


Funds Managed by:  
**AKD Investment Management Ltd.**

Annual Report  
**2010**

**Partner  
with AKDIML,  
Benefit from our  
Experience**



**AKD**  
Income Fund

**AKD**  
Opportunity Fund

**AKD**  
Index Tracker Fund



AKD Investment  
Management Ltd.

# TABLE OF CONTENTS

02	<a href="#">Corporate Information</a>
03	<a href="#">Your Savings &amp; Investments</a>
04	<a href="#">Vision</a>
05	<a href="#">Mission Statement</a>
06	<a href="#">Asset Class Performance</a>
07	<a href="#">Macro Economic &amp; Market Data</a>
08	<a href="#">Key Management Profile</a>
10	<a href="#">Report of the Directors of the Management Company</a>
15	<a href="#">AKD Income Fund - Financial Statements 2010</a>
57	<a href="#">AKD Opportunity Fund - Financial Statements 2010</a>
93	<a href="#">AKD Index Tracker Fund - Financial Statements 2010</a>

# CORPORATE INFORMATION

**Farrukh Shaukat Ansari**  
Chairman



**Ali Qadir Gilani**  
Director



**Nadeem Naqvi**  
Chief Executive Officer



**MANAGEMENT COMPANY**  
AKD Investment Management Limited  
216-217, Continental Trade Centre, Block-8,  
Clifton, Karachi-74000

## **BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY**

**Chairman**  
Mr. Farrukh Shaukat Ansari

**Chief Executive Officer**  
Mr. Nadeem Naqvi

**Directors**  
Mr. Imran Motiwala  
Mr. Taufique Habib  
Mr. Ali Qadir Gilani  
Mr. Zahoor Motiwala  
Mr. Asif Ikram

**COMPANY SECRETARY & CFO OF THE  
MANAGEMENT COMPANY**  
Mr. Muhammad Amin Hussain

## **AUDIT COMMITTEE**

**Chairman**  
Mr. Taufique Habib

**Members**  
Mr. Asif Ikram  
Mr. Zahoor Motiwala

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

**RATING**  
AKD Investment Management Ltd. (AMC)  
JCR-VIS: AM3 (AM - Three)

**Zahoor Motiwala**  
Director



**Imran Motiwala**  
Director



**Taufique Habib**  
Director



**Asif Ikram**  
Director



# YOUR SAVINGS & INVESTMENTS

## Problem

*Inflation destroys the real value of your saving and investments*

1999 Savings (Rs):		10,000
Year	CPI (Inflation) Rate	Puchasing Power of Rs.10,000
2000	3.60%	9,642
2001	4.40%	9,217
2002	3.50%	8,891
2003	3.10%	8,615
2004	4.60%	8,221
2005	9.30%	7,458
2006	7.90%	6,868
2007	7.80%	6,334
2008	12.00%	5,574
2009	22.40%	4,328
2010	11.70%	3,822

## Solution

*Let AKD Investment Management Ltd.'s (AKD-IML) expertise and services help you manage what you have and make it grow by a disciplined and systematic plan for managing your savings and investments*

## ***Vision***

*To serve investors in Pakistan's capital markets with diligence, integrity and professionalism, thereby delivering consistent superior returns and unparalleled customer service.*

# *Mission Statement*

*AKD Funds shall continuously strive to:*

- *Keep primary focus on investing clients' interest*
- *Achieve highest standards of regulatory compliance and good governance*
- *Prioritize risk management while endeavoring to provide inflation adjusted returns on original investment*
- *Enable the investing public and clients to make AKDIML Funds a preferred part of their overall savings and investment management strategy*
- *Distinguish themselves and compete on the basis of unparalleled service quality while setting industry standards for professionalism, transparency and consistent superior performance*
- *Foster and encourage technical, professional, ethical development of human capital to provide our people the best opportunities and environment for their personal growth*

## ASSET CLASS PERFORMANCE

### ASSET CLASS PERFORMANCE IN FY10

	Jun-09	Jun-10	Return %
Gold (Pkr)	76,412.00	106,486.00	39%
KSE-100 Index	7,162.18	9,721.90	36%
Gold (US)	942	1,244.00	32%
KSE-30 Index	7,571.00	9,556.60	26%
MSCI Emerging Mkt Index	761.3	917.99	21%
NIT Unit Price (Pkr)	23.9	28.17	18%
Pkr/Euro Excl. Rate	104.15	113.45	9%
Crude Oil (WTI) (US\$)	69.9	75.6	8%
MSCI World Index	970.77	1,041.30	7%
Pkr/USD Excl. Rate	80.96	85.28	5%
MSCI Frontier Mkt Index	506.69	488.52	-4%
1 Yr Bank Deposits (%)	12.5	11	-
1 Yr T-Bills (%)	12.09	12.44	-

### AKD FUNDS' FY10 PERFORMANCE

	Jun-09	Jun-10	Return %
AKD Index Tracker Fund NAV	6.35	8.28	30%
AKD Opportunity Fund NAV	35.2	41.2	17%
AKD Income Fund NAV	44.6562	48.6784	9%

## MACRO ECONOMIC INDICATORS

	FY08	FY09	FY10
Real GDP Growth (%)	3.7	1.2	4.1
Average Inflation (CPI)	12.0	20.8	11.7
SBP Discount Rate (%)	12.0	14.0	12.5
Money Supply (M2) growth (%)	15.3	9.6	12.5
6-month KIBOR (%)	10.48	14.17	12.4
Budget Deficit (% of GDP)	7.6	5.3	6.1
Current A/c Deficit (% of GDP)	8.5	5.8	2.0
Foreign Exchange Reserve (US\$bn)	11,399	12,425	16,750
PkR/US\$ Exchange Rate (% $\Delta$ )	-3.2	-28.1	-4.2
12-month Bank Deposit (%)	10.0	12.5	11.0
KSE-100 Change (%)	-10.8	-41.7	35.7

## KSE-100 VALUATIONS\*

	2007	2008	2009	2010
EPS (x)	6.80	5.72	5.94	7.06
EPS Growth (%)	n.a.	-15.9%	3.7%	19.0%
PER (x)	9.1	10.8	10.4	8.8
BV (PkR)	29.9	31.5	35.1	37.0
P/BV (x)	2.1	2.0	1.8	1.7
RoE (%)	22.7%	18.2%	16.9%	19.1%
RoA (%)	12.3%	9.8%	8.8%	9.5%

\* Excluding BOP, KSBB, NIB, PIAA, RBS, JSCL, KESC, PRL & BYCO due to large losses in at least 2 out of 4 years including 2010

## KSE-100 FUNDAMENTALS\*\*

	2007	2008	2009	2010
NPAT Chg. %	n.a.	-3.0%	2.6%	19.4%
Sales Growth	n.a.	24.8%	14.6%	15.3%
Gross Margin %	21.2%	18.2%	17.4%	15.9%
Operating Margin %	12.9%	12.9%	11.4%	9.9%
Net Margin %	10.1%	7.9%	7.0%	7.3%

\*\* Non Financials (Excluding PIA, KESC, PRL & BYCO, making up 76% market cap of KSE-100)



## KEY MANAGEMENT PROFILE

### **Nadeem Naqvi**

Nadeem Naqvi is the CEO of AKD Investment Management Ltd. He has over twenty-eight years experience in the international financial services industry and has worked in New York, London, Bahrain, Karachi and Toronto. Mr. Naqvi was the CEO of AKD Securities Limited from 2005-08, where the firm twice received the prestigious CFA Association of Pakistan award for 'Best Domestic Brokerage House' for 2006 and again for 2007. Between 2002-05 he was a Principal and Director of Investology Inc., a U.S. based independent research firm ranked 3rd out of 300 U.S. independent research firms by BusinessWeek Magazine in July 2004.

He also headed the domestic advisory team of Morgan Stanley's Pakistan Investment Fund for four years from 1996 to 2000, helping the Fund outperform IFC Emerging Market total return index and was an Executive Director at Khadim Ali Shah Bokhari (KASB) and Head of Merrill Lynch Pakistan Research team. He has lead-managed several large investment banking transactions including: privatization of National Refinery, domestic Offer for Sale by the Government of United Bank Limited, acquisition of Crescent Commercial Bank by Saudi American Bank. Mr. Naqvi has an MBA in Finance from the City University Business School, London, England and is a member of the CFA Association, Toronto Society.

### **Imran Motiwala**

Imran Motiwala has over 16 years of combined experience of securities broking and asset management in Pakistan. He has worked with several leading companies beginning with Ali Hussain Rajabali Limited to servicing institutional clients at JP Morgan, based in Karachi. He moved to the buy side by joining ABAMCO Limited in 2002 as a fund manager, where his first assignment included the launching and managing of an open-end income fund. Mr. Motiwala joined Crosby Asset Management (Pakistan) Limited in 2003, as head of fund management, where his responsibilities included the building of the entire business from establishing operational guidelines and policies with focus on all facets of the business. Motiwala also led the team in launching their first open-end equity fund, the Crosby Dragon Fund. Mr. Motiwala graduated from the Southeastern University (Karachi campus) in 1994.

### **Muhammad Amin Hussain**

Mr. Muhammad Amin Hussain joined AKD Investment Management Limited as the Company Secretary and Chief Financial Officer in 2005. He has vast experience of over twenty-six years of working with reputable local as well as multinational organizations and his areas of expertise include finance, secretarial, taxation, project financing and system development. Before joining AKD Investment Management Limited he worked as General Manager Corporate Affairs and Company Secretary in Gul Ahmed Energy Limited for over five years. Prior to that, he was involved with Al-Noor Group of Companies for over nine years in the capacity of Senior Finance Executive and was also engaged with Caltex Oil (Pak) Ltd. for over five years. Mr. Hussain is an Associate Member of the Institute of Cost and Management Accountants of Pakistan as well as the Institute of Corporate Secretaries.

### **Nadeem Saulat Siddiqui**

Nadeem S. Siddiqui, General Manager - Marketing, brings a wealth of experience and dynamism to AKDIML that spans over 17 years in the marketing industry. He worked as Marketing In-Charge (South) at Shaukat Khanum Memorial Trust where he was responsible for marketing, resource development and project management. He is the recipient of multiple awards for his achievements in public relations and marketing. He holds a Masters in Business Administration (Marketing). He has also attended a number of courses on various subjects both in Pakistan and abroad.

### **Muhammad Yaqoob - Fund Manager**

Mr. Muhammad Yaqoob joined AKD Investment Management Limited in January 2005 as an investment analyst. He was then given the responsibility of product development and was a lead member of the team that launched three mutual funds namely AKD Index Tracker Fund, AKD Opportunity Fund and AKD Income Fund. He was also a part of the conversion of AKD Index Tracker Fund from a closed-end scheme to an open-end scheme. Currently, he helps manage the AKD Income Fund and is the secretary of the Investment Committee of AKDIML. He has a Masters in Business Administration with major in Finance. Mr. Yaqoob has completed level 1 of CFA programme and is a candidate for level II.

### **Ahmed Hassan - Fund Manager**

Mr. Ahmed Hassan has over 3 years experience in financial services industry, including equity research, asset management and trading duties in the domestic equity market. He has passed Level III of the CFA program. He is also in the process of completing MBA Finance from the Institute of Business Administration, one of the top business schools in Pakistan. Mr. Hassan is presently associated with AKD Investment Management as a Fund Manager in the Fund Management and Research department of the company, with primary focus on equity funds.

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of AKD Investment Management Limited (AKDIML), the Management Company of **AKD Income Fund (AKDIF)**, **AKD Opportunity Fund (AKDOF)** and **AKD Index Tracker Fund (AKDITF)** is pleased to present its report along with the audited accounts of AKD Income Fund (AKDIF), AKD Opportunity Fund (AKDOF) and AKD Index Tracker Fund (AKDITF) for the financial year ended June 30, 2010.

### ECONOMIC REVIEW & OUTLOOK

Pakistan has entered a period of significant socio-economic challenges since 2008 and fiscal year 2009-10, ending in June 2010, saw its share of ups and downs. Overall uncertainty level continues to remain heightened both in terms of law and order deterioration, partially related to backlash from war on terror and continual tensions between the judiciary and the government as well as economic woes made worse by the devastating floods in July 2010. The outlook for macro trends in FY10-11 thus lacks visibility considerably at this point.

FY09-10 statistical data do present an improvement in the macro picture when compared to FY08-09. Real GDP growth officially came out at 4.1%, primarily because the previous year's GDP growth was revised downwards to 1.2%, thus making FY10 numbers beneficiary of the low base effect. The inflation story depicted improvement with CPI (Consumer Price Index) change at 11.7% in FY10 versus 20% in FY09. This however, still meant missing the government target for inflation by a wide margin. On the external front, the current account deficit narrowed to 2.0% of GDP in FY10 versus 5.8% in FY09. This was because of import compression rather than any significant rise in exports. A healthy rise in inward remittances by expat Pakistanis also helped. With IMF funding support, foreign exchange reserves rose by nearly 35% to US \$16.75bn by June 30, 2010 versus US\$12.42bn as at June 30, 2009.

While the above statistics do represent an improvement from the sharp slump in 2009, underlying structural weaknesses continue to hamper longer-term economic stabilization. The chief amongst these has been excessively large federal budget deficit which, reportedly, was 6.3% of GDP in FY09-10 versus 5.3% in FY08-09. This was despite the fact that development spending was sharply below target. Such large budgetary gap is unsustainable especially in a country where the national savings rate and tax-to-GDP ratio are already very low. With capital formation limited, budget deficit causes high government borrowing and further increases inflationary pressure in an environment where structural supply side impediments and governance issues continue to keep CPI at elevated levels.

The consequences are two-fold. First, the central bank is forced to neutralize fiscal excesses by inordinately tight monetary policy with the result that the private sector is massively crowded out and its contribution to fixed capital formation falls sharply. This directly impacts future employment and income growth thus reducing the structural GDP expansion potential of the economy. Second, the fiscal imbalance inevitably spills over into the external sector in a vicious cycle of low export growth, high import dependence and rising external debt servicing.

While the stock market reflected the economic rebound in FY09-10 with the KSE-100 Index rising by over 35% during the fiscal year, other factors such as deterioration in law and order situation, executive and judiciary standoff and uncertainty generated by war took its toll on the real economy as well as investor sentiments. In the absence of these other dynamics, market valuations could have expanded much more in FY09-10

Going forward, the FY10-11 budget again had imbedded in it unrealistic assumptions regarding real GDP growth, tax collection and development spending. As if this was not enough, the impact of large scale flooding will subdue growth sharply in the first half of fiscal year 2010-11.

Real GDP growth is expected to stall at 2.3% to 2.8% in FY10-11 while supply side shortages lead to spikes in food and essential goods prices thus raising CPI (inflation) to the 15-20% range, according to government sources. With enormous resources needed for initial support of flood victims, even without accounting for medium term rehabilitation cost, near term budget deficit is likely to rise further. With the central bank continuing to stick to its orthodox monetary policy perspective, interest rates may shift upwards making it even more difficult for businesses to earn reasonable return on capital. Exporters' earnings are also likely to be negatively effected despite recent developments that may reduce duty on certain segments of the textile sector exporting to the E.U. These issues point to another difficult year for the economy and small to medium sized businesses which are starved for liquidity and face rising cost pressures.

## **EQUITY MARKET REVIEW & OUTLOOK**

The KSE-100 registered a rise of 35.7% for the year ended June 2010. The market delivered strong performance despite deteriorating economic fundamentals primarily because valuations were coming off a very low base and getting into the IMF program provided a boost to investor sentiments. Karachi Stock Exchange remained in the limelight in FY10 for being the 3rd best performing market in the first half and ending the fiscal year as the 5th best performer amongst 13 Asian emerging markets.

The year witnessed changing market dynamics owing to the lack of leverage product throughout the period. Imposition of CGT later in the year affected volumes considerably causing overall average daily volumes to decline by 30-40%. Despite changing dynamics foreign funds remained at the forefront injecting \$555mn inline with inflows into large population, high domestic demand potential economies such as China, India and Indonesia. "Long Only" foreign portfolio investors appear to have put money in these markets to: (a) avoid the lackluster growth in developed country equity markets and thus enhance investment returns in the near term, and (b) to participate in the longer term higher economic growth expected in Asia versus the EU and America. This trend seems to be intact so far in calendar year 2010.

Going forward, in the current environment described above, volatility is likely to remain high for equities as an asset class for domestic investors. Key triggers for an upward move in the market are likely to be a) positive developments on the margin financing product reintroduction; b) significant rise in foreign loans/grants for flood relief and war on terror; and c) reduction in uncertainty related to the political scene and the law and order situation. We believe that as the rehabilitation process of flood victims takes hold, a sequential recovery in the industrial & commercial sectors may be witnessed. During the initial relief operation period, industries providing essentials such as pharmaceuticals, food and consumer non durable goods will see upsurge in demand. Once the rehabilitation process gets under way in earnest, basic materials (building materials) industry should benefit and a little later, engineering and consumer durables would likely follow through in the recovery process.

## **INVESTMENT STRATEGY**

It is difficult at this stage to pin down the time line for the above process but the sequence is likely to remain intact. With this in mind, investment portfolios will need close monitoring in an attempt to gain timely exposure to available sectors as they go through this cycle and importantly, exit strategies for sectors and stocks that indicate valuation target achievement.

In a relatively informationally inefficient equity market such as Pakistan, it is critically important for Fund Managers to remain in close touch with ground realities. They need to be able to connect the dots between seemingly disparate trends in the macro-environment and the potential consequences for specific sectors and companies. A combination of strong analytics, market experience and judgmental sense for properly weighing risk and return when making investment decisions is critical to achieve superior returns. AKD Investment Management's Investment Committee embodies these qualities as it endeavors to work for the best interests of its investing clients.

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The Board of Directors states that:

- a) The financial statements prepared by the Management Company of its Funds, present fairly their state of affairs, the result of their operations, cash flows and movement in unit holders' fund.
- b) Proper books of account of the Funds have been maintained.
- c) In preparation of financial statements, appropriate accounting policies have been consistently applied and accounting estimates are based on reasonable and prudent judgment.
- d) In preparation of financial statements International Accounting Standards, as applicable in Pakistan, have been followed and any departure, if any, has been adequately disclosed.
- e) The existing system of internal control is sound in design and has effectively implemented. The existing system of internal control and other procedures is being continuously reviewed by Internal Auditor. The process of review will continue and any weakness in controls will have immediate attention of the Management.
- f) There is no doubt upon the Funds' ability to continue as a going concern.
- g) The Corporate Governance regulations, as detailed in the listing regulations, have been fully complied.
- h) No statutory payment on account of taxes, duties, levies and charges is outstanding towards the Funds other than as disclosed in the financial statements.
- i) The Statement showing the attendance of Directors in BOD meetings is as under:

Name of Director	Total No. of Meetings Held	Meetings Attended	Leave Granted
Mr. Farrukh Shaukat Ansari	4	3	1
Mr. Imran Motiwala	4	4	0
Mr. Faisal Bengali	4	2	0
Mr. Zahoor Motiwala	4	4	0
Mr. Ashraf Adamjee	4	2	0
Mr. Asif Ikram	4	2	2
Mr. Nadeem Naqvi *	4	2	0
Mr. Ali Qadir Gilani **	4	0	1
Mr. Taufique Habib	4	3	1

\* Mr. Nadeem Naqvi appointed in place of Mr. Faisal Bengali on December 3, 2009.

\*\* Mr. Ali Qadir Gilani appointed in place of Mr. Ashraf Adamjee on April 8, 2010.

During the year two casual vacancies occurred in the Board due to resignation of Mr. Faisal Bengali and Mr. Ashraf Adamjee which were filled by appointing Mr. Nadeem Naqvi & Mr. Ali Qadir Gilani respectively by the Board.

No trade in the units of the Funds' have been carried out by the Directors, CEO, CFO/Company Secretary, their spouses and minor children of the Management Company other than as disclosed below and in the note to the Financial Statements:

### AKD OPPORTUNITY FUND

S.No.	Trades By	Designation	Investment (No. of Units)	Redemption (No. of Units)
1.	Mr. Imran Motiwala	COO	-	8,477

### AKD INDEX TRACKER FUND

S.No.	Trades By	Designation	Investment (No. of Units)	Redemption (No. of Units)
1.	Mr. Imran Motiwala	COO	36,201	-

## **RATING OF THE MANAGEMENT COMPANY**

In September 2010 Credit Rating Company Ltd. (JCR-VIS) has reaffirmed the Management Quality (MQ) Rating of AKD Investment Management Limited at 'AM3' (AM-Three).

## **RATING OF THE FUNDS**

- **AKD INCOME FUND**  
JCR-VIS Credit Rating Company Limited had assigned Fund stability Rating of 'BBB (f)' (Triple B (f)) to AKD Income Fund.
- **AKD OPPORTUNITY FUND**  
JCR-VIS Rating Company Limited has assigned to AKD Opportunity Fund, Mutual Fund Performance Ranking (MFP) of 'MFR 2-Star' as one year rating on July 29, 2010.

## **PATTERN OF HOLDING (UNITS)**

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

## **APPOINTMENT OF AUDITORS**

The Board of Directors of the Management Company have re-appointed M/s A.F. Ferguson & Co. Chartered Accountants for AKD Income Fund and appointed M/s KPMG Taseer Hadi & Co., Chartered Accountants for AKD Index Tracker Fund and AKD Opportunity Fund as the Funds' auditors for the period 2010-11 as recommended by the Audit Committee.

## **ACKNOWLEDGEMENTS**

The directors would like to take this opportunity to thank the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, our trustee M/s Central Depository Company of Pakistan Limited and the unit holders for their cooperation. The Board also appreciates the devoted work performed by the staff and officers of the company and the unit holders for their confidence in the Company, and their continued support and blessings.

For and on behalf of the Board

Karachi: October 08, 2010

**Nadeem Naqvi**  
Chief Executive Officer



# AKD Income Fund

## Financial Statements - 2010

### Contents

16	Fund Information
17	Fund Manager's Report
19	Details of Pattern of Holding (Units)
20	Trustee Report to the Unit Holders
21	Statement of Compliance with the Best Practices of the Code of Corporate Governance
23	Review Report to the Unit Holders on the Statement of Compliance with the Best Practices of the Code of Corporate Governance
24	Independent Auditors' Report to the Unit Holders
25	Statement of Assets and Liabilities
26	Income Statement
27	Distribution Statement
28	Cash Flow Statement
29	Statement of Movement in Unit Holders' Fund
30	Notes to and Forming Part of the Financial Statements
56	Performance Table



# AKD Income Fund



## MANAGEMENT COMPANY

AKD Investment Management Limited  
216-217, Continental Trade Centre, Block-8,  
Clifton, Karachi-74000

### 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  
CDC House 99-B, Block-B  
S.M.C.H.S.,  
Main Shakra-e-Faisal,  
Karachi.

### BANKERS

Allied Bank Limited  
Arif Habib Bank Limited  
Bank Alfalah Limited  
Bank Al-Habib Limited  
Citibank N.A. Pakistan  
Habib Bank Limited  
Habib Metropolitan Bank Limited  
KASB Bank Limited  
MCB Bank Limited  
Mybank Limited  
Soneri Bank Limited  
Standard Chartered Bank (Pakistan) Limited  
The Bank of Khyber  
The Bank of Punjab  
United Bank Limited

### 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: 35375714 - 35836920.

### DISTRIBUTORS

AKD Investment Management Limited  
AKD Securities Limited  
BMA Capital Management Limited  
IGI Investment Bank Limited  
KASB Securities Limited  
The Bank of Punjab  
Access Financial Services (Private) Limited  
Al-Falah Securities (Private) Limited  
Reliance Financial Products (Private) Limited  
Bulls & Bulls (Private) Limited

### RATING

AKD Income Fund (Fund)  
JCR-VIS: BBB(F) [Triple B (F)]

## FUND MANAGER'S REPORT

### AKD INCOME FUND PERFORMANCE

AKD Income Fund posted an annualized return of 9.01% for FY10 (Opening NAV of PkR 44.6562 and ending NAV of PkR 48.6784) which ranks it the third best performing fund amongst the universe of open-end income fund for FY10. The management of the AKD Income Fund continued to carry its portfolio in line with its investment objectives. The size of the AKD Income Fund shrank by 18.47% to stand at Rs. 480.10mn from Rs. 588.90mn in FY09, following the industry trend regarding redemptions. However, inflows began returning in 4QFY10 and are expected to grow as the Fund's asset quality continues to improve, going forward.

### INVESTMENT STRATEGY

AKD Income Fund is a dedicated fund that focuses primarily on fixed income securities and instruments. The strategy of AKDIF is to offer investors a convenient and liquid vehicle to invest in a diversified portfolio of fixed income securities / instruments that provide consistent returns while striving for preservation of capital.

### INVESTING ACTIVITIES

During the financial year ended 30th June 2010, the AKDIF was re-positioned in view of change in regulatory requirements as well as to improve the asset quality. The Investment Committee focused on improving both the liquidity position of the Fund as well as credit quality of fixed income instruments held in the investment portfolio.

Key changes included significant reduction in relatively illiquid placements with NBFCs which made up 29.25% of the Fund's net assets as at 30th June 2010 versus 34.41% on 30th June 2009. Much of the liquidity generated was deployed in "risk free" assets i.e., government securities of less than one year tenor. As such, the Fund's exposure to government securities stood at 4.76% in June 2010 versus nil in June 2009. Investment in TFC / SUKUK rose to 55% of the net assets in 2010 versus 48.7% in 2009 as some securities were reclassified as performing.

Most historic non-performing assets have been provided for in 2010 and conform to MUFAP's pricing and valuation guidelines. Although from a purely regulatory perspective, due to SECP regulation changes, a segment of the Fund's portfolio contains below investment grade securities, these continue to be performing. The Investment Committee believes that over a 12 month investment horizon, bulk of this segment of the portfolio is likely to remain performing. The cash and near cash (government securities not exceeding 90 days) portion of the Fund was 6.59% of the NAV as at 30 June 2010 versus 8.92% as at 30 June 2009.

### MONEY AND DEBT MARKET REVIEW

The money market remained illiquid during major part of the year. The State Bank of Pakistan (SBP) had to conduct several Open Market Operations (mostly injections) to manage system liquidity. As the year progressed the SBP loosened its monetary stance and initially reduced its discount rate from the high of 15% witnessed in FY09 to 12.5% by Nov CY10 on improved economic numbers.

However, with Government not achieving fiscal targets SBP was forced to halt the pace of monetary tightening in the second half of FY10 and the discount rate closed at 12.50%. The six month KIBOR was down 39 basis points to 12.37% from 12.76% on 30 June 2009. The bench mark six months T-bill rates declined by 87 basis points from 13.1395% on 30 June 2009 to 12.2705% as of 30 June 2010.

To strengthen the operating framework of the monetary policy the SBP introduced important reforms during the year. These include:

- Introduction of a corridor structure for the overnight money market repo rate, which has somewhat stabilized the overnight rates.
- Increase in the frequency of monetary policy decisions, from four to six times a year.
- Formation of Monetary Policy Committee of the Central Board to include external members.
- Quarterly limits on government borrowing from SBP
- Transfer of oil import payments to the market.

The corporate debt market continued to remain illiquid through out FY10 resulting in volatility of prices. 75% of the corporate debt remained non-traded for the major part of the year and had to be priced by the Mutual Funds Association of Pakistan on valuation methodology approved by the Securities and Exchange Commission of Pakistan (SECP).

### **FUND STRATEGY AND OUTLOOK**

During the period under review, the Fund took exposure in short-term government securities and added quality corporate debt into the portfolio including Term Finance Certificates of Pakistan Mobile Communications Limited and JDW Sugar Mills Limited, both with strong corporate fundamentals and record of timely servicing of debt.

It is likely that GDP growth may stall at 2.3% to 2.8% in FY10-11 while supply side shortages lead to spikes in food and essential goods prices thus raising CPI (inflation). With enormous resources needed for initial support of flood victims, even without accounting for medium term rehabilitation cost, near term budget deficit is likely to rise further. With the central bank continuing to stick to its orthodox monetary policy perspective, interest rates are likely to shift upwards making it even more difficult for businesses to earn respectable return on capital.

In the wake of the above scenario the Fund would continue to raise exposure in short-term treasury bills in order to maintain high degree of liquidity while taking advantage of upward shifting yield curve and when opportunity arises, will invest in high grade corporate debt instruments in accordance with its investment objective. At the same time, the Investment Committee has put in place a robust credit quality monitoring process to avoid and reduce potential downside risk and strong follow-up of legacy investments is done to further strengthen the quality of the investment portfolio. This should also help in enhancing the yield of AKDIF in FY11.

### **DISTRIBUTION FOR THE YEAR**

The Board has approved a bonus of Rs.3.40 per unit, 7.61% on the opening NAV and 6.8% of the par value of Rs.50.00 for FY10 (Unit holders who have opted for cash payout received cash payment accordingly).

## DETAILS OF PATTERN OF HOLDING (UNITS)

AS AT JUNE 30, 2010

	Units Held
<b>Associated Companies</b>	
Aqeel Karim Dhedhi Securities (Pvt) Limited	505,887
<b>Directors and CEO</b>	
Chief Executive Officer	NIL
NBFCs	2,800
Banks / DFIs	2,670,793
Retirement Funds	6,006,614
Others	123,930
Individuals	552,782
<b>Total</b>	<b>9,862,806</b>

## TRUSTEE REPORT TO THE UNIT HOLDERS

### AKD 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**

AKD Income Fund (the Fund), an open-end scheme was established under a trust deed dated October 02, 2006, executed between AKD Investment Management Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2010 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.

Karachi, October 12, 2010

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

## STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE 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 Chapter XI 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 Management Company has applied the principles contained in the Code of Corporate Governance as follows:

- 1) The Management Company encourages representation of independent non-executive directors. At present the Board has three 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 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 member of stock exchange, has been declared as a defaulter by such stock exchange.
- 4) During the year two casual vacancies occurred in the Board which were filled up by the Board within 30 days thereof.
- 5) The Management Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the company.
- 6) The Board has developed a vision and mission statement, overall corporate strategy 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, remuneration and terms and conditions of employment of the Chief Executive Officer (CEO) have been taken by the Board.
- 8) No new appointment of CFO and Company Secretary has been made during the year.
- 9) 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. 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.
- 10) The Directors have been provided with the copies of the NBFC (Establishment and Regulation) Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations, 2008, Companies Ordinance 1984, Listing Regulations, 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.
- 11) The Directors' Report for the year ended June 30, 2010 has been prepared in compliance with the requirements of the Code of Corporate Governance and fully describes the salient matters required to be disclosed.

- 12) The financial statements of the Fund were duly signed by the CEO and CFO before approval of the Board.
- 13) 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.
- 14) The Management Company has complied with all the corporate and financial reporting framework requirements of the Code.
- 15) The Board has formed an audit committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the committee.
- 16) The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
- 17) The Management Company has outsourced the internal audit function of the Company to M/s Ford Rhodes Sidat Hyder & Co. Chartered Accountants, Karachi, who are considered suitably qualified and experienced for the purpose and are well conversant with the policies and procedures of the Fund.
- 18) 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.
- 19) 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.
- 20) The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions. Majority of the related party transactions of the Fund are governed under the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the transactions which are not governed under the said regulations are carried at arm's length prices.
- 21) We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Karachi: October 08, 2010

**Nadeem Naqvi**  
Chief Executive Officer

## REVIEW REPORT TO THE UNIT HOLDERS ON THE 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** (the Management Company) of **AKD Income Fund** to comply with the Listing Regulation No. 35 (Chapter XI) 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 Management Company's personnel 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.

Further, sub-regulation (xiii a) of Listing Regulation No. 35 requires the Management Company 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 the above requirements 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 prices 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 Management Company'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, 2010.

Karachi: October 8, 2010

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



## 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, 2010, and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the year then ended, 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 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 judgment, 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, 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, 2010 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### **Other matters**

In our opinion, the financial statements have been prepared in all material respects in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Karachi: October 8, 2010

**A. F. Ferguson & Co.**  
Chartered Accountants  
Engagement Partner: Rashid A. Jafer

## STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2010

	Note	2010 Rupees in '000'	2009
<b>ASSETS</b>			
Bank balances	4	31,617	52,559
Investments	5	298,308	318,423
Loans and receivables	6	140,450	202,650
Profit and other receivables	7	9,898	15,898
Security Deposit	8	2,725	2,600
Preliminary expenses and floatation costs	9	875	1,375
<b>Total assets</b>		<b>483,873</b>	<b>593,505</b>
<b>LIABILITIES</b>			
Payable to AKD Investment Management Limited - Management Company	10	1,474	2,719
Payable to Central Depository Company of Pakistan Limited - Trustee	11	80	113
Payable to Securities and Exchange Commission of Pakistan	12	408	1,382
Payable on redemption of units		603	-
Accrued expenses and other liabilities	13	1,202	391
<b>Total liabilities</b>		<b>3,767</b>	<b>4,605</b>
<b>Net assets</b>		<b>480,106</b>	<b>588,900</b>
<b>Unit Holders' Fund (as per statement attached)</b>		<b>480,106</b>	<b>588,900</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	15	(Number of Units)	
<b>Number of units in issue</b>		<b>9,862,806</b>	<b>13,187,423</b>
		(Rupees)	
<b>Net asset value per unit</b>	3.15	<b>48.6784</b>	<b>44.6562</b>
<b>Face value per unit</b>		<b>50.00</b>	<b>50.00</b>

The annexed notes 1 to 26 form an integral part of these financial statements.

For AKD Investment Management Limited  
(Management Company)

\_\_\_\_\_  
**Nadeem Naqvi**  
Chief Executive Officer

\_\_\_\_\_  
**Imran Motiwala**  
Director

## INCOME STATEMENT

## FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees in '000'	2009
<b>INCOME</b>			
Capital loss on sale of investments		(1,026)	(75,653)
Profit on bank deposits		4,748	8,863
Income from Term Deposit Receipts and Letter of Placement		5,016	17,825
Income from Continuous Funding System transactions		-	66
Income from Term Finance Certificates and Sukuk bonds		46,593	96,198
Income from Government Securities		1,236	1,325
Income from Commercial Papers		-	983
Income from Certificates of Musharika and Certificates of Investment		19,053	47,668
Dividend Income		-	4,703
Other Income		-	369
		75,620	102,347
Unrealised diminution on re-measurement of investments classified as 'Financial Assets at fair value through profit or loss'	5.4	(15,307)	(11,103)
<b>Total Income</b>		60,313	91,244
<b>EXPENSES</b>			
Remuneration of AKD Investment Management Limited - Management Company		8,160	19,170
Remuneration of Central Depository Company of Pakistan Limited - Trustee		1,088	2,383
Annual fee - Securities and Exchange Commission of Pakistan		408	1,382
Brokerage and capital value tax		89	142
Impairment loss on investments	5.3.7	5,279	132,135
Auditors' remuneration	13.1	307	275
Settlement and bank charges		48	114
Amortisation of preliminary expenses and floatation costs		500	500
Borrowing costs	16	-	1,100
Fees and subscription		200	832
Legal and professional charges		204	200
Worker's Welfare fund	13.2	734	-
Printing and related costs		243	299
<b>Total Expenses</b>		17,260	158,532
<b>Net Income / (Loss) from operating activities</b>		43,053	(67,288)
Element of accrued income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(7,111)	(5,946)
<b>Net Income / (Loss)</b>		35,942	(73,234)
<b>Other comprehensive income / (loss) for the year</b>			
Unrealised appreciation / (diminution) on re-measurement of investment classified as 'available for sale' - net		823	(17,444)
Capital gain / (loss) realised against sale of investments classified as 'available for sale' / reversals due to impairment charge		4,041	(508)
<b>Total comprehensive income / (loss) for the year</b>		40,806	(91,186)
Earnings / (Loss) per unit	3.16		

The annexed notes 1 to 26 form an integral part of these financial statements.

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

**Nadeem Naqvi**  
Chief Executive Officer

**Imran Motiwala**  
Director

## DISTRIBUTION STATEMENT

### FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	Rupees in '000'	
<b>Undistributed income brought forward</b>		
Realised income	(42,009)	125,209
Unrealised income	(12,025)	(19,524)
	<u>(54,034)</u>	<u>105,685</u>
Final distribution for the year ended June 30, 2009 @ Re.Nil per unit [2008: Final distribution of bonus units for the period from July 1, 2007 to June 30, 2008: @ Re.1 per unit, date of distribution July 07, 2008]		
- Cash distribution	-	(13,747)
- Issue of bonus units	-	(61,638)
Interim distribution * @ Re.Nil per unit [2009: Interim distribution @ Re.0.75 per unit, date of distribution: October 17, 2008]		
- Cash distribution	-	(6,592)
- Issue of bonus units	-	(26,336)
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing income / (losses) that form part of the unit holders' fund	16,632	21,828
Net Income / (Loss) for the year	35,942	(73,234)
Accumulated Loss carried forward	<u>(1,460)</u>	<u>54,034</u>
<b>Undistributed income comprising of:</b>		
Realised income	22,254	(42,009)
Unrealised income	(23,714)	(12,025)
	<u>(1,460)</u>	<u>(54,034)</u>

\*Last year the Fund, on the basis of income for the quarter ended September 30, 2008 (accounting period), had made an interim distribution, in the form of bonus units and cash.

The annexed notes 1 to 26 form an integral part of these financial statements.

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

\_\_\_\_\_  
**Nadeem Naqvi**  
Chief Executive Officer

\_\_\_\_\_  
**Imran Motiwala**  
Director

## CASH FLOW STATEMENT

## FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees in '000'	2009
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net Income / (Loss) for the year		35,942	(73,234)
<b>Adjustments for non-cash and other items</b>			
Unrealised diminution on re-measurement of Investments classified as 'financial assets at fair value through profit or loss' - net		15,307	11,103
Impairment loss on Investments		5,279	132,135
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		7,111	5,946
Amortisation of preliminary expenses and floatation costs		500	500
Remuneration of AKD Investment Management Limited - Management Company		8,160	19,170
Remuneration of Central Depository Company of Pakistan Limited - Trustee		1,088	2,383
		73,387	98,003
<b>(Increase) / decrease in assets</b>			
Receivable against Continuous Funding System Transactions		-	39,323
Investments-net		4,393	1,253,335
Loans and receivables		81,150	1,693,626
Profit and other receivables		6,000	96,813
Security deposits		(125)	1,767
		91,418	3,084,864
<b>Increase / (decrease) in liabilities</b>			
Payable to AKD Investment Management Limited - Management Company		(1,001)	(635)
Payable to Central Depository Company of Pakistan Limited - Trustee		-	1
Payable to Securities and Exchange Commission of Pakistan		(974)	(3,219)
Payable on redemption of units		603	-
Accrued expenses and other liabilities		811	(281)
		(561)	(4,134)
Remuneration paid to AKD Investment Management Limited - Management Company		(8,404)	(22,134)
Remuneration paid to Central Depository Company of Pakistan Limited- Trustee		(1,121)	(2,702)
		154,719	3,153,897
<b>Net cash generated from operating activities</b>			
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Net payments on redemption of units		(156,711)	(3,195,069)
Dividend paid		-	(20,339)
<b>Net cash outflow on financing activities</b>		(156,711)	(3,215,408)
<b>Net decrease in cash and cash equivalents during the year</b>		(1,992)	(61,511)
Cash and cash equivalents at the beginning of the year		52,559	114,070
<b>Cash and cash equivalents as at the end of the year</b>	4.1	50,567	52,559

The annexed notes 1 to 26 form an integral part of these financial statements.

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

**Nadeem Naqvi**  
Chief Executive Officer

**Imran Motiwala**  
Director

## STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND

### FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 Rupees in '000'	2009
Net assets at the beginning of the year		588,900	3,876,417
Issue of 4,536,808 units (2009:28,462,133 units)		210,025	1,427,960
Redemption of 7,861,425 units (2009:92,397,565 units)		(366,736)	(4,609,898)
		(156,711)	(3,181,938)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed			
- amount representing (income) / loss and capital (gains) / losses - transferred to Income Statement		7,111	5,946
- amount representing (income) / loss that form part of unit holders' fund - transferred to Distribution Statement		(16,632)	(21,828)
		(9,521)	(15,882)
Net unrealised appreciation / (diminution) on re-measurement of investments classified as 'available for sale'	5.3.6	823	(17,444)
Capital gain / (loss) realised against sale of investments classified as 'available for sale'		4,041	(508)
		4,864	(17,952)
Issue of Nil bonus units for the year ended June 30, 2009 (2008: Issue of 1,222,433 bonus units)		-	61,638
Issue of Nil interim bonus units (2008: Issue of 516,062 interim bonus units)		-	26,336
Other net income for the year		52,275	13,522
Capital loss on sale of investments		(1,026)	(75,653)
Unrealised diminution on re-measurement of investments at fair value through profit or loss - net		(15,307)	(11,103)
Net Element of Income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing income / (losses) that form part of the unit holders' fund		16,632	21,828
Final distribution for the year ended June 30, 2009; Nil [2008: Re. 1 per unit (date of distribution July 07, 2008)]		-	(13,747)
- Cash distribution		-	(61,638)
- Issue of bonus units		-	
Interim distribution; Nil [2008: Re. 0.75 per unit (date of distribution October 17, 2008)]		-	(6,592)
- Cash distribution		-	(26,336)
- Issue of bonus units		-	
		52,574	(159,719)
Net assets at the end of the year		480,106	588,900

The annexed notes 1 to 26 form an integral part of these financial statements.

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

**Nadeem Naqvi**  
Chief Executive Officer

**Imran Motiwala**  
Director

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 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 Fund commenced operations from March 23, 2007.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. The registered office of the Management Company is situated at 216-217, Continental Trade Centre, Block 8, Clifton, Karachi.

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

JCR-VIS Credit Rating Company Limited has assigned a management quality rating of 'AM3' to the Management Company and fund stability rating of "BBB(f)" 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. Title of the assets of the Fund are 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 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, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

#### 2.2 Changes in accounting policies and disclosures arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year

IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement (referred to as the statement of assets and liabilities in these financial statements) as at the beginning of the comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period.

The Fund has applied IAS 1 (revised) from July 1, 2009, and has elected to present one performance statement. As a result non-owner changes in equity which were previously credited directly in the statement of movement in unit holders' fund are now shown as other comprehensive income in the performance statement (referred to as statement of comprehensive income in these financial statements). The change in the presentation has not affected the values of the net assets of the Fund for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented. The adoption of this standard has resulted in increase in certain disclosures.

IFRS 7 (amendment) 'Financial instruments: Disclosures' (effective from January 1, 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment has resulted in certain additional disclosures but does not have an impact on the Fund's financial position or performance.

### **2.3 Other standards, interpretations and amendments to published approved accounting standards that are effective in the current year:**

The following new standards and amendments to existing standards are mandatory for the first time for the financial year beginning July 1, 2009:

IAS 39 (amendment), 'Financial instruments: Recognition and measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of the amendment did not have a significant impact on the Fund's financial statements.

IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation'. The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. Keeping in view the requirements set out in the Non-Banking Finance Companies and Notified Entities Regulations, 2008 the adoption of this amendment did not impact the classification of units in the financial statements of the Fund.

IAS 38 (amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access of goods or receipt of services. The adoption of this amendment did not have any effect on the Fund's financial statements.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2009 but were considered not to be relevant or did not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Fund's accounting periods beginning on or after July 1, 2010:

- a) IAS 7 (Amendment), 'Statement of Cash Flows' (effective from January 1, 2010). The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Fund's financial statements.



- b) 'IAS 24 'Related Party Disclosures' (revised) (effective from January 1, 2011). The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

There are certain other new standards, amendments and interpretations that are mandatory for the Fund's accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or to have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

## 2.5 Accounting convention

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

## 2.6 Functional and presentation currency

The financial statements are presented in Pak Rupees, which is the Fund's functional and presentation currency.

## 2.7 Critical accounting estimates and judgments

The preparation of the 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 3.1, 3.3, 3.4, 5 and 6)
- ii) Impairment of financial assets (note 3.5)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as explained in note 2.2 to the financial statements.

### 3.1 Financial assets

#### Classification

The Fund classifies its financial assets in the following categories: Financial assets at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

#### a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating 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.

#### b) Loans and receivables

These are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market.

#### c) Available for sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

### 3.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

### 3.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

### 3.4 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss and available for sale are valued as follows:

#### a) Basis of valuation of Term Finance Certificates and Sukuk Bonds / Certificates

Investment in term finance certificates are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no. 1/2009 dated January 06, 2009. Under the said directive, investment in term finance certificates are valued on the basis of traded, thinly traded and non traded securities. Accordingly, investment in term finance certificates have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular.

#### b) Basis of valuation of Government Securities

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Market Association.

#### c) Basis of valuation of Equity Securities

The investment of the Fund in equity securities is valued on the basis of closing quoted market prices available at the stock exchange.

Net gains and losses arising on changes in the fair value of financial assets carried at fair value through profit or loss are taken to the Income Statement.

Net gains and losses arising on changes in fair value of available for sale financial assets are shown as other comprehensive income in the performance statement (referred to as 'Income Statement') until these are derecognised. At this time, the cumulative gain or loss previously shown as other comprehensive income is reclassified as capital gain / (loss) in the income statement.

Loans and receivables are carried at amortised cost.

### 3.5 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.

Provision for non-performing debt securities is made on the basis of time based criteria as prescribed under circular No. 1 of 2009 issued by the Securities and Exchange Commission of Pakistan.

The management may also make provision against debt securities over and above the minimum provision requirement prescribed in the aforesaid circular, in accordance with the provisioning policy approved by the Board of Directors.

**3.6 Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

**3.7 Offsetting of financial assets and liabilities**

Financial assets and financial 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 realise the assets and settle the liabilities simultaneously.

**3.8 Financial liabilities**

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

**3.9 Derivatives**

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

**3.10 Equity securities under resale agreements - Continuous Funding System**

Equity 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.

**3.11 Spread transactions (Ready-Future Transactions)**

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 in accordance with the requirements of International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement".

**3.12 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.

### **3.13 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 that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to income / (losses) held in the Unit Holders' Funds 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. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

### **3.14 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.

### **3.15 Net asset value per unit**

The net asset value (NAV) per unit as 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 year end.

### **3.16 Earnings per unit**

Earnings per unit (EPU) has not been disclosed as in the opinion of the management determination of weighted average units for calculating EPU is not practicable.

### **3.17 Proposed distributions and transfer between reserves**

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared are made.

### **3.18 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 year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. Accordingly, no tax liability has been recorded for the current year.

The Fund is also exempt from the 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.

### 3.19 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and include underwriting commission, commission to the bankers to the issue, brokerage paid to the members of the stock exchanges and other expenses. These costs are amortised over a period of five years starting from the commencement of operations of the Fund.

### 3.20 Revenue recognition

- Profit on investments is recognised on an accrual basis. (In case of financial assets classified as non-performing, income is recognised on receipt basis).
- Profit on bank deposits is recognised on an accrual basis.
- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on 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.
- Dividend income is recognised when the right to receive dividend is established.

### 3.21 Cash and cash equivalents

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

	Note	2010 Rupees in '000'	2009
<b>4 BANK BALANCES</b>			
In current accounts		40	40
In savings accounts		31,577	52,519
		<u>31,617</u>	<u>52,559</u>
<b>4.1 CASH AND CASH EQUIVALENT</b>			
Balances with banks		31,617	52,559
Certificate of Investment	6.2	18,950	-
		<u>50,567</u>	<u>52,559</u>
<b>5 INVESTMENTS</b>			
<b>Financial assets at fair value through profit or loss - held for trading</b>			
- Quoted equity securities - Preference shares	5.1	11,352	31,662
- Fixed income and other debt securities	5.2	201,894	159,583
<b>Available for sale</b>			
- Fixed income and other debt securities	5.3	85,062	127,178
		<u>298,308</u>	<u>318,423</u>

**5.1 'Financial assets at fair value through profit or loss' - held for trading (Quoted equity securities)**

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, 2010			Market value as a percentage of net assets	Market value as a percentage of investments	
	As at July 1, 2009	Purchases during the year	Bonus / Rights issue	Sales/ Redemption during the year	As at June 30, 2010	Carrying Cost	Market value			Appreciation / (diminution)
----- Rupees in '000' -----										
<b>Leasing Companies</b>										
Security Leasing Corporation Ltd. (Preference shares)	3,445,250	-	-	-	3,445,250	31,662	11,352	(20,310)	2.36%	3.81%
						<b>31,662</b>	<b>11,352</b>	<b>(20,310)</b>	<b>2.36%</b>	<b>3.81%</b>
<b>Total listed equity securities - June 30, 2010</b>						<b>31,662</b>	<b>11,352</b>	<b>(20,310)</b>		
<b>Total listed equity securities - June 30, 2009</b>						<b>31,352</b>	<b>31,662</b>	<b>310</b>		

**5.1.1** The market value per share of Security Leasing Corporation Limited (SLCL) preference share as at June 30, 2010 was Rs 7 per share. However, the management is of the view that the quoted market value is not truly representative of its realisable value as the shares of the company are not tradable at the aforementioned price.

SLCL has currently deferred the payment of 3rd redemption amounting to Rs 17,226,250 (pertaining to 1,722,625 shares of Rs 10 each) on the basis of the current adverse financial position of the company. As per the terms of the preference shares, the redemption amount will be the lower of par value and break up value as per latest available audited financial statements. The break up value (per share of Security Leasing Corporation Limited) as per the audited financial statements for the year ended June 30, 2009 is Rs 5.44, which is lower than the face value. Further, the break up value per share as per the financial statements of the company for the nine months ended March 31, 2010 is Rs 1.15 per share. Therefore, as a matter of prudence, the redemption of 1,722,625 shares due on November 30, 2009 has been valued at Rs 5.44 per share and the remaining shares have been valued at Rs 1.15 per share.

	Note	2010 Rupees in '000'	2009
<b>5.2 'Financial assets at fair value through profit or loss' - held for trading (Fixed income and other debt securities)</b>			
Term finance certificates	5.2.1	179,064	159,583
Government Securities	5.2.3	22,830	-
		<u>201,894</u>	<u>159,583</u>

## 5.2.1 Term finance Certificates

Name of the Investee Company	----- Number of certificates-----				Profit / mark-up rate	Carrying cost	Market value as at June 30, 2010	Appreciation / (diminution)	Market Value as Percentage of net assets	Market Value percentage of total investments
	As at July 1, 2009	Purchases during the year	Sales / redeemed during the year	As at June 30, 2010						
Term Finance Certificates of Rs 5,000 each unless otherwise stated						----- Rupees in '000' -----				
<b>Term Finance Certificates-Listed</b>										
Dewan Cement Limited (note 5.2.2)	20,000	-	-	20,000	6 months KIBOR+2.00%	-	-	-	-	-
Worldcall Telecom Limited (07-10-2008)	20,000	-	2,000	18,000	6 months KIBOR+1.6%	85,605	85,460	(145)	17.80%	28.65%
Engro Fertilizers Limited (30-11-2007)	25	-	-	25	6 months KIBOR+1.55%	121	122	1	0.03%	0.04%
Pace Pakistan Limited (15-02-2008)	115	-	-	115	6 months KIBOR+1.50%	477	559	82	0.12%	0.19%
Askari Bank Limited (18-11-2009)	-	5,000	5,000	-	From 1-5 years 6 months KIBOR+2.50% & from 6-10 years 6 months KIBOR+2.95%	-	-	-	-	-
Orix Leasing Pakistan Limited (25.05.07)	-	2,000	2,000	-	6 months KIBOR + 1.5%	-	-	-	-	-
						<b>86,203</b>	<b>86,141</b>	<b>(62)</b>		
<b>Term Finance Certificates-Unlisted</b>										
Engro Fertilizers Limited (PRP II) (18-03-2008)	3,269	-	3,269	-	6 months KIBOR+1.25%	-	-	-	-	-
Al-Abbas Sugar Mills Limited (21-11-2007)	5,000	-	-	5,000	6 months KIBOR+1.75%	15,599	16,934	1,335	3.53%	5.68%
JDW Sugar Mills Limited (23-06-2008)	6,246	4,200	3,000	7,446	3 months KIBOR+1.25%	30,574	30,971	397	6.45%	10.38%
Orix Leasing Pakistan Limited (15-01-08)	-	250	60	190	6 months KIBOR + 1.20%	15,658	18,194	2,536	3.79%	6.10%
Pakistan Mobile Communications Limited (01-10-2007)	-	10,896	-	10,896	6 months KIBOR + 1.30%	25,959	26,824	865	5.59%	8.99%
						<b>87,790</b>	<b>92,923</b>	<b>5,133</b>		
<b>Total - June 30, 2010</b>						<b>173,993</b>	<b>179,064</b>	<b>5,071</b>		
<b>Total - June 30, 2009</b>						<b>170,996</b>	<b>159,583</b>	<b>(11,413)</b>		

**5.2.2** The Fund had advanced an amount of Rs 100 million in respect of Pre-IPO placement of Dewan Cement Limited (DCL) under an agreement, which required public offering to be completed within 270 days of the date of agreement (which was January 9, 2008). Dewan Cement Limited (DCL) failed to complete the public offering within the said time period and has also defaulted in payment of principal and profit for the said period. As a matter of prudence, the Fund has provided for the amount of the investment by 100 percent in accordance with the provisioning policy approved by the Board of Directors of the Management Company.

### 5.2.3 Government Securities

Name of the Investee Company	Tenor	Face Value				Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment
		As at July 1, 2009	Purchased during the year	Disposed during the year	As at June 30, 2010	Cost	Market value	Appreciation / (diminution)		
----- Rupees in '000' -----										
<b>Pakistan Investment Bond</b>										
September 3, 2009	10 years	-	25,000	25,000	-	-	-	-	-	-
September 3, 2009	3 years	-	25,000	25,000	-	-	-	-	-	-
September 3, 2009	5 years	-	25,000	25,000	-	-	-	-	-	-
<b>Treasury Bills</b>										
September 10, 2009	6 months	-	25,000	25,000	-	-	-	-	-	-
October 8, 2009	12 months	-	75,000	75,000	-	-	-	-	-	-
October 22, 2009	6 months	-	62,500	62,500	-	-	-	-	-	-
November 5, 2009	3 months	-	40,000	40,000	-	-	-	-	-	-
November 5, 2009	6 months	-	50,000	50,000	-	-	-	-	-	-
April 8, 2010	12 months	-	25,000	-	25,000	22,898	22,830	(68)	4.76%	7.65%
<b>Total - June 30, 2010</b>					<b>25,000</b>	<b>22,898</b>	<b>22,830</b>	<b>(68)</b>		
<b>Total - June 30, 2009</b>					<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		

### 5.3 Available for sale (Fixed income and other debt securities)

Term Finance Certificates and Sukuk Bonds

Note

2010

2009

Rupees in '000'

5.3.1

85,062

127,178



### 5.3.1 Term Finance Certificates and Sukuk Bonds

Name of the Investee Company	----- Number of certificates / bonds -----				Profit / mark-up rate	cost	Market value as at June 30, 2010	Appreciation / (diminution)	Market Value as Percentage of net assets	Market Value as a percentage of total investments
	As at July 1, 2009	Purchases during the year	Sales / redeemed during the year	As at June 30, 2010						
Certificates / Bonds of Rs 5,000 each unless otherwise stated						----- Rupees -----				
<b>Term Finance Certificates - Unlisted</b>										
KASB Securities Limited (27/6/2007)	5,000	-	5,000	-	6 months KIBOR+1.9%	-	-	-	-	-
TPL Trakker Limited (Face value 100,000) (15/09/2007)	200	-	-	200	6 months KIBOR + 3.5%	7,500	7,437	(63)	1.55%	2.49%
First Dawood Investment Bank Limited (11/09/2007)	6,300	-	-	6,300	6 months KIBOR + 1.6%	31,500	22,355	(9,145)	4.66%	7.49%
Pakistan Mobile Communications Limited (1/10/2007)	2,692	-	-	2,692	6 months KIBOR + 1.3%	6,730	6,627	(103)	1.38%	2.22%
Avari Hotels Limited (1/11/2007)	7,093	-	-	7,093	6 months KIBOR+3.25%	32,879	30,684	(2,195)	6.39%	10.29%
Al-Abbas Sugar Mills Limited (21/11/2007)	1,000	-	400	600	6 months KIBOR + 1.75%	2,099	2,032	(67)	0.42%	0.68%
						<b>80,708</b>	<b>69,135</b>	<b>(11,573)</b>		
<b>Sukuk Bonds - Unlisted</b>										
New Allied Electronics Industries (Pvt.) Limited certificate of Rs 312.5 each (25/7/2007) (note 5.3.2)	96,000	-	-	96,000	3 months KIBOR + 2.60%	30,000	-	(30,000)	-	-
Kohat Cement Company Limited (20/06/2007) (note 5.3.3)	2,763	-	-	2,763	6 months KIBOR + 1.80%	13,345	10,009	(3,336)	2.08%	3.36%
Maple Leaf Cement Factory Limited (7/1/2008) (note 5.3.4)	2,000	-	-	2,000	6 months KIBOR + 1.70%	9,996	5,918	(4,078)	1.23%	1.98%
						<b>53,341</b>	<b>15,927</b>	<b>(37,414)</b>		
						<b>134,049</b>	<b>85,062</b>	<b>(48,987)</b>		
<b>Less: Impairment Loss recognised (note 5.3.7)</b>						<b>(37,414)</b>	<b>-</b>	<b>37,414</b>		
<b>Total-June 30, 2010</b>						<b>96,635</b>	<b>85,062</b>	<b>(11,573)</b>		
<b>Total-June 30, 2009</b>						<b>143,615</b>	<b>127,178</b>	<b>(16,437)</b>		

**5.3.2** New Allied Electronics Industries (Pvt) Limited defaulted on the amount of principal and mark-up due on the scheduled redemption dates [i.e. October 25, 2008 (only principal), January 25, 2009, April 25, 2009, July 25, 2009, October 25, 2009, January 25, 2010 and April 25, 2010]. Hence, the Fund has provided for the amount of the Investment by 100% in accordance with the provisioning policy approved by the Board of Directors of the Management Company and Circular 1 of 2009.

**5.3.3** During the current year, due to reclassification of sukuks of Kohat Cement Company Limited from non-performing to performing category by Mutual Fund Association of Pakistan (MUFAP), the impairment loss amounting to Rs 0.698 million recognised in the prior year in respect of Kohat Cement Company Limited has been reversed.

**5.3.4** During the current year, Maple Leaf Cement Factory Limited has defaulted in the payment of mark up due on December 3, 2009. The terms of repayment have been restructured during the current year, however, the sukuks have not been reclassified as performing by MUFAP. As a matter of prudence, mark up is being recognised on receipt basis and the carrying amount of investment has been reduced by 41 percent in accordance with the provisioning policy approved by the Board of Directors of the Management Company. The excess provision over and above the minimum provision prescribed by the Securities and Exchange Commission of Pakistan (SECP) vide its Circular no. 1 of 2009 dated January 6, 2009 amounted to Rs. 1,934,259. Further, as per terms of restructuring a new sukuk by the name of "Maple Leaf Cement Factory Limited sukuk-II" amounting to Rs 0.375 million has been allotted in settlement of partial markup outstanding on December 3, 2009. However, considering the previous repayment behaviour of the company and as a matter of prudence, the management has not recognised the said Sukuk in the financial statements.

**5.3.5** The Term Finance Certificate and Sukuk bonds held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage / pledge of fixed assets of the issuer.

	Note	2010	2009
Rupees in '000'			
<b>5.3.6 Unrealised appreciation / (diminution) in value of investments classified as available for sale - net</b>			
Market value of investments	5.3.1	85,062	127,178
Less:			
Cost of investments	5.3.1	134,049	175,750
Impairment loss recognised	5.3.1	(37,414)	(32,135)
Cost of investments - net		(96,635)	(143,615)
		(11,573)	(16,437)
Less: Net unrealized appreciation in fair value of investments classified as available for sale at the beginning of the year.		16,437	(1,515)
Less: Realized on disposal during the year		(4,041)	508
		12,396	(1,007)
		823	(17,444)
<b>5.3.7 Movement in impairment loss</b>			
Opening	5.3.7.1	132,135	-
Add: charge for the year		5,977	142,173
Less: reversal due to disposal and reclassification		(698)	(10,038)
		5,279	132,135
Closing		137,414	132,135

**5.3.7.1** This includes an amount Rs 100 million held as provision (as more fully explained in note 5.2.2) against an amount advanced to Dewan Cement Limited in prior years in respect of Pre-IPO placement classified as 'Financial assets at fair value through profit or loss' - held for trading.

**5.4 Unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss' - net**

Market value of securities	5.1, 5.2.1 & 5.2.3	213,246	191,245
Less: carrying value of securities	5.1, 5.2.1 & 5.2.3	(228,553)	(302,348)
		(15,307)	(111,103)
Less: Impairment loss recognised in Income statement		-	100,000
		(15,307)	(11,103)

**5.5 NON-COMPLIANCE STATUS WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. AKD Investment Management Limited (Management Company) classified AKD Income Fund (the Fund) as 'Income Scheme' in accordance with the said circular.

In accordance with clause (i) of the investment criteria laid down for 'Income scheme', the Fund is required to invest in prescribed securities. Further, in accordance with clause (iii) of the investment criteria laid down for 'Income scheme', the Fund is required to invest at least 25 percent of its net assets in cash and near cash instruments which include cash in bank accounts (excluding TDRs) and treasury bills not exceeding 90 days maturity. Moreover, clause (iv) of the said investment criteria requires that the Fund should not invest more than 15 percent of the net assets in non traded securities including reverse repos, bank deposits, certificates of investments (COI), certificate of musharikas (COM) and anything over 6 months maturity which is not a marketable security. Also, clause (v) of the said investment criteria requires that the rating of any security in the portfolio should not be lower than investment grade. Furthermore, clause (viii) of the said investment criteria requires that the weighted average time to maturity of the net assets shall not exceed 4 years, excluding securities issued by the Federal Government.

At June 30, 2010, the Fund is compliant with the above-mentioned requirements, except as follows:

Name of non-compliant investment	Type of investment	Value of investment before provision	Provision held if any	Value of investment after provision	% of Net Assets	% of Gross Assets	Remarks
----- Rupees in '000' -----							
Security Leasing Company Limited	Preference shares	11,352	-	11,352	2.36%	2.35%	Preference shares do not fall within the purview of prescribed securities as specified under clause (i).
Investment in cash and near cash instruments *	Bank balances and treasury bills having maturity not exceeding 90 days	31,617	-	31,617	6.59%	6.53%	Non compliant with clause (iii).
Non traded Securities	Bank deposits, certificates of investments (COI), certificate of musharikas (COM) and anything over 6 months maturity which is not a marketable security	100,567	-	100,567	20.95%	20.78%	Non compliant with clause (iv).
First Dawood Investment Bank Limited	Term Finance Certificate	22,355	-	22,355	4.66%	4.62%	These securities are non compliant with requirements of clause (v).
Kohat Cement Company Limited	Sukuk	13,345	(3,336)	10,009	2.08%	2.07%	
Maple Leaf Cement Factory Limited	Sukuk	9,996	(4,078)	5,918	1.23%	1.22%	
Saudi Pak Leasing Company Limited	Letter of Placement	71,500	-	71,500	14.89%	14.78%	
New Allied Electronics Industries (Pvt) Limited	Sukuk	30,000	(30,000)	-	-	-	
Dewan Cement Limited	Term Finance Certificate	100,000	(100,000)	-	-	-	

\* In accordance with clause 4(iii) of circular no. 16 of 2010 dated July 7, 2010, the Fund is required to comply with this requirement latest by December 31, 2010.

## 6 LOANS AND RECEIVABLES

Certificates of Musharika  
 Certificates of Investment  
 Letter of Placement

Note	2010 Rupees in '000'	2009
6.1	50,000	50,000
6.2	18,950	152,650
6.3	71,500	-
	<u>140,450</u>	<u>202,650</u>

Name of Modaraba / Investee Company	Expected profit / mark-up rate	Maturity	Carrying amount as at June 30, 2010
-------------------------------------	--------------------------------	----------	-------------------------------------

### 6.1 Certificates of Musharika

First National Bank Modaraba

12.72% 16-Feb-11

Rupees in '000'

50,000

50,000

### 6.2 Certificates of Investment

Invest Capital Investment Bank Limited

16.00% 10-Aug-10

18,950

18,950

### 6.3 Letter of Placement

Saudi Pak Leasing Company Limited

10.00% 21-Sep-10

71,500

71,500

## 7 PROFIT AND OTHER RECEIVABLES

Profit receivable on bank deposits and certificates of Musharika  
 Income accrued on Term Finance Certificates and Sukuk Bonds  
 Income accrued on Certificate of Investment

2010 2009  
 Rupees in '000'

1,251

1,490

8,340

8,196

307

6,212

9,898

15,898

	Note	2010 Rupees in '000'	2009
<b>8 SECURITY DEPOSIT</b>			
Security Deposits with:			
- National Clearing Company of Pakistan Limited		2,625	2,500
- Central Depository Company of Pakistan Limited		100	100
		<u>2,725</u>	<u>2,600</u>

**9 PRELIMINARY EXPENSES AND FLOATATION COSTS**

Opening balance	9.1	1,375	1,875
Less: amortisation during the year		(500)	(500)
Balance as at 30th June		<u>875</u>	<u>1,375</u>

9.1 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.

	Note	2010 Rupees in '000'	2009
<b>10 PAYABLE TO AKD INVESTMENT MANAGEMENT LIMITED – MANAGEMENT COMPANY</b>			
Management fee	10.1	599	843
Preliminary expenses and floatation costs		875	1,875
Sales load		-	1
		<u>1,474</u>	<u>2,719</u>

10.1 Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), 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 1.50 percent per annum, of the average annual net assets of the Fund, for the current year.

	Note	2010 Rupees in '000'	2009
<b>11 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE</b>			
Trustee fee	11.1	79	112
CDS charges		1	1
		<u>80</u>	<u>113</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 Assets of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2010 is as follows:

**Amount of Funds Under Management (Average NAV)**

**Tariff per annum**

Upto Rs. 1,000 million

Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher

On an amount exceeding Rs 1,000 million

Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million

The remuneration is paid to the trustee monthly in arrears.

**12 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund.

	Note	2010	2009
		Rupees in '000'	
<b>13 ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Brokerage		-	1
National Clearing Company Charges		15	-
Withholding tax payable		7	-
Auditors' remuneration	13.1	218	200
Provision against Worker's Welfare Fund	13.2	734	-
Others		228	190
		<u>1,202</u>	<u>391</u>
<b>13.1 Auditors' remuneration</b>			
Annual audit fee		175	175
Half yearly review fee		50	50
Other certifications and services		25	25
Out of pocket expenses		57	25
		<u>307</u>	<u>275</u>

**13.2 PROVISION FOR WORKERS' WELFARE FUND**

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund (WWF) Ordinance, 1971, whereby the definition of "industrial establishment" was amended to include therein, any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 applies. Management Company of the Fund, based on a legal advice obtained through Mutual Funds Association of Pakistan (MUFAP) was of a firm view that Collective Investment Scheme (CIS) were not establishments and therefore, the WWF Ordinance should not be applicable to such schemes. The MUFAP had also filed a constitutional petition in the High Court of Sindh (the Court) on behalf of the members, challenging the applicability of WWF to the CIS. The said petition was dismissed by the Court vide its order dated May 25, 2010 on the main ground that the MUFAP (Petitioner) could not be held entitled to maintain a petition in respect of its members as it was not the aggrieved party, and the main ground could be examined when the aggrieved parties directly approached the Court for redressal.

Consequently, on June 30, 2010, a constitutional petition was filed in the High Court of Sindh by certain representative CIS and approved pension funds under the Voluntary Pension System Rules, 2005, through their trustees and with the management companies, which is pending adjudication.

In the meantime, clarification has been obtained by the MUFAP from the Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, which, through their letter nos. WWF (A - II)11.(5)/2010 dated July 8, 2010 and July 15, 2010, has clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy. However, as an abundant caution the Management Company of the Fund has decided to recognise a provision for WWF in these financial statements pending final decision on the constitutional petition by the High Court of Sindh or issuance of a formal notification by the Ministry of Labour and Manpower confirming the non-applicability of WWF on CIS.

14 FINANCIAL INSTRUMENTS BY CATEGORY

As at June 30, 2010				
	Loans and receivables	Financial Assets at fair value through profit or loss	Assets classified as Available for Sale	Total
-----Rupees in '000-----				
<b>Assets</b>				
Bank balances	31,617	-	-	31,617
Investments	-	213,246	85,062	298,308
Loans and receivables	140,450	-	-	140,450
Profit and other receivables	9,898	-	-	9,898
Security Deposits	2,725	-	-	2,725
	<u>184,690</u>	<u>213,246</u>	<u>85,062</u>	<u>482,998</u>

As at June 30, 2010			
	Other financial liabilities	Liabilities at fair value through profit or loss	Total
-----Rupees in '000-----			
<b>Liabilities</b>			
Payable to AKD Investment Management Limited -Management Company	1,474	-	1,474
Payable to Central Depository Company of Pakistan Limited -Trustee	80	-	80
Payable on redemption of units	603	-	603
Accrued expenses and other liabilities	446	-	446
	<u>2,603</u>	<u>-</u>	<u>2,603</u>

As at June 30, 2009				
	Loans and receivables	Financial Assets at fair value through profit or loss	Assets classified as Available for Sale	Total
-----Rupees in '000-----				
<b>Assets</b>				
Bank balances	52,559	-	-	52,559
Investments	-	191,245	127,178	318,423
Loans and receivables	202,650	-	-	202,650
Profit and other receivables	15,898	-	-	15,898
Security Deposits	2,600	-	-	2,600
	<u>273,707</u>	<u>191,245</u>	<u>127,178</u>	<u>592,130</u>

As at June 30, 2009		
Other financial liabilities	Liabilities at fair value through profit or loss	Total
-----Rupees in '000-----		
Payable to AKD Investment Management Limited - Management Company	2,719	-
Payable to Central Depository Company of Pakistan Limited - Trustee	113	-
Payable on redemption of units	-	-
Accrued expenses and other liabilities	391	-
	<u>3,223</u>	<u>3,223</u>

## 15 CONTINGENCIES AND COMMITMENTS

15.1 There were no contingencies and commitments outstanding as at June 30, 2009 and 2010.

## 16 BORROWING COSTS

Markup on running finance

2010	2009
Rupees in '000'	
-	1,100

## 17 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include AKD Investment Management Limited, being the Management Company of the Fund, Aqeel Karim Dhedhi Securities (Private) Limited, Central Depository Company of Pakistan Limited being the trustee, other collective schemes managed by the Management Company and directors and officers of the Management Company and their connected persons.

The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

Remuneration payable to the Management Company and Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

Details of transactions and balances with connected persons are as follows:

	2010	2009
	Rupees in '000'	
<b>17.1 Transactions during the year</b>		
<b>AKD Investment Management Limited - Management Company</b>		
Purchase of units (2010: Nil ; 2009: 957,120)	-	47,008
Redemption of units (2010: 448,203 ; 2009: 515,203)	20,906	26,025
Issue of bonus units (2010: Nil ; 2009: 6,286)	-	321
Management fee	8,160	19,170
Sales load	273	77
Reimbursement of preliminary expenses and floatation costs paid	1,000	500
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Trustee fee	1,088	2,383
Purchase of units (2010: Nil ; 2009: 1,437,760)	-	71,500
Redemption of units (2010: Nil ; 2009: 3,280,869 )	-	161,748
Issue of bonus units (2010: Nil ; 2009: 68,956)	-	3,498

	2010	2009
	Rupees in '000'	
<b>AKD Investment Management Limited Staff Provident Fund</b>		
Purchase of units (2010: Nil ; 2009: 217,117)	-	10,482
Redemption of units (2010: Nil ; 2009: 271,803)	-	12,798
Issue of bonus units (2010: Nil ; 2009: 2,914)	-	148
<b>Aqeel Karim Dhedhi Securities (Private) Limited</b>		
Purchase of units (2010: Nil ; 2009: 617,870)	-	27,000
Redemption of units (2010: Nil; 2009: 2,852,012)	-	127,759
Issue of bonus units (2010: Nil ; 2009: 92,199)	-	4,673
<b>AKD Opportunity Fund</b>		
Purchase of units (2010: Nil ; 2009: 4,779,407)	-	244,000
Redemption of units (2010: Nil ; 2009: 5,385,535)	-	273,068
Issue of bonus units (2010: Nil ; 2009: 22,764)	-	1,155
Purchase of Term Finance Certificates(2010: 2,000; 2009: Nil)	8,678	-
<b>AKD Index Tracker Fund</b>		
Purchase of units (2010: Nil ; 2009: 194,802)	-	10,000
Redemption of units (2010: Nil ; 2009: 194,802)	-	10,087
<b>Golden Arrow Selected Stocks Fund Limited</b>		
Purchase of Term Finance Certificates (2010: 5,696; 2009: Nil)	26,500	-
<b>Saudi Pak Leasing Company Limited</b>		
Principal received	28,500	-
Markup received	16,939	13,190
<b>17.2 Amounts outstanding as at the year end</b>		
<b>AKD Investment Management Limited - Management Company</b>		
Management fee payable	599	843
Preliminary expenses and floatation costs	875	1,875
Sales load payable	-	1
Units held (2010: Nil ; 2009: 448,203)	-	20,015
	1,474	22,734
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Trustee fee payable	79	112
CDS charges Payable	1	1
	80	113
<b>Aqeel Karim Dhedhi Securities (Private) Limited</b>		
Units held (2010: 505,887 ; 2009: 505,887)	24,626	22,591
	24,626	22,591
<b>Saudi Pak Leasing Company Limited</b>		
Letter of Placement / Certificate of Investment	71,500	100,000
Markup receivable	-	5,491
	71,500	105,491

## 18 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

Details of members of the investment committee of the Fund are as follows:

	Designation	Qualification	Experience in years
1 Mr. Nadeem Naqvi	Chief Executive Officer	MBA-Finance	28
2 Mr. Imran Motiwala	Fund Manager -GASSFL & AKDOF	BBA	16
3 Mr. Muhammad Amin Hussain	Chief Financial Officer and Company Secretary	ACMA & ACIS	26
4 Mr. Muhammad Yaqoob	Fund Manager - AKDIF & AKDITF	MBA	6
5 Mr. Ahmed Hassan	Fund Manager - AKDITF	BBA	3
6 Mr. Danish Owais	Research Analyst	BBA	3



18.1 Mr Muhammad Yaqoob is the Manager of the Fund. He has obtained a Masters degree in Finance. AKD Index Tracker Fund is also being managed by the fund manager.

19 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

		2010
1	First Capital Securities Corporation Ltd.	21%
2	IGI Finex Securities Limited	18%
3	KASB Securities Limited	14%
4	Investment Managers Securities (Pvt.) Ltd.	14%
5	Icon Securities (Pvt.) Limited	11%
6	Invisor Securities (Pvt) Limited	6%
7	Global Securities Pakistan Limited	6%
8	Pearl Securities (Pvt.) Ltd.	6%
9	BMA Capital Management Limited	3%
10	Atlas Capital Markets (Pvt) Limited	2%

		2009
1	JS Global Capital Ltd	37%
2	AMZ Securities (Private) Limited	13%
3	First Capital Securities Corporation Ltd.	11%
4	BMA Capital Management Limited	10%
5	Invisor Securities (Pvt) Limited	8%
6	KASB Securities Limited	7%
7	Pearl Securities (Pvt) Ltd.	5%
8	Invest Capital Investment Bank Ltd.	4%
9	Global Securities Pakistan Ltd	3%
10	Alfalah Securities (Pvt) Limited	1%

20 PATTERN OF UNIT HOLDING

Category	As at June 30, 2010		
	Number of unit holders	Investment amount Rupees in '000	Percentage of investment
Individuals	68	26,909	5.60%
Associated companies and Directors	1	24,626	5.13%
Insurance companies	-	-	-
Bank / DFIs	5	130,010	27.08%
NBFCs	1	136	0.03%
Retirement funds	17	292,392	60.90%
Public Limited companies	-	-	-
Others	5	6,033	1.26%
	<u>97</u>	<u>480,106</u>	<u>100.00%</u>
Category	As at June 30, 2009		
	Number of unit holders	Investment amount Rupees in '000	Percentage of investment
Individuals	80	23,477	3.99%
Associated companies and Directors	2	42,606	7.23%
Insurance companies	-	-	-
Bank / DFIs	6	196,539	33.37%
NBFCs	1	13,262	2.25%
Retirement funds	22	294,362	49.99%
Public Limited companies	-	-	-
Others	5	18,654	3.17%
	<u>116</u>	<u>588,900</u>	<u>100.00%</u>

## 21 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 32nd, 33rd, 34th and 35th Board meetings were held on August 20, 2009, October 23, 2009, February 25, 2010 and April 29, 2010 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings held	Attended	Leave granted	Meetings not attended
Mr. Farukh Shaukat Ansari	4	3	1	32nd meeting
Mr. Faisal Bengali	4	2	-	-
Mr. Nadeem Naqvi*	4	2	-	-
Mr. Imran Motiwala	4	4	-	-
Mr. Taufique Habib	4	3	1	34th meeting
Mr. Zahoor Motiwala	4	4	-	-
Mr. Asif Akram	4	2	2	32nd and 35th meeting
Mr. Ali Qadir Gilani**	4	-	1	35th meeting
Mr. Ashraf Adamjee	4	2	-	-

\* Mr. Nadeem Naqvi appointed on December 3, 2009 in place of Mr. Faisal Bengali

\*\* Mr. Ali Qadir Gilani appointed on April 8, 2010 in place of Mr. Ashraf Adamjee

## 22 FINANCIAL RISK MANAGEMENT

The Fund primarily invests in a portfolio of money market investments such as investment-grade debt securities, government securities, spread transactions, continuous funding system transactions and investments in other money market instruments. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

### 22.1 Market risk

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

The 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.

### 22.2 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

### 22.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates.

#### - Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates (TFCs) and Sukuk Bonds / Certificates exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2010, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 0.393 million (2009: Rs.0.308 million) in case of TFC and Sukuk Bonds / Certificates classified as financial assets at fair value through profit or loss. In case of TFCs and Sukuk Bonds / Certificates classified as Available for Sale 100 basis points increase / decrease in KIBOR on June 30, 2010, with all other variables held constant, the net assets of the Fund would have been higher / lower by Rs 0.194 million (2009: 0.299 million).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by the Financial Market Association is expected to change over time. Further, in case of variable rate instruments, the sensitivity analysis has been done from the last repricing date. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

**- Sensitivity analysis for fixed rate instruments**

As at June 30, 2010, a Treasury bill and preference shares are held by the Fund, classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. The sensitivity analysis has not been performed in respect of preference shares as the company has currently defaulted in the payment of redemption amount due on November 30, 2009. In case of Treasury bill, an increase of 100 basis points in the rates announced by Financial Market Association on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be lower by Rs 0.159 million (2009: Rs Nil). In case of 100 basis points decrease in rates announced by Financial Market Association on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be higher by Rs 0.162 million (2009: Rs Nil).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on the settlement date.

**22.4** The Fund's MROR Sensitivity related to financial assets and financial liabilities as at June 30, 2010 can be determined from the following:

As at June 30, 2010						
Effective rate of mark-up / return	----- Exposed to Yield / Interest risk -----			Not exposed to yield / interest risk	Total	
	Upto three months	More than three months and upto one year	More than one year			
%	----- (Rupees in '000) -----					
<b>On-balance sheet financial instruments</b>						
<b>Financial Assets</b>						
Bank balances	5.00- 12.05	31,577	-	-	40	31,617
Investments	13.53 - 15.93	30,971	255,985	-	11,352	298,308
Loans and receivables	10.00 - 16.00	90,450	50,000	-	-	140,450
Profit and other receivables		-	-	-	9,898	9,898
Security Deposit		-	-	-	2,725	2,725
		152,998	305,985	-	24,015	482,998
<b>Financial Liabilities</b>						
Payable to AKD Investment Management Limited - Management Company		-	-	-	1,474	1,474
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	80	80
Payable on redemption of units		-	-	-	603	603
Accrued expenses and other liabilities		-	-	-	446	446
		-	-	-	2,603	2,603
<b>On-balance sheet gap</b>		152,998	305,985	-	21,412	480,395
<b>Off-balance sheet financial instruments</b>						
CFS transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase transactions have not been settled as at June 30, 2010		-	-	-	-	-
Spread transactions (including transactions to be rolled over) entered into by the Fund in respect of which the sale transaction has not been settled as at June 30, 2010		-	-	-	-	-
<b>Off-balance sheet gap</b>		-	-	-	-	-
		152,998	305,985	-	21,412	480,395

As at June 30, 2009

Effective rate of mark-up / return	----- Exposed to Yield / Interest risk -----			Not exposed to yield / interest risk	Total	
	Upto three months	More than three months and upto one year	More than one year			
%	----- (Rupees in '000) -----					
<b>On-balance sheet financial instruments</b>						
<b>Financial Assets</b>						
Bank balances	9.5 - 12.75	52,519	-	-	40	52,559
Investments	9.1 - 16.60	81,801	204,960	-	31,662	318,423
Loans and receivables	14.78 - 16.20	52,650	100,000	50,000	-	202,650
Profit and other receivables		-	-	-	15,898	15,898
Security Deposit		-	-	-	2,600	2,600
		186,970	304,960	50,000	50,200	592,130
<b>Financial Liabilities</b>						
Payable to AKD Investment Management Limited - Management Company		-	-	-	2,719	2,719
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	113	113
Payable on redemption of units		-	-	-	-	-
Accrued expenses and other liabilities		-	-	-	391	391
		-	-	-	3,223	3,223
<b>On-balance sheet gap</b>		186,970	304,960	50,000	46,977	588,907
<b>Off-balance sheet financial instruments</b>						
CFS transactions (including transactions to be rolled 'over') entered into by the Fund in respect of which the purchase transactions have not been settled as at June 30, 2009		-	-	-	-	-
Spread transactions (including transactions to be rolled over) entered into by the Fund in respect of which the sale transaction has not been settled as at June 30, 2009		-	-	-	-	-
<b>Off-balance sheet gap</b>		-	-	-	-	-
		186,970	304,960	50,000	46,977	588,907

## 22.5 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Fund is not exposed to equity securities price risk as the Fund does not hold any equity securities as at June 30, 2010.

## 22.6 Credit risk

### 22.6.1 Credit risk management

Credit risk represents the risk of a loss if counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in term finance certificates, Sukuk Bonds / Certificates loans and receivables and balances with banks. The credit risk on liquid funds is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies and investment guidelines (approved by the Investment Committee) require the Fund to invest in debt securities that have been rated as investment grade by a well known rating agency.

The analysis below summarises the credit quality of the Fund's investment in Term Finance Certificates as at June 30, 2010 and June 30, 2009:

	2010	2009
<b>Banks by rating category</b>		
Allied Bank Limited	AA	AA
Arif Habib Bank Limited	A	A
Bank Al-Falah Limited	AA	AA
Bank Al-Habib Limited	AA+	AA+
Bank of Khyber	BBB+	BBB+
Bank of Punjab	AA-	AA-
Citi Bank N.A. Pakistan	A1+	A1+
Habib Bank Limited	AA+	AA+
Habib Metropolitan Bank Limited	AA+	AA+
KASB Bank Limited	A-	A
MCB Bank Limited	AA+	AA+
MyBank Limited	A-	A-
Soneri Bank Limited	AA-	AA-
Standard Chartered Bank (Pakistan) Limited	AAA	AAA
United Bank Limited	A1+	A1+
	<b>June 30, 2010</b>	<b>June 30, 2009</b>
<b>Term Finance Certificates by rating category</b>		
AAA, AAA-, AAA+	-	-
AA, AA-, AA+	6.93%	16.92%
A, A-, A+	78.57%	70.85%
BB, BB+, BB-	-	8.24%
Rated non-investment/non-rated investment grade	12.25%	-
Default	2.24%	3.99%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2010 is the carrying amount of the financial assets.

**22.6.2** A reconciliation of provision made during the year in respect of outstanding debt securities is given in note 4.2 to these financial statements.

**22.6.3** An analysis of the financial assets that are individually impaired as per the requirements of Circular No. 1 dated January 6, 2009 and Circular No. 13 dated May 4, 2009 issued by the Securities and Exchange Commission of Pakistan are as under:

	2010		2009	
	Payment over due (in days)	Cost	Payment over due (in days)	Cost
Term Finance Certificates	1 to 89	-	1 to 89	-
Term Finance Certificates	90 to 179	-	90 to 179	13,345
Term Finance Certificates / Sukuks and Quoted equity securities	180 to 270	41,658	180 to 270	30,000
Term Finance Certificates	270 to 365	-	270 to 365	100,000
Term Finance Certificates	over 365	30,000	over 365	-

**22.6.4 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. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

**22.7 Liquidity risk**

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligation in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions, if any, at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

The Fund has the ability to borrow in the short term to ensure settlement. During the current year, the Fund did not avail any borrowing (2009: Rs 239.99 million). The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Funds. The facility would bear interest at commercial rates.

In order to manage the Fund's overall liquidity, the Fund also has the ability 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. The Fund did not withhold any significant redemptions during the year.

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

	As at June 30, 2010			
	Total	Upto three months	More than three months and upto one year	More than one year
	-----Rupees in '000-----			
<b>Liabilities</b>				
Payable to AKD Investment Management Limited - Management Company	1,474	1,474	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	80	80	-	-
Payable on redemption of units	603	603	-	-
Accrued expenses and other liabilities	446	446	-	-
	<u>2,603</u>	<u>2,603</u>	<u>-</u>	<u>-</u>

As at June 30, 2009

	Total	Upto three months	More than three months and upto one year	More than one year
-----Rupees in '000-----				
<b>Liabilities</b>				
Payable to AKD Investment Management Limited - Management Company	2,719	2,719	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	113	113	-	-
Payable on redemption of units	-	-	-	-
Accrued expenses and other liabilities	391	391	-	-
	<u>3,223</u>	<u>3,223</u>	<u>-</u>	<u>-</u>

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

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

### 22.7.3 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

Effective July 1, 2009, the Fund adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at June 30, 2010

	Level 1	Level 2	Level 3	Total
-----Rupees in '000-----				
<b>ASSETS</b>				
Investment in securities - at fair value through profit or loss	11,352	201,894	-	213,246
Investment in securities - available for sale	-	79,144	5,918	85,062

## 23 CAPITAL RISK MANAGEMENT

The Fund's capital is represented by redeemable units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown on the statement of movement in unit holders' funds.

The Fund's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong capital base to meet unexpected losses or opportunities. In accordance with the NBFC Regulations the Fund is required to distribute at least ninety percent of its income from sources other than unrealised capital gains as reduced by such expenses as are chargeable to the Fund.

In accordance with the risk management policies stated in note 22, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments or short-term borrowings where necessary.

## 24 NON - ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Management Company in its meetings held on July 08, 2010 has proposed a final bonus distribution in respect of the year ended June 30, 2010 of Rs 3.40 per unit (2009: Rs Nil per unit) amounting to Rs 33.534 million (2009: Rs Nil). The financial statements for the year ended June 30, 2010 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2011.

## 25 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 8, 2010 by the Board of Directors of the Management Company.

## 26 GENERAL

**26.1** Corresponding figures have been rearranged and reclassified wherever necessary, for the purposes of comparison and better presentation. During the current year, there were no major reclassifications except as required due to the change in accounting policy stated in note 2.2.

**26.2** Figures have been rounded off to the nearest thousand rupees.

For AKD Investment Management Limited  
(Management Company)

**Nadeem Naqvi**  
Chief Executive Officer

**Imran Motiwala**  
Director



## PERFORMANCE TABLE

	2010	2009	2008	2007
Total net assets value (Rs '000)*	471,641	588,900	3,862,671	2,450,766
Net assets value per unit - (Rs)*	45.2784	44.6562	50.4220	50.1770
Selling price as at June 30 (Rs)	49.1653	45.1028	51.9363	52.2885
Repurchase price as at June 30 (Rs)*	45.2784	44.6562	50.4220	50.1770
Highest selling price (Rs)	49.1936	52.3009	54.5448	52.3129
Lowest selling price (Rs)	45.0428	43.4063	50.8675	50.8000
Highest repurchase price (Rs)	48.7064	51.7830	54.0047	51.7949
Lowest repurchase price (Rs)	44.5967	42.9764	50.3638	50.2500
<b>Return of the Fund</b>				
- capital growth (Rs '000)	(108,794)	(3,287,517)	1,425,651	83,826
- income distribution (Rs '000)*	33,534	32,928	478,712	75,443
<b>Distribution per unit</b>				
<b>Interim</b>				
- Gross (2009: announced on October 17, 2008, 2008: announced on April 7, 2008) (Rs)	-	0.75	3.50	-
<b>Final</b>				
- Gross (2010: announced on July 8, 2010, 2008: announced on July 7, 2008, 2007: announced on July 11, 2007) (Rs)	3.40	-	1.00	1.59
	----- Percentage -----			
<b>Average Annual Return</b>				
- Last one year	9.01	-9.95	9.46	12.90**
- Last two years	-0.99	-0.27	-	-
- Last three years	2.49	-	-	-
	----- No. of days -----			
Weighted Average Portfolio Duration	87	77	79	22

\* Final distributions for the year made subsequent to the year end have been adjusted against the closing NAVs.

\*\* Annualized Return for the first year operation commencing from 23rd March 2007.

Note: The portfolio composition of the fund has been disclosed in note 5 & 6 to the financial statements.

Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up.



**AKD Investment  
Management Ltd.**

216-217, Continental Trade Centre, Block-8, Clifton, Karachi-74000  
U.A.N : 92-21-111-AKDIML (111-253-465) Fax : 92-21-35373217, 35303125  
E-mail : [info@akdinvestment.com](mailto:info@akdinvestment.com) Website : [www.akdinvestment.com](http://www.akdinvestment.com)

**Islamabad Branch:**

Suite # 302 - 303,  
New ISE Tower, Main Jinnah Avenue,  
Blue Area, Islamabad  
Tel: 051-2894316-18, Fax: 051-2894319

**Lahore Branch:**

Suite # 512-513, 5th Floor  
Lahore Stock Exchange Building,  
19, Khayaban-e-Aiwan-e-Iqbal Road, Lahore  
Tel: 042-36280916-8, Fax: 042-36280919

**Multan Branch:**

B.F 2/III, 2<sup>nd</sup> Business Floor,  
ChenOne Tower,  
74 Abdali Road, Multan  
Tel: 061-4512728 - 29