
Payable to the Management Company		-	-	-	-	-	-	-	1,653,949	1,653,949
Security deposits		-	-	-	-	-	-	-	6,750,000	6,750,000
Liabilities against assets subject to finance lease	11.48% - 15.29%	9,085,810	26,730,580	36,988,863	75,358,053	193,682,309	30,919,029	-	-	372,764,644
		9,085,810	26,730,580	36,988,863	75,358,053	193,682,309	30,919,029	-	135,744,289	508,508,933
<b>Net assets</b>		<b>106,601,368</b>	<b>(20,300,917)</b>	<b>(31,451,181)</b>	<b>(63,549,124)</b>	<b>(141,911,660)</b>	<b>(17,248,052)</b>	<b>54,607,351</b>	<b>(22,114,479)</b>	<b>(135,366,694)</b>

# Notes to the Financial Statements

for the year ended June 30, 2009

Modaraba's interest rate exposure arises on deposits with banks, net investment in ijarah finance / assets under ijarah arrangements 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	
	2009	2008
	(Rupees)	
<b>Fixed rate instruments</b>		
Financial assets	<u>131,300,372</u>	<u>145,931,262</u>
<b>Variable rate instruments</b>		
Financial assets	<u>27,876,330</u>	<u>113,581,167</u>
Financial liabilities	<u>220,188,322</u>	<u>372,764,644</u>

## 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 affect 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 any 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. 2.23 million.

## 25.4 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.

## 25.5 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.

## 26. 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 trust 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
		Note
Allied Engineering Management Company (Private) Limited	Management Company	11 & 16.2.1
Allied Engineering and Services Limited	Holding company of the Management Company	9.1.1, 9.3, 10.1, 18.2 & 16.2.1
Staff Provident Fund	Staff provident fund of associated company	18.1 & 19.1
Executives	Key management personnel	24

## 27. INFORMATION ABOUT BUSINESS SEGMENTS

	2009 (Rupees)		
	Operating & finance lease rentals and other income	Operation and Maintenance income	Consolidated
<b>REVENUE</b>	<u>498,653,212</u>	<u>134,681,329</u>	<u>633,334,541</u>
<b>RESULT</b>			
Segment result	113,164,936	46,330,377	159,495,313
Other income	-	-	16,645,301
Profit for the year			<u>176,140,614</u>
<b>OTHER INFORMATION</b>			
Capital expenditure	<u>528,699,403</u>	-	<u>528,699,403</u>
Depreciation	<u>110,554,866</u>	-	<u>110,554,866</u>
<b>ASSETS AND LIABILITIES</b>			
Segment assets	1,205,600,971	9,425,458	1,215,026,429
Unallocated corporate assets	-	-	57,829,742
Consolidated total assets			<u>1,272,856,171</u>
Segment liabilities	298,821,960	4,225,123	303,047,083
Unallocated corporate liabilities	-	-	8,129,830
Consolidated total liabilities			<u>311,176,913</u>

# Notes to the Financial Statements

for the year ended June 30, 2009

	2008		
	(Rupees)		
	Operating & finance lease rentals and other income	Operation and Maintenance income	Consolidated
<b>REVENUE</b>	<u>350,383,007</u>	<u>107,415,853</u>	<u>457,798,860</u>
<b>RESULT</b>			
Segment result	85,785,644	37,770,674	123,556,318
Other income	-	-	4,116,673
Profit for the year			<u>127,672,991</u>
<b>OTHER INFORMATION</b>			
Capital expenditure	<u>200,280,906</u>	<u>-</u>	<u>200,280,906</u>
Depreciation	<u>91,709,079</u>	<u>-</u>	<u>91,709,079</u>
<b>ASSETS AND LIABILITIES</b>			
Segment assets			
Unallocated corporate assets	819,789,975	9,425,458	829,215,433
Consolidated total assets	-	-	<u>146,747,732</u>
			<u>975,963,165</u>
Segment liabilities			
Unallocated corporate liabilities	380,532,136	940,755	381,472,891
Consolidated total liabilities	-	-	<u>138,951,630</u>
			<u>520,424,521</u>

The above mentioned segments do not necessarily match with the organisational structure of the Modaraba.

## 28. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company has approved dividend at the rate of Rs. 1.50 per certificate (2008: Rs. 2 per certificate) for the year ended 30 June 2009, resulting in a total distribution of profit amounting to Rs. 90 million (2008: Rs. 60 million), in its meeting held on 29 September 2009, which is more than 90% of the net profit for the year ended 30 June 2009, after appropriation to the statutory (mandatory) reserve as required under Modaraba Regulations. These financial statements do not reflect this proposed issue of dividend in compliance with Circular No. 6/2006 dated 19 June 2006 of Institute of Chartered Accountant of Pakistan.

## 29. 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 29 September 2009.

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

**Murtaza Ahmed Ali**  
Chief Executive

**Khwaja Asif Rahman**  
Chairman

**Shams Ghani**  
Director





# Pattern of Certificate Holding

## Pattern of holding of Certificates by the Certificateholders as at June 30, 2009

No. of Certificateholders	Certificate Holding		Total Certificates Held
	From	To	
37	1	500	17,215
24	501	1,000	22,900
68	1,001	5,000	193,200
21	5,001	10,000	176,100
12	10,001	15,000	147,170
8	15,001	20,000	156,000
3	20,001	25,000	70,000
4	25,001	30,000	114,600
1	30,001	35,000	31,700
2	35,001	40,000	76,200
2	40,001	45,000	86,000
2	45,001	50,000	98,600
1	55,001	60,000	60,000
2	60,001	100,000	195,900
1	100,001	120,000	117,700
1	120,001	160,000	160,000
1	160,001	185,000	185,000
1	185,001	480,000	475,500
1	480,001	925,000	922,000
1	925,001	12,000,000	12,000,000
1	12,000,001	19,000,000	18,169,715
1	19,000,001	26,525,000	26,524,500
<b>195</b>			<b>60,000,000</b>

Categories of Certificateholders	Number	Certificate Held	Percentage
Individuals	190	2,372,785	3.95%
Management Company	1	12,000,000	20.00%
Joint Stock Companies	2	44,694,215	74.49%
Investment Companies	1	11,000	0.02%
Others			
Allied Engineering & Services Limited			
Employees Provident Fund	1	922,000	1.54%
<b>Total</b>	<b>195</b>	<b>60,000,000</b>	<b>100.00%</b>

## Pattern of Certificate Holding

Pattern of holding of Certificates by the Certificate holders as at June 30, 2009

### Additional Information

Categories of Certificateholders	Number	Certificate Held	Percentage
<b>Associated Companies</b>			
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%
<b>Directors, CEO &amp; their Spouses &amp; Minor Children</b>			
1. Syed Feisal Ali	1	475,500	
2. Mr. Murtaza Ahmed Ali	1	48,600	
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	
		821,300	1.37%
<b>Executives</b>	4	71,000	0.12%
<b>Investment Companies</b>	1	11,000	0.02%
<b>Certificateholders holding ten percent or more</b>			
Magenta International Limited	1	26,524,500	44.21%
<b>General Public</b>	180	1,480,485	2.47%
	<b>195</b>	<b>60,000,000</b>	<b>100.00%</b>

# 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 3<sup>rd</sup> annual review meeting of the Modaraba  
to be held on 30<sup>th</sup> day of October, 2009 and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2009.

## WITNESSES:

1. Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

CNIC or \_\_\_\_\_

Passport No. \_\_\_\_\_

Signature

Revenue  
Stamp  
Rs. 5/-

2. Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

CNIC or \_\_\_\_\_

Passport No. \_\_\_\_\_

(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 before submission to the Modaraba.