

LAKSON INCOME FUND
Annual Report 2012



LAKSON INVESTMENTS
WE MANAGE YOUR MONEY, AS WE MANAGE OUR OWN

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==== **Vision** ====

To be a top quartile provider of investment solutions to both individuals and institutions. Through the success of our clients and employees we seek to build sustainable and long-term shareholder value, and to be an employer of choice in the asset management industry.



==== **Mission** ====

To deliver superior performance as measured by market share parameters, high-quality service and a portfolio of innovative yet tailored products across a range of investment disciplines and distribution channels.

To provide a fulfilling, stimulating and supportive environment for our employees that fosters their personal growth and facilitates our productivity as a team.

Fund's Information

Management Company

Lakson Investments Limited
Head Office
Lakson Square Building No.2,
Sarwar Shaheed Road,
Karachi-74200, Pakistan.
Phone: (9221) 3569.8000
Fax: (9221) 3568.1653
Web site: www.li.com.pk
E-mail: info@li.com.pk

Board of Directors of the Management Company

Mr. Iqbal Ali Lakhani - Chairman
Mr. Babar Ali Lakhani - Chief Executive Officer
Mr. A. Aziz H. Ebrahim
Mr. Mahomed J. Jaffer
Mr. Sher Afgan Malik
Mr. Muhammad Abdul Qadir
Mr. Daniel Scott Smaller
Mr. Zahid Zakiuddin

Chief Financial Officer & Company Secretary of the Management Company

Mr. Amir Mobin

Audit Committee

Mr. Zahid Zakiuddin - Chairman
Mr. A. Aziz H. Ebrahim
Mr. Iqbal Ali Lakhani
Mr. Sher Afgan Malik

Human Resource and Remuneration Committee

Mr. Iqbal Ali Lakhani - Chairman
Mr. Babar Ali Lakhani
Mr. Daniel Scott Smaller

Trustee

Central Depository Company of Pakistan Limited
CDC House, 99-B, Block-B, S.M.C.H.S.,
Main Shahra-e-Faisal,
Karachi, Pakistan.

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No.2,
Beaumont Road,
Karachi - 75530, Pakistan

Bankers to the Fund

Allied Bank Limited
Askari Bank Limited
Bank Al-Falah Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
National Bank of Pakistan
Standard Chartered Bank (Pakistan) Limited
United Bank Limited

Legal Adviser

Fazleghani Advocates
F-72/I, Block 8, KDA-5,
Kehkashan, Clifton,
Karachi, Pakistan.

Registrar

Lakson Investments Limited
Lakson Square Building No.2,
Sarwar Shaheed Road,
Karachi-74200, Pakistan

Distributors

Alfalah Securities (Pvt.) Limited
Burj Capital Limited
Elixir Securities (Pvt.) Limited
IGI Investment Bank Limited
Pearl Securities (Pvt.) Limited
Vector Capital (Pvt.) Limited

Rating by PACRA

*A+(f) : Fund Stability Rating
AM3 + : Management Company Quality Rating
* This rating assigned by PACRA on 25 September 2012



REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2012

The Board of Directors of Lakson Investments Limited, the Management Company of the LaksonIncome Fund ('LIF'), is pleased to present its annual report together with the audited financial statements for the year ended June 30, 2012.

Fund Objective

The investment objective of the Scheme is to provide competitive total returns through investment in a diversified portfolio of fixed income securities. The Scheme shall invest in various fixed income securities with a mix of short term, medium term, and longer term maturities depending on the assessment by the Management Company of interest rate trends and prospective returns.

Fund Profile

LIF is an open end income fund which invests in Investment-grade Debt Securities, Government Securities, Certificate of Investments, Clean Placements, Term Deposit Receipts, and other fixed income instruments. The overall duration of the portfolio is kept below 4 years while at least 25% of Net Assets are kept in the form of cash or Treasury Bills of maximum 90 days maturity. LIF is managed through a team-driven, top-down process utilizing active sector rotation, duration and yield curve management. Economic conditions are constantly monitored to forecast interest rate changes. The added value for LIF comes from identifying opportunities to shift investments between various maturities and between different instruments. LIF is allowed to borrow up to 15% of Net Assets to meet redemptions however LIF did not utilize this facility during the period under review.

Funds Performance

The net assets of the LIF as at June 30, 2012 stood at PKR 1,413.617 million compared to PKR 1,006.200 million at June 30, 2011 registering an increase of 40.49%.

The net income for the year ended June 30, 2012 was PKR 136.487 million which was mainly comprised of mark-up income from bank deposits, treasury bills, placements, certificate of investments, term deposit receipts, term finance certificates and sukuk certificates amounting to PKR 154.599 million. The unrealized appreciation-net was mainly due to the valuation of term finance certificates and treasury bills amounted to PKR 5.049 million.

The detailed fund performance and significant matters relating to the industry are disclosed in the Fund Manager Report which is a part of this Annual Report.

Earning Per Unit (EPU)

EPU is not being disclosed as we feel determination of weighted average units for calculating EPU is not practicable for open end funds.

Income Distribution

The Board of Directors of the Management Company in its meeting held on July 04, 2012, declared a final payout of PKR0.9391 per unit amounting to PKR 13.10million (PKR 13.097million of Bonus distribution and PKR 0.002 of cash distribution) for the year ended June 30, 2012. This was in addition to the interim payouts of PKR 9.8767 per unit. The total distribution for the year ended June 30, 2012 was PKR 10.8158 per unit (10.8158% of face value of PKR 100/-).

Fund and Asset Manager Rating

The Pakistan Credit Rating Agency Limited ('PACRA') has maintained the asset manager rating of the Management Company at AM3+. The PACRA has assigned the Fund Stability Rating of "AA-(f)" to LIF.

Corporate Governance

The Fund is listed on the Lahore Stock Exchange; therefore, the Management Company is required to comply with the requirements of the Code of Corporate Governance for listed companies.

1. The financial statements prepared by the Management Company present fairly the state of affairs of the Fund, the results of its operations, cash flows and movement in unit holders' fund.
2. Proper books of accounts of the Fund have been maintained.

3. Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
4. Relevant International Financial Reporting Standards, as applicable in Pakistan, provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations, 2008 ('NBFC Regulations'), directives issued by the Securities & Exchange Commission of Pakistan and requirements of the constitutive documents of the Fund have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. A performance table / key financial data is summarized in the Fund Manager Report.
8. Outstanding statutory payments on account of taxes, duties, levies and charges have been fully disclosed in the Financial Statements.
9. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company.
10. Meetings of the Board of Directors of the Management Company are held at least once in every quarter. During the year under review five meetings were held. Attendance of the Directors in these meetings is as follows:

S.No.	Name	Designation	Meetings		
			Total	Attended	Leave Granted
1	Mr. Iqbal Ali Lakhani	Chairman	05	03	02
2	Mr. Babar Ali Lakhani	Chief Executive	05	05	-
3	Mr. A. Aziz H. Ebrahim	Director	05	05	-
4	Mr. Mahomed J. Jaffer	Director	05	03	02
5	Mr. Sher Afgan Malik	Director	05	04	01
6	Mr. M. A. Qadir	Director	05	04	01
7	Mr. Daniel Scott Smaller	Director	05	01	04
8	Mr. Zahid Zakiuddin	Director	05	04	01

During the year ended June 30, 2012, no casual vacancy occurred on the Board of Directors.

11. Meetings of the Audit Committee of the Management Company are held at least once in every quarter. During the year under review four meetings were held. Attendance of the Directors in these meetings is as follows:

S.No.	Name	Designation	Meetings		
			Total	Attended	Leave Granted
1	Mr. Zahid Zakiuddin*	Chairman	04	04	-
2	Mr. A. Aziz H. Ebrahim	Member	04	04	-
3	Mr. Iqbal Ali Lakhani	Member	04	03	01
4	Mr. Sher Afgan Malik	Member	04	03	01

* In compliance with the Code of Corporate Governance 2012, the Board of Directors in its meeting held on April 19, 2012 appointed Mr. Zahid Zakiuddin as the Chairman of the Audit Committee in place on Mr. Iqbal Ali Lakhani.

12. The Board has arranged one Director to attend the "Corporate Governance Leadership Skills" program offered by the Pakistan Institute of corporate Governance. As of date, the Director has completed two parts out of the five parts of the program.
13. The pattern of unit holding is given in note no. 21.1 of the Financial Statements.
14. During the year under review trades in the Units of the Fund were carried out by the Directors, the Chief Executive Officer, the Chief Financial Officer / Company Secretary and their spouses and minor children are as under:

S.No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1	Ms. Zil Lakhani / Mr. Babar Ali Lakahi	Spouse of Chief Executive / Chief Executive	9,687	Nil	640

External Auditor

The Fund's external auditors M/s. KPMG Taseer Hadi & Co., Chartered Accountants have expressed their willingness to continue as the Fund's auditors for the ensuing year ending June 30, 2013. On the recommendation of the Audit Committee, the Board of Directors of the Management Company has reappointed M/s. KPMG Taseer Hadi & Co., Chartered Accountants, as the Fund's auditors for the year ending June 30, 2013.

Economic Review

FY12 was yet another challenging year for Pakistan's economy wherein it continued to weather an unprecedented set of challenges in the form of security hazards caused by the intensified war against terrorism, rising international commodity prices, widening energy deficit, falling FX reserves and persistent inflation. Pakistan's per capita real income grew at 2.3% during the year as against 1.3% in FY11. In dollar terms, it increased from USD 1,258 in FY11 to USD 1,372 in FY12 while the headline GDP growth rate stood at 3.7%. While the overall GDP growth of 3.7% for FY12 was the highest in the last 3 years, it remained far below potential for a country exhibiting an average annual population growth of over 2%.

The National Income Accounts estimates show that the growth was primarily driven by consumption expenditure which grew by 11.1% compared to 3.9% in FY11. As a result, the share of consumption in real GDP increased to 88% in FY12 from 83% in FY11. Interestingly, most of the surge in overall consumption was contributed by a sharp increase in private consumption. Increase in rural income on account of better crop prices and steady growth in remittances from abroad over the last few years have been the main factors providing momentum to growth in private consumption. The segment-wise numbers reveal that the growth in the agriculture sector clocked in at 3.1% on the back of 4.0% growth in the livestock sector (highest contribution in the agricultural sector) and 3.0% growth in major crops. The industrial sector grew by 3.6% compared to 3.1% in FY11, showing some improvement during FY12. In particular, mining and construction sector reflected a healthy growth of 4.4% and 6.5%, respectively, in comparison to negative growth of 1.3% and 7.1% in FY11. Large Scale Manufacturing ("LSM"), which comprises of 11.9% of the GDP, clocked a subtle 1.8% growth in FY12, whereas small scale manufacturing once again showed the largest growth rate of 7.5% in FY12.

Whilst the official figures for FY12 fiscal deficit are not public as yet, the State Bank of Pakistan ("SBP") expects consolidated budget deficit to clock in at 6.4% of GDP (PKR 1,328 billion) while it may reach 8.3% of GDP after incorporating the debt consolidation of power and food sector arrears. Revenue

generation was limited by exemptions and ineffective taxation of major segments of income generating sectors while untargeted subsidies and the continued provision of financial support to the loss making public sector enterprises kept the current expenditures on the higher side. The tax to GDP ratio nonetheless showed modest improvement as it increased to 9.5% during FY12 from 8.6% in FY11. While it is still considered very low in comparison with other comparable economies, it is nevertheless a welcome change.

The average CPI inflation for FY12 stood at 11.0% vis-à-vis 13.7% in FY11. CPI Inflation continued to persist in double digits for the fifth consecutive year. This persistence is primarily due to entrenched expectations of high inflation, higher energy costs and increased currency printing to finance government deficits. Core inflation, as measured by non-food non-energy CPI ("Core NFNE"), averaged 10.6% during FY12. Food and Beverages group, that has 35% weight in the new CPI basket, witnessed average inflation of 11% during FY12 versus 18% in FY11. A sharp increase in the prices of perishable food items was triggered by the supply disruptions caused by the floods at the start of FY12. While the floods in 1HFY12 did not cause the widespread destruction of crops as they did in 1HFY11, headline inflation remained high due to record food inflation, some crop losses and disruption to the supply chain. In addition, the increase in international oil prices during FY12 and the rationalization of gas and energy pricing by Utilities and the Government of Pakistan further spurred inflationary pressures. The Wholesale Price Index ("WPI") was up 10.4% on average during FY12 compared to 21.3% in FY11. The Sensitive Price Index ("SPI") was up 7.1% on average during FY12 compared to 16.6% in FY11.

Thus given the relative slowdown in inflation, SBP reduced the policy rate by a cumulative 200 bps from 14% to 12% in 1HFY12 (a reduction of 50 bps in July 2011 and 150 bps in October 2011). Thereafter, on account of difficulties in external accounts, higher government borrowing and persistent core-inflation, SBP kept its policy rate unchanged at 12% up till June 2012.

Inward remittances, the key supporting head, clocked in at USD 13.2 billion during FY12, yielding an impressive growth of 17.7% YoY. Trade Account, however, remained weak as the deficit broadened by 36% in FY12 to stand at USD 21.3 billion. Pakistan's exports were recorded at USD 23.6 billion, down 4.7% YoY, while during the same period, imports rose 11.1% to USD 44.9 billion. Thus coupled with minimal foreign inflows, this led to a deficit of USD 4.5 billion in the Current Account for FY12, compared to a surplus of USD 214 million in FY11. The Current Account Deficit as percentage of GDP stood at 1.9% for FY12. The net capital and financial flows required to finance the current account deficit remained scarce at a meager USD 1.5 billion. The net private inflows, foreign direct and portfolio investments, came down to only USD 590 million in FY12. Consequently, the overall balance of payment position showed a deficit, which together with repayment of IMF loans resulted in a decline of USD 4 billion in SBP's liquid foreign exchange reserves during FY12. Overall, the foreign exchange reserves declined by USD 3.0 billion during the outgoing year to stand at USD 15.2 billion at the end of Jun '12. Resultantly, after staying stable during FY11, Pakistan Rupee depreciated by 10.0% to stand at PKR 94.55 against the greenback by the end of FY12.

Total investment and exports of goods and non-factor services showed a significant contraction. The total investment, as a percentage of GDP, fell to 12.5% in FY12. Private investment contracted to 7.9% of GDP in FY12 as compared to 8.6% in FY11 while national savings stood at 10.7% of GDP vis-à-vis 13.2% in FY11.

Nonetheless, the asset management industry posted an impressive growth of 53% YoY with the Assets under Management ("AUM's") standing at PKR 381 billion by the end of FY12. AUM's for closed-end funds declined by 2% YoY to PKR 23 billion, whilst AUM's for open-end funds grew 59% YoY to PKR 223 billion. After showing consistent decline in AUM's for the last three years, income fund category attracted the highest amount of fresh inflows as their total size grew 99% YoY to PKR 94 billion. The

category accounted for 31% of total conventional open-end AUM's by the end of FY12, up from 25% in Jun '11.

Market Review

The deposits of scheduled banks stood at PKR 6,402 billion as of June 2012 end as compared to PKR 5,599 billion as of Jun '11, exhibiting a YoY growth of 14%. Money Supply (M2) growth in FY12 stood at 14.1% compared to 15.9% in FY11 as the broad money increased by PKR 947 billion. Higher M2 growth came on the back of 20.3% growth in the Net Domestic Assets ("NDA") of the banking system. In the absence of foreign flows, the government had to rely on the domestic resources to finance its fiscal deficit as the growth in both reserve money and broad money (M2) was primarily driven by fiscal borrowings for budgetary support. Of the total expansion of PKR 223 billion in reserve money, PKR 505 billion was due to direct fiscal borrowings from the SBP. On the other hand, Net Foreign Assets ("NFA") witnessed a significant contraction of PKR 225 billion during FY12.

A large trade deficit together with consistently falling foreign financial inflows and rising debt repayments were the major contributing factors behind this dismal performance. The fiscal borrowings from the scheduled banks grew by 50% in FY12 and contributed 67% to the overall increase of 14.1% in M2. These fiscal borrowings resulted in substantial crowding-out of private sector credit during the year. The annual target set to raise funds in the auctions of T-bills was set at PKR 3,345 billion for FY12. However the government only managed to raise PKR 3,221 billion during the year. On the other hand, in the auctions of Pakistan Investment Bonds ("PIB's") and Ijara Sukuku, the government raised substantially higher amounts (PKR 407 billion), when compared to the announced targets (PKR 335 billion).

During FY12, the corporate debt market witnessed some noticeable transactions; important to mention were Pakistan Mobile Communication's PKR 2 billion issue, Jehangir Siddiqui Corporation's PKR 1 billion issue and Standard Chartered Bank's PKR 2.5 billion issue. In the shorter tenure of 6-12 months, commercial papers by Hub Power Company, Kot Addu Power and Engro Fertilizer gained considerable traction during the year.

Future Outlook

The outlook for fiscal year 2012-13 looks better than the preceding year. Pakistan has re-opened the supply routes for NATO forces due to which the US has released the impending reimbursements of USD 1.12 billion under the Coalition Support Fund. This should help alleviate some of the concerns on fiscal account, as well on Balance of Payments.

More importantly, the SBP in its first monetary policy announcement for FY13 reduced the benchmark policy rate by 150 bps to 10.5% - the lowest since early 2008. This should go a long way in reviving the private sector credit offtake, ease working capital concerns for liquidity trapped companies and entice domestic groups towards investment in the economy.

Nonetheless, the overall economic climate of Pakistan continues to face numerous challenges. According to the latest review released by the Economic Intelligence Unit ("EIU"), a range of factors have recently conspired to render Pakistan's external position increasingly precarious in the short term. They believe that it appears increasingly likely that the country will need to seek financial assistance from the IMF within the next 12-18 months to avert a balance-of-payments crisis. However, the approaching general election and a potential change of guard are adding to overall uncertainty regarding economic policy. Overall, the EIU expects real GDP growth to slow to 3.3% in FY12 on the back of a slowdown in private consumption (which is forecast to rise by 4.4%). Growth in private consumption, which accounts for nearly 90% of nominal GDP, will remain the primary driver of economic expansion in the forecast period. During FY13-16, the annual private consumption growth is forecast to average 5.5%. They expect investment to fall for the fifth consecutive year in FY13. Tight domestic credit markets and the lack of foreign financing, exacerbated by both the global economic slowdown and the domestic security situation, will continue to dampen investment spending.

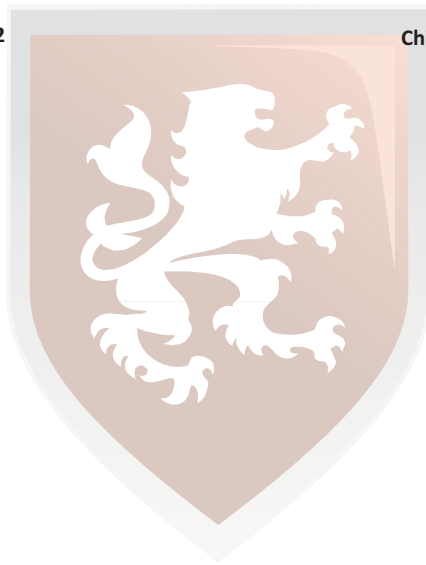
Acknowledgment

The Board is thankful to its valued investors, the Securities & Exchange Commission of Pakistan, the State Bank of Pakistan, the Trustee of the Fund - Central Depository Company of Pakistan Limited and the management of the Lahore Stock Exchange (Guarantee) Limited for their continued cooperation and support. The Directors of the Management Company also acknowledge the efforts put in by the team of the Management Company for the growth and the prudent management of the Fund.

For and on behalf of the Board

Dated: August 30, 2012

Babar Ali Lakhani
Chief Executive Officer

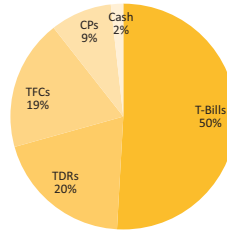


**REPORT OF THE FUND MANAGER
FOR THE YEAR ENDED JUNE 30, 2012**

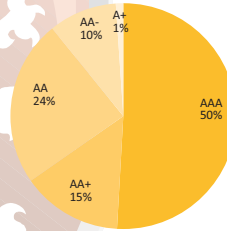
Fund Facts

Fund Type	Open-End
Category	Income Fund
Net Assets (PKR Mil.)	1,414
NAV (30.06.2012)	101.3505
Pricing Mechanism	Forward Day
Trustee	CDC Pakistan Limited
Auditor	KPMG Taseer Hadi & Co.
Management Fee	1.50%
Front End Load	1.50%
Back End Load	None
Launch Date	November 13, 2009
Benchmark	Average of returns earned by the Income Funds in the industry
Dealing Days	Mon - Fri
Cut-Off Time	04:00 PM (Mon-Fri)
Fund Rating	'AA-' by PACRA
Asset Manager Rating	AM3+

Asset Allocation



Credit Split



Morningstar LIF Benchmark

	LIF	Benchmark
June-12	12.75%	11.99%
2 Months	11.70%	11.90%
3 Months	11.49%	8.21%
6 Months	10.85%	9.43%
12 Months	11.57%	8.86%
CY12 - YTD	10.85%	9.43%
FY12	11.57%	8.86%
Since Inception	11.51%	8.14%

Simple Annualized LIF Benchmark

	LIF	Benchmark
June-12	12.06%	11.19%
2 Months	11.17%	11.32%
3 Months	11.03%	7.85%
6 Months	10.57%	9.19%
12 Months	11.57%	8.86%
CY12 - YTD	10.57%	9.19%
FY12	11.57%	8.86%
Since Inception	12.61%	8.87%

Investment Committee

Babar Ali Lakhani	Chairman
Iqbal Ali Lakhani	
A. Aziz H. Ebrahim	
Muhammad Umair Chauhan	
Amir Mobin	
Hamad Aslam	
Syed Imran Raza Kazmi	
Muhammad Qasim	

Investment Objective

The investment objective of the Lakson Income Fund ("LIF") is to provide competitive total return through investment in a diversified portfolio of fixed income securities. Investments will be made in a variegated mix of short term, medium term and longer term maturities depending on the assessment by the Investment Team of interest rate trends and prospective returns.

The LIF achieved its investment objective by constructing a diversified portfolio of high credit quality fixed income securities including T-Bills, PIBs TDRs, TFCs, Reverse Repo and Commercial Papers. The LIF provided positive returns to its investors in every single month during FY12 despite the negative returns provided by other income funds in the industry. The portfolio of the LIF comprises of short, medium and long term instruments ranging from instruments maturing in 1 day to 10 years. However, all the investments with maturities of greater than 6 months are in tradable instruments.

Investment Strategy

The LIF focused on the constructing a liquid, diverse and high credit quality portfolio in accordance with its Investment Objective. Exposure of the LIF in T-Bills, TDRs, COIs and other money market placements was managed based on the relative yield analysis of these instruments and the yield curve management. The LIF maintained an average exposure of 68% in risk free T-Bills as the T-Bills offered better risk adjusted yields than instruments of similar maturity. High exposure in the T-Bills enabled the LIF to remain liquid and meet all its obligations in a timely manner. During the period under review, the LIF switched between different maturities of the T-Bills depending upon the market dynamics and interest rate outlook. During the 1HFY12 when the State Bank of Pakistan ("SBP") was easing its monetary policy the LIF kept the Weighted Average Maturity ("WAM") of its T-Bills portfolio high however in the 2HFY12 the LIF reduced its WAM of the T-Bills portfolio. As of June 30, 2011 the WAM of the LIF portfolio stood at 452 days. Exposure of the LIF in TFCs averaged 12% during the year compared to 6% in FY11. The LIF increased its exposure in high credit quality TFC's during the year and as of June 30, 2012 the exposure of the LIF in TFC's stood at 19% compared to 7% at the start of the month. The LIF also maintained 11% exposure on average in Commercial Papers that offered very attractive yield. As of June 30, 2012 the exposure of the LIF in debt securities stood at 28% (19% in TFC's and 9% in CP's) which is considerably higher than 7% at the start of the period under review. The LIF maintained 25% exposure in cash and T-Bills of up to 90 days maturity at all times to keep the fund liquid.

Market Review

Pakistan witnessed yet another year of mediocre economic growth of 3.7% during FY12; the economy remained marred by problems ranging from deteriorating law and order situation, worsening current and fiscal account positions and unprecedented energy crisis. The burgeoning fiscal deficit along with no substantial external inflows left the fiscal managers with no choice but to borrow heavily from commercial banks and the State Bank of Pakistan ("SBP"). This led to two-pronged problems for the economy per se; crowding out of private sector credit and relentless inflation. Thus CPI inflation remained in double-digits for the fifth consecutive year and averaged at 11.0% in FY12. It nonetheless showed an encouraging slowdown when compared to CPI average of 13.7% in FY11, allowing the SBP to cumulatively cut the benchmark discount rate to 12.0% during the year.

On the positive side, despite numerous global challenges, Pakistan's economy performed better in FY12 when compared to several developed and developing economies. The global challenges included sharp increase in fuel and commodity prices, recessionary trend and weak inflows. The global recovery is threatened by intensifying strains in the euro area and fragilities elsewhere. Despite these challenges, Pakistan has managed to maintain its exports during FY12 at USD 23.6 billion. Remittances remained buoyant and closed the fiscal year at USD 13.2 billion, yielding an impressive YoY growth of 17.7%. Recessionary trend globally has, however, impacted capital flows to Pakistan. Current account balance was thus affected due to sharp increase in oil prices and import of 1.2 million metric tons of fertilizer. Overall, this translated into a decline of USD 3.0 billion in Pakistan's foreign exchange reserves which closed at USD 15.2 billion at the end of Jun '12. Thus, after staying stable during FY11, Pakistan Rupee depreciated by 10.0% to stand at PKR 94.55 against the greenback by the end of FY12. The deposits of scheduled banks stood at PKR 6,402 billion as of June 2012 end as compared to PKR 5,599 billion as of Jun '11, exhibiting a YoY growth of 14%. A disaggregated assessment of deposits shows that most of the increase in deposits was due to rise in demand deposits. Within demand deposits, there was a noticeable increase in saving deposits in 2HFY12 compared to the usual increase in current deposits. The surge in saving deposits was partially driven by an increase of 100 bps in the minimum rate of return to 6%, as enacted by SBP with effect from May 1, 2012.

Money Supply (M2) growth in FY12 stood at 14.1% compared to 15.9% in FY11 as the broad money increased by PKR 947 billion. Higher M2 growth came on the back of 20.3% growth in the Net Domestic Assets ("NDA") of the banking system. In the absence of foreign flows, the government had to rely on the domestic resources to finance its fiscal deficit as the growth in both reserve money and broad money (M2) was primarily driven by fiscal borrowings for budgetary support. Of the total expansion of PKR 223 billion in reserve money, PKR 505 billion was due to direct fiscal borrowings from the SBP. On the other hand, Net Foreign Assets ("NFA") witnessed a significant contraction of PKR 225 billion during FY12.

A large trade deficit together with consistently falling foreign financial inflows and rising debt repayments

were the major contributing factors behind this dismal performance. The fiscal borrowings from the scheduled banks grew by 50% in FY12 and contributed 67% to the overall increase of 14.1% in M2. These fiscal borrowings resulted in substantial crowding-out of private sector credit during the year. The annual target set to raise funds in the auctions of T-bills was set at PKR 3,345 billion for FY12. However the government only managed to raise PKR 3,221 billion during the year. On the other hand, in the auctions of Pakistan Investment Bonds ("PIB's") and Ijara Sukuks, the government raised substantially higher amounts (PKR 407 billion), when compared to the announced targets (PKR 335 billion).

The cut in discount rate nonetheless led to an across the board ease in T-bill yields, as they posted respective averages of 12.20%, 12.27% and 12.34% for 3M, 6M and 12M during FY12, compared to 12.97%, 13.23% and 13.43% in FY11.

During FY12, the corporate debt market witnessed some noticeable transactions; important to mention were Pakistan Mobile Communication's PKR 2 billion issue, Jehangir Siddiqui Corporation's PKR 1 billion issue and Standard Chartered Bank's PKR 2.5 billion issue. In the shorter tenure of 6-12 months, commercial papers by Hub Power Company, Kot Addu Power and Engro Fertilizer gained considerable traction during the year.

Fund Performance

The LIF yielded 11.57% in FY12 compared to 11.50% in FY11. The improved yield in FY12 was due to a higher exposure in debt securities despite the fact that the SBP cut the discount rate by 200bps during FY12. The Benchmark of the LIF, average return of income funds, yielded 8.86% in FY12. The LIF outperformed the Benchmark by 271bps. Many income funds provided very low returns during FY12 as they suffered due to their exposures in non performing TFCs. The LIF is also providing for the Workers Welfare Fund ("WWF") liability after the decision of the Sind High Court while there are some income funds in the industry that are not providing for this liability. The LIF grew by 40.5% in FY12 to PKR 1,414 million from PKR 1,006 million at the start of the year. The standard deviation of monthly returns of the LIF was 2.12% in FY12 compared to 3.47% for the Benchmark. The Standard Deviation of the LIF is low despite the fact that majority of the portfolio of the LIF is comprised of tradable instruments that are affected by the movement in interest rates and in FY12 the LIF increased exposure in TFC's and the TFC's have exhibited very high volatility in the past. As of June 30, 2012, the WAM of the LIF portfolio was 452 days. The WAM of the LIF portfolio moved in line with the interest rate trends. The NAV of the LIF declined on only 4 days during FY12 despite an increase in exposure in debt securities and very volatile TFC prices.

Future Outlook

The LIF will continue to build positions in high credit quality corporate bonds that offer better risk adjusted yields than Government Securities. The LIF may switch between different maturities depending upon the liquidity conditions of the market and interest rates outlook. The SBP has adopted an aggressive monetary easing policy in FY13 and has already cut the discount rate by 150bps. We expect the SBP to maintain the discount rate at current levels in upcoming monetary policies as the Government borrowing requirement from the banking system to finance the fiscal deficit remain high.

Circumstances Materially Affecting Interests of Unit Holders

During the period under review, the Fund Stability Rating of 'AA-' was maintained for the LIF by PACRA, which denotes a very strong capacity to manage relative stability in returns and very low exposure to risks. PACRA maintained the Asset manager Rating of Lakson Investments at 'AM3+' during FY12.

Any change in interest rates would affect the market values of tradable instruments present in the LIF's portfolio. Any change in counterparty credit ratings can materially affect the interests of unit holders. Such changes could impact the NAV and credit split of the LIF.

As of June 30, 2012 judgment of the Sind High Court is awaited on the petition regarding exemption of the mutual funds from the WWF. **The Unit Holders of the LIF will have a downside protection in case the judgment comes against the mutual funds industry as the LIF is one of the funds already providing for this liability.** As of June 30, 2012 the LIF has maintained provisions against Workers' Welfare Fund's liability to the tune of PKR 5.30 million. If the same were not made the NAV per unit of the LIF would be higher by PKR 0.3799. If the LIF would not have made the WWF provisions during FY12, the return of the LIF for FY12 would be higher by 0.22%.

Other Disclosures

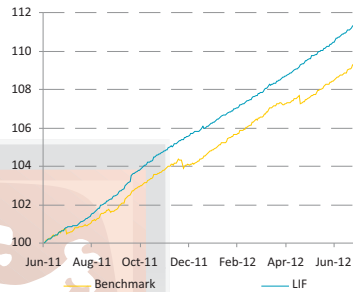
Lakson Investments Limited or any of its delegates did not receive any soft commission from its broker(s) or dealer(s).

There was no unit split undertaken during the year.

As of June 30, 2012 the LIF does not employ leverage.

Performance Table	FY12	FY11	FY10
Net Assets - Beginning (PKR Mil.)	1,006	451	302
Net Assets - Ending (PKR Mil.)	1,414	1,006	451
Highest Offer Price (PKR)	103.1214	104.6153	105.7819
Lowest Offer Price (PKR)	101.7560	101.6567	101.5254
Highest Redemption Price (PKR)	101.5974	103.0692	104.2186
Lowest Redemption Price (PKR)	100.2522	100.1543	100.0250
Beginning NAV - Ex-Div. (PKR)	100.1626	100.3130	100.0000
Interim Distributions (PKR)	9.8767	11.1839	3.6148
Final Distribution (PKR)	0.9391	0.9979	2.9932
Ending NAV - Ex-Div. (PKR)	100.4114	100.1626	100.3130
Return	11.57%	11.50%	11.42%
Net Income (PKR Mil.)	136.49	98.76	26.8
WAM (Days)	452	232	229

LIF vs. Benchmark



Distributions	FY12	FY11	FY10
	PKR per Unit		
1st Interim Distribution	0.8598	2.4702	3.6148
NAV before Distribution	101.0231	102.8451	104.2186
NAV after Distribution	100.1633	100.3749	100.6038
Distribution Date	30-Jul-11	04-Oct-10	02-Apr-10
2nd Interim Distribution	0.9563	2.9152	
NAV before Distribution	101.2159	103.0680	
NAV after Distribution	100.2596	100.1528	
Distribution Date	29-Aug-11	31-Dec-10	
3rd Interim Distribution	0.9471	2.8893	
NAV before Distribution	101.2614	103.0692	
NAV after Distribution	100.3143	100.1799	
Distribution Date	29-Sep-11	30-Mar-11	
4th Interim Distribution	1.0151	0.9481	
NAV before Distribution	101.5974	101.1442	
NAV after Distribution	100.5823	100.1961	
Distribution Date	28-Oct-11	29-Apr-11	
5th Interim Distribution	0.9459	0.9632	
NAV before Distribution	101.4258	101.1273	
NAV after Distribution	100.4799	100.1641	
Distribution Date	28-Nov-11	30-May-11	
6th Interim Distribution	0.9403		
NAV before Distribution	101.2696		
NAV after Distribution	100.3293		
Distribution Date	30-Dec-11		

Distributions	FY12	FY11	FY10
	PKR per Unit		
7th Interim Distribution	0.9115		
NAV before Distribution	101.2411		
NAV after Distribution	100.3296		
Distribution Date	31-Jan-12		
8th Interim Distribution	0.7405		
NAV before Distribution	101.0058		
NAV after Distribution	100.2653		
Distribution Date	27-Feb-12		
9th Interim Distribution	0.8401		
NAV before Distribution	101.1024		
NAV after Distribution	100.2623		
Distribution Date	29-Mar-12		
10th Interim Distribution	0.8178		
NAV before Distribution	101.0764		
NAV after Distribution	100.2586		
Distribution Date	27-Apr-12		
11th Interim Distribution	0.9023		
NAV before Distribution	101.2068		
NAV after Distribution	100.3045		
Distribution Date	27-May-12		
Final Distribution	0.9391	0.9979	2.9932
NAV before Distribution	101.3505	101.1605	103.3062
NAV after Distribution	100.4114	100.1626	100.3130
Distribution Date	04-Jul-12	04-Jul-11	06-Jul-10

Breakdown of Unit Holding by Size

Units Range	No. of Clients	Units Held
1-500	3	574
1,001 - 5,000	5	11,839
10,001 - 100,000	14	466,345
100,001 - 400,000	6	1,306,711
400,001 - 800,000	2	1,307,479
800,001 - 1,000,000	1	818,649
1,000,001 - 2,000,000	2	2,927,059
5,000,001 - 10,000,000	1	7,109,138
Total	34	13,947,794

CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED

Head Office

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Fax: (92-21) 34326020 - 23
URL: www.cdc-pakistan.com
Email: info@cdc-pak.com



ISO 27001 Certified

TRUSTEE REPORT TO THE UNIT HOLDERS

LAKSON INCOME FUND

**Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V
of the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

We Central Depository Company of Pakistan Limited, being the Trustee of Lakson Income Fund (the Fund) are of the opinion that Lakson Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2012 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.


Muhammad Hanif Jakhura
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: October 10, 2012



**STATEMENT OF COMPLIANCE
WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2012**

This statement is being presented to comply with the Code of Corporate Governance ('the Code') contained in Listing Regulations of Lahore Stock Exchange where Lakson Income Fund (the Fund) is listed. The purpose of the Code is to establish a framework of good governance, whereby a listed entity is managed in compliance with the best practices of corporate governance.

Lakson Investments Limited ('Management Company'), an un-listed public company, which manages the affairs of the Fund, has applied principles contained in the Code in the following manner.

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes:

Category	Names
Independent Directors	<ol style="list-style-type: none"> 1. Mr. Mahomed J. Jaffer 2. Mr. Daniel Scott Smaller 3. Mr. Zahid Zakiuddin
Executive Director	<ol style="list-style-type: none"> 1. Mr. Babar Ali Lakhani
Non-Executive Directors	<ol style="list-style-type: none"> 1. Mr. Iqbal Ali Lakhani - Chairman 2. Mr. A. Aziz H. Ebrahim 3. Mr. Sher Afgan Malik 4. Mr. Muhammad Abdul Qadir

The Independent Directors meets the criteria of independence under clause i(b) of the Code.

2. The Directors of the Management Company have confirmed that none of them is serving as a director on more than seven listed companies, including the Management Company.
3. All the resident Directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy in the Board of the Management Company has occurred during the year.
5. The Management Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Management Company along with its supporting policies and procedures.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
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, other Executive and Non-Executive Directors, have been taken by the Board. Further their remunerations are being borne by the Management Company.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. In order to apprise the Directors of their duties and responsibilities and for their orientation purpose they were informed about the recent developments / changes in applicable laws and regulations affecting the mutual fund industry. The Directors are conversant of the relevant laws applicable to the Management Company, its policies and provisions of memorandum and articles of association and are aware of their duties and responsibilities. As of date one Director has completed two parts out of the five parts of the program offered by Pakistan Institute of Corporate Governance. Further, based on the criteria stipulated in the Code, a few of our Directors on the Board are exempt from the requirement to have certification under a directors' training program offered by any local or foreign institutions that meet the criteria specified by the SECP.
10. The existing CFO & Company Secretary continue to serve as per his respective terms of employment duly approved by the Board of Directors. The Company has designated one of its employees as 'Head of Internal Audit' to act as coordinator between the firm providing internal audit services and the Audit Committee.
11. The Directors' Report of the Fund 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 Fund were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.
13. The Directors, Chief Executive Officer and Executives do not hold any interest in the units of the Fund other than disclosed in the Directors' Report.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code with respect to the Fund.
15. The Board has formed an Audit Committee. It comprises of four members, all of whom are Non-Executive Directors of the Management Company and the Chairman of the Committee is an Independent Director.
16. The meetings of the Audit Committee were held at least once every quarter and prior to approval of interim and final results of the Fund. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board of the Management Company has formed a Human Resource and Remuneration Committee. It comprises of three members, of whom two are Non-Executive Directors and the Chairman of the Committee is a Non-Executive Director.

18. The Board has outsourced the internal audit function to M/s. Anjum Asim Shahid Rahman, Chartered Accountants who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Management Company.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons 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.
21. The 'Closed Period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Fund's securities, was determined and intimated to directors, employees and stock exchange.
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange.
23. We confirm that all other applicable material principles enshrined in the Code have been complied with.

For and on behalf of the Board

Karachi, August 30, 2012

Babar Ali Lakhani
Chief Executive Officer



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

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**Review Report to the Unit Holders 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 the Management Company of **Lakson Income Fund** ("the Fund") to comply with the listing regulations of the Lahore Stock Exchange, where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. 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 Fund'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 Fund personnel and review of various documents prepared by the 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further sub-regulation (x) of Listing Regulations 35 notified by the Lahore Stock Exchange (Guarantee) Limited requires the Fund to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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

Date: 30 August 2012

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants



KPMG Taseer Hadi & Co.
Chartered Accountants
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Independent Auditors' Report to the Unit Holders

Report on the Financial Statements

We have audited the accompanying financial statements of **Lakson Income Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June, 2012 and the income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in Unit Holders' Fund for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation of the financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as management determines is necessary to enable the preparation of the financial statements that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June, 2012 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.



KPMG Taseer Hadi & Co.

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: 30 August 2012

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Aryn Pirani

**Statement of Assets and Liabilities
As at 30 June 2012**

	Note	30 June 2012	30 June 2011
		(Rupees)	
Assets			
Bank balances	4	302,015,205	103,217,486
Investments	5	1,107,938,327	903,703,945
Mark-up receivable	6	11,329,747	2,695,431
Advances deposit and prepayment		100,000	100,000
Deferred formation cost	7	867,577	1,233,242
Total assets		1,422,250,856	1,010,950,104
Liabilities			
Payable to the Management Company	8	2,002,852	1,255,485
Remuneration payable to the Trustee	9	167,512	141,015
Annual fee payable to Securities and Exchange Commission of Pakistan	10	922,349	596,133
Accrued expenses and other liabilities	11	5,541,458	2,757,696
Total liabilities		8,634,171	4,750,329
Net assets		1,413,616,685	1,006,199,775
Unit holders' funds (as per the statement attached)		1,413,616,685	1,006,199,775
		(Number)	
Number of units in issue	12	13,947,794	9,946,564
		(Rupees)	
Net assets value per unit		101.3505	101.1605

The annexed notes from 1 to 22 form an integral part of these financial statements.

**For Lakson Investments Limited
(Management Company)**

Chief Executive Officer

Director

Income Statement
For the year ended 30 June 2012

	Note	30 June 2012	30 June 2011
		(Rupees)	
Income			
Mark-up income	13	154,598,509	104,154,317
Gain on sale of held for trading investments - net		1,997,543	260,210
Net unrealised appreciation in the fair value of investments - held for trading		5,049,453	250,666
Element of income and capital gains in prices of units sold less those in units redeemed - net		3,047,130	11,018,229
		164,692,635	115,683,422
Expenses			
Remuneration to the Management Company	8.1	21,398,494	11,922,675
Remuneration to the Trustee	9	1,895,315	1,437,278
Annual fee to the Securities and Exchange Commission of Pakistan	10	922,349	596,134
Auditors' remuneration	14	251,780	225,145
Fees and subscription		224,108	230,002
Printing charges		57,820	57,699
Brokerage expenses		64,164	18,411
Amortization of deferred formation cost	7	365,665	365,665
Workers' Welfare Fund	11.1	2,785,445	2,015,425
Bank and settlement charges		240,682	59,140
Other expenses		-	-
		28,205,822	16,927,574
Net income for the year		136,486,813	98,755,848

The annexed notes from 1 to 22 form an integral part of these financial statements.

For Lakson Investments Limited
(Management Company)

Chief Executive Officer

Director

**Statement of Comprehensive Income
For the year ended 30 June 2012**

	30 June 2012	30 June 2011
	(Rupees)	
Net income for the year	136,486,813	98,755,848
Other comprehensive income	-	-
Total comprehensive income	<u>136,486,813</u>	<u>98,755,848</u>

The annexed notes from 1 to 22 form an integral part of these financial statements.



Chief Executive Officer

Director

**Distribution Statement
For the year ended 30 June 2012**

	Note	30 June 2012	30 June 2011
		(Rupees)	
Undistributed income at beginning of the period - realised		11,292,694	13,067,161
Undistributed income at beginning of the period - unrealised		250,666	1,367,074
Undistributed income at beginning of the year		11,543,360	14,434,235
Final distribution at the rate of Rs 0.9979 (2010: Rs 2.9932) per unit approved on 4 July 2011 (2010: 6 July 2010)			
- Cash distribution		(980,437)	(729,825)
- Issue of bonus units		(8,945,241)	(12,337,549)
		(9,925,678)	(13,067,374)
Interim distributions during the year			
- Cash distribution	15	(10,392,355)	(6,606,736)
- Issue of bonus units		(108,874,879)	(81,972,613)
		(119,267,234)	(88,579,349)
Total comprehensive income		136,486,813	98,755,848
		<u>18,837,261</u>	<u>11,543,360</u>
Undistributed income at the end of the year - realised		13,787,808	11,292,694
Undistributed income at the end of the year - unrealised		5,049,453	250,666
Total undistributed income at the end of the year		18,837,261	11,543,360

The annexed notes from 1 to 22 form an integral part of these financial statements.

**For Lakson Investments Limited
(Management Company)**

Chief Executive Officer

Director

**Statement of Movement in Unit Holders' Fund
For the year ended 30 June 2012**

	Note	30 June 2012	30 June 2011
		(Rupees)	
Net assets at the beginning of the period		1,006,199,775	451,002,913
Cash received on issue of 4,186,229 (2011: 6,521,802) units		422,195,659	666,179,812
Cash paid on redemption of 1,359,474 (2011: 1,881,982) units		(136,845,640)	(191,384,008)
		285,350,019	474,795,804
Element of income and capital gains in prices of units sold less those in units redeemed - net		(3,047,130)	(11,018,229)
Final distribution at the rate of Rs 0.9979 (2010: Rs 2.9932) per unit approved on 4 July 2011 (2010: 6 July 2010)			
- Cash distribution		(980,437)	(729,825)
- Issue of bonus units		(8,945,241)	(12,337,549)
		(9,925,678)	(13,067,374)
Issue of 89,307 (2010: 122,991) bonus units as final distribution		8,945,241	12,337,549
Total comprehensive income		136,486,813	98,755,848
Interim distributions during the year	15		
- Cash distribution		(10,392,355)	(6,606,736)
- Issue of bonus units		(108,874,879)	(81,972,613)
Net income for the period less distribution		17,219,579	10,176,499
Issue of 1,085,168 (2011: 818,067) bonus units as interim distribution	15	108,874,879	81,972,613
Net assets as at end of the year		<u>1,413,616,685</u>	<u>1,006,199,775</u>
Net assets value per unit at the beginning of the year		<u>101.1605</u>	<u>103.3062</u>
Net assets value per unit at end of the year		<u>101.3505</u>	<u>101.1605</u>

The annexed notes from 1 to 22 form an integral part of these financial statements.

**For Lakson Investments Limited
(Management Company)**

Chief Executive Officer

Director

**Cash Flow Statement
For the year ended 30 June 2012**

	30 June 2012	30 June 2011
	(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for the period	136,486,813	98,755,848
Adjustments for non-cash and others items:		
Amortisation of formation cost	365,665	365,665
Net unrealised appreciation in the fair value of investments - held for trading	(5,049,453)	(250,666)
Element of income and capital gains in prices of units sold less those in units redeemed - net	(3,047,130)	(11,018,229)
	<u>128,755,895</u>	<u>87,852,618</u>
Increase in assets		
Investments	(199,184,929)	(581,034,833)
Placements	-	35,000,000
Mark-up receivable	(8,634,316)	737,010
Advances deposit and prepayment	-	184,109
	<u>(207,819,245)</u>	<u>(545,113,714)</u>
Increase in liabilities		
Payable to the Management Company	747,367	(1,121,106)
Remuneration payable to the Trustee	26,497	67,914
Annual fee payable to Securities and Exchange Commission of Pakistan	326,216	422,737
Accrued expenses and other liabilities	2,783,762	2,013,464
	<u>3,883,842</u>	<u>1,383,009</u>
Net cash used in operating activities	<u>(75,179,508)</u>	<u>(455,878,087)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Received on issuance of units	422,195,659	666,179,812
Paid against redemption of units	(136,845,640)	(191,384,008)
Cash dividend paid	(11,372,792)	(7,336,561)
Net cash from financing activities	<u>273,977,227</u>	<u>467,459,243</u>
Net increase in cash and cash equivalents during the year	<u>198,797,719</u>	<u>11,581,156</u>
Cash and cash equivalents at beginning of the year	103,217,486	91,636,330
Cash and cash equivalents at end of the year	<u><u>302,015,205</u></u>	<u><u>103,217,486</u></u>

The annexed notes from 1 to 22 form an integral part of these financial statements.

**For Lakson Investments Limited
(Management Company)**

Chief Executive Officer

Director

Notes to the Financial statements For the year ended 30 June 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

The Lakson Income Fund (the "Fund") was established under the Trust Deed executed on 18 August 2009 between the Lakson Investments Limited as its Management Company and the Central Depository Company of Pakistan Limited (CDC) as its Trustee. The Fund has been registered as a Notified Entity on 18 September 2009 by the Securities and Exchange Commission of Pakistan (SECP) in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). The Management Company of the Fund has been licensed by SECP to undertake Asset Management and Investment Advisory Services as a Non-Banking Finance Company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). The registered office of the Management Company is located at 14-Ali Block, New Model Town, Lahore.

The Fund is an open end mutual fund and is listed on Lahore Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

The fund primarily invests in Government Securities, certificate of investment, certificates of deposits, term deposits Receipts, commercial papers, reverse repo, preference shares, spread transactions and corporate debt securities (subject to the guidelines given by SECP).

Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as Trustee of the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements of the Fund as at and for the year ended 30 June 2012 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 as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, requirements of Trust Deed, Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC rules and regulations). In case, the requirements differ, the provisions or directives of the Companies Ordinance, 1984, the requirements of the Trust Deed and Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that investments are stated at fair values.

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the Fund's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest rupees.

2.4 Use of estimates and judgments

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 policies and the reported amounts 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 the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions 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 the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material judgment in the next year are as follows:

Classification and valuation of investments

For details please refer note 3.1 and 19 to these financial statements.

Impairment of investment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. This objective evidence of impairment of fixed income securities is determined in accordance with provisioning criteria for non performing exposures as per the requirements of Annexure II of SECP Circular no. 1 of 2009 dated 6 January 2009.

Element of income and capital gains in prices of units sold less those in units redeemed - net

For details please refer note 3.9 to these financial statements.

Provision for taxation

For details please refer note 3.7 to these financial statements.

Workers welfare fund liability

For details please refer note 11.1 to these financial statements.

Other assets

Judgment is involved in assessing the realisability of other assets balances.

2.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after July 01, 2012:

- Amendments to IAS 12 - deferred tax on investment property (effective for annual periods beginning on or after January 01, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Fund.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after January 01, 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss,

which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on financial statements of the Fund.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after July 01, 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments would result in increased disclosures in the financial statements of the Fund.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Fund.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Fund.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 01, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’; and that some gross settlement systems may be considered equivalent to net settlement.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after January 01, 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. This amendment is not likely to have any impact on Fund’s financial statements.
- Annual Improvements 2009–2011 (effective for annual periods beginning on or after January 01, 2013). The new cycle of improvements contains amendments to the following four standards, with consequential amendments to other standards and interpretations.
- IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period - which is the preceding period - is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the ‘third statement of financial position’, when required, is only required if the effect of restatement is material to statement of financial position.
- IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of ‘property, plant and equipment’ in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories. The amendment has no impact on Fund’s financial statements.

- IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.
- IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The amendment may result in modified disclosure in the interim financial statements.
- IFRIC 20 Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after January 01, 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Fund.

2.6 Changes in accounting policies

There were no changes in the accounting policies of the Fund during the year.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below:

3.1 Investments

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

3.1.2 The Fund classifies its investments in the following categories:

Held for trading

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

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

Available for sale

Investments which do not fall under the above category and which may be sold in response to the need for liquidity or changes in market rates are classified as available-for-sale. After initial recognition, investments classified as available-for-sale are remeasured at fair value, determined with reference to the period end / year-end quoted rates. Gains or losses on remeasurement of these investments are recognised directly in the unit holders' funds until the investment is sold, collected or otherwise disposed-off, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in unit holders' funds is included in income.

3.1.3 Basis of valuation of investments

Fair value of the investments in Federal Government securities comprising Treasury Bills is determined by reference to the quotations obtained from the PKRV rate sheet on the Reuters page.

The fair value of term finance certificates is determined on the basis of rates notified by the Mutual Funds Association of Pakistan (MUFAP) as at the period end.

3.1.4 All regular way of purchases and sales of investments are recognised on the trade date i.e. the date the Fund commits to purchase / sell the investments.

3.1.5 Income accrued on treasury bills are included in the carrying value of investments.

3.2 Securities under resale agreements

Transactions of purchase under resale (reverse-repo) of marketable and government securities are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repos) are not recognised in the statement of assets and liabilities. Amounts paid under these agreements are included in receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the reverse-repo agreement.

3.3 Formation cost

This represents expenses incurred on the formation of the Fund. As permitted in the Non-Banking Finance Companies and Notified Entities Regulations, 2008, these expenses are being amortised to the income statement over a period of not less than five years effective from 14 November 2009.

3.4 Unit holders' fund

Unit holders' fund representing the units issued by the Fund, is carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets.

3.5 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Fund, applicable for the day on which the completed application form is received. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load (if any).

Units redeemed are recorded at the redemption price, applicable to the units for which the Fund receives redemption applications during business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day plus the allowable purchase load (if any). Redemption of units is recorded on acceptance of application for redemption.

3.6 Net asset value per unit

The net assets value per unit disclosed in the statement of assets and liabilities is calculated by dividing the net assets of the Fund with the number of units in issue at the year end.

3.7 Taxation

The Fund is exempt from taxation on income under clause 99 of Part I to the Second Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90 percent of its income excluding realised and unrealised capital gain for the year is distributed amongst the unit holders. Since the Board of Directors of the management company has declared such a dividend (refer note 16), accrual of the tax liability has not been made.

3.8 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the income on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets held for trading are included in the income statement in the period in which they arise.

- Income on Government securities, reverse repurchase arrangements, margin trading system, certificates of investment, certificates of deposits, term deposit receipts, commercial paper, placements, bank deposits and investment in other debt securities are recognised in the income statement at rate of return implicit in the instrument on a time proportionate basis.

3.9 Element of income / (loss) and capital gains / (losses) in prices of units sold less those in units redeemed - net

To prevent the dilution of per unit income and distribution of income already paid out on redemption, as dividend, an equalisation account called "element of income and capital gains included in prices of units sold less those in units redeemed" is created.

The "element of income and capital gains included in prices of units sold less those in units redeemed" account is credited with the amount representing net income and capital gains accounted for in the last announced net assets value and included in the sale proceeds of units. Upon redemption of units, the element of income included in prices of units sold less those in units redeemed account is debited with the amount representing net income and capital gains accounted for in the last announced net assets value and included in the redemption price.

The net "element of income / (loss) and capital gains / (losses) in prices of units sold less those in units redeemed" during an accounting year is recognised in the income statement.

3.10 Financial instruments

All the financial assets and liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of the financial asset and financial liabilities is taken to income directly.

3.11 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are only offset and net amount reported in the statement of assets and liabilities when there is a legally enforceable right to set off the recognised amount and the Fund intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.12 Impairment

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 the 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 account.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated cash flows discounted at the original effective interest rate.

3.13 Provision

A provision is recognised in the balance sheet when the Fund has a legal or constructive obligation as result of past event and 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.

3.14 Cash and cash equivalents

Cash and cash equivalent comprise of bank balances including term deposits with banks (that are readily convertible to known amount of cash) are subject to an insignificant risk

of significant changes of values and have maturities of less than three months from the date of acquisition.

3.15 Dividend (including bonus units)

Dividend (including the bonus units) declared subsequent to the balance sheet date are recorded in the period in which they are approved.

3.16 Other assets

Other assets are stated at cost less impairment losses, if any.

	Note	30 June 2012	30 June 2011
		(Rupees)	
4.	BANK BALANCES - local currency		
	In profit and loss sharing accounts	4.1 22,015,205	3,217,486
	In term deposits	4.2 280,000,000	100,000,000
		<u>302,015,205</u>	<u>103,217,486</u>
4.1	These accounts carry profit rates ranging between 6% to 11.25% (30 June 2011: 5% to 11.50%) per annum.		
4.2	This Term Deposits carry profit rates ranging between 12.20% to 12.25%(30 June 2011: 13.90%) per annum maturing between 16 July 2012 and 19 July 2012.		
5.	INVESTMENTS		
	Held For Trading		
	Government securities	5.1 718,204,123	829,398,330
	Term Finance Certificate - Listed	5.2 86,547,712	54,305,615
	Term Finance Certificate - Unlisted	5.3 183,186,492	20,000,000
	Available for sale		
	Short Term Sukuk Certificates	5.5 120,000,000	-
		<u>1,107,938,327</u>	<u>903,703,945</u>

5.1 Held for trading investments - government securities

Name of Security	Note	Number of holdings at beginning of the year	Acquired during the year	Disposed / matured during the year	Number of holdings at end of the year	Cost as at 30 June 2012	Market value as at 30 June 2012	Unrealized diminution	Net assets of the Fund	Total investments
						(Rupees)			Percentage (%)	
Government Securities										
- Treasury Bills - 3 months (face value of Rs. 100,000 each)	5.1.1	2,914	15,895	14,359	4,450	436,759,051	436,725,610	(33,441)	30.89	39.42
- Treasury Bills - 6 months (face value of Rs. 100,000 each)	5.1.2	5,650	13,495	16,270	2,875	281,580,786	281,478,513	(102,273)	19.91	25.41
- Treasury Bills - 12 months (face value of Rs. 100,000 each)		-	6,350	6,350	-	-	-	-	-	-
					Total	718,339,837	718,204,123	(135,714)	50.81	64.82
					Total as at 30 June 2011	829,521,891	829,398,330	(123,561)	68.85	91.78

5.1.1 These represent 3 months Treasury bills of Government carrying a fixed mark-up rate 11.8742 (30 June 2011: 13.4389% to 13.5000%) and maturing between 12 July 2012 and 30 September 2012. The face value of Treasury bills held as at 30 June 2012 amounted to Rs. 445.00 million.

5.1.2 These represent 6 months Treasury bills of Government carrying a fixed mark-up rate ranging from 11.6272% to 11.9420% (30 June 2011: 13.5800% to 13.7128%) and maturing between 26 July 2012 and 29 November 2012. The face value of Treasury bills held as at 30 June 2012 amounted to Rs. 287.50 million.

5.2 Held for trading investments - Term Finance Certificates (listed debt securities)

Name of Security	Note	Number of holdings at beginning of the year	Acquired during the year	Matured / disposed during the year	Number of holdings at end of the year	Carrying value as at 30 June 2012	Market value as at 30 June 2012	Unrealized appreciation / (diminution)	Net assets of the Fund	Total investments
						(Rupees)			Percentage (%)	
Commercial Banks										
United Bank Limited (face value of Rs.5,000 each)	5.2.1	3,000	-	-	3,000	14,924,705	15,103,296	178,591	1.07	1.36
NIB Bank Limited (face value of Rs.5,000 each)	5.2.2	3,000	-	-	3,000	14,683,865	14,908,608	224,743	1.05	1.35
Fertilizer										
Engro Fertilizer Limited (face value of Rs.5,000 each)		1,000	-	1,000	-	-	-	-	-	-
Financial Services										
Orix Leasing Pakistan Limited - III privately placed (face value of Rs.100,000 each)	5.2.3	200	500	-	700	56,137,890	56,535,808	397,918	4.00	5.10
						85,746,460	86,547,712	801,252	6.12	7.81
					Total as at 30 June 2011	53,931,388	54,305,615	374,227	5.40	6.01

5.2.1 These represents listed term finance certificates and carry a rate of mark-up equal to the base rate of 6 months Karachi Interbank Offer Rate (KIBOR) per annum (plus margin of 0.85% for the first five years and 1.35% for the remaining period) receivable semi-annually in arrears with no floor or cap and will mature in February 2018. These term finance certificates are unsecured. The rating of the instrument is AA.

5.2.2 These represents listed term finance certificates and carry a rate of mark-up equal to the base rate of 6 months Karachi Interbank Offer Rate (KIBOR) per annum plus margin of 1.15% receivable semi-annually in arrears with no floor or cap and will mature in March 2016. These term finance certificates are unsecured. The rating of the instrument is A+.

5.2.3 These represents listed term finance certificates and carry a rate of mark-up equal to the base rate of 3 months Karachi Interbank Offer Rate (KIBOR) per annum plus margin of 2.15% receivable quarterly in arrears with no floor or cap and will mature in in June 2014. These term finance certificates are secured and the face value of Rs. 100,000 each. The rating of the instrument is AA.

5.3 Held for trading investments - Term Finance Certificates (un-listed debt securities)

Name of Security	Number of holdings at beginning of the year	Acquired during the year	Matured / disposed during the year	Number of holdings at end of the year	Carrying value as at 30 June 2012	Market value as at 30 June 2012	Unrealized appreciation / (diminution)	Market value as percentage of net assets	Market value as percentage of total investment	
Note					(Rupees)			Percentage (%)		
Commercial Banks										
Bank Al Habib Limited -IV privately placed (face value of Rs.5,000 each)	5.3.1	4,000	-	-	4,000	19,992,000	21,279,145	1,287,145	1.51	1.92
Askari Bank Limited - IV privately placed (face value of Rs.1,000,000 each)	5.3.2	-	68	-	68	68,810,577	70,160,537	1,349,960	4.96	6.33
Standard Chartered Bank Limited - IV privately placed (face value of Rs.5,000 each)	5.3.3	-	5,000	-	5,000	25,000,000	25,000,000	-	1.77	2.26
Technology and Communication										
Pakistan Mobile Communication Limited - privately placed (face value of Rs.100,000 each)	5.3.4	-	650	-	650	65,000,000	66,746,810	1,746,810	4.72	6.02
					<u>178,802,577</u>	<u>183,186,492</u>	<u>4,383,915</u>	<u>12.96</u>	<u>16.53</u>	
				Total as at 30 June 2011	<u>20,000,000</u>	<u>20,000,000</u>	<u>-</u>	<u>1.99</u>	<u>2.21</u>	

5.3.1 These represent unlisted term finance certificates and carry a rate of mark-up of 15.00% for the first five years and 15.50% for the remaining period receivable semi-annually in arrears with no floor or cap and will mature in June 2021. These term finance certificates are unsecured. The rating of the instrument is AA.

5.3.2 These represent unlisted term finance certificates and carry a rate of mark-up equal to the base rate of 6 months Karachi Inter Bank Offer Rate (KIBOR) per annum (plus margin of 1.75% for the first five periods and 2.20% for the remaining period) receivable semi-annually in arrears with no floor or cap and will mature in December 2021. These term finance certificates are unsecured. The rating of the instrument is AA-.

5.3.3 These represent unlisted term finance certificates and carry a rate of mark-up equal to the base rate of 6 months Karachi Inter Bank Offer Rate (KIBOR) per annum 0.75% receivable quarterly in arrears with no floor or cap and will mature in June 2022. These term finance certificates are unsecured. The rating of the instrument is AAA.

5.3.4 This represent unlisted term finance certificates and carry a rate of mark-up equal to the base rate of 3 months Karachi Inter Bank Offer Rate (KIBOR) per annum plus margin of 2.65% receivable quarterly in arrears with no floor or cap and will mature in April 2016. These term finance certificates are secured. The rating of the instrument is A+.

5.4 The term "listed" indicated in note 5.2 refer to listing in the stock exchange. However their rates are quoted by MUFAP.

5.5 Available for sale - Short term Sukuks Certificates

Name of security	Number of holdings at beginning of the year	Acquired during the year	Matured / disposed during the year	As at 30 June 2011	Carrying value as at 30 June 2011	Market value as at 30 June 2011	Unrealized appreciation / (diminution)	Market value as percentage of net assets	Market value as percentage of total investment	
Note					(Rupees)			Percentage (%)		
Hub Power Co. Ltd - Sukuk	5.5.1	-	44,000	20,000	24,000	120,000,000	120,000,000	-	8.49	10.83
Kot Addu Power Co. Ltd - Sukuk		-	10,000	10,000	-	-	-	-	-	-
					<u>120,000,000</u>	<u>120,000,000</u>	<u>-</u>	<u>8.49</u>	<u>10.83</u>	

- 5.5.1 These represent short term sukuk certificates having a face value of Rs. 5,000 each and carry a rate of mark-up equal to the base rate of 6 months of Karachi Inter Bank Offer Rate (KIBOR) plus margin of 1.25%. These sukuk certificates will mature on 04 August 2012. The rating of the instrument is AA+.

	Note	30 June 2012	30 June 2011
6. MARK-UP RECEIVABLE - considered good			
Mark-up / return receivable on:			
- profit and loss sharing bank balances	6.1	246,261	71,708
- term deposits with banks		748,957	685,479
- term finance certificates		3,554,865	1,598,858
- Pre-IPO investment		367,356	339,386
- Sukuk certificates		6,412,308	-
		<u>11,329,747</u>	<u>2,695,431</u>

- 6.1 The amount was received subsequent to the period-end.

7. DEFERRED FORMATION COST

Unamortised cost	7.1	1,233,242	1,598,907
Amortised to the income statement during the year		(365,665)	(365,665)
		<u>867,577</u>	<u>1,233,242</u>

- 7.1 This represents expenses incurred on the formation of the Fund. Regulation 60 (2) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 requires that all expenses incurred in connection with the incorporation, establishment and registration of collective investment scheme (formation cost) shall be reimbursable by a collective investment scheme to an AMC subject to the audit of expenses. The said formation cost shall be amortised by the collective investment scheme over a period of not less than five years or with in the maturity date of collective investment scheme. Accordingly the said expenses are being amortised over a period of five years effective from 14 November 2009, i.e. after the close of initial period of the Fund.

	Note	30 June 2012	30 June 2011
8. PAYABLE TO THE MANAGEMENT COMPANY			
(Rupees)			
Remuneration payable	8.1	2,002,852	1,255,485
		<u>2,002,852</u>	<u>1,255,485</u>

- 8.1 The Management Company is entitled to remuneration for services rendered to the Fund under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, of an amount not exceeding three percent per annum of the average daily net assets of the Fund during first five years of the Fund's existence and thereafter an amount equal to two percent per annum of such assets of the Fund. Currently, the Management Fee is charged @ 1.5% of the average daily net assets of the Fund. Effective from 1 July 2011, through The Sindh Sales Tax on Services Act, 2011, sales tax @ 16% is imposed on the Fund management services. Remuneration of the Management Company charged to the Fund during the current year, includes the imposed tax.

9. REMUNERATION TO THE TRUSTEE

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provision of Trust Deed.

Net assets up to 1 billion

Rs 0.6 million or 0.17% per annum of the daily average net assets of the Fund, which ever is higher.

Net assets ranging between Rs 1 billion to Rs 5 billion

Rs 1.70 million plus 0.085% per annum of the daily average net assets of the Fund exceeding Rs 1 billion.

Exceeding Rs 5 Billion

Rs 5.1 million plus 0.07% per annum of the daily average net assets of the Fund exceeding Rs 5 billion.

10. ANNUAL FEE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

This represents annual fee payable to Securities and Exchange Commission of Pakistan (SECP) in accordance with Rule 62 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, whereby the Fund is required to pay annual fee to SECP at the rate of 0.075% of the average daily net assets of the Fund.

		30 June 2012	30 June 2011
	Note	(Rupees)	
11. ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		140,000	125,000
Payable to Workers' Welfare Fund	11.1	5,348,175	2,562,730
Brokerage payable		-	3,443
NCCPL payable		15,000	15,000
Rating fee payable		-	15,892
Other liabilities		38,283	35,631
		<u>5,541,458</u>	<u>2,757,696</u>

11.1 The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it is alleged that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs.0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honorable High Court of Sindh, challenging the applicability of WWF to the CISs, which is pending adjudication.

After June 30, 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. This clarification was forwarded by Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) vide its letter dated October 06, 2010 to its members for necessary action. Based on this clarification, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. However, the FBR vide its letter dated January 04, 2011 has cancelled its earlier letter dated October 06, 2010 ab initio and issued show cause notices to certain mutual funds for collecting WWF. In respect of such show cause notices, certain mutual funds have been granted stay by Honorable High Court of Sindh on the basis of the pending constitutional petition in the said court as referred above.

After 30 June 2011, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. However a Constitutional Petition is pending in the Sindh High Court (SHC).

In view of above stated facts and considering the vagaries of litigation, the Management Company as a matter of abundant caution has decided to continue to maintain the provision for WWF amounting to Rs 5.348 million upto 30 June 2012. If the same had not been so recorded, the net assets value per unit of the Scheme would have been higher by Re. 0.38.

	30 June 2012	30 June 2011
	(Numbers)	
12. NUMBER OF UNITS IN ISSUE		
Total outstanding at beginning of the period	9,946,564	4,365,687
Sales during the period	4,186,229	6,521,802
Bonus units issued	1,174,475	941,058
Redemption during the period	<u>(1,359,474)</u>	<u>(1,881,982)</u>
Total units in issue at the end of the period	<u><u>13,947,794</u></u>	<u><u>9,946,564</u></u>

Face value of the unit is Rs. 100 each.

	30 June 2012	30 June 2011
	(Rupees)	
13. MARK-UP INCOME		
Mark-up / return on:		
- Government securities	101,861,888	65,861,510
- term finance certificates	19,009,014	6,053,765
- Sukuk certificates	16,991,034	-
- term deposits with banks	12,778,478	20,734,117
- profit and loss sharing account	2,259,982	2,095,055
- Pre-IPO investment	884,159	339,386
- placements	813,954	3,174,608
- Commercial paper	-	2,620,976
- Reverse repo	-	3,274,900
	<u><u>154,598,509</u></u>	<u><u>104,154,317</u></u>

14. AUDITORS' REMUNERATION

Annual audit fee	100,000	100,000
Fee for review of half yearly financial statements	75,000	75,000
Fee for review of statement of compliance with the best practices of Code of Corporate Governance	25,000	25,000
Other certifications	30,000	15,000
Out of pocket expenses	<u>21,780</u>	<u>10,145</u>
	<u><u>251,780</u></u>	<u><u>225,145</u></u>

15. INTERIM DISTRIBUTIONS DURING THE PERIOD

Date of distributions	----- For the year ended June 30, 2012 -----			
	Distribution per unit	No. of Bonus Units Issued	Bonus ----- (Rupees) -----	Cash
May 27, 2012	0.9023	112,435	11,277,715	1,157,442
April 27, 2012	0.8178	100,425	10,068,471	1,049,048
March 29, 2012	0.8401	102,423	10,269,228	994,177
February 27, 2012	0.7405	89,645	8,988,310	728,990
January 31, 2012	0.9115	109,200	10,956,034	897,332
December 30, 2011	0.9403	108,672	10,903,084	923,845
November 28, 2011	0.9459	107,415	10,793,089	929,346
October 28, 2011	1.0151	106,855	10,747,680	997,335
September 29, 2011	0.9471	85,610	8,587,946	930,525
August 29, 2011	0.9563	85,876	8,609,905	939,564
July 30, 2011	0.8598	76,609	7,673,417	844,751
	<u>9.8767</u>	<u>1,085,165</u>	<u>108,874,879</u>	<u>10,392,355</u>

Date of distributions	----- For the year ended June 30, 2012 -----			
	Distribution per unit	No. of Bonus Units Issued	Bonus ----- (Rupees) -----	Cash
4 October 2010	2.4702	131,340	13,183,192	602,303
31 December 2010	2.9152	253,360	25,374,688	1,719,121
30 March 2011	2.8893	261,040	26,151,000	2,407,462
29 April 2011	0.9481	85,062	8,522,891	931,507
30 May 2011	0.9632	87,265	8,740,842	946,343
	<u>10.1860</u>	<u>818,067</u>	<u>81,972,613</u>	<u>6,606,736</u>

16. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. Since the management has distributed the income earned by the Fund during the period to the unit holders in the manner explained above, no provision for taxation has been made in these financial statements (refer note 20).

17. TRANSACTIONS AND BALANCES WITH CONNECTED PERSONS / RELATED PARTIES

Related parties include Lakson Investments Limited being the Management Company, Central Depository Company of Pakistan Limited (CDC) being the trustee, Siza Services (Private) Limited being holding company of the Management Company, associated companies of the Management Company, Key Management personnel and other funds being managed by the Management Company and also includes entities having holding more than 10% in the units of the Fund as at 30 June 2012.

Remuneration to the Management Company and the Trustee is determined in accordance with the provisions of Non - Banking Finance Companies and Notified Entities Regulations, 2008, and the Trust Deed respectively as disclosed in note 8 and 9 of these financial statements. Other transactions are in normal course of business and at contracted rates.

Transactions and balances with related parties other than those disclosed elsewhere are as follows:

	30 June 2012	30 June 2011
	(Rupees)	
17.1 Balance as at year		
Lakson Investments Limited - Management Company of the Fund		
Remuneration payable	<u>2,002,852</u>	<u>1,255,485</u>
Units held as at the period ended 777,345 (June 2011: 753,834) units	<u>78,784,260</u>	<u>76,258,229</u>
Central Depository Company of Pakistan Limited - Trustee of the Fund		
Remuneration payable	<u>167,512</u>	<u>141,015</u>
Security deposit	<u>100,000</u>	<u>100,000</u>
Directors of the Management Company		
Babar Ali Lakhani		
Units held as at the period ended 10,841* (June 2011: 5,210) units * 10,841 units held in joint account with spouse Ms. Zil Lakhani.	<u>1,098,777</u>	<u>527,083</u>
Key management personnel and Employees of the Management Company		
Units held as at the period ended 2,567 (June 2011: 64) units	<u>260,128</u>	<u>6,438</u>
Associated Companies / Undertaking of the Management Company		
Siza (Private) Limited		
Units held as at the period ended 7,109,138 (June 2011: 6,740,594) units	<u>720,514,714</u>	<u>681,881,856</u>
Clover (Pakistan) Limited Employees Contributory Provident Fund		
Units held as at the period ended 19,582 (June 2011: 17,579) units	<u>1,984,668</u>	<u>1,778,302</u>
Colgate Palmolive (Pakistan) Limited Employee Contributory Provident Fund		
Units held as at the period ended 176,240 (June 2011: 158,211) units	<u>17,862,016</u>	<u>16,004,718</u>
Colgate Palmolive (Pakistan) Limited Employee Gratuity Fund		
Units held as at the period ended 97,911 (June 2011: 87,895) units	<u>9,923,342</u>	<u>8,891,510</u>

	30 June 2012	30 June 2011
	(Rupees)	
Accuray Surgical Limited Employee Contributory Provident Fund		
Units held as at the period ended 13,055 (June 2011: 11,719) units	<u>1,323,112</u>	<u>1,185,535</u>
Cyber Internet Services (Private) Limited Employee Contributory Provident Fund		
Units held as at the period ended 137,049 (June 2011: 123,029) units	<u>13,890,002</u>	<u>12,445,715</u>
GAM Corporation (Private) Limited Employees Contributory Provident Fund		
Units held as at the period ended 39,148 (June 2011: 35,144) units	<u>3,967,709</u>	<u>3,555,145</u>
Princeton Travels (Private) Limited Contributory Provident Fund		
Units held as at the period ended 15,666 (June 2011: 14,063) units	<u>1,587,735</u>	<u>1,422,642</u>
Siza Foods (Private) Limited Contributory Provident Fund		
Units held as at the period ended 84,856 (June 2011: 76,176) units	<u>8,600,230</u>	<u>7,705,975</u>
Century Insurance Company Limited		
Units held as at the period ended 1,596,636 (June 2011: 551,330) units	<u>161,819,867</u>	<u>55,772,791</u>
Century Insurance Company Limited Employee Contributory Provident Fund		
Units held as at the period ended 19,582 (June 2011: 17,579) units	<u>1,984,668</u>	<u>1,778,302</u>
	For the year ended 30 June 2012	For the year ended 30 June 2011
	(Rupees)	

17.2 Transactions during the year

Lakson Investments Limited - Management Company of the Fund		
Remuneration to the Management Company	<u>21,398,494</u>	<u>11,922,675</u>
Bonus - 82,792 (2011: 99,564) units	<u>8,305,190</u>	<u>9,980,212</u>
Redemption - 59,281 (2011: 74,180) units	<u>6,000,000</u>	<u>7,500,000</u>

	For the year ended 30 June 2012	For the year ended 30 June 2011
	(Rupees)	
Directors of the Management Company		
Babar Ali Lakhani		
Issue of units 4,991 (2011: 4,969) units	<u>502,172</u>	<u>500,000</u>
Bonus - 640 (2011: 241) units	<u>64,180</u>	<u>19,775</u>
Central Depository Company of Pakistan Limited- Trustee of the Fund		
Remuneration to the Trustee	<u>1,895,315</u>	<u>1,437,278</u>
Settlement charges	<u>6,026</u>	<u>6,274</u>
Key management personnel and Employees of the Management Company		
Issue of units - 5,798 (2011: nil) units	<u>584,759</u>	<u>-</u>
Bonus - 137 (2011: 80) units	<u>13,742</u>	<u>8,062</u>
Redemption - 3,432 (2011: 809) units	<u>345,503</u>	<u>81,386</u>
Associated Companies / Undertaking of the Management Company		
Siza (Private) Limited		
Issue of units - 6,672 (2011: 4,451,573) units	<u>677,880</u>	<u>455,679,812</u>
Bonus - 737,272 (2011: 658,355) units	<u>73,951,502</u>	<u>65,971,959</u>
Redemption - 375,400 (2011: 455,583) units	<u>38,000,000</u>	<u>45,933,000</u>
Clover (Pakistan) Limited Employees Contributory Provident Fund		
Bonus - 2,003 (2011: 2,140) units	<u>200,950</u>	<u>214,539</u>
Colgate Palmolive (Pakistan) Limited Employee Contributory Provident Fund		
Bonus - 18,029 (2011: 19,263) units	<u>1,808,546</u>	<u>1,930,852</u>
Colgate Palmolive (Pakistan) Limited Employee Gratuity Fund		
Bonus - 10,016 (2011: 10,701) units	<u>1,004,748</u>	<u>1,072,696</u>
Accuray Surgical Limited Employee Contributory Provident Fund		
Bonus - 1,335 (2011: 1,427) units	<u>133,966</u>	<u>143,026</u>
Cyber Internet Services (Private) Limited Employee Contributory Provident Fund		
Bonus - 14,020 (2011: 14,979) units	<u>1,406,375</u>	<u>1,501,485</u>
GAM Corporation (Private) Limited Employees Contributory Provident Fund		
Bonus - 4,005 (2011: 4,279) units	<u>401,734</u>	<u>428,902</u>

	For the year ended 30 June 2012	For the year ended 30 June 2011
	(Rupees)	
Princeton Travels (Private) Limited		
Contributory Provident Fund		
Bonus - 1,603 (2011: 1,712) units	<u>160,760</u>	<u>171,631</u>
Siza Foods (Pvt) Limited		
Contributory Provident Fund		
Bonus - 8,681 (2011: 9,275) units	<u>870,781</u>	<u>929,670</u>
Century Insurance Company Limited		
Issue of units - 973,653 (2011: nil) units	<u>100,000,000</u>	-
Bonus - 145,935 (2011: 67,126) units	<u>13,177,269</u>	<u>6,728,579</u>
Redemption - 74,282 (2011: nil) units	<u>7,502,923</u>	-
Century Insurance Company Limited		
Employees Contributory Provident Fund		
Bonus - 2,003 (2011: 2,140) units	<u>200,950</u>	<u>214,539</u>

18. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

Risk management framework

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

The Fund maintains positions in a variety of financial instruments in accordance with guidelines given by SECP and the constitutive documents of the Fund. The Fund primarily invests in Government Securities, Certificates of Investment, Certificates of Deposits, Term Deposit Receipts, Commercial Papers, reverse repo, Term Finance Certificates etc (subject to above guidelines, etc). Such investments are subject to varying degrees of risk.

The management of these risks is carried out by the Investment Committee (IC) under the policies and procedures approved by the Board. IC is constituted by the Board of Directors of the Management Company. IC is responsible to devise the investment strategy and

manage the investment portfolio of the Fund in accordance with the limits prescribed and restrictions imposed in the Non-Banking Finance Companies and Notified Entities Regulations, 2008, Rules, and Constitutive Documents of the Fund in addition to the Fund's internal risk management policies.

18.1 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. At the year-end it arises principally from debt securities held, bank balances, term deposit and profit / mark-up recoverable, etc.

Management of credit risk

The Fund's policy is to enter into financial contracts in accordance with the investment guidelines approved by the Investment Committee, its Trust Deed, the requirements of NBFC rules and regulations and guidelines given by SECP from time to time.

Credit risk is managed and controlled by the management company of the Fund in the following manner:

- Where the investment committee makes an investment decision, the credit rating and credit worthiness of the issuer is taken into account along with the financial background so as to minimise the risk of default.
- Analyzing credit ratings and obtaining adequate collaterals wherever appropriate / relevant.
- The risk of counterparty exposure due to failed trades causing a loss to the Fund is mitigated by a periodic review of the credit ratings and financial statements on a regular basis.
- Cash is held only with reputable banks with minimum long term credit rating of AA-

Exposure to credit risk

In summary, compared to the maximum amount included in Statement of Assets and Liabilities, the maximum exposure to credit risk at 30 June was as follows:

	Note	June 30, 2012		June 30, 2011	
		Statement of Assets and Liabilities (Rupees)	Maximum exposure	Statement of Assets and Liabilities (Rupees)	Maximum exposure
Bank balances	4	302,015,205	302,015,205	103,217,486	103,217,486
Investments	5	1,107,938,327	389,734,204	903,703,945	74,305,615
Mark-up receivable	6	11,329,747	11,329,747	2,695,431	2,695,431
Deposit		100,000	100,000	100,000	100,000
		<u>1,421,383,279</u>	<u>703,179,156</u>	<u>1,009,716,862</u>	<u>180,318,532</u>

Difference in the balances as per the Statement of Assets and Liabilities and maximum exposure in investments is due to the fact that investments of Rs.718.20 million relates to investments in Government Securities which are not considered to carry credit risk.

Past due / impaired assets

None of the financial assets of the Fund are past due or impaired as at 30 June 2012.

Credit ratings and Collaterals

Credit risk arising on debt securities is mitigated by investing primarily in investment-grade rated instruments published by MUFAP (and as determined by Pakistan Credit Rating Agency or JCR-VIS). Further credit risk arising from bank balances is mitigated through deposit held with banks which are rated AA or above. The Fund is required to follow the guidelines / restrictions imposed in its offering document and the SECP in respect of the minimum ratings prior to any investment, etc.

Details of the credit ratings of investments in debt securities (other than treasury bills), placements and bank balances including term deposits as at 30 June 2011 are as follows:

Ratings	June 30, 2012		June 30, 2011	
	Debt securities (including profit due) % of balance	Bank balances (including profit due) % of balance	Debt securities (including profit due) % of balance	Bank balances (including profit due) % of balance
AAA	6.25%	0.05%	-	0.74%
AA+	45.74%	4.42%	-	96.52%
AA	9.28%	95.53%	80.02%	2.42%
AA-	34.84%	0.01%	-	0.32%
A+	3.88%	-	19.98%	-
Total	100%	100%	100%	100%

Above rates are on the basis of available ratings assigned by PACRA and JCR-VIS (as of 30 June 2012). The investments in debt securities and bank balances are unsecured except for those mentioned in Note 5.2.3 and 5.3.4 of these financial statements.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Around 50.53% (2011: 82.14%) of the Fund's financial assets are in Government securities which are not exposed to the credit risk, while the remaining portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Details of Fund's concentration of credit risk of financial instruments by industrial distribution are as follows:

	June 30, 2012		June 30, 2011	
	(Rupees)	(%)	(Rupees)	(%)
Commercial banks	451,419,477	64.197	154,853,926	85.878
Fertilizers	-	-	5,074,535	2.814
Technology and communication	68,668,174	9.765	-	-
Financial services	56,579,196	8.046	20,290,071	11.252
Electricity	126,412,308	17.977	-	-
Miscellaneous	100,000	0.014	100,000	0.055
	703,179,155	100	180,318,532	100

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

18.2 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by Securities and Exchange Commission of Pakistan (SECP).

Management of liquidity risk

The Fund's policy is to manage this risk by investing majority of its assets in investments that are traded in an active market and can be readily disposed. The Fund invests primarily in marketable debt securities and other financial instruments, which under normal market conditions are readily convertible to cash. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirement.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of total net assets at the time of borrowing with repayment within 90 days of such borrowings. No such borrowings were made during the period.

In order to manage the Fund's overall liquidity, the Fund also has the option to withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. However, during the period no such option was exercised or considered necessary.

Maturity analysis for financial liabilities

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

June 30, 2012	Carrying amount	Less than 1 month	1 to 3 months	Total
----- (Rupees) -----				
Non-derivative liabilities				
Payable to Lakson Investments Limited - Management Company	2,002,852	2,002,852	-	2,002,852
Payable to Central Depository Company of Pakistan Limited - Trustee	167,512	167,512	-	167,512
Payable to Securities and Exchange Commission of Pakistan	922,349	-	922,349	922,349
Accrued expenses and other liabilities (excluding WWF)	193,283	23,283	170,000	193,283
	<u>3,285,996</u>	<u>2,193,647</u>	<u>1,092,349</u>	<u>3,285,996</u>
Unit holders' fund	<u>1,413,616,685</u>	<u>*1,413,616,685</u>		

June 30, 2012	Carrying amount	Less than 1 month	1 to 3 months	Total
----- (Rupees) -----				
Non-derivative liabilities				
Payable to Lakson Investments Limited - Management Company	1,255,485	1,255,485	-	1,255,485
Payable to Central Depository Company of Pakistan Limited - Trustee	141,015	141,015	-	141,015
Payable to Securities and Exchange Commission of Pakistan	596,133	-	596,133	596,133
Accrued expenses and other liabilities (excluding WWF)	194,966	194,966	-	194,966
	<u>2,187,599</u>	<u>1,591,466</u>	<u>596,133</u>	<u>2,187,599</u>
Unit holders' fund	<u>1,006,199,775</u>	<u>*1,006,199,775</u>		

Above financial liabilities do not carry any mark-up.

* Payable on demand.

18.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will effect the Fund's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan. The maximum risk resulting from financial instruments equals their fair values.

The Fund is exposed to interest rate risk only.

18.3.1 Interest rate risk

18.3.1.1 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. Currently the Funds interest rate

exposure arises on investment in Government securities, term deposit receipts with banks and profit and loss sharing bank balances. Currently all of the Fund's investment carry fixed interest rates, except for certain term deposit certificates. The Management Company monitors the interest rate environment on a regular basis and may change the mix of its portfolio to enhance the earning potential of the Fund subject to the above defined guidelines, etc. Other risk management procedures are the same as those mentioned in the credit risk management.

18.3.1.2 At 30 June, details of the interest rate profile of the Fund's interest bearing financial assets were as follows:

	30 June 2012	30 June 2011
	(Rupees)	
Fixed rate instruments		
Investments in Government treasury bills	718,204,123	829,398,330
Bank balance	302,015,205	103,217,486
Investment in Term Finance Certificates	21,279,145	-
	<u>1,041,498,473</u>	<u>932,615,816</u>
Variable rate instruments		
Investment in Term Finance Certificates	248,455,059	74,305,615
Short Term Sukuk Certificates	120,000,000	-
	<u>368,455,059</u>	<u>74,305,615</u>

None of the financial liabilities carry any interest rate.

Fair value sensitivity analysis for fixed rate instruments

Interest bearing Government securities are held by the Fund at fair value through profit and loss account (held for trading) exposes the Fund to the fair value risk. In case of 100 basis points increase / decrease in yield rates of the above Government Securities as on 30 June 2012, the net assets of the Fund would have been higher / lower by Rs.1.163 (2011: 1.924) million with consequential effect on net income for the period.

Other balances are not carried at fair value through profit and loss. Therefore a change in interest rate at the reporting date would not effect the income statement and unit holder's fund.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the period end, unit holder fund would have increased / (decreased) by Rs. 0.257 (2011: 0.101) million. The analysis assumes that all other variables remain constant.

18.3.1.3 A summary of the Fund's interest rate gap position, categorised by the earlier of contractual re-pricing or maturity date is as follows:

	mark-up/ profit (%)	Less than one month	One to three months	More than three months and upto an exceed one year (Rupees)	More than one year and upto five year	Total
30 June 2012						
Assets						
Bank balances	6 to 12.25	302,015,205	-	-	-	302,015,205
Investments	11.87 to 15.00	230,819,123	511,886,800	95,498,200	269,734,204	1,107,938,327
Total assets		<u>532,834,328</u>	<u>511,886,800</u>	<u>95,498,200</u>	<u>269,734,204</u>	<u>1,409,953,532</u>
30 June 2011						
Assets						
Bank balances	5 to 11.50	103,217,486	-	-	-	103,217,486
Investments	13.49 to 16.17	1,393,405	472,524,484	409,258,442	20,000,000	903,176,331
Total assets		<u>104,610,891</u>	<u>472,524,484</u>	<u>409,258,442</u>	<u>20,000,000</u>	<u>1,006,393,817</u>

None of the Fund's liability is subject to interest rate risk.

Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's operations either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all of the Fund's activities.

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

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

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

18.4 Unit Holders' Fund risk management

Management's objective when managing unit holders' funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders' and to ensure reasonable safety of unit holders' funds.

The Fund manages its investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in markets' conditions. The capital

structure depends on the issuance and redemption of units and with effect from July 1, 2012 the Fund is subject to maintain minimum fund size of 100 million at all times.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund's accounting policy on fair value measurements of the investments is discussed in note 3.1 to these financial statements.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
	------(Rupees)-----			
30 June 2012				
Financial assets at fair value through profit and loss (held for trading)				
Government Securities	718,204,123	-	-	718,204,123
Debt securities	-	121,451,586	268,282,618	389,734,204
	<u>718,204,123</u>	<u>121,451,586</u>	<u>268,282,618</u>	<u>1,107,938,327</u>
30 June 2011				
Financial assets at fair value through profit and loss (held for trading)				
Government Securities	829,398,330	-	-	829,398,330
Debt securities		29,231,080	45,074,535	74,305,615
	<u>829,398,330</u>	<u>29,231,080</u>	<u>45,074,535</u>	<u>903,703,945</u>

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

	30 June 2012	30 June 2011
	(Rupees)	
Opening balance	45,074,533	14,770,380
Amortisation of discount net revaluation gain / (loss) included in the income statement	2,033,263	104,328
Transferred (to) / from level 2	(19,992,000)	4,972,205
Purchase during the period (at cost)	260,250,000	40,000,000
Matured / redemption during the year	(14,009,000)	(14,772,380)
Sold during the year	(5,074,178)	-
Ending balance	<u>268,282,618</u>	<u>45,074,533</u>

20. DISTRIBUTIONS BY THE FUND

20.1 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the management company have approved a final distribution of Rs. 0.9391 (2011: 0.9979) per unit for the period ended 30 June 2012, amounting to Rs.13.10 (2011: 9.93) million in their meeting (Rs.13.097 million of Bonus distribution and Rs.0.002 million of cash distribution) held on 04 July 2012. These financial statements do not include the effect of the above final distribution of Rs.13.10 million that will be accounted for subsequent to the year end.

21. SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding unit holding pattern, top brokers, members of the Investment Committee, Fund manager, meetings of the Board of Directors of the management company and rating of the Fund and the management company are as follows:

21.1 Unit holding pattern of the Fund

Category	30 June 2012		
	No. of Investors	Investment amount	% of total net assets
Individuals	11	34,968,881	2.47
Associated Companies and Directors	12	944,557,354	66.82
Insurance Companies	1	82,970,492	5.87
Banks and DFIs	1	134,839,095	9.54
NBFCs	1	38,651,015	2.73
Retirement Funds	4	18,191,964	1.29
Public Limited Companies	4	159,437,884	11.28
	<u>34</u>	<u>1,413,616,685</u>	<u>100</u>
		30 June 2011	
Individuals	3	131,634	0.01
Associated Companies and Directors	14	869,207,803	86.39
Banks and DFIs	1	99,390,099	9.88
NBFCs	1	37,469,868	3.72
	<u>19</u>	<u>1,006,199,404</u>	<u>100.00</u>

21.2 List of brokers by percentage of commission paid

Name of broker	Commission paid (Percentage %)	
	30 June 2012	30 June 2011
- BMA Capital Management Limited	62.32	7.45
- Al-Habib Capital Markets (Private) Limited	10.91	-
- JS Global Capital Limited	8.30	32.41
- KASB Securities Limited	5.55	16.15
- Global Capital Pakistan Limited	4.98	-
- Invisor Securities (Pvt.) Limited	3.85	28.29
- Invest & Finance Securities Limited	2.61	-
- Icon Securities (Private) Limited	0.97	-
- Elixir Securities Pakistan Limited	0.51	1.77
- Invest Capital Investment Bank Limited	-	8.62
- IGI Finex Securities (Private) Limited	-	1.77
- Alfalah Securities (Private) Limited	-	1.77
- Vector Capital (Private) Limited	-	1.77
	100.00	100.00

21.3 Particulars of the Investment Committee and Fund manager

Following are the members of the investment committee of the Fund:

- Mr. Babar Ali Lakhani
- Mr. Iqbal Ali Lakhani
- Mr. A. Aziz H. Ebrahim
- Mr. Muhammad Umair Chauhan (Fund Manager)
- Mr. Amir Mobin
- Mr. Hamad Aslam, CFA
- Mr. Syed Imran Raza Kazmi
- Mr. Muhammad Qasim

Mr. Babar Ali Lakhani - Chief Executive

Mr. Lakhani has over 12 years of investment and portfolio management experience in domestic and international equity and fixed income markets. Mr. Lakhani most recently served as the Chief Investment Officer of Century Insurance, a Public Limited Company listed on the Karachi and Lahore Stock Exchanges of Pakistan. He was an Investment Associate at High Street Advisors and a Research Analyst at Credit Suisse Equity Group (formerly Credit Suisse First Boston). Mr. Lakhani brings extensive investment experience, globally practiced portfolio management discipline, and a comprehensive understanding of the global asset management industry to Lakson Investments Limited.

Mr. Lakhani received his BA in Finance from Bentley College, and his MBA from Brandeis University.

Mr. Lakhani is the Chairman of Tritex Cotton Mills Ltd., a board member of the Mutual Fund Association of Pakistan (MUFAP), a member of the Global Association of Risk Professionals (GARP), the Society of Financial Service Professionals and the Young President's Organization (YPO). Mr. Lakhani is a member of the Alumni Trustee Committee of Brandeis University and is the school's representative in Pakistan.

Mr. Iqbal Ali Lakhani - Chairman of the Board

Mr. Iqbal Ali Lakhani is the Chairman of the Lakson Group of Companies, five of which are listed on the Stock Exchanges of Pakistan covering a diversified range of businesses such as paper & board, soap, detergents and toothpaste, printing & packaging, food and insurance. Six Funds of a Group Investment Company are also listed and traded. American franchises / affiliation includes Colgate-Palmolive Company & McDonalds Corporation. The spectrum of unlisted Companies includes textiles, surgical, media (T.V. & Print), software development & consultancy, travel & tourism, investment & mutual funds, ISP-broad band & data centre, business process outsourcing house into call centre & I.T. The businesses of the Lakson Group provide gainful employment to over 12,000 persons.

Mr. Lakhani attained his Bachelor of Business Administration from the University of California at Berkley, U.S.A. with Majors in Marketing and Finance. While at UC Berkley he received many awards such as Beta Alpha PSI - The National Accounting Fraternity, Honour Students' Society – High Scholastic Attainment, Departmental Citation Award – Outstanding Undergraduates Accomplishment, Phi Beta Kappa – High Attainment in Liberal Scholarship etc.

Mr. Lakhani has over 38 years experience of Senior Management in consumer marketing, finance, manufacturing, industry and government relations. Areas of special interest cover marketing, total quality management and leadership. He is a Charter Member of The Indus Entrepreneurs and Director of Pakistan Business Council. In addition, he is also on the Board of Trustees of the Layton Rahmatullah Benevolent Trust. Previously he has served as the Chairman Cigarette Manufacturers Association of Pakistan, Chairman Aga Khan Economic Planning Board for Pakistan and Vice President American Business Council of Pakistan.

Mr. Lakhani has travelled widely and has attended international seminars, meetings and conferences in several countries of the world.

Mr. A. Aziz H. Ebrahim

Mr. Ebrahim has over 44 years of varied experience in financial management in Private Industries in Pakistan. After qualifying Chartered Accountancy Examination, (at present fellow member of Institute of Chartered Accountant of Pakistan) Mr. Ebrahim started his career in 1967 as Finance Manager with ARAG Industries dealing in various businesses such as Pharmaceuticals, Cosmetics, and Biscuits Manufacturing etc. He left the ARAG Group in 1977, as a Financial Advisor.

In 1977, Mr. Ebrahim joined Lakson Group of Companies. Mr. Ebrahim is as Director on Board in many Companies of the Group. He has been instrumental in running the Hasanali Karabhai Foundation providing educational, medical, and helping other social activities, besides handling the finances of five other Group Companies.

Mr. Muhammad Umair Chauhan - Chief Investment Officer and Fund Manager

Mr. Muhammad Umair Chauhan has over six years of experience in the asset management industry of Pakistan. He has previously served as Vice President Investments & Research at IGI Funds Limited and was part of Investment & Research Team at Al Meezan Investment Management. In his previous assignments he managed PKR 12 billion in both equity and fixed income funds.

Mr. Umair received his MBA from the Institute of Business Administration, Karachi.

Mr. Umair is also looking after Lakson Income Fund and Lakson Equity Funds.

Mr. Amir Mobin - Chief Financial Officer and Company secretary

Mr. Amir has over 5 years of post qualification experience which includes working at IGI funds Limited as Head of Operations and National Clearing Company of Pakistan Limited as Manager-Operations. At IGI Mr. Amir has been actively involved in acquisition of the software application, preparation of manuals and operations related procedures. He has actively participated in the rating process of the company and was responsible for managing the settlement and Unit holder management functions. At NCCPL Mr. Amir has been an active member of the team responsible for the implementation of the Financial Institution Risk Management System. He has actively participated in the implementation of the CFS Mk-II. Further, he has worked on the concept paper of the Security Lending and Borrowing Module.

He has worked with KPMG Taseer Hadi & CO. Chartered Accountants in various capacities for 5 years which includes 4 years of article ship. During his article ship he has conducted the audits of various asset management companies, brokerage houses, commercial banks and service sector entities. He has also performed due diligence assignments.

Mr. Amir is an Associate Member of the Institute of Chartered Accountants of Pakistan and graduated as Bachelors of Commerce from University of Karachi

Mr. Hamad Aslam – Head of Research

Mr. Hamad Aslam, CFA has six years of research and investment advisory experience. He was previously associated with BMA Capital (portfolio company of Middle east based Abraaj Capital) where he spent the initial period of his career as Head of Research for the asset management arm of the group. Mr. Aslam later moved to the brokerage side where he headed the group's Research function for over two years and the Equity group for seven months. As part of his assignments, he has done in-depth studies of listed and unlisted sectors and companies of Pakistan for brokerage, asset management and investment banking clients and has advised domestic and foreign clients on optimal asset allocation and portfolio strategies for Pakistan capital markets.

Mr. Aslam did his Bachelors in Accounting and Finance from Lahore University of Management Sciences (LUMS) and is a CFA charter holder.

Mr. Syed Imran Raza Kazmi - Assistant Fund Manager

Mr. Imran Kazmi has over 6 years of Experience in Fixed Income Market. He was previously affiliated with Alfalah GHP Investment Management Limited as Assistant Manager – Fixed Income where he managed Income fund & Cash fund with the fund size of PKR 4.5 billion. He has also worked with IGI Finex Securities Ltd (Formerly; Finex Securities Ltd.) for 2.5 years as Money Market Dealer.

During his entire career, He attended different Seminars and workshop organized by FMA to enhance the market knowledge and to improve market skills. He is the Member of Financial Market Association of Pakistan.

Mr. Kazmi holds a MBA in Finance from PAF-Karachi Institute of Economics & Technology, Karachi.

Mr. Muhammad Qasim - Officer Risk Management and Compliance

Mr. Muhammad Qasim has four years of experience in the asset management industry. Before joining Lakson Investments Limited in 2010 he was previously served as Senior Executive Funds Accounting and Operations at Arif Habib Investments Limited.

Mr. Qasim is an Associated Member of Institute of Cost and Management Accountants of Pakistan.

21.4 Directors meeting attendance

Information in respect of attendance by Directors in the meeting is given below:

Name of directors	Meeting Attended	July 04, 2011	July 22, 2011	October 27, 2011	February 17, 2012	April 19, 2012
Mr. Iqbal Ali Lakhani	3	X	✓	✓	✓	X
Mr. Babar Ali Lakhani	5	✓	✓	✓	✓	✓
Mr. A Aziz H. Ebrahim	5	✓	✓	✓	✓	✓
Mr. Mahomed J. Jaffer	3	X	X	✓	✓	✓
Mr. Sher Afgan Malik	4	✓	✓	X	✓	✓
Mr. Muhammad Abdul Qadir	4	✓	✓	X	✓	✓
Mr. Daniel Scott Smaller	1	X	X	X	X	✓
Mr. Zahid Zakiuddin	4	X	✓	✓	✓	✓
		4	6	5	7	7

21.5 Rating of the Fund and the management company

PACRA Rating

Lakson Investments Limited
(Management Company)
Lakson Income Fund

Management Quality

AM3 +
-

Stability

-
*AA-(f)

*This represents previous ratings. Current rating is still awaited.

22. GENERAL

These financial statements were authorized for issue by Board of Directors of the Management Company on 30 August 2012.

**For Lakson Investments Limited
(Management Company)**

Chief Executive Officer

Director



A Lakson Group Company

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