

# AKD

Income Fund

Managed by



AKD Investment Management Ltd.

# Annual Report 2007



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# CORPORATE INFORMATION



**MANAGEMENT COMPANY**

AKD Investment Management Limited  
606, Continental Trade Centre, Block-8,  
Clifton, Karachi-74000

**BOARD OF DIRECTORS OF THE  
MANAGEMENT COMPANY**

**Chairman**

Mr. Farrukh Shaukat Ansari

**Chief Executive Officer**

Mr. Faisal Bengali

**Directors**

Mr. Sadiq Hussain  
Mr. Zahoor Motiwala  
Mr. Farooq Ahmed Awan  
Mr. Farrukh Hamid Sabzwari  
Mr. Ashraf Adamjee

**COMPANY SECRETARY & CFO OF  
THE MANAGEMENT COMPANY**

Mr. Muhammad Amin Hussain

**AUDIT COMMITTEE**

**Chairman**

Mr. Ashraf Adamjee

**Members**

Mr. Sadiq Hussain  
Mr. Zahoor Motiwala

**INTERNAL AUDITORS**

Ford Rhodes Sidat Hyder & Co.  
Chartered Accountants  
Progressive Plaza, Beaumont Road,  
P.O. Box 15541, Karachi 75530.

**TRUSTEE**

Central Depository Company  
of Pakistan Limited  
Suite # M-13-16, Mezzanine Floor,  
Progressive Plaza, Beaumont Road,  
Near PIDC House, Karachi.

**BANKERS**

Bank Al-Falah Limited  
Bank Al-Habib Limited  
Habib Metropolitan Bank Limited  
MCB Bank Limited  
Mybank Limited  
Standard Chartered Bank (Pakistan) Limited  
The Bank of Punjab

**AUDITORS**

A.F. Ferguson & Co.  
Chartered Accountants  
State Life Building No. 1-C,  
I.I. Chundrigar Road,  
P.O. Box 4716, Karachi-74000

**LEGAL ADVISER**

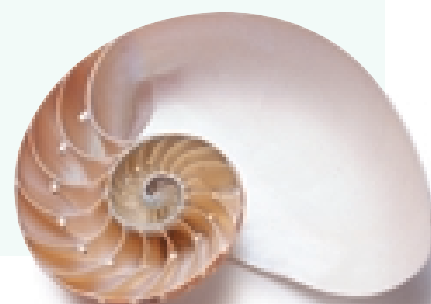
Sattar & Sattar  
Attorneys -at -law  
3rd Floor, UBL Building,  
I.I. Chundrigar Road,  
Karachi

**REGISTRAR**

Gangjees Registrar Services (Pvt.) Ltd.  
516, Clifton Centre, Khayaban-e-Roomi,  
Kehkashan, Block-5, Clifton, Karachi.  
Tel: 5375714 - 5836920.

**DISTRIBUTORS**

AKD Investment Management Limited  
Aqeel Karim Dhedhi Securities (Private) Limited  
IGI Investment Bank Limited  
The Bank of Punjab  
Accesss Financial Services (Private) Limited  
Al-Falah Securities (Private) Limited



# MISSION & VISION STATEMENT



## MISSION STATEMENT

**AKD Income Fund** shall aim to preserve its investor's capital, while providing the highest quality industry leading returns. Our goal is to provide investors with a financial product that offers them a consistent stream of returns, with ample liquidity, catering to their immediate financial needs, and encouraging long term savings. AKD Investment Management's team's objective is to offer our clients professionalism and services, defining the standard for excellence, benchmarked on a global level.

## VISION

To achieve distinction for consistent, quality returns and highest standards of service in fixed income as an asset class and become an indispensable Investment Manager for the masses.



# REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY



**Faisal Bengali**  
Chief Executive Officer

The Board of Directors of AKD Investment Management Ltd (AKDIML) is pleased to present the first annual report for AKD Income Fund (AKDIF), for the year ending 30th June 2007. The fund was launched in March '07 and this result covers approximately the first three months (100 days) of operation for the fund.

### **Investment Strategy**

AKD Income Fund is a dedicated fund that focuses primarily on fixed income securities and instruments. The objective of AKDIF is to offer investors an ideal vehicle to invest in a diversified portfolio of fixed income securities/instruments that provide optimum returns with concern for preservation of capital.

### **Fund Performance**

AKD Income Fund gave a return of 3.54% during the 100 days of operation. The Initial Public Offering of the fund was held from March 19th to March 22nd, 2007 at PkR50/unit. The fund closed the fiscal year at an NAV of PkR51.77076/unit on June 30th, '07. This translated to an annualized return of 12.92% (simple annualization). The gains were distributed to the unit holders in the form of a bonus of PkR 1.5937/unit (3.1761 bonus units for every 100 units held).

The fund booked a net income of PkR. 83.8mn, giving an EPS of PkR. 1.77 for the 100 days of operation.

At the close of the financial year 2007, 24.62% of the funds net assets were deployed in spread transactions, 66.22% were placed in term-deposits / cash and the remaining amount was invested in other debt instruments.

### **Market Performance**

The yields of fixed income instruments declined during 4QFY07 as the State Bank of Pakistan avoided any significant rate hikes. Availability of ample liquidity in the system and the increasingly large sums available to fixed income funds ensured that the secondary market yields stayed fairly close to the risk-free rate.

### **Economy**

The economy grew by a robust rate of 7% during FY07. SBP's tight monetary policy seems to have succeeded in controlling inflation with official CPI being 7.8% for FY07. SBP is not expected to raise interest rates significantly from current levels but will continue its hawkish stance in the medium-term until the inflation targets are achieved.

### **Units in issue**

A total amount of PkR 1.2bn (23.7mn units @ PkR50/unit) was raised in the Pre-IPO, Seed Capital and IPO combined. At the close of the fiscal year 2007, there were 47.34mn units outstanding at PkR 51.7706/unit, translating to a total size of PkR2.45bn. This is a growth of 99.75% in terms of number of units in issue and 104% in terms of total assets under management of the fund for the 100 days of operation during FY07.

### **Payout to unitholders**

The directors of AKDIML, in their meeting on July 11 '07, have approved a final bonus of PkR. 1.5937 per unit (3.1874% on the opening NAV for FY07). An investor holding 100 units as at June 30, 2007 was allocated 3.1761 units on the ex-bonus price of PkR 50.1770 per unit.



### Compliance with the Code of Corporate Governance

The Board of Directors states that:

- a. The Financial Statements prepared by the Management Company of the Fund, present fairly its state of affairs, the result of its operations, cash flows and movement in equity & reserves.
- b. Proper books of account of the Fund have been maintained.
- c. Appropriate accounting policies have been applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There is no doubt upon the Fund's ability to continue as a going concern.
- g. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h. The Statement showing the attendance of Directors in BOD meetings is as under:

| Name of Director             | Total No. of Meetings Held | Meetings Attended |
|------------------------------|----------------------------|-------------------|
| Mr. Mohammed Aliuddin Ansari | 6                          | 6                 |
| Mr. Faisal Bengali           | 6                          | 6                 |
| Mr. Sadiq Hussain            | 6                          | 6                 |
| Mr. Kashif Shamim            | 6                          | 5                 |
| Mr. Farrukh Shaukat Ansari   | 6                          | 4                 |
| Mr. Farooq Ahmed Awan        | 6                          | 4                 |
| Mr. Farrukh Hamid Sabzwari   | 6                          | 4                 |

Units of the Fund purchased and redeemed by the Directors, CEO, CFO, Company Secretary, their spouses and minor children of the Management Company are as under:

| S.No. | Trades By         | Designation | Investment<br>(No. of Units) | Redemption<br>(No. of Units) |
|-------|-------------------|-------------|------------------------------|------------------------------|
| 1.    | Mr. Sadiq Hussain | Director    | 40,000                       | 11,638                       |

### Pattern of holding

The detailed pattern of holding as required by the Companies Ordinance, 1984 and the Code of Corporate Governance is enclosed.

### **Asset Management Rating of the Management Company**

In December 2006 JCR-VIS has upgraded the Management Quality rating of AKD Investment Management Ltd. (Management Company of AKD Income Fund) to 'AM3+' (AM-Three Plus).

While upgrading this rating JCR-VIS states "The upgrade takes into account the management's commitment to enhance fund management and administration capabilities and the measures taken in this regard over the last few months. We believe that the emphasis laid on in-house training of employees will go a long way towards development of a competent management team. Over the long run, growth in assets under management and diversity of investor base are expected to reflect management's efforts since the formation of the company."

### **Future Outlook**

We do not expect any significant tightening of the monetary policy from current level. However, we do expect the SBP to continue with its current stance and maintain the interest rates at the current levels for the 1HFY08.

Bond and TFC markets are developing gradually in Pakistan, and these investment avenues will help the fixed income funds to provide higher yields than risk-free rates.

As a fund dedicated to the fixed income market, we keep on a look-out for quality high yielding fixed return instruments. The investors in the fund will benefit from the growth of debt market in Pakistan.

### **Appointment of Auditors**

The Board of Directors of the Management Company have re-appointed Messrs A.F. Ferguson & Co. Chartered Accountants, as the Fund's auditors for the period 2007-08 as recommended by the Audit Committee.

### **Acknowledgements**

The directors would like to take this opportunity to thank the Securities and Exchange Commission of Pakistan and our trustee M/s Central Depository Company of Pakistan for their co-operation in establishing the fund. We would also like to thank the unit holders for their immense interest and cooperation in the launching of the fund. The board also appreciates the devoted work performed by the staff and officers of the company and the unitholders for their confidence in the Company, and their continued support and blessings.

For and on behalf of the Board

Karachi: August 17, 2007

**Faisal Bengali**  
Chief Executive Officer



# Handling with Care

“ Your Investments are the precious consignment  
we **carry** to high return destinations. ”

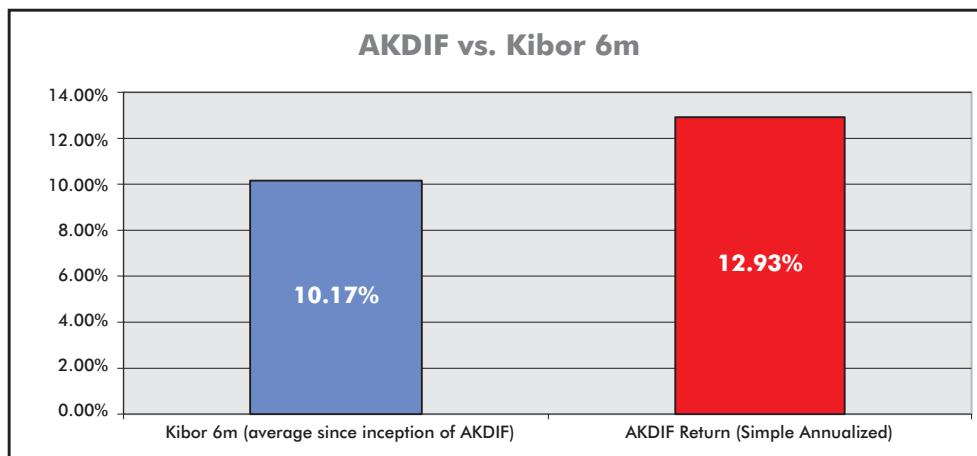
## FUND MANAGER'S REPORT

The Management at AKD Investment Management Ltd (AKDIML) is pleased to present the first annual report for AKD Income Fund (AKDIF) for FY07. The fund was launched in March 2007 and the report covers approx 3 months (100 days) of operation for the fund.

### Fund Performance

The fund's return for the 100 days of operation was 3.54% (Opening NAV: 50, Closing NAV: 51.77076). The bench-mark for the index is 6-month Kibor and average Kibor 6m for the period under consideration was 10.17%.

Following is a graphic presentation of the fund's annualized return versus the average Kibor 6m during the same period.



The fund earned a net income of PkR83.8mn during the period under consideration. Major contributors to this income are:

- |   |            |
|---|------------|
| - Profit on bank deposits and certificates of musharika:  | PkR 35.5mn |
| - Element of accrued income / (loss) and capital gain / (losses) included in prices of units issued less those in units redeemed: | PkR 30.7mn |
| - Income from spread transactions:  | PkR 24.7mn |

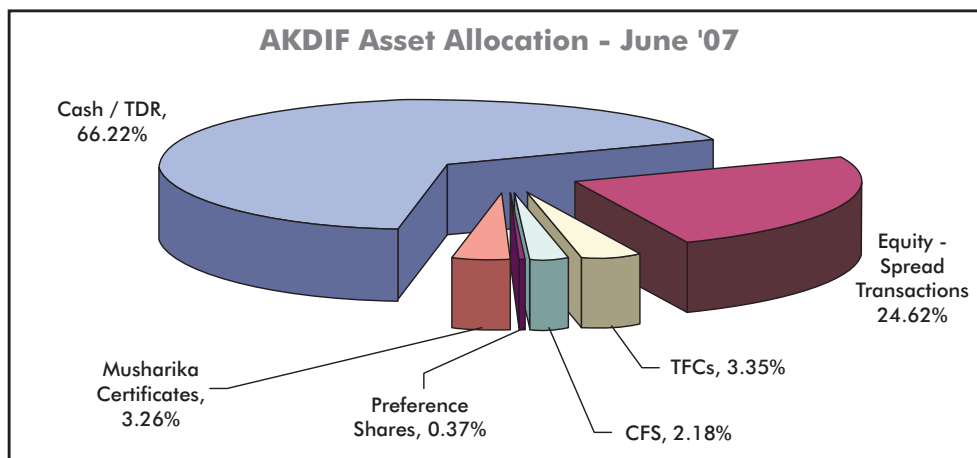
**Investing Activities**

The period under consideration was the first 100 operational days of the fund. Therefore, the fund managers are still in the process of building and optimizing the portfolio to maximize returns within the fixed income framework of the fund. The management team is primarily focused on enhancing the asset quality of the portfolio while improving the returns.

Majority of the fund's assets are currently concentrated in Equity Spread operations or are deployed in TDR / Cash. The fund managers will gradually shift capital from these avenues to TFCs or to Government and Corporate bonds offering yields over the reigning 6-month Kibor.

The current allocation (as of June 30th 07) of the net assets is as follows:

*Portfolio Composition (% of Net Assets)*



**Future Strategy**

The fund managers will continue allocating assets toward credit worthy TFCs and bonds offering Kibor-6m plus rates. The objective of the strategy is to build a balanced portfolio with 50% of the assets allocated within TFC and Bonds with a weighted average maturity period of 1 year. Floating rate instruments are preferred in the portfolio as our interest rate view is that of continuation of a tight monetary policy for the medium-term. We will shift our focus on fixed rate instruments on fist signs of a softening monetary policy.

### **Monetary policy at a glance**

The tight monetary policy implemented by SBP has achieved its target by curtailing inflation. Recent rise in inflation numbers mainly fuelled by food-inflation is due to infra-structure bottle-necks. In its recent policy announced in July '07, SBP has reconfirmed its hawkish stance and raised the discount rates by 50bps, from 9.5% to 10%. This hike will result in rises in secondary interest rate chain. We see this measure as a fine tuning strategy to gradually suck out excess liquidity from the system. However, we do not expect SBP to significantly raise rates from the current levels for an extended time period as that will have serious negative impact on economic growth.

### **Future Outlook**

As explained in our stance on the monetary policy, we do not expect interest rates to be significantly raised from the current level. Additionally, availability of liquidity will tend to keep secondary market yields under check as well. However, we foresee the overall debt market in Pakistan to grow and a thriving secondary market to develop. This will provide more investment avenues to fixed income funds and help improve the returns of these funds.

## DETAILS OF PATTERN OF HOLDING (UNITS)

AS AT JUNE 30, 2007

|  | (Units Held)      |
|--|-------------------|
| <b>Associated Companies</b>                  |                   |
| Aqeel Karim Dhedhi Securities (Pvt.) Limited | 2,400,000         |
| <b>Directors and CEO</b>                     |                   |
| Chief Executive Officer                      |                   |
| Mr. Faisal Bengali                           | NIL               |
| Directors                                    |                   |
| Mr. Sadiq Hussain                            | 28,362            |
| <b>Public Limited Companies</b>              | 2,469,118         |
| <b>Banks, Finance Institutions</b>           | 18,275,664        |
| <b>Retirement Funds</b>                      | 6,838,633         |
| <b>Other Corporate Sector Entities</b>       | 14,227,875        |
| <b>Individuals</b>                           | 3,099,146         |
| <b>Total</b>                                 | <b>47,338,798</b> |

### UNITS HOLDING 10% OR MORE

| Name of Investor                | No. of Units | Percentage |
|---------------------------------|--------------|------------|
| Premier Fashions (Pvt.) Limited | 5,805,276    | 12.26      |

# REPORT OF THE TRUSTEE TO THE UNIT HOLDERS

## AKD INCOME FUND

Report of the Trustee pursuant to the Rule 76(h) of the Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003.

The AKD Income Fund, an Open-ended Scheme established under a trust deed executed between AKD Investment Management Limited as the Asset Management Company and Central Depository Company of Pakistan Limited as Trustee on October 02, 2006. The Scheme was authorized by the Securities and Exchange Commission of Pakistan (SECP) on November 10, 2006.

In our opinion, AKD Investment Management Limited, the Asset Management Company of AKD Income Fund has in all material respects managed AKD Income Fund during the period from October 02, 2006 to June 30, 2007 in accordance with the provisions of the Trust Deed (and the modifications authorized by the SECP from time to time) and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

Karachi: August 31, 2007

**Mohammad Hanif Jakhura**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited





# Economic Growth

“ Productivity and the **growth** of productivity must be the first **economic** consideration at all times, not the last. This is the source of technological innovation, jobs and wealth creation. ”

## STATEMENT OF COMPLIANCE

### WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

This statement is being presented by the Board of Directors of AKD Investment Management Limited (Company), the Management Company of the AKD Income Fund (Fund) to comply with the Code of Corporate Governance as contained in Regulation No.37 of the listing regulations of the Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The company has applied the principles contained in the Code of Corporate Governance as follows:

- 1) The Company encourages representation of independent non-executive directors. At present the Board has five independent non-executive directors.
- 2) The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
- 3) All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFIs. or, being member of stock exchange, has been declared as a defaulter by such stock exchange.
- 4) During the year casual vacancies occurred in the Board due to resignation of Mr. Kashif Shamim and Mr. Mohammed Aliuddin Ansari which were filled by appointing Mr. Zahoor Motiwala and Mr. Ashraf Adamjee respectively by the Board.
- 5) The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by the Board of directors and employees of the company.
- 6) The Board has developed a vision and mission statement and significant policies of the Fund. A complete record of particulars of significant policies along with 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 terms and conditions of employment of the Chief Executive Officer (CEO) have been taken by the Board.
- 8) The Management Company has appointed Chief Financial Officer (CFO) / Company Secretary and internal auditor for the company under its management including their remuneration and terms & conditions of employment as determined by the CEO.
- 9) The roles and responsibilities of the Chairman and Chief Executive have been approved by the Board of Directors.
- 10) The meetings of the Board were presided over by the Chairman. 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.

- 11) The Directors have been provided with the copies of the NBFC (Establishment and Regulation) Rule, 2003, Companies Ordinance 1984, Listing Regulation, Code of Corporate Governance, Prudential Regulations, Company's Memorandum and Articles of Association and all other relevant rules and regulations and hence are conversant with the relevant laws applicable to the company and the funds and are aware of their duties and responsibilities.
- 12) The Directors' Report for the period ended June 30, 2007 has been prepared in compliance with the requirements of the Code of Corporate Governance and fully describes the salient matters required to be disclosed.
- 13) The financial statements of the Company were duly signed by the CEO and CFO before approval of the Board.
- 14) The Directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
- 15) The Company has complied with all significant corporate and financial reporting framework requirements of the Code.
- 16) The Board has formed an audit committee. It comprises of three members, majority of whom are non-executive directors including the Chairman of the committee.
- 17) The terms of reference of the committee have been formed and advised to the committee for compliance.
- 18) The Board has outsourced the internal audit function to Ford Rhodes Sidat Hyder & Co. who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund and their representatives are involved in the internal audit function on full time basis.
- 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 Institute of Chartered Accountants of Pakistan, 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 Institute of Chartered Accountants of Pakistan.
- 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.

For and on behalf of the Board

Karachi: August 17, 2007

**Faisal Bengali**  
Chief Executive Officer

## REVIEW REPORT TO THE UNIT HOLDERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE 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 AKD Investment Management Limited, Management Company of AKD Income Fund to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange where the Fund is listed.

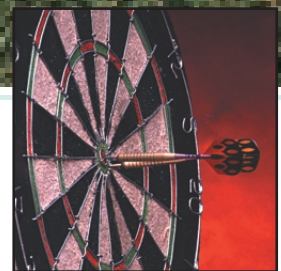
The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of 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 personnel of the Management Company and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of the 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.

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 June 30, 2007.

Karachi: August 17, 2007

**A.F. Ferguson & Co.**  
Chartered Accountants



# Targeted Success

“ Success is not what you achieve, but what you achieve for others. ”

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **AKD Income Fund**, which comprise the statement of assets and liabilities as at June 30, 2007, and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the period from October 2, 2006 to June 30, 2007, and a summary of significant accounting policies and other explanatory notes.

### **Management Company's responsibility for the financial statements**

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management Company, 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 June 30, 2007 and of its financial performance, cash flows and transactions for the period then ended in accordance with the approved accounting standards as applicable in Pakistan.

### **Other matters**

In our opinion the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed, the NBFC Rules and approved accounting standards as applicable in Pakistan.

Karachi: August 17, 2007

**A.F. Ferguson & Co.**  
Chartered Accountants



# STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2007

|  | Note | June 30, 2007<br>(Rupees in '000) |
|--|------|-----------------------------------|
| <b>Assets</b>  |      |                                   |
| Balances with banks  | 5    | 1,283,308                         |
| Receivable against sale of investments                                 |      | 365,106                           |
| Receivable against Continuous Funding System                           |      | 53,341                            |
| Investments  | 6    | 774,485                           |
| Dividend and other receivables   | 7    | 22,796                            |
| Security deposits  | 8    | 1,100                             |
| Preliminary expenses and floatation costs                              | 9    | 2,375                             |
| <b>Total assets</b>  |      | <u>2,502,511</u>                  |
| <b>Liabilities</b>   |      |                                   |
| Payable to AKD Investment Management Limited<br>- Management Company   | 10   | 4,593                             |
| Payable to Central Depository Company<br>of Pakistan Limited - Trustee | 11   | 274                               |
| Payable to Securities and Exchange Commission<br>of Pakistan           | 12   | 448                               |
| Payable against purchase of investments                                |      | 45,331                            |
| Payable on redemption of units   |      | 710                               |
| Accrued expenses and other liabilities                                 | 13   | 389                               |
| <b>Total liabilities</b>   |      | <u>51,745</u>                     |
| <b>Net assets</b>  |      | <u>2,450,766</u>                  |
| <b>Unit holders' funds (as per statement attached)</b>                 |      | <u>2,450,766</u>                  |
|  |      | <b>(Number of units)</b>          |
| <b>Number of units in issue</b>  |      | <u>47,338,798</u>                 |
|  |      | <b>(Rupees)</b>                   |
| <b>Net asset value per unit</b>  |      | <u>51.77</u>                      |
| <b>Face value per unit</b>   |      | <u>50.00</u>                      |

The annexed notes 1 to 23 form an integral part of these financial statements.

**For AKD Investment Management Limited**  
(Management Company)

\_\_\_\_\_  
**Faisal Bengali**  
Chief Executive Officer

\_\_\_\_\_  
**Zahoor Motiwala**  
Director



# INCOME STATEMENT

FOR THE PERIOD FROM OCTOBER 02, 2006 TO JUNE 30, 2007

|   | Note | (Rupees in '000)   |
|---|------|--------------------|
| <b>Income</b>   |      |                    |
| Income from spread transactions   |      | 24,713             |
| Income from CFS transactions  |      | 1,092              |
| Income from Term Finance Certificates   |      | 153                |
| Profit on bank deposits and certificates of musharika   |      | 35,504             |
|   |      | <hr/> 61,462       |
| Unrealised diminution on remeasurement of investments<br>at fair value through profit or loss - net                                   | 6.1  | (8,658)            |
| Unrealised appreciation on marking to market of<br>futures sales-net  |      | 7,722              |
|   |      | <hr/> 60,526       |
| <b>Expenses</b>   |      |                    |
| Remuneration of AKD Investment Management Limited<br>- Management Company   |      | 4,927              |
| Remuneration of Central Depository Company of<br>Pakistan Limited - Trustee   |      | 722                |
| Annual fee - Securities and Exchange Commission<br>of Pakistan  |      | 448                |
| Brokerage   |      | 98                 |
| Bank charges  |      | 14                 |
| Auditors' remuneration  | 13.1 | 110                |
| Capital value tax   |      | 723                |
| Amortisation of preliminary expenses<br>and floatation costs  | 9    | 125                |
| Others  |      | 190                |
| <b>Total expenses</b>   |      | <hr/> 7,357        |
| <b>Net Income from operating activities</b>   |      | <hr/> 53,169       |
| Element of accrued income / (loss) and capital<br>gains / (losses) included in prices of units issued<br>less those in units redeemed |      | 30,657             |
| <b>Net Income</b>   |      | <hr/> <hr/> 83,826 |
|   |      | <b>Rupees</b>      |
| Earnings per unit   | 14   | 1.77               |

The annexed notes 1 to 23 form an integral part of these financial statements.

**For AKD Investment Management Limited**  
(Management Company)

\_\_\_\_\_  
**Faisal Bengali**  
Chief Executive Officer

\_\_\_\_\_  
**Zahoor Motiwala**  
Director

# DISTRIBUTION STATEMENT

FOR THE PERIOD FROM OCTOBER 02, 2006 TO JUNE 30, 2007

(Rupees in '000)

|   |               |
|---|---------------|
| Net income for the period                           | 83,826        |
| Undistributed income for the period carried forward | <u>83,826</u> |

The annexed notes 1 to 23 form an integral part of these financial statements.

**For AKD Investment Management Limited**  
(Management Company)

**Faisal Bengali**  
Chief Executive Officer

**Zahoor Motiwala**  
Director

# CASH FLOW STATEMENT

FOR THE PERIOD FROM OCTOBER 02, 2006 TO JUNE 30, 2007

|  | Note | (Rupees in '000) |
|--|------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |      |                  |
| Net income for the period  |      | 83,826           |
| <b>Adjustments for non-cash items</b>  |      |                  |
| Unrealised diminution on remeasurement of investments<br>at fair value through profit or loss - net                                |      | 8,658            |
| Unrealised appreciation on marking to market of futures sales - net  |      | (7,722)          |
| Remuneration of AKD Investment Management Limited<br>- Management Company  |      | 4,927            |
| Remuneration of Central Depository Company<br>of Pakistan Limited - Trustee  |      | 722              |
| Amortisation of preliminary expenses and floatation costs  |      | 125              |
| Element of accrued income / (loss) and capital gains / (losses)<br>included in prices of units issued less those in units redeemed |      | (30,657)         |
|  |      | 59,879           |
| <b>Increase in assets</b>  |      |                  |
| Receivable against Continuous Funding System   |      | (53,341)         |
| Dividend and other receivables   |      | (15,074)         |
| Security deposits  |      | (1,100)          |
|  |      | (69,515)         |
| <b>Increase in liabilities</b>   |      |                  |
| Payable to AKD Investment Management Limited<br>- Management Company   |      | 204              |
| Payable to Central Depository Company of Pakistan Limited - Trustee  |      | 20               |
| Payable to Securities and Exchange Commission of Pakistan  |      | 448              |
| Accrued expenses and other liabilities   |      | 389              |
|  |      | 1,061            |
| Remuneration paid to AKD Investment Management Limited<br>- Management Company   |      | (3,038)          |
| Remuneration paid to Central Depository Company<br>of Pakistan Limited - Trustee   |      | (468)            |
| Net investments made during the period   |      | (1,102,918)      |
| Placement in term deposits with banks  |      | (190,000)        |
|  |      | (1,304,999)      |
| <b>Net cash outflow on operating activities</b>  |      |                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |      |                  |
| Receipts from issue of units   |      | 3,548,890        |
| Payments made on redemption of units   |      | (1,150,583)      |
| <b>Net receipts / (payments) against sales / redemption of units</b>   |      | 2,398,307        |
| <b>Net increase in cash and cash equivalents during the period</b>   |      | 1,093,308        |
| Opening cash and cash equivalents  |      | -                |
| Closing cash and cash equivalents as at June 30, 2007  | 15   | 1,093,308        |

The annexed notes 1 to 23 form an integral part of these financial statements.

**For AKD Investment Management Limited**  
(Management Company)

**Faisal Bengali**  
Chief Executive Officer

**Zahoor Motiwala**  
Director

## STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

### FOR THE PERIOD FROM OCTOBER 02, 2006 TO JUNE 30, 2007

(Rupees in '000)

|   |                         |
|---|-------------------------|
| Issue of 69,639,005 units for   | 3,548,890               |
| Redemption of 22,300,207 units for  | (1,151,293)             |
|   | <u>2,397,597</u>        |
| Net element of accrued income / (loss) and capital gains /<br>(losses) included in prices of units issued less those in<br>units redeemed - transferred to income statement | (30,657)                |
| Income from spread transactions   | 24,713                  |
| Unrealised diminution on remeasurement of investments<br>at fair value through profit or loss - net   | (8,658)                 |
| Unrealised appreciation on marking to market of futures<br>sales - net  | 7,722                   |
| Net Income from operations  | 60,049                  |
| Net Income for the period   | 83,826                  |
| Net assets at the end of the period   | <u><u>2,450,766</u></u> |

The annexed notes 1 to 23 form an integral part of these financial statements.

**For AKD Investment Management Limited**  
(Management Company)

**Faisal Bengali**  
Chief Executive Officer

**Zahoor Motiwala**  
Director

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE PERIOD FROM OCTOBER 02, 2006 TO JUNE 30, 2007

### 1. LEGAL STATUS AND NATURE OF BUSINESS

AKD Income Fund (the Fund) was established under a Trust Deed executed between AKD Investment Management Limited (AKDIML) as the Management Company and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Securities and Exchange Commission of Pakistan (SECP) authorised constitution of the Trust Deed on September 11, 2006 and it was executed on October 2, 2006 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). The Initial Public Offering (IPO) of the Fund was made during the period from March 19, 2007 to March 22, 2007 and the Fund commenced operations from March 23, 2007.

The Fund is an open ended mutual fund and is listed on the Karachi Stock Exchange (Guarantee) Limited. Units are offered for public subscription on a continuous basis. The units are transferable and can also be redeemed by surrendering to the Fund.

The principal activity of the Fund is to make investments in fixed income securities. Other avenues of investments include spread transactions in listed securities and transactions under Continuous Funding System.

### 2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Trust Deed, the NBFC Rules, 2003 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Trust Deed, the NBFC Rules, 2003 or directives issued by the SECP differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, 2003 and the said directives take precedence.

#### 2.1 Standards, interpretations and amendments to published approved accounting standards that are not yet effective.

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after November 1, 2006 are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than increased disclosures in certain cases:

|   |  |
|---|--|
| IAS 1 - Presentation of financial statements - amendments relating to capital disclosures | effective from accounting period beginning on or after January 1, 2007 |
| IFRS 2 - Share based payment  | effective from accounting period beginning on or after January 1, 2007 |
| IFRS 3 - Business combinations  | effective from accounting period beginning on or after January 1, 2007 |
| IFRS 5 - Non-current assets held for sale and discontinued operations                     | effective from accounting period beginning on or after January 1, 2007 |
| IFRS 6 - Exploration for and evaluation of mineral resources                              | effective from accounting period beginning on or after January 1, 2007 |
| IFRIC 10 - Interim financial reporting and impairment                                     | effective for accounting period beginning on or after November 1, 2006 |
| IFRIC 11 - Group and treasury share transactions  | effective for accounting period beginning on or after March 1, 2007    |
| IFRIC 12 - Services concession arrangements   | effective for accounting period beginning on or after January 1, 2008  |

### **3. BASIS OF MEASUREMENT**

#### **3.1 Accounting convention**

These financial statements have been prepared under the historical cost convention except that certain financial assets have been included at fair value.

#### **3.2 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies are as follows:

- i) Classification and valuation of investments (note 6)
- ii) Amortisation of preliminary expenses and floatation costs (note 9)

### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **4.1 Investments**

The Management Company determines the appropriate classification of the Fund's investments in accordance with the requirements of International Accounting Standard (IAS) 39; 'Financial Instruments: Recognition and Measurement', at the time of purchase and re-evaluates this classification on a regular basis. Investments of the Fund are categorised as follows:

##### **4.1.1 Financial assets at fair value through profit or loss**

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in prices are classified as 'held for trading' in the 'Financial assets at fair value through profit or loss' category. These investments are initially recognised at fair value and the transaction costs associated with the investments are taken directly to the income statement. Subsequent to initial recognition, these investments are marked to market using the closing market rates and are carried on the statement of assets and liabilities at fair value. The fair value of financial instrument traded in active market is based on quoted market prices. Net gains and losses arising on changes in fair value of these investments are taken to the income statement in the period in which they arise.

**4.1.2** The Fund enters into transactions involving purchase of an equity security in the ready market and simultaneous sale of the same security in the futures market. The security purchased in ready market is classified as "Investment at fair value through profit or loss" and carried on the statement of assets and liabilities at fair value till their eventual disposal, with the resulting gain / loss taken to the income statement. The forward sale of the security in the futures market is treated as a separate derivative transaction and is carried at fair value with the resulting gain / loss taken to the income statement.

##### **4.1.3 Loans and receivables**

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest method.

#### 4.1.4 Available for sale

Investments intended to be held for an indefinite period of time, which may be sold in response to the needs for liquidity on changes in equity prices, are classified as 'available for sale'. Subsequent to initial measurement, 'available for sale' investments traded in an active market are re-measured to fair value using the closing market rates. Net gains and losses arising on changes in fair values of these investments are taken to equity as part of Unit Holders' Funds. When these securities are disposed off, the related fair value adjustments previously taken to equity are transferred to the income statement.

Investments in un-listed securities that do not have a quoted market price in an active market are valued at lower of cost and break-up value. Subsequent increases or decreases in carrying value are credited / charged to income statement. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

- 4.1.5** All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the asset.

#### 4.2 Securities under resale agreements - Continuous Funding System

Securities purchased under an agreement to resell (reverse repo) are included as receivable against Continuous Funding System (CFS) transactions at the fair value of the consideration given. All CFS transactions are accounted for on the settlement date. The difference between the purchase and sale price is treated as income from CFS transactions in the Income Statement and is recognised over the term of the transactions. Transaction costs are included in the initial measurement of all CFS transactions except for costs that may be incurred on disposal.

#### 4.3 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours on that date. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and provision for duties and charges, if applicable. The sales load is payable to the Management Company, investment facilitators or distributors.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption requests during business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day less any back-end load, duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

#### 4.4 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created in order to prevent the dilution of income per unit and distribution of income already paid out on redemption.

The Fund records the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and repurchased during an accounting period in the income statement while the portion of the element of income / (loss) and capital gains / (losses) that relates to gains / (losses) that form part of the Fund's equity is recorded in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders.

#### 4.5 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

#### 4.6 Net asset value per unit

The net asset value (NAV) per unit disclosed in the statement of assets and liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the period end.

#### 4.7 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the period, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders.

The Fund is also exempt from provisions of section 113 (minimum tax) under clause II of part IV of the Second Schedule to the Income Tax Ordinance, 2001.

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

#### 4.8 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of assets and liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### 4.9 Financial assets and financial liabilities

Financial assets carried on the statement of assets and liabilities include bank balances, receivable against sale of investments, receivable against CFS, investments, dividend and other receivables and security deposits.

Financial liabilities carried on the statement of assets and liabilities include payable to Management Company, payable to Trustee, payable against purchase of investments, payable on redemption of units, accrued expenses and other liabilities.

At the time of initial recognition, all financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Transaction costs are included in the initial measurement of all financial assets and liabilities except for transaction costs incurred for the acquisition of investments classified as 'financial assets at fair value through profit or loss' and transaction costs that may be incurred on disposal which are charged as expense when incurred. The particular recognition method adopted for measurement of financial assets and financial liabilities subsequent to the initial recognition is disclosed in policy statements associated with each item.



#### 4.10 Impairment

The carrying value of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

#### 4.11 Revenue recognition

- Profit on bank deposits, certificates of musharika and term finance certificates is recognised on accrual basis.
- Realised capital gains / (losses) arising on sale of investments, in the nature of spread transactions, are included in the income statement in the period in which they arise.
- Income on reverse repurchase transactions and CFS transactions is recognised on an accrual basis.
- Unrealised capital gains / (losses) arising on marking to market of investments classified as 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.

#### 4.12 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of balances with banks in current accounts, saving accounts and other deposits with banks having original maturities of three months or less.

|  | Note | June 30, 2007<br>(Rupees in '000) |
|--|------|-----------------------------------|
| <b>5. BALANCES WITH BANKS</b>                                  |      |                                   |
| In current accounts  |      | 10                                |
| In savings accounts  |      | 1,093,298                         |
| In deposit accounts  |      | 190,000                           |
|  |      | <u>1,283,308</u>                  |
| <b>6. INVESTMENTS</b>  |      |                                   |
| Assets at fair value through profit or loss - held for trading |      |                                   |
| Listed equity securities                                       | 6.1  | 612,485                           |
| Listed debt securities   | 6.2  | 32,000                            |
| Available for sale   | 6.3  | 50,000                            |
| Loans and receivables  | 6.4  | 80,000                            |
|  |      | <u>774,485</u>                    |

## 6.1 Investment in listed equity securities - 'Assets at fair value through profit or loss' - held for trading

SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs.10 each unless stated otherwise

| Name of the Investee Company                                  | Number of Shares            |                     |                         |                    | Balance as at June 30, 2007 |              |                                    | Market Value as a %age of Net Assets |
|---|-----------------------------|---------------------|-------------------------|--------------------|-----------------------------|--------------|------------------------------------|--------------------------------------|
|   | Purchases during the period | Bonus/ Rights Issue | Sales during the period | As at June 30,2007 | Cost                        | Market Value | Market Appreciation / (Diminution) |                                      |
| <b>Rupees in 000'</b>   |                             |                     |                         |                    |                             |              |                                    |                                      |
| <b>Leasing Companies</b>                                      |                             |                     |                         |                    |                             |              |                                    |                                      |
| Security Leasing Corporation<br>(Preference shares)           | 1,009,500                   | -                   | -                       | 1,009,500          | 9,181                       | 9,186        | 5                                  | 0.37%                                |
|   |                             |                     |                         |                    | 9,181                       | 9,186        | 5                                  | 0.37%                                |
| <b>Investment Banks / Companies / Securities</b>              |                             |                     |                         |                    |                             |              |                                    |                                      |
| Pakistan Industrial Credit and Investment Corporation Limited | 1,000,000                   | -                   | 1,000,000               | -                  | -                           | -            | -                                  | -                                    |
|   |                             |                     |                         |                    | -                           | -            | -                                  | -                                    |
| <b>Commercial banks</b>                                       |                             |                     |                         |                    |                             |              |                                    |                                      |
| Askari Commercial Bank Limited                                | 1,500,000                   | -                   | 1,500,000               | -                  | -                           | -            | -                                  | -                                    |
| Bank Al-Falah Limited   | 320,000                     | -                   | 320,000                 | -                  | -                           | -            | -                                  | -                                    |
| The Bank of Punjab  | 1,200,000                   | -                   | 1,200,000               | -                  | -                           | -            | -                                  | -                                    |
| National Bank of Pakistan                                     | 2,420,000                   | -                   | 2,020,000               | 400,000            | 106,400                     | 104,800      | (1,600)                            | 4.28%                                |
|   |                             |                     |                         |                    | 106,400                     | 104,800      | (1,600)                            | 4.28%                                |
| <b>Cement</b>   |                             |                     |                         |                    |                             |              |                                    |                                      |
| D.G.Khan Cement Company Limited                               | 1,200,000                   | -                   | 1,200,000               | -                  | -                           | -            | -                                  | -                                    |
| Maple Leaf Cement Factory Limited                             | 3,091,500                   | -                   | -                       | 3,091,500          | 78,215                      | 75,433       | (2,782)                            | 3.08%                                |
|   |                             |                     |                         |                    | 78,215                      | 75,433       | (2,782)                            | 3.08%                                |
| <b>Oil and Gas Marketing Companies</b>                        |                             |                     |                         |                    |                             |              |                                    |                                      |
| Pakistan State Oil Company Limited                            | 1,450,400                   | -                   | 1,385,600               | 64,800             | 25,532                      | 25,366       | (166)                              | 1.04%                                |
| Sui Southern Gas Company Limited                              | 11,525,000                  | -                   | 11,525,000              | -                  | -                           | -            | -                                  | -                                    |
|   |                             |                     |                         |                    | 25,532                      | 25,366       | (166)                              | 1.04%                                |
| <b>Oil and gas exploration companies</b>                      |                             |                     |                         |                    |                             |              |                                    |                                      |
| Oil and Gas Development Company Limited                       | 3,731,000                   | -                   | 2,816,000               | 915,000            | 110,715                     | 109,617      | (1,098)                            | 4.47%                                |
| Pakistan Petroleum Limited                                    | 2,625,000                   | -                   | 1,775,000               | 850,000            | 226,100                     | 223,083      | (3,017)                            | 9.10%                                |
|   |                             |                     |                         |                    | 336,815                     | 332,700      | (4,115)                            | 13.58%                               |
| <b>Technology &amp; Communications</b>                        |                             |                     |                         |                    |                             |              |                                    |                                      |
| Telecard Limited  | 10,000,000                  | -                   | 5,000,000               | 5,000,000          | 65,000                      | 65,000       | -                                  | 2.65%                                |
|   |                             |                     |                         |                    | 65,000                      | 65,000       | -                                  | 2.65%                                |
| <b>Fertilizer</b>   |                             |                     |                         |                    |                             |              |                                    |                                      |
| Engro Chemicals Pakistan Limited                              | 1,520,000                   | -                   | 1,520,000               | -                  | -                           | -            | -                                  | -                                    |
|   |                             |                     |                         |                    | -                           | -            | -                                  | -                                    |
| <b>Total listed equity securities</b>                         |                             |                     |                         |                    | 621,143                     | 612,485      | (8,658)                            |                                      |

Above securities, except for the preference shares of Security Leasing Corporation, were purchased in the ready market and simultaneously sold in the future market in accordance with the investment policy of the Fund.

## 6.2 Investment in listed debt security - 'Asset at fair value through profit or loss' - held for trading

| Name of the Investee Company                              | Number of Certificates      |                         |                     | Profit / mark-up rate | Carrying Value as at June 30, 2007<br>Rupees in '000' | Percentage of net assets |
|---|-----------------------------|-------------------------|---------------------|-----------------------|---|--------------------------|
|   | Purchases during the period | Sales during the period | As at June 30, 2007 |                       |   |                          |
| Term finance certificates - certificates of Rs 5,000 each |                             |                         |                     |                       |   |                          |
|   |                             |                         |                     | 6 months<br>KIBOR     |   |                          |
| Prime Electronics Securitisation Company Limited          | 6,400                       | -                       | 6,400               | + 2.50%               | <u>32,000</u>   | 1.31%                    |

6.2.1 This represents amount invested in private placement of term finance certificates which have not been issued uptill June 30, 2007.

## 6.3 Investment in available for sale financial asset

| Name of the Investee Company                                       | Number of Certificates      |                         |                     | Profit / mark-up rate | Cost as at June 30, 2007<br>Rupees in '000' | Percentage of net assets |
|--|-----------------------------|-------------------------|---------------------|-----------------------|---|--------------------------|
|  | Purchases during the period | Sales during the period | As at June 30, 2007 |                       |   |                          |
| Term finance certificates - unlisted certificates of Rs 5,000 each |                             |                         |                     |                       |   |                          |
|  |                             |                         |                     | 6 months<br>KIBOR     |   |                          |
| KASB Securities Private Limited                                    | 10,000                      | -                       | 10,000              | + 1.90%               | <u>50,000</u>                               | 2.04%                    |

6.3.1 This represents amount invested in private placement of term finance certificates which have not been issued uptill June 30, 2007.

## 6.4 Loans and receivables

Investment in certificates of Musharika

| Name of Modaraba             | Expected profit / mark-up rate | Maturity | Carrying amount as at June 30, 2007<br>Rupees in '000' |
|------------------------------|--------------------------------|----------|--|
| First Punjab Modaraba        | 11.50% - 11.60%                | 6 months | 60,000   |
| First National Bank Modaraba | 10.50%                         | 6 months | 20,000   |
|                              |                                |          | <u>80,000</u>  |

|   | Note        | June 30, 2007<br>(Rupees in '000)         |
|---|-------------|---|
| <b>7. DIVIDEND AND OTHER RECEIVABLES</b>  |             |   |
| Dividend receivable on account of spread transactions   |             | 3,304                                     |
| Profit receivable on bank deposits and certificates of Musharika  |             | 11,274                                    |
| Income accrued on CFS transactions  |             | 343                                       |
| Income accrued on Term Finance Certificates   |             | 153                                       |
| Net unrealised appreciation on marking to market of futures sales - net   |             | 7,722                                     |
|   |             | <u>22,796</u>                             |
| <b>8. SECURITY DEPOSITS</b>   |             |   |
| Security Deposits with:   |             |   |
| - National Clearing Company of Pakistan Limited   |             | 1,000                                     |
| - Central Depository Company of Pakistan Limited  |             | 100                                       |
|   |             | <u>1,100</u>                              |
| <b>9. PRELIMINARY EXPENSES AND FLOATATION COSTS</b>   |             |   |
| Incurred during the period  | 9.1         | 2,500                                     |
| Less: amortisation during the period  |             | (125)                                     |
| Balance as at June 30, 2007   |             | <u>2,375</u>                              |
| <b>9.1</b>  |             |   |
| Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from March 23, 2007.  |             |   |
| <b>10. PAYABLE TO AKD INVESTMENT MANAGEMENT LIMITED – MANAGEMENT COMPANY</b>  | <b>Note</b> | <b>June 30, 2007<br/>(Rupees in '000)</b> |
| Management fee  | 10.1        | 1,889                                     |
| Preliminary expenses and floatation costs   |             | 2,500                                     |
| Sales load  |             | 204                                       |
|   |             | <u>4,593</u>                              |
| <b>10.1</b>   |             |   |
| Under the provisions of the NBFC Rules, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of 1.10 percent per annum, of the average annual net assets of the Fund, for the current period. |             |   |
| <b>11. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE</b>  | <b>Note</b> | <b>June 30, 2007<br/>(Rupees in '000)</b> |
| Trustee fee   | 11.1        | 254                                       |
| CDS charges   |             | 20  |
|   |             | <u>274</u>                                |

- 11.1** The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily Net Asset Value of the Fund.

**12. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE**

Under the provisions of the NBFC Rules, a Unit Trust Scheme is required to pay as annual fee to the SECP, an amount equal to one-tenth of one percent of the average annual net assets of the scheme.

|   | Note | June 30, 2007<br>(Rupees in '000) |
|---|------|-----------------------------------|
| <b>13. ACCRUED EXPENSES AND OTHER LIABILITIES</b> |      |                                   |
| Brokerage   |      | 50                                |
| National Clearing Company Charges                 |      | 4                                 |
| Withholding tax payable                           |      | 198                               |
| Auditors' remuneration                            | 13.1 | 110                               |
| Others  |      | 27                                |
|   |      | <u>389</u>                        |

**13.1 Auditors' remuneration**

|                        |            |
|------------------------|------------|
| Audit fee              | 100        |
| Out of pocket expenses | 10         |
|                        | <u>110</u> |

**14. EARNINGS PER UNIT**

|                           |               |
|---------------------------|---------------|
| Net income for the period | <u>83,826</u> |
|---------------------------|---------------|

**Number of units**

|   |                   |
|---|-------------------|
| Number of units in issue and outstanding as at period end | <u>47,338,798</u> |
|---|-------------------|

**Rupees**

|                         |             |
|-------------------------|-------------|
| Earnings per unit (EPU) | <u>1.77</u> |
|-------------------------|-------------|

EPU based on the cumulative weighted average number of outstanding units for the whole period has not been disclosed as, in the opinion of the management, determination of such is not practicable.

|                                      | Note | June 30, 2007<br>(Rupees in '000) |
|--------------------------------------|------|-----------------------------------|
| <b>15. CASH AND CASH EQUIVALENTS</b> |      |                                   |
| Balances with banks                  |      |                                   |
| In current accounts                  |      | 10                                |
| In savings accounts                  |      | 1,093,298                         |
|                                      |      | <u>1,093,308</u>                  |

For the period from  
October 02, 2006  
to June 30, 2007  
(Rupees in '000)

## 16. TRANSACTIONS WITH CONNECTED PERSONS

### 16.1 Transactions during the period

#### AKD Investment Management Limited - Management Company

|  |        |
|--|--------|
| Purchase of 200,000 units of the Fund                                    | 10,000 |
| Redemption of 200,000 units of the Fund                                  | 10,260 |
| Remuneration of Management Company                                       | 4,927  |
| Sales load   | 811    |
| Preliminary expenses and floatation costs paid by the Management Company | 2,500  |

#### AKD Investment Management Limited Staff Provident Fund

|  |       |
|--|-------|
| Purchase of 60,639 units of the Fund   | 3,065 |
| Redemption of 41,096 units of the Fund | 2,100 |

#### Director

|  |       |
|--|-------|
| Purchase of 40,000 units of the Fund   | 2,000 |
| Redemption of 11,638 units of the Fund | 600   |

#### Aqeel Karim Dhedhi Securities (Private) Limited

|  |         |
|--|---------|
| Purchase of 2,400,000 core units of the Fund | 120,000 |
|--|---------|

June 30, 2007  
(Rupees in '000)

### 16.2 Amounts outstanding as at the period end

#### AKD Investment Management Limited - Management Company

|   |              |
|---|--------------|
| Management fee                            | 1,889        |
| Preliminary expenses and floatation costs | 2,500        |
| Sales load payable                        | 204          |
|   | <u>4,593</u> |

#### Aqeel Karim Dhedhi Securities (Private) Limited - Brokerage House

|  |                |
|--|----------------|
| Receivable against sale of investments | <u>174,602</u> |
|--|----------------|

## 17. MARKET RATE OF RETURN (MROR) SENSITIVITY POSITION

17.1 The Fund's MROR Sensitivity related to financial assets and financial liabilities as at June 30, 2007 can be determined from the following:

|   | Effective rate of mark-up / return (%) | ----- Exposed to Yield / Interest risk ----- |  |                    |                                      | Total     |
|---|--|--|--|--------------------|--------------------------------------|-----------|
|   |  | Upto three monts                             | More than three months and upto one year | More than one year | Not exposed to yield / interest risk |           |
|   | %                                      | Rupees in 000'                               |  |                    |                                      |           |
| <b>On-balance sheet financial instruments</b>                       |  |  |  |                    |                                      |           |
| <b>Financial Assets</b>   |  |  |  |                    |                                      |           |
| Balances with banks   | 1.00-11.25                             | 1,093,298                                    | 190,000                                  | -                  | 10                                   | 1,283,308 |
| Receivable against sale of investments                              | -                                      | -  | -  | -                  | 365,106                              | 365,106   |
| Receivable against Continuous Funding System                        | 11.24-11.78                            | 53,341                                       | -  | -                  | -                                    | 53,341    |
| Investments   | 11.50-13.04                            | 612,485                                      | 84,800                                   | 77,200             | -                                    | 774,485   |
| Dividend and other receivables                                      | -                                      | -  | -  | -                  | 15,074                               | 15,074    |
| Security deposits   | -                                      | -  | -  | -                  | 1,100                                | 1,100     |
|   |  | 1,759,124                                    | 274,800                                  | 77,200             | 381,290                              | 2,492,414 |
| <b>Financial Liabilities</b>  |  |  |  |                    |                                      |           |
| Payable to AKD Investment Management Limited - Management Company   |  | -  | -  | -                  | 4,593                                | 4,593     |
| Payable to Central Depository Company of Pakistan Limited - Trustee |  | -  | -  | -                  | 274                                  | 274       |
| Payable against purchase of investments                             |  | -  | -  | -                  | 45,331                               | 45,331    |
| Payable on redemption of units                                      |  | -  | -  | -                  | 710                                  | 710       |
| Accrued expenses and other liabilities                              |  | -  | -  | -                  | 191                                  | 191       |
|   |  | -  | -  | -                  | 51,099                               | 51,099    |
| <b>On-balance sheet gap</b>   |  | 1,759,124                                    | 274,800                                  | 77,200             | 330,191                              | 2,441,315 |

**18. MATURITIES OF ASSETS AND LIABILITIES**

|   | As at June 30, 2007 |                   |  |                    |
|---|---------------------|-------------------|--|--------------------|
|   | Total               | Upto three months | More than three months and upto one year | More than one year |
|   |                     |                   |  |                    |
| <b>Assets</b>   |                     |                   |  |                    |
| Balances with banks   | 1,283,308           | 1,093,308         | 190,000                                  | -                  |
| Receivable against sale of investments                              | 365,106             | 365,106           | -  | -                  |
| Receivable against Continuous Funding System                        | 53,341              | 53,341            | -  | -                  |
| Investments   | 774,485             | 612,485           | 84,800                                   | 77,200             |
| Dividend and other receivables                                      | 22,796              | 20,827            | 1,969                                    | -                  |
| Security deposits   | 1,100               | 1,100             | -  | -                  |
| Preliminary expenses and floatation costs                           | 2,375               | 125               | 375                                      | 1,875              |
|   | 2,502,511           | 2,146,292         | 277,144                                  | 79,075             |
| <b>Liabilities</b>  |                     |                   |  |                    |
| Payable to AKD Investment Management Limited - Management Company   | 4,593               | 2,093             | 500                                      | 2,000              |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 274                 | 274               | -  | -                  |
| Payable to Securities and Exchange Commission of Pakistan           | 448                 | 448               | -  | -                  |
| Payable against purchase of investments                             | 45,331              | 45,331            | -  | -                  |
| Payable on redemption of units                                      | 710                 | 710               | -  | -                  |
| Accrued expenses and other liabilities                              | 389                 | 389               | -  | -                  |
|   | 51,745              | 49,245            | 500                                      | 2,000              |
|   | 2,450,766           | 2,097,047         | 276,644                                  | 77,075             |

## 19. RISK MANAGEMENT

The Fund is primarily a money market fund, which invests in debt securities. Studies show that diversification of the investment into a number of securities and industrial sectors with a reasonably longer-term investment horizon reduces the risk associated with determination in returns of debt securities. The risk emanates from various factors that include, but are not limited to:

### 19.1 Market risk

Market risk is the risk of rise or fall in interest rates resulting from their dependence on market sentiments, speculative activities, supply and demand for finance and liquidity in the market. The value of investments may fluctuate due to change in business cycles affecting the business of the company in which the investment is made, change in business circumstances of the company, its business sector, industry and / or the economy in general.

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 of the Management Company and regulations laid down by the Securities and Exchange Commission of Pakistan.

### 19.2 Credit risk

#### 19.2.1 Credit risk management

Credit risk arises from the inability of the relevant brokerage house or the counter party to fulfill their obligations. There is a possibility of default by participants or failure of the financial markets / stock exchanges, the depositories, the settlements or the clearing system etc.

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Investment Committee. In addition, the risk is managed through assignment of credit limits and by following strict credit evaluation criteria laid down by the Management Company. The Fund does not expect to incur material credit losses on its financial assets.

#### 19.2.2 Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Financial assets subject to credit risk amount to Rs 2,492.414 million. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentration of credit risk.

### 19.3 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Management Company manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

### 19.4 Market rate of return (MROR) risk

MROR risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund manages its investments portfolio in order to reduce the risk of loss in market value of investments.



**19.5 Fair value of financial instruments**

Investments on the Statement of Assets and Liabilities are carried at fair value. The Management Company is of the view that the fair market value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short-term in nature.

| <b>20. PERFORMANCE TABLE</b>           | <b>2007</b> |
|--|-------------|
| Net assets (Rs '000)                   | 2,450,766   |
| Net income (Rs '000)                   | 83,826      |
| Net asset value per unit (Rs)          | 51.77       |
| Earnings per unit (Rs)                 | 1.77        |
| Highest offer price per unit (Rs)      | 52.3129     |
| Lowest offer price per unit (Rs)       | 50.0000     |
| Highest repurchase price per unit (Rs) | 51.7949     |
| Lowest repurchase price per unit (Rs)  | 50.2500     |

**21. NON - ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Management Company in its meeting held on July 11, 2007 has approved a bonus issue of 3.1761% in respect of the period ended June 30, 2007. A ratio of 3.1761 units for every 100 units held by the unit holders will be applied to their actual holdings as at June 30, 2007 to determine the bonus units to be issued to unit holders. The financial statements for the period ended June 30, 2007 do not include the effect of the bonus issue which will be accounted for in the financial statements for the year ending June 30, 2008.

**22. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on August 17, 2007 by the Board of Directors of the Management Company.

**23. GENERAL**

Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

**For AKD Investment Management Limited**  
(Management Company)

\_\_\_\_\_  
**Faisal Bengali**  
Chief Executive Officer

\_\_\_\_\_  
**Zahoor Motiwala**  
Director



**AKD Investment  
Management Ltd.**

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