

Annual Report 2010

Askari Income Fund



Invest with AIM

Title Inside



vision

The leading quality investment advisor providing excellent returns in a dynamic market place, based on the superior expertise of a committed team of professionals who value

“service to the customer”

Askari Investment
Management Limited

Good people.
Sound advice.
Great returns.



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information about the management company

Registered Office

Askari Investment Management Ltd.
Suit # 501, 5th Floor, Green Trust Tower, Blue Area,
Jinnah Avenue, Islamabad

Head Office

Askari Investment Management Ltd.
Mezzanine floor, Bahria Complex III
M.T.Khan Road,
Karachi
UAN: 111-246-111
Email: info@askariinvestments.com

Board of Directors

- Lt. Gen. (R.) Imtiaz Hussain – Chairman
- Mr. Shahid Hafeez Azmi
- Mr. Muhammad Naseem- FCA
- Mr. Mohammad Rafiquddin Mekhari
- Maj Gen (R) Saeed Ahmed Khan
- Mr. Sufian Mazhar
- Mr. Tahir Aziz
- Mr. Adnan Ahmed Siddiqui – CEO

Executive Committee

- Mr. Mohammad Rafiquddin Mehkari - Chairman
- Mr. Shahid Hafeez Azmi
- Mr. Tahir Aziz
- Mr. Adnan Ahmed Siddiqui – CEO

Audit Committee

- Mr. Muhammad Naseem- FCA (Chairman)
- Mr. Shahid Hafeez Azmi
- Mr. Mohammad Rafiquddin Mekhari
- Mr. Tahir Aziz

Chief Financial Officer:

Mr. Irfan Saleem Awan, ACA

Company Secretary:

Syed Shoaib Jaffery

fund's information

Registrar

Technology Trade (Pvt.) Ltd.
Dagia House: 241-C, P.E.C.H.S Block-2,
Shahrah-e-Quaideen, Karachi

Bankers

- Askari Bank Limited
- Bank Al-Falah Limited
- Royal Bank of Scotland Limited
- Bank Al-Baraka Limited
- Summit Bank Limited (Formerly: Arif Habib Bank Limited)

Trustee

- CDC House, 99-B, Block B, S.M.C.H.S.,
Main Shahrah-e-Faisal, Karachi
Tel: (92-021) 111-111-500

Auditors

- Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O.Box 15541, Karachi
Tel: (92-021) 3565-0007

Legal Advisor

- Haidermota & Company
Barristers-at-Law & Corporate Counselors
D-79, Block-5, Clifton
KDA Scheme no.5, Karachi

directors' report



DIRECTORS' REPORT TO THE UNITHOLDERS

On behalf of the Board of Directors of Askari Investment Management Limited ("the Management Company" or "the Company"), we are pleased to present the annual report of Askari Income Fund ("the Fund" or "AIF") along with the Audited financial Statements and Auditors' report thereon for the year ended June 30, 2010.

Economic Overview

Commodity prices have rebounded strongly from their lows of late 2008 and early 2009, driven by strong recoveries of industrial production especially in emerging-market economies. Recently, world oil prices again pierced \$80 per barrel mark before coming back to just under \$78. The rise in commodity prices has contributed to moderate acceleration of overall consumer price inflation in a number of emerging-market economies and perhaps also to the modest pickup in core inflation in many of these countries. Monetary policies have been tightened in several countries (including China and India) to contain the rise of inflationary pressures. This will likely slow the pace of economic expansion somewhat but is not a major threat to continued global recovery.

The world oil price is potentially a more immediate concern for global growth, especially if prices rise above \$100 per barrel. With considerable excess capacity available, however, it seems reasonable to expect that dramatic increases in oil prices will not be driven by global supply and demand conditions before 2012.

In Pakistan, the shocks of political uncertainty and the energy crisis has badly affected the industrial production growth and it declined to six years low in 2008-09. The economy recovered slightly during the last fiscal year after setback of the preceding year due to political uncertainty in the country and global recession. Curtailing electricity shortfall is still a challenge for the government in order to improve industrial production output. Moreover, the recent hike in interest rates will not bode well with the market. The stock market is likely to react negatively to this in the short term. Although this increase will help the government control rising inflation, it is likely to stifle growth and investment, which the economy currently needs desperately. The government therefore needs to carefully balance this sensitive tradeoff between controlling inflation and encouraging investment and growth in order to bring the economy back on track. KSE100 gained 36% in FY10 due to continued economic improvement, thus outshining its peers in the region. Net foreign inflows were recorded at USD567mn. Net foreign investment in KSE100 was recorded at 6.8% of the total market cap (USD 2.1bn by the end of June 2010). A longer-term goal for the Pakistan's equities is to be included in the MSCI Emerging Markets as Pakistan may be put on review during the 4Q FY11. This will likely improve Pakistan's visibility on the international financial markets, thus leading to increased foreign flows.

The real expected GDP growth rate for the next fiscal year is 4.5%. The sectoral growth rates are expected to be 3.8% for agriculture, 4.9% for industry and 4.7% for services sectors. The fiscal deficit is estimated to be 4.0% of GDP but the achievement of the fiscal deficit target could be difficult because of the ambitious revenue target and uncertainty over the external financial inflows arising from sources such as Coalition Support Fund and Kerry-Lugar Act and due to the possible impacts of recent floods in the Country. Further, with the Capital Gains Tax (CGT) implemented, the market may continue to be dull for the next couple of months.

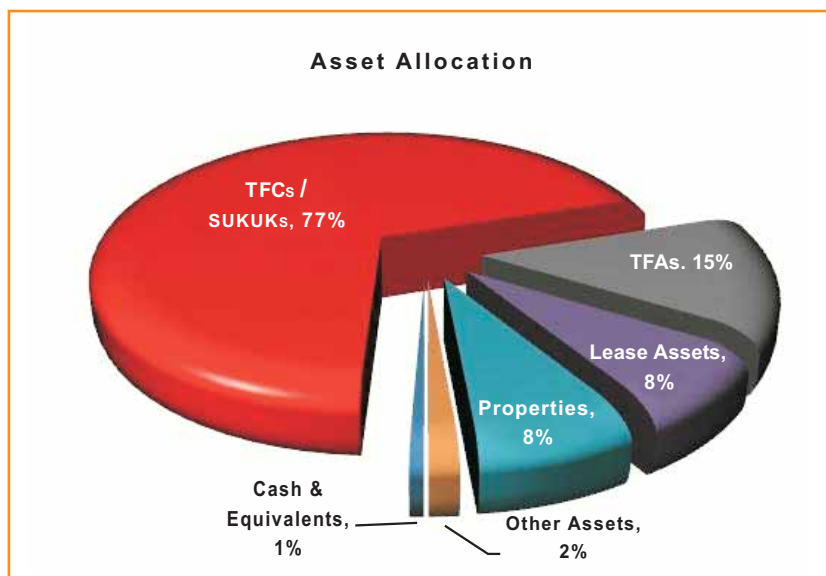
Performance of the Fund

Returns of AIF for the year ended 30 June 2010 were negative 7.09% with the fund size at Rs 1.3 billion as compared to Rs 3.1 billion last year. The adverse performance and loss to the Fund is mainly attributable to the provisions for diminution in value of debt securities and other assets including TFCs, Sukuks, Term Finance Agreements, Leased Asset and Properties (acquired against settlement of investments) due to their non performing status and/or the valuation impacts. Further during the year, the Fund suffered additional losses due to sale of certain TFCs at lower than carrying value in order to meet redemption requests of the Unit Holders of the Fund. The massive decrease in fund size together with the depressing economic scenario resulted in deterioration of credit quality of portfolio with increase in non-performing and/or non-earning assets.

The Board of Directors of the Management Company has approved to categorize this Fund as Aggressive Fixed Income Scheme. Necessary legal and procedural formalities are being completed to implement this decision.

The past year proved to be a testing year for Askari Income Fund, however we believe that the management has the ability to bring about positive change in the Fund's performance with its innovative ideas and focused objective based fund management efforts.

The asset allocation of the Fund as of 30 June 2010 was as follows:



The asset allocation is based on net assets.

Details required by the Code of Corporate Governance:

AIF was listed on the Lahore Stock Exchange (Guarantee) Ltd on April 13, 2006 and Askari Investment Management Limited, as its Management Company, is committed to observe the Code of Corporate Governance as applicable.

The details as required by the Code of Corporate Governance regarding the pattern of unit holding of the Fund as on June 30, 2010 is as follows (Also refer to Annexure – I to the financial statements):

Category	Number of unit holders	Number of units held	% of total
Associated companies/Related Parties:			
Askari Investment Management Limited (Management Company)	1	242,927	1.76
Askari Bank Limited (Holding company of the Management Company)	1	10,073,188	72.81
Askari Cement Limited (Group Company)	1	13,075	0.09
Askari Bank Employees' Provident Fund (A fund related to the Holding Company)	1	301,376	2.18
President Askari Bank Limited Fund (A fund related to the Holding Company)	1	82,434	0.60
Commercial banks	2	1,534,071	11.09
Insurance company	1	246	-
Others	151	1,587,127	11.47
	159	13,834,444	100

The Board of Directors of the Management Company state that:

1. The financial statements present fairly the statement of affairs, the results of operations, cash flows and the changes in unit holders' fund.
2. Proper books of accounts have been maintained by the Fund.
3. Appropriate accounting policies have been consistently applied in the preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.
4. Relevant International Accounting Standards, as applicable in Pakistan, provision of the Non-Banking Finance Companies (Establishment and Regulation) Rules 2003, Non Banking Finance Companies and Notified Entities Regulations 2008 (NBFC Regulations, 2008), requirements of the trust deed and directives issued by the Securities and Exchange Commission of Pakistan have been followed in the preparation of the financial statements and any deviation there from has been disclosed.
5. The system of internal controls is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
8. As detailed in note 23 to the financial statements, the Management Company following a prudent approach made a provision for Workers Welfare Fund (WWF) levy during the year. However, the matter of applicability of WWF on mutual funds is under consideration at various levels, including Honorable Sindh High Court, Mutual Funds Association of Pakistan and the Ministry of Labor and Manpower. The payment or reversal of the said amount of provision is dependant on a final decision about the applicability of this levy on mutual funds.

Trades in the units of the Fund by the Directors, CEO, CFO and Company Secretary of the Management Company their spouses and minor children have been disclosed in Note 24 to the financial statements.

Meetings of the Board of Directors of the Management Company were held once in every quarter. During the year five board meetings were held.

Attendance at these meetings was as follows:

	Meetings attended	No. of meetings held during appointment
Lt. Gen. (R.) Imtiaz Hussain - Chairman	4	5
Maj. Gen. (R.) Saeed Ahmed Khan	4	5
Mr. Mohammad Rafiquddin Mehkari	5	5
Mr. Muhammad Naseem	5	5
Mr. Shahid Hafeez Azmi	5	5
Mr. Tahir Aziz	5	5
Mr. Sufian Mazhar*	1	3
Mr. Saeed Aziz Khan- Ex CEO**	4	4
Mr. Adnan Ahmed Siddiqui- CEO***	1	1

*The Securities and Exchange Commission of Pakistan approved appointment of Mr. Sufian Mazhar as director of the company on January 29, 2010.

** Mr. Saeed Aziz Khan had resigned from the office of Chief Executive Officer with effect from May 31, 2010.

*** Mr. Adnan Siddiqui was appointed as Chief Executive Officer on June 01, 2010 after prior approval of Securities and Exchange Commission of Pakistan.

Key operating and financial data of the Fund for prior years since inception is as follows:

	Jun-10	Jun-09	Jun-08	Jun-07	Jun-06
----- Rupees -----					
Net Assets as on June 30th	1,312,868,229	3,049,420,048	8,346,972,640	9,399,362,925	1,163,679,611
Net Asset Value per unit as on June 30th	94.90	102.14	103.98	111.74	104.98
Net (loss)/ income for the year/ period	(134,398,403)	137,287,852	1,019,929,464	982,145,998	55,216,301
*Dividend Distribution during the year/period	-	392,798,236	1,688,176,556	49,783,007	-

*This excludes dividend distribution for any year approved after the year-end.

Due to accounting loss of the Fund for the year, no dividend was announced for the year ended June 30, 2010.

Future Outlook

Going forward, in view of the economic scenario and the impact of recent floods, external flows are going to be a key factor in the economic recovery of the Country. Funds from Friends of Democratic Pakistan (FoDP), Kerry-Lugar Bill and other bilateral and multilateral assistance, can provide SBP room for quantitative easing which may boost private sector credit off take. The fiscal deficit target of 4.5% is likely to be breached by the government under the current scenario. As a result, the government may be forced to reduce the PSDP as well as power and other subsidies. There is likely to be an increase in government borrowing from the private sector, which will result in reduced liquidity in the market. Moreover, with rising inflationary pressures mostly due to the impact of recent floods, the State Bank is expected to maintain a tight monetary stance.

On the fixed income front, most of the corporate debt was restructured during the previous year and is expected to be classified as performing debt in the current year. This can have a positive impact on the funds holding TFCs / Sukuks in their portfolio.

Recent floods and delay in the external flows can result in higher government borrowings particularly in the form of shorter duration Islamic instruments which may give Islamic mutual funds more space to diversify their portfolio, shorten their duration and increase the level of credit.

The Company's strategy going forward will be to capitalize on the best available opportunities arising in the market while maintaining its focus on the credit quality of the portfolio through active fund management with an endeavor to achieve targeted objectives of the Fund.


Auditors

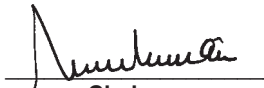
The Board of Directors on the recommendation of the Audit committee has approved the appointment of M/s A.F. Ferguson & Co. – Chartered Accountants as the auditors of the Fund for the financial year ending June 30, 2011 subject to completion of necessary legal and procedural requirements in this respect.

Acknowledgement

We would like to join our colleagues on the Board, management team and employees of the Company, in thanking first and foremost the investors for their vote of confidence in Askari Income Fund. Additionally we would like to thank Askari Bank Limited, the Securities and Exchange Commission of Pakistan, the Trustee of the Fund and the Stock Exchange for their continued guidance and support.

For and on Behalf of the Board of Directors of the Management Company


Chief Executive Officer


Chairman


Director

fund manager's report



FUND MANAGER'S REPORT OVERALL ECONOMIC SCENARIO

Global Outlook

The global economy is moving into a more mature phase led by growing domestic demand. So far, the uncertainty about the sustainability of fiscal positions in several high-income European countries has had limited impacts on developing countries. Stock markets in high-income and emerging economies have recovered much of the value they lost, and most developing-country currencies have regained their pre-crisis levels against the dollar, with some having appreciated.

Financial markets have recovered from their lows in 2009; industrial production and trade continue to expand rapidly, but conditions remain tight and banks may be exposed to debt in EU countries. International capital flows to developing countries are projected to reach about 3.5 percent of their GDP in 2012, up from 2.5 percent in 2009. Growth prospects remain uncertain because of the situation in Europe; nevertheless, developing countries are projected to lead the recovery with growth rates of around 6 percent. High-income countries' growth is expected to accelerate from about 2-2.3 percent in 2010 to between 2.3 and 2.7 percent in 2012.

Although the global financial crisis has had important consequences for economic activity in South Asia, that impact was much less pronounced than in all other developing regions save East Asia. Regional economic activity benefitted from limited exposures to the sub-prime markets and global banking systems-as the region's financial markets are less integrated than elsewhere-and relatively resilient capital inflows, which increased as a share of GDP.

Economic Update

The International Finance Cooperation assigned Pakistan the 85th rank vis a vis China's 89th and India's 133rd among countries in terms of 'ease of doing business' in 2010. Pakistan's improved macro economic fundamentals was also reflected in Moody's outlook upgrade to 'Stable' from 'Negative' in August 2009, while S&P upgraded Pakistan's rating to 'B-/Stable' from 'CCC+/Developing' on the 24th of the same month.

As a result of the commodity super spike and poor macro economic governance Pakistan hit the macroeconomic trough in FY09. GDP reduced to 2.0%, compared to the last five years average of 6.4%, C/A deficit peaked to US\$13.87bn in FY08, compared to US\$9.39 in FY09, a decline of 32.6% Year on Year (YoY). The deficit has been brought down further. Current a/c deficit for FY10 stood at USD 3.5bn (1.96% GDP) against USD 9.3bn (5.56% GDP) in FY09, recording a massive drop of 62% Y/Y. CAD for the year was much lower than IMF's last projection of 3.8% of GDP and SBP's estimate of 2.2-2.8% of GDP. Contraction in the current account deficit was helped by a 10% reduction in trade deficit which fell to USD 11.4bn in FY10, or 6.4% GDP as compared to 7.6% of GDP in FY09.

Country's total foreign exchange reserves (as on July 2, 2010) stood at USD 16.8bn, while reserves held by the central bank reached USD 12.95bn. Besides, build up of FX reserves also reflected in M2 growth, with growth in NFA accounting for 24% of growth in monetary aggregated during FY10. Foreign Direct Investment shrunk 41% Y/Y to USD 2.2bn FY10, on top of a 31% fall witnessed in FY09.

Meanwhile, in terms of sector-wise share in FDI, the balance tilted in favor of oil/gas exploration and food sectors, while telecom and financial services, which were major FDI recipients in recent past, saw their share decrease in FY10. On the other hand, net inflow of USD 588mn in equity portfolio investment in FY10, against a net outflow of USD 511mn in FY09, was the redeeming factor in an otherwise disappointing financial account performance.

Money supply grew by 12.46% in FY10 compared to only 9.56% in FY09 mainly on account of 1) 12.4% growth in deposit base against only 7.5% last year in line with increased economic activity; and 2) 12.4% growth in currency in circulation outside the banking system indicating higher liquidity. On the asset side, the supply was driven by higher demand from government for its budgetary support coupled with enhanced borrowing by private sector to meet its rising working capital requirements.

Consumer price index (CPI) had crept to 11.73% for the full FY10, much higher than government's single digit target. The headline Consumer price index (CPI) recessed to 12.69% YoY basis in Jun'10, in comparison to 13.07% YoY during May'10. Core inflation, which according to the IMF, should be the key in determining any cut in the discount rate, increased by 10.4% YoY in Jun'10. Core inflation is seen to be on a decreasing trend since Feb'09 when it had peaked to 21.10% YoY.

Performance of Pakistan Markets

KSE100 closed up 36% in FY10 on the back of low base and continued economic improvement - earmarking itself as one of the best performing equity markets. Net foreign inflows were recorded at USD567mn while OGDC, the star performer, gained 79% for the year and alone contributed ~1,125 points to the index. Domestic investors were seen on the selling side, by virtue of which foreign investors are now estimated to account for over 28% of free float weighted market capitalization of Pakistan equities. Moreover Pakistan's equities have outperformed MSCI FM by 40% during FY10. Net foreign investment in KSE100 stood at 6.8% of the total market cap (USD 2.1bn by the end of Jun10). Despite healthy foreign flows volumes remained thin especially in the months of May-Jun10 on the back of new taxes imposed on the local bourses and liquidity concerns. KSE100 volumes touched its bottom of 36.6mn on Jun21'10 as local investors remained concerned over CGT imposition and income disclosure to tax authorities. Retail money has been the most effected as investors have diverted their investments from equity market till further clarity comes on disclosure laws.

Credit risk premium on 10yr bonds reflected by the spread on credit default swap has reduced significantly to 705bps in Jun10 from a peak of 2,336bps in Apr09 which highlights renewed investor's confidence in the modest economic recovery. A longer-term theme for the Pakistan's equities is the inclusion in the MSCI Emerging Markets as Pakistan may be put on review during the 4Q FY11. Resultantly Pakistan's visibility on the international radar screen would improve leading to increased foreign flows.

The sluggish performance in the equity market during 4Q FY10 is likely to be reversed mainly triggered by improvement in liquidity coupled with positive earnings surprise. Furthermore with KSE100 Index trading at a wide discount of 38% to its peers, we believe there is strong potential for Pakistan to outperform most regional markets in FY11.

In November 2008, the State Bank of Pakistan boosted the discount rate by 200 basis points to 15 percent from 13 percent amid high government borrowings, persistent demand pressures, frequent hike in core inflation and widening current account deficit. Later on in January 2010, easing of inflationary pressure helped the central bank to slash its discount rate by 250 basis points to 12.5 percent

FUND PERFORMANCE

Askari Income Fund (AIF) is an open-ended income Fund, invested in interest bearing instruments with no exposure to stock market. The objective of the Fund is to provide investors with a broad range of asset classes so as to diversify Fund risk and to optimize potential returns. Thus even an investor with only one unit will get invested into spread transactions, a range of debt instruments, short maturity securities and certificates of investment. This Fund also offers investors the opportunity to exit at short notice. Benchmark of the Fund is 3-Month KIBOR rate is the benchmark for the Fund.

Pursuant to the Securities & Exchange Commission of Pakistan's (SECP) Circular 7 of 2009, the Board of Directors of the management company decided to categorise this Fund as an 'Aggressive Income Scheme'. The constitutive documents of the Fund are in the process of being altered to incorporate the necessary amendments required therein.

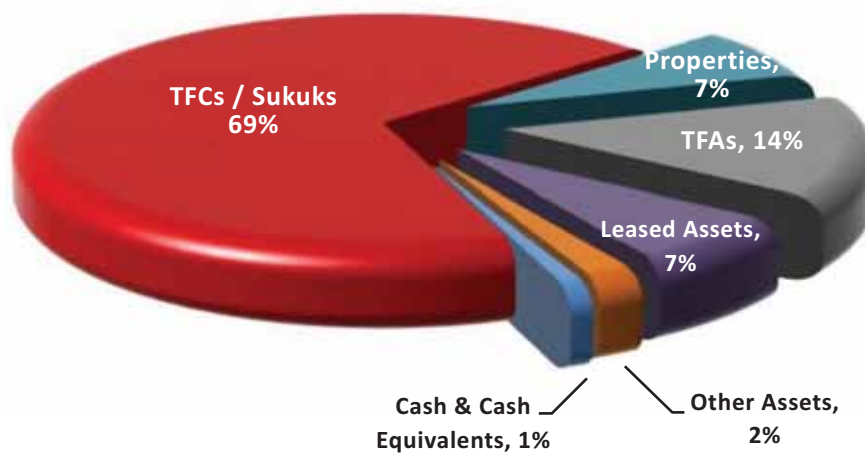
AIF's return for the year ended June 2010 was negative 7.09% and hence the Fund underperformed against its benchmark. The Fund size declined to Rs. 1.3 billion in June 2010 from Rs. 3.1 billion last year.

General Information					
Minimum Investment	Rs. 5,000				
Sales Load	Upto 2.0% front-end on Class B & D units, Upto 1.0% back-end on Class C & D units				
Management Fee	1.5% p.a.				
Risk	Low				
Benchmark	3-Month KIBOR				
Management Company Rating	AM3 by PACRA (Feb-2010)				
Fund Size and Growth					
	30 th June '10		30 th June '09		
Fund Size	Rs 1,313 mn		Rs 3,049 mn		
NAV	Rs 94.90		Rs 102.14		
Fund Performance					
Return	1-Month	FY10			
AIF	-106.37%	-7.09%			
Benchmark*	12.26%	12.33%			
*Monthly Average					
Portfolio Details					
Weighted Average Maturity	3.49 years				
Standard Deviation*	1.67%				
*Monthly Basis					
Economic Data					
		Sep 09	Dec 09	Mar 10	Jun 10
3M KIBOR		12.22%	12.57%	12.28%	12.23%
6M KIBOR		12.30%	12.62%	12.35%	12.32%
CPI (YoY)		10.12%	10.52%	12.91%	12.69%

The adverse performance of the Fund can be attributed to the valuation adjustments of "other portfolio assets" which included leased asset, Term Finance Agreements (TFAs), properties and non-performing Term Finance Certificates (TFCs) and Sukuks. The leased asset and properties were acquired in settlement of placements and certificates of investment with an NBFC. TFCs of Dewan Cement Limited and New Allied Electronics Industries (Private) Limited were already classified as non-performing as of June 30, 2009. Agritech Limited, Azgard Nine Limited and Maple Leaf Cement Factory Limited also defaulted on their repayments and were classified as non-performing during the year. In addition to that, the leased asset and TFA of Saudi Pak Leasing Company Limited were classified as non-performing during the year in accordance with the Fund's provisioning policy for non-performing exposures. The management is actively involved and is monitoring various recovery procedures and restructuring arrangements with the issuers of instruments and counterparties. Further, wherever possible, restructurings have been agreed in the best interest of the Fund. The Fund had entered into borrowing arrangement on January 04, 2010 to meet redemption requests. However, due to liquidity constraints and redemption requests during the period, these borrowings were rolled over for a period of more than ninety days thereby exceeding the limit of 90 days prescribed in the NBFC & Notified Entities Regulations, 2008. These borrowings have been fully repaid on July 23, 2010.

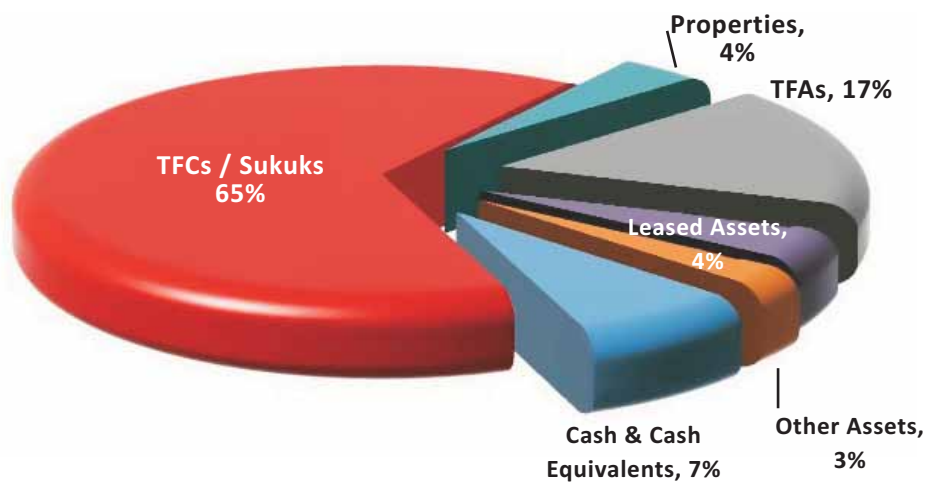
For unit holding pattern of the Fund, please refer to Annexure - I to the financial statements of AIF. Further, pursuant to circular 16 of 2010 issued by the SECP on July 07, 2010, the detail of non-compliant assets held by the Fund is disclosed in note 9.5 of the financial statements of the Fund.

ASSET ALLOCATION AS OF JUNE 30, 2010



*as a percentage of gross assets

ASSET ALLOCATION AS OF JUNE 30, 2009



*as a percentage of gross assets

financial statements



**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED****Head Office**

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shahra-e-Faisal
Karachi - 74400. Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com

**TRUSTEE REPORT TO THE UNIT HOLDERS
ASKARI 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**


The Askari Income Fund (the Fund), an open-end Fund was established under a trust deed dated December 05, 2005, executed between Askari 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 (NBFC Regulations) and the constitutive documents of the Fund.

For the purpose of information, the attention of the unit holders of the Fund is drawn towards the following facts:

1. Out of the seven properties acquired by the Fund in settlement against its investments, three properties are still in the process of being transferred in the Fund's name. Further, Management Company was not able to sell these properties due to overall depression in the real estate sector and non-availability of buyer at suitable price. The Securities and Exchange Commission of Pakistan (SECP) had initially directed the Management Company to dispose off these properties by August 12, 2010. Prior to the said expiry date, the Fund, vide its letter dated July 22, 2010 had applied to the SECP for an extension of six months to dispose off the properties. The request for this extension is under consideration with the SECP. This matter is also more fully explained in note 10.3 of the financial statements.
2. The Management Company had availed borrowing facility on January 4, 2010 from a connected party on market terms to meet redemption requests as per the regulation 58 (k) of the NBFC Regulations. However, due to liquidity position of the Fund, this borrowing could not be settled within 90 days period as stipulated under the NBFC Regulations. We had informed the issue to the SECP and also took up the same with the Management Company to resolve this issue. Subsequently, the said borrowing was repaid by the Fund on July 23, 2010.


Muhammad Hanif Jakhura
Chief Executive Officer
Central Depository Company of Pakistan Limited
Karachi: October 15, 2010



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2010

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

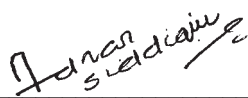
Askari Investment Management Limited (the Management Company) which manages the affairs of the Fund has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors. Presently, all the board members are non-executive directors except Chief Executive Officer.
2. The directors of the Management Company have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the directors of the Management Company have confirmed that they are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange. No director of the Management Company or his spouse is engaged in the business of stock brokerage.
4. The three year term of office of previous Board of Directors was completed and new board comprising of seven directors were elected for next term of three years during the year. Further, during the year, the CEO had resigned with effect from May 31, 2010 and the new CEO was appointed by the board on June 01, 2010 after obtaining prior approval from Securities & Exchange Commission of Pakistan.
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 Management Company.
6. The Management Company has adopted a vision / mission statement and overall corporate strategy and formulated significant policies of the Fund which have been approved by the Board.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO has been taken by the Board.
8. The meetings of the Board were presided over by the Chairman, and in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter during the year. Written notices of the meetings of the Board, along with agenda and working papers, were circulated at least seven days before the meetings and any exceptions thereto which were executed specifically with approval of the Board. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged an orientation course for its directors to appraise them of their duties and responsibilities. Furthermore, the directors are conversant of the relevant laws applicable to the Management Company, its policies and procedures and provision of memorandum and articles of association and are aware of their duties and responsibilities.
10. During the year, the Management Company has appointed a new CFO. The remuneration and terms and conditions of the employment of CFO and Company Secretary have been approved by the Board.
11. The Directors' Report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Fund have been prepared in accordance with the approved accounting standards as applicable in Pakistan and were duly endorsed 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 those disclosed in the Directors' Report.
14. The Management Company has complied with all other corporate and financial reporting requirements of the Code with respect to the Fund.
15. The Board has formed an Audit Committee. It comprises of four members, all of whom are non-executive directors including Chairman of the Committee.
16. The meetings of Audit Committee were held once in every quarter and prior approval of interim and final results of the Fund is required by the Code. The Board has approved terms of reference of the Audit Committee.
17. The Management Company has established adequate procedures and systems for related party transactions vis-à-vis the pricing method for related party transactions. All the related party transactions are placed before the Audit Committee and the Board of Directors for their review and approval.
18. The Management Company has outsourced the internal audit function to Deloitte M. Yousaf Adil Saleem & Co. Chartered Accountants who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
19. The statutory auditors has confirmed that they have been given a satisfactory rating under the Quality Control Review Program of Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units / share of the Fund or its Management Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the ICAP.
20. The statutory auditors have not been appointed to provide other services to the Management Company except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.



Chairman



CEO

KARACHI: 18 AUGUST 2010

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 (the Code) prepared by the Board of Directors of the Management Company of Askari Income Fund (the Fund) to comply with the Listing Regulations of the Lahore Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code 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 reflects the status of the Management Company's compliance with the provisions of the Code in respect of the Fund 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 financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii a) of Listing Regulation 35 of the Lahore Stock Exchange 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 requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedure to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code in respect of the Fund for the year ended 30 June 2010.

KARACHI: 18 AUGUST 2010



CHARTERED ACCOUNTANTS



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541, Karachi 75530, Pakistan
Tel: +9221 3565 0007
Fax: +9221 3568 1965
www.ey.com

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of Askari Income Fund (the Fund), which comprise the statement of assets and liabilities as at 30 June 2010, and the related statements of income, comprehensive income, distribution, cash flows and movement in unit holders' fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 30 June 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 accordance with the relevant provisions of the Trust Deed, the NBFC Rules and the NBFC Regulations.

Chartered Accountants

Audit Engagement Partner: Arslan Khalid

Date: 18 August 2010

Karachi

ASKARI INCOME FUND

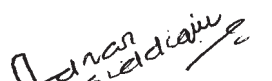
STATEMENT OF ASSETS AND LIABILITIES


AS AT 30 JUNE 2010

	Note	2010	2009
-----Rupees-----			
Assets			
Bank balances	7	9,776,325	239,166,833
Placements with banks and other financial institutions	8	200,950,000	534,000,000
Investments	9	1,011,880,472	2,092,078,513
Assets acquired in settlement of investments	10	217,987,640	263,370,344
Deposits and other receivables	11	33,413,273	82,274,475
Deferred formation cost	12	243,827	743,830
Total assets		1,474,251,537	3,211,633,995
Liabilities			
Payable against redemption of units		64,039	908,352
Borrowing under repurchase agreement	13	147,574,350	150,000,000
Remuneration payable to the Management Company		1,738,502	3,572,020
Remuneration payable to the Trustee		199,103	321,337
Annual fee payable to the Securities and Exchange Commission of Pakistan		1,871,900	4,129,031
Accrued and other liabilities	14	9,935,414	3,283,207
Total liabilities		161,383,308	162,213,947
Net assets		1,312,868,229	3,049,420,048
Unit holders' fund		1,312,868,229	3,049,420,048
Number of units in issue		13,834,444	29,855,979
Net asset value per unit		94.90	102.14

The annexed notes from 1 to 29 form an integral part of these financial statements.

For Askari Investment Management Limited
(Management Company)


Chief Executive Officer


Chairman


Director

ASKARI INCOME FUND

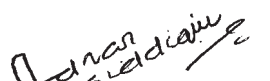
INCOME STATEMENT


FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010	2009
		-----Rupees-----	
Income			
Net loss on investments at fair value through income statement:			
Net loss on sale of investments		(20,079,386)	(124,989,197)
Net unrealized loss on revaluation of investments	15	<u>(215,820,863)</u>	<u>(237,522,319)</u>
		(235,900,249)	(362,511,516)
Return on bank balances, placements and investments	16	306,276,192	649,591,015
Income on CFS transactions		-	50,219
Income on assets acquired in settlement of investments	17	22,022,456	1,995,450
Element of income / (loss) and capital gain / (loss) included in prices of units issued less those in units redeemed - net		<u>(121,800,414)</u>	<u>(18,319,756)</u>
		(29,402,015)	270,805,412
Expenses			
Remuneration of the Management Company	18	37,438,002	69,377,780
Remuneration of the Trustee	19	3,495,866	5,625,185
Annual fee of the Securities and Exchange Commission of Pakistan	20	1,871,900	4,129,031
Amortization of deferred formation cost		500,003	500,000
Brokerage commission		31,774	168,236
Listing fee		30,000	45,000
Rating fee		200,000	100,000
Custodian fee		7,149	56,463
Bank and settlement charges		132,106	194,612
Financial charges on borrowing under repurchase agreement		13,154,961	51,547,367
Legal and professional charges		140,000	1,006,536
Auditors' remuneration	21	665,500	575,000
Printing and stationery		487,671	169,650
Provision against non-performing placements	8.2	2,550,000	-
Provision against assets acquired in settlement of investments	22	41,249,969	-
Provision for contribution to Workers' Welfare Fund	23	2,745,757	-
Others		295,730	22,700
		104,996,388	133,517,560
Net (loss) / income for the year		<u>(134,398,403)</u>	<u>137,287,852</u>

The annexed notes from 1 to 29 form an integral part of these financial statements.

For Askari Investment Management Limited
(Management Company)


Chief Executive Officer


Chairman


Director

ASKARI INCOME FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

Net (loss) / income for the year

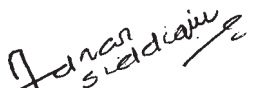
Other comprehensive income

Total comprehensive (loss) / income for the year

2010	2009
----- Rupees -----	
(134,398,403)	137,287,852
-	-
<u>(134,398,403)</u>	<u>137,287,852</u>

The annexed notes from 1 to 29 form an integral part of these financial statements.

For Askari Investment Management Limited
 (Management Company)


 Chief Executive Officer


 Chairman


 Director

ASKARI INCOME FUND
DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

Undistributed income brought forward

Realised
 Unrealised

Distribution Nil (2009: Rs. 2.99/- per unit declared on 7 July 2008)

- Cash
 - Bonus units

Distribution Nil (2009: Rs. 2.37/- per unit declared on 7 October 2008)

- Cash
 - Bonus units

Net (loss) / income for the year

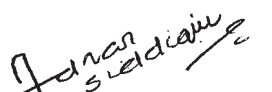
(Accumulated loss) / undistributed income carried forward


Realised
 Unrealised

	2010	2009
	-----Rupees-----	
	285,597,964	277,613,543
	(221,776,148)	41,718,657
	63,821,816	319,332,200
	-	(84,201,573)
	-	(155,705,494)
	-	(239,907,067)
	-	(68,209,424)
	-	(84,681,745)
	-	(152,891,169)
	(134,398,403)	137,287,852
	270,553,149	285,597,964
	(341,129,736)	(221,776,148)
	(70,576,587)	63,821,816

The annexed notes from 1 to 29 form an integral part of these financial statements.

For Askari Investment Management Limited
 (Management Company)


 Chief Executive Officer


 Chairman


 Director

ASKARI INCOME FUND

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2010

CASH FLOW FROM OPERATING ACTIVITIES

Net (loss) / income for the year

Adjustments:

Net loss on investments at fair value through income statement
 Amortization of deferred formation cost
 Provision against non-performing placements
 Provision against assets acquired in settlement of investments
 Provision for contribution to Workers' Welfare Fund
 Element of loss / (income) and capital loss / (gain) included
 in prices of units issued less those in units redeemed - net

Decrease / (increase) in assets

Placements with financial institutions
 Receivable against Continuous Funding System
 Investments
 Assets acquired in settlement of investments
 Deposits and other receivables

Increase / (decrease) in liabilities

Payable against redemption of units
 Borrowing under repurchase agreement
 Remuneration payable to the Management Company
 Remuneration payable to the Trustee
 Annual fee payable to the Securities and Exchange Commission of Pakistan
 Accrued and other liabilities

Net cash inflow from operating activities

CASH FLOW FROM FINANCING ACTIVITIES

Receipts in respect of issuance of units
 Payments against redemption of units
 Dividend paid

Net cash used in financing activities

Net decrease in cash and cash equivalent

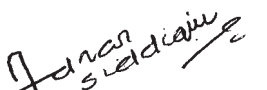
Cash and cash equivalent at the beginning of the year


Cash and cash equivalent at the end of the year

	2010	2009
	-----Rupees-----	
Net (loss) / income for the year	(134,398,403)	137,287,852
Adjustments:		
Net loss on investments at fair value through income statement	235,900,249	362,511,516
Amortization of deferred formation cost	500,003	500,000
Provision against non-performing placements	2,550,000	-
Provision against assets acquired in settlement of investments	41,249,969	-
Provision for contribution to Workers' Welfare Fund	2,745,757	-
Element of loss / (income) and capital loss / (gain) included in prices of units issued less those in units redeemed - net	121,800,414	18,319,756
	404,746,392	381,331,272
Decrease / (increase) in assets		
Placements with financial institutions	40,500,000	206,338,628
Receivable against Continuous Funding System	-	15,797,094
Investments	844,297,792	1,322,167,787
Assets acquired in settlement of investments	4,132,735	(263,370,344)
Deposits and other receivables	48,861,202	181,751,570
	937,791,729	1,462,684,735
Increase / (decrease) in liabilities		
Payable against redemption of units	(844,313)	(20,604,150)
Borrowing under repurchase agreement	(2,425,650)	150,000,000
Remuneration payable to the Management Company	(1,833,518)	(6,757,050)
Remuneration payable to the Trustee	(122,234)	(447,729)
Annual fee payable to the Securities and Exchange Commission of Pakistan	(2,257,131)	(7,616,901)
Accrued and other liabilities	3,906,450	(6,623,147)
	(3,576,396)	107,951,023
Net cash inflow from operating activities	1,204,563,322	2,089,254,882
CASH FLOW FROM FINANCING ACTIVITIES		
Receipts in respect of issuance of units	3,327,430,661	4,205,918,533
Payments against redemption of units	(5,051,384,491)	(9,506,667,735)
Dividend paid	-	(152,410,997)
Net cash used in financing activities	(1,723,953,830)	(5,453,160,199)
Net decrease in cash and cash equivalent	(519,390,508)	(3,363,905,317)
Cash and cash equivalent at the beginning of the year	529,166,833	3,893,072,150
Cash and cash equivalent at the end of the year	9,776,325	529,166,833

The annexed notes from 1 to 29 form an integral part of these financial statements.

For Askari Investment Management Limited
 (Management Company)


 Chief Executive Officer


 Chairman


 Director

ASKARI INCOME FUND
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED 30 JUNE 2010

Net assets at the beginning of the year
 [Rs. 102.14/- (2009: Rs. 103.98/-) per unit]

Issue of 31,702,137 (2009: 41,750,666) units of Rs.100/- each

Redemption of 47,723,672 (2009: 94,548,491) units of Rs.100/- each

Element of (income) / loss and capital (gain) / loss included in prices of units issued less those in units redeemed - net

Distribution to unit holders in cash during the year

Net (loss) / income for the year

Other comprehensive income

Total comprehensive (loss) / income for the year

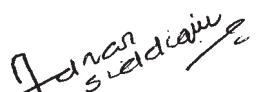
Net assets at the end of the year


[Rs. 94.90/- (2009: Rs. 102.14/-) per unit]

2010	2009
-----Rupees-----	
3,049,420,048	8,346,972,639
3,327,430,661	4,205,918,533
(5,051,384,491)	(9,506,667,735)
121,800,414	18,319,756
-	(152,410,997)
(134,398,403)	137,287,852
-	-
(134,398,403)	137,287,852
<u>1,312,868,229</u>	<u>3,049,420,048</u>

The annexed notes from 1 to 29 form an integral part of these financial statements.

For Askari Investment Management Limited
 (Management Company)


 Chief Executive Officer


 Chairman


 Director

ASKARI INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** Askari Income Fund (the Fund) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) as an open end unit trust scheme. It was constituted under the Trust Deed, dated 16 December 2005 between Askari Investment Management Limited (a wholly owned subsidiary of Askari Bank Limited), as the Management Company and Central Depository Company of Pakistan Limited as its Trustee.
- 1.2** The Fund offers units for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The units are listed on the Lahore Stock Exchange. As per the offering document, the Fund shall invest in a mix of spread transactions, Continuous Funding System (CFS) transactions, debt securities, currency forwards, money market instruments and short-maturity reverse repurchase transactions.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, 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 Regulations or the 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 requirements of the said directives prevail.

3. BASIS OF MEASUREMENT

- 3.1** These financial statements have been prepared under the historical cost convention except for investments, derivatives and assets held for sale which are valued as stated in notes 4.2, 4.3 and 4.6.
- 3.2** These financial statements are presented in Pakistan Rupees, which is the functional and presentation currency of the Fund and rounded to the nearest rupee.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 4.1** The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as follows:

The Fund has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

IFRS 2 – Share Based Payment – Amendments regarding Vesting Conditions and Cancellations (Amendment)

IFRS 3 – Business Combinations (Revised)

IFRS 7 – Financial Instruments: Disclosures (Amendments)

IFRS 8 – Operating Segments

IAS 1 - Presentation of Financial Statements (Revised)

IAS 23 - Borrowing Costs (Revised)

IAS 27 - Consolidated and Separate Financial Statement - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IAS 32 - Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)

IAS 39 – Financial Instruments: Recognition and Measurement – Eligible hedged items (Amendments)

IFRIC 15 – Agreements for the Construction of Real Estate

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

IFRIC 17 - Distributions of Non-cash Assets to owners

IFRIC 18 – Transfers of Assets from Customers

The adoption of the above standards, amendments and interpretations did not have any effect on the financial statements except for the following:

IAS - 1 "Presentation of Financial Statements (Revised)"

The Fund has adopted IAS - 1 "Presentation of Financial Statements (Revised)" which became effective during the year. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity / unit holders' fund includes only details of transactions with owners, with non-owner changes in equity presented as a single line item in the statement of changes in equity / unit holders' fund. In addition, the standard introduces the statement of comprehensive income which presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Fund has elected to present two statements. However, the Fund does not have any items of income and expenses representing other comprehensive income. Therefore, comprehensive income is equal to the net income / (loss) reported for all periods presented.

IFRS 7 - "Financial Instruments: Disclosures (Amendments)"

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurement is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity management. The fair value measurement disclosures are presented in note 25.5 to 25.7 to the financial statements. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 25.3 to the financial statements.

4.2 Investments

The investments of the Fund, upon initial recognition, are classified as investment at fair value through income statement or available-for-sale investment, as appropriate.

All investments, are initially measured at fair value plus, in the case of investments not at fair value through income statement, transaction costs that are directly attributable to acquisition.

All regular way purchases / sales of investments are recognised on the trade date, i.e. the date on which the Fund commits to purchase / sell the investment. Regular way purchases / sales of investments require delivery of securities within two days after transaction date as per the stock exchange regulations.

Investments at fair value through income statement

These include held-for-trading investments and such other investments that, upon initial recognition, are designated under this category. Investments are classified as held-for-trading if they are acquired for the purpose of selling in the near term. After initial measurement, such investments are carried at fair value and gains or losses on revaluation are recognised in the income statement.

Available-for-sale

Investments which are not classified in the above category are classified as available-for-sale investments. After initial measurement, such investments are measured at fair value with unrealised gain or loss recognised directly in the statement of comprehensive income until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recognised in the statement of comprehensive income is taken to the income statement.

4.3 Derivatives

These are initially recognised at cost and are subsequently remeasured at their fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the statement of assets and liabilities. The resultant gain and loss is included in the income currently.

4.4 Securities under repurchase / resale agreements

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

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for investment. The counterparty liabilities for amounts received under these transactions are recorded as liabilities. The difference between sale and repurchase price is treated as borrowing charges and accrued over the life of the repo agreement.

4.5 Investment in finance lease

The Fund acquired leased asset as part of settlement of investments. The risks and rewards incidental to ownership of the leased asset are transferred substantially to the lessee over the lease period. Investment in lease finance is recognized at an amount equal to the aggregate of minimum lease payments excluding unearned finance income, if any.

4.6 Assets held for sale

The Fund acquired properties under settlement of its investments. These properties are classified as held for sale and measured at lower of carrying amount and fair value less costs to sell.

4.7 Deferred formation cost

The Fund has recorded all expenses incurred in connection with the incorporation, registration, establishment and authorisation of the Fund, as deferred formation cost which are amortised by the Fund over a period of five years in accordance with the Trust Deed.

4.8 Financial instruments

All financial assets and financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

4.9 Offsetting of financial assets and liabilities

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

4.10 Cash and cash equivalent

Cash and cash equivalent comprise bank balances and short term placements having maturities of up to three months.

4.11 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 obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

4.12 Element of income/(loss) and capital gain/(loss) included in prices of units issued less those in units redeemed

To prevent the dilution of per unit income and distribution of income already paid out on redemption as dividend, an equalisation account called "element of income / (loss) and capital gain / (loss) in prices of units issued less those in units redeemed" is created.

The "element of income / (loss) and capital gain / (loss) in prices of units issued less those in units redeemed" account is credited with the amount representing net income / (loss) and capital gain / (loss) accounted for in the applicable net asset value and included in the sale proceeds of units. Upon redemption of units, the "element of income / (loss) and capital gain / (loss) in prices of units issued less those in units redeemed" account is debited with the amount representing net income / (loss) and capital gain / (loss) accounted for in the applicable net asset value and included in the redemption price.

The net "element of income / (loss) and capital gain / (loss) in prices of units issued less those in units redeemed" during an accounting period is transferred to the income statement.

4.13 Taxation

The Fund is exempt from taxation under clause 99 of the Part I of the 2nd Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income as reduced by the realised and unrealised capital gain for the year is distributed amongst the Fund's unit holders. The Fund has availed such exemption in the past and intends to continue the same in future periods. Accordingly, no provision is required for current and deferred taxation in these financial statements.

4.14 Revenue recognition

Gain / loss arising on disposal of investments is included in income currently and is accounted for on the date at which the transaction takes place.

Dividend income is recognised when the right to receive the dividend is established.

Return on bank balances, placements, debt and government securities is recognised on an accrual basis. However, recognition of income on non-performing placements and securities is suspended in accordance with the SECP's Circular 1 of 2009 and the Fund's provisioning policy.

Rental income on properties held-for-sale is recognised on accrual basis.

The Fund follows the finance method in recognising income from leased asset acquired in settlement of investments. Under this method, the unearned income, i.e., the excess of aggregate lease rentals and the estimated residual value over the cost of the leased asset is deferred and then amortised over the term of the lease by applying the annuity method, so as to produce a constant rate of return on net investments in the leases unless income accrual is suspended in accordance with the Fund's provisioning policy.

4.15 Issue and redemption of units

Units are issued at the offer price prevalent on the day on which the units are issued. The offer price represents the net assets value of units at the end of the day plus the allowable front end load. The front end load is payable to the Management Company as processing fee. Issue of units is recorded on acceptance of application for sale.

Units redeemed are recorded at the redemption price prevalent during the day on which the units are redeemed. The redemption price represents the net asset value per unit at the close of the business day less applicable back end load. Redemption of units is recorded on acceptance of application for redemption.

4.16 Distribution to unit holders

Distribution to unit holders is recognised upon declaration and approval by the Board of Directors of the Management Company.

4.17 Net asset value per unit

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

5. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgements about carrying values of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and judgements that have a significant effect on the financial statements are in respect of the following:

	<u>Note</u>
Classification, valuation and provisioning against investments	4.2, 9 & 25
Valuation of held for sale assets	4.6 & 10
Provision against placements and lease receivables	8 & 10
Deferred formation cost	4.7 & 12

6. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards, interpretations and amendments with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard, interpretation or amendment:

Standard, interpretation or amendment	Effective date (accounting periods beginning on or after)
IAS - 24 Related Party Disclosures (Revised)	01 January 2011
IAS - 32 Financial Instruments: Presentation - Classification of Right Issues (Amendment)	01 February 2010
IFRS - 2 Share based payment - Amendments relating to Group Cash-settled Share-based payment transactions	01 January 2010
IFRIC - 14 IAS - 19 - The limit on a defined benefit asset, Minimum Funding Requirements and their Interaction (Amendments)	01 January 2011
IFRIC - 19 Extinguishing Financial Liabilities with Equity Instruments	01 July 2010

The Fund expects that the adoption of the above revisions, interpretations and amendments of the standards will not effect the Fund's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by IASB as a result of its annual improvement project in April 2009. Such improvements are generally effective for accounting periods beginning on or after 1 January 2010. The Fund expects that such improvements to the standards will not have any material impact on the Fund's financial statements in the period of initial application.

7. BANK BALANCES

PLS savings accounts

Note	ASKARI INCOME FUND	
	2010	2009
	-----Rupees-----	
7.1	<u>9,776,325</u>	<u>239,166,833</u>

7.1 These carry profit rates ranging from 5% to 11.5% (2009: 5% to 12.5%) per annum and include balance of Rs. 8,912,117/- (2009: Rs. 234,910,026/-) with Askari Bank Limited (related party).

8. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Placements with banks

Placements with other financial institutions

	-	290,000,000
8.1	<u>200,950,000</u>	<u>244,000,000</u>
	<u>200,950,000</u>	<u>534,000,000</u>

8.1 Represents arrangements under term finance agreements (TFAs) with following financial institutions:

Trust Investment Bank Limited

Saudi Pak Leasing Company Limited

	170,500,000	194,000,000
8.2	<u>30,450,000</u>	<u>50,000,000</u>
	<u>200,950,000</u>	<u>244,000,000</u>

- 8.2 The facility has been classified as non-performing in accordance with the Fund's provisioning policy. Accordingly, the carrying value stated above has been arrived at after taking into account provision as under:

<u>Carrying value before provision</u>	<u>Provision held</u>	<u>Net carrying value</u>
-----Rupees-----		
<u>33,000,000</u>	<u>2,550,000</u>	<u>30,450,000</u>

- 8.3 Significant terms of these TFAs are as follows:

<u>Name</u>	<u>Mark-up rate</u>	<u>Maturity</u>	<u>Security</u>
Trust Investment Bank Limited	1 month KIBOR	February 2013	First exclusive charge over hypothecated assets (specific leased assets and related receivables) to the extent of Rs. 101 million.
Saudi Pak Leasing Company Limited	11%	February 2012	Exclusive first charge by way of hypothecation in favour of the Fund on specific moveable leased assets and specific related lease receivables to the extent of Rs. 60.203 million.

9. INVESTMENTS

At fair value through income statement (held-for-trading)

Quoted

Term finance certificates

Unquoted

Term finance certificates

Sukuks

Carrying value of investments

Cost of investments

Note	2010 -----Rupees-----	2009
9.1	641,770,361	940,368,676
9.2	157,702,860	842,088,486
9.3	212,407,251	309,621,351
	<u>370,110,111</u>	<u>1,151,709,837</u>
	<u>1,011,880,472</u>	<u>2,092,078,513</u>
	<u>1,353,010,208</u>	<u>2,313,854,661</u>

Note	Number of certificates			At the end of the year	Carrying value (Rupees)	% of total investments		
	At the beginning of the year	Acquired during the year	Disposed/ redeemed during the year					
9.1	Quoted term finance certificates							
	(Face value of Rs. 5,000/- each)							
	United Bank Limited-II	40,000	-	40,000	-	-		
	Escorts Investment Bank Limited-I	16	-	-	16	52,395		
	Trust Investment Bank Limited	10,000	-	-	10,000	39,013,938		
	Pakistan Mobile Communication Limited	100,000	-	6,000	94,000	406,550,000		
	Telecard Limited	10,000	-	-	10,000	18,256,746		
	World Telecom Limited-I *	5,000	-	-	5,000	12,168,846		
	World Telecom Limited-IIA *	20,000	-	-	20,000	93,616,896		
	Pace Pakistan Limited *	20,000	-	5,000	15,000	72,111,540		
						641,770,361		
						63.43		
9.2	Unquoted term finance certificates							
	(Face value of Rs. 5000/- each unless stated otherwise)							
	First Dawood Investment Bank Limited	9.5	6,000	-	-	6,000	21,290,670	2.10
	New Allied Electronics Industries (Private) Limited	9.4	5,000	-	-	5,000	-	-
	Dewan Cement Limited	9.4	25,000	-	-	25,000	-	-
	Azgard Nine Limited	9.4	-	6,000	-	6,000	21,582,720	2.13
	Pakistan Mobile Communication Limited		59,000	-	-	-	-	-
	Agritech Limited * (formerly Pak American Fertilizer Limited)	9.4	17,000	-	5,000	12,000	43,165,440	4.27
	Engro Chemical Pakistan Limited-IIA		24,000	-	-	-	-	-
	Engro Chemical Pakistan Limited-III		20,000	-	-	-	-	-
	Avari Hotels Limited		15,200	-	-	15,200	64,533,695	6.38
	Kashf Foundation		10,000	-	-	10,000	7,130,335	0.71
	House Building Finance Corporation Limited		20,000	-	-	-	-	-
	ORIX Leasing Pakistan Limited (Face value of Rs. 100,000/-)		60	240	300	-	-	-
							157,702,860	15.59
9.3	Unquoted sukuks							
	(Face value of Rs. 5,000/- each)							
	Security Leasing Corporation Limited	9.5	8,000	-	-	8,000	21,093,780	2.08
	Pak Electron Limited-I		14,000	-	-	14,000	62,826,190	6.21
	Pak Electron Limited-I		5,000	-	5,000	-	-	-
	Al-Zamin Leasing Modaraba		7,000	-	-	7,000	28,670,186	2.83
	Maple Leaf Cement Factory Limited	9.4	35,000	1,312	-	36,312	99,817,095	9.86
							212,407,251	20.98

* held against borrowing under repurchase agreement (note 13).

9.4 These securities have been classified as non-performing in accordance with the SECP's Circular 1 of 2009 and the Fund's provisioning policy. Accordingly, the carrying values stated above have been arrived at after taking into account provisions as under:

	2010			2009		
	Outstanding principal	Provision held	Net carrying value	Outstanding principal	Provision held	Net carrying value
	Rupees			Rupees		
New Allied Electronics Industries (Private) Limited	11,458,323	11,458,323	-	11,458,323	3,437,498	8,020,825
Dewan Cement Limited	125,000,000	125,000,000	-	125,000,000	56,250,000	68,750,000
Azgard Nine Limited	29,976,000	8,393,280	21,582,720	-	-	-
Agritech Limited (formerly Pak American Fertilizer Limited)	59,952,000	16,786,560	43,165,440	-	-	-
Maple Leaf Cement Factory Limited	181,485,626	81,668,531	99,817,095	-	-	-
	407,871,949	243,306,694	164,565,255	136,458,323	59,687,498	76,770,825

9.5 Detail of non-compliant (non-investment grade, non-rated, non-performing, etc.) assets

Name	Note	Type of asset	Amount (Rupees)	% of net assets	% of gross assets
First Dawood Investment Bank Limited		TFC	21,290,670	1.62	1.44
Security Leasing Corporation Limited		Sukuk	21,093,780	1.61	1.43
Placements with other financial institutions	8.1	TFA	200,950,000	15.31	13.63
Assets acquired in settlement of investments	10	Lease assets/ properties	217,987,640	16.60	14.79
Non-performing securities	9.4	TFC / Sukuk	164,565,255	12.53	11.16

Pursuant to Circular 7 of 2009 of the SECP, the Board of Directors of the Management Company has approved the category of the Fund as "Aggressive Fixed Income Scheme". Accordingly, necessary procedural and legal formalities with respect to this categorisation are currently in the process of being complied with.

9.6 Significant terms and conditions of debt securities held as at 30 June 2010 are as follows:

Name	Mark-up rate	Maturity	Rating	Security
Quoted term finance certificates				
Escorts Investment Bank - I	6 months' KIBOR + 250 bps (floor 8% - cap 17%)	March 2012	A+	First pari passu charge on present and future assets of the company with 25% margin.
Trust Investment Bank Limited	6 months' KIBOR + 185 bps	July 2013	BBB	First charge on leased assets and receivables with 25% margin.
Pakistan Mobile Communications Limited	6 months' KIBOR + 165 bps	October 2013	AA-	Unsecured
Telecard Limited	6 months' KIBOR + 375 bps	November 2011	BBB	First exclusive charge over specific fixed assets of the company and assignment of frequency rights recently produced from Pakistan Telecommunication Authority.
Worldcall Telecom Limited	6 months' KIBOR + 275 bps	November 2011	A	First pari passu charge over identified present and future fixed assets of the payphone and prepaid calling card projects of the company with 25% margin upto a maximum of Rs. 438 million.
Worldcall Telecom Limited	6 months' KIBOR + 160 bps	October 2013	A	First pari passu charge over all present and future fixed assets of the company and all licenses and right of ways with 25% margin up to a maximum of Rs. 4,000 million (assuming a Rs. 3,000 million issue size).
Pace Pakistan Limited	6 months' KIBOR + 150 bps	August 2012	A+	First pari passu charge on present and future assets (moveable and immovable) by way of equitable mortgage of immovable properties and hypothecation of moveable assets of the company with 25% margin.

Unquoted term finance certificates

First Dawood Investment Bank Limited	6 months' KIBOR + 160 bps	September 2012	NIG	First floating pari passu charge on leased assets and associated rental receivables of the company with 25% margin.
New Allied Electronics Industries (Private) Limited	3 months' KIBOR + 275 bps	May 2011	NPA	First pari passu charge on present and future fixed assets of the company with 25% margin.
Dewan Cement Limited	6 months' KIBOR + 200 bps	January 2014	NPA	Ranking charge in favour of the investors over fixed assets including land and building of the company with 25% margin.
Azgard Nine Limited	6 months' KIBOR + 225 bps	December 2014	NPA	Ranking charge over the assets of the company.
Agritech Limited (formerly Pak American Fertilizer Limited)	6 months' KIBOR + 175 bps	November 2014	NPA	First ranking charge over all present and future assets of the company exchange investments in Agritech Limited shares with 25 % margin.
Avari Hotel Limited	6 months' KIBOR + 325 bps	November 2014	A-	Second ranking hypothecation over all moveable properties of the project assets including receivables with 25% margin over the issue amount. First ranking mortgage over the immovable properties of the project assets with 25% margin over the issue amount. Assignment over all present and future credit cards receivables generated through sales at Avari Hotels Karachi, Lahore and Islamabad. Establishment and creation of a lien over collection account. Personal guarantee from the sponsor shareholders.
Kashf Foundation	3 months' KIBOR + 245 bps	July 2010	A-	Pari passu hypothecation charge over all rights, benefits and interest over its present and future receivables arising from their microfinance portfolio, carving out some assets in favour of existing stakeholders along with 25% margin.

Unquoted sukus

Security Leasing Corporation Limited	6% p.a. for first 18 months and 1 month KIBOR for next 30 months	April 2014	NIG	First charge over the specific leased assets and associated receivables of the company with 25% margin.
Pak Elektron Limited	3 months' KIBOR + 100 bps (floor 8% - cap 25%)	March 2015	A+	First pari passu charge over present and future fixed assets of the company with 25% margin.
Al-Zamin Leasing Modarba	6 months' KIBOR + 190 bps	November 2013	A	First pari passu charge on leased assets and associated receivables of the modaraba with margin of 25%.
Maple Leaf Cement Factory	3 months' KIBOR + 100 bps upto December 2014 and 3 months' KIBOR + 170 bps thereafter with floor of 3% and cap of 30% on initial investment and 3 months' KIBOR + 100 bps on additional Sukuk certificates allotted.	December 2018	NPA	First pari passu charge over present and future fixed assets of the company with 25% margin.

10. ASSETS ACQUIRED IN SETTLEMENT OF INVESTMENTS

During the year 2009, the Fund acquired certain assets in settlement of certificate of investment and letter of placement due from an Investment Bank as allowed by the SECP vide its letter dated 12 August 2009. The carrying value of such assets as of 30 June 2010 is as under:

	Note	2010 -----Rupees-----	2009
Net investment in finance lease	10.1	123,673,900	134,713,880
Less: Provision against non-performing lease receivables	10.2	(15,298,061)	-
		<u>108,375,839</u>	<u>134,713,880</u>
Properties - held for sale	10.3	135,563,709	128,656,464
Less: Provision for diminution in value of properties held-for-sale	10.4	(25,951,908)	-
		<u>109,611,801</u>	<u>128,656,464</u>
		<u>217,987,640</u>	<u>263,370,344</u>

10.1 Represents lease rentals receivable from Pioneer Cement Limited for Grate Cooler Plant as follows:

	2010			2009		
	Less than 1 year	More than 1 year and less than 3 years	Total	Less than 1 year	More than 1 year and less than 4 years	Total
Minimum lease payments	58,915,494	97,100,760	156,016,254	41,102,928	145,651,140	186,754,068
Unearned finance income	(18,750,256)	(13,592,098)	(32,342,354)	(23,297,345)	(28,742,843)	(52,040,188)
Net investment in finance lease	<u>40,165,238</u>	<u>83,508,662</u>	<u>123,673,900</u>	<u>17,805,583</u>	<u>116,908,297</u>	<u>134,713,880</u>

10.2 Represents provision made in accordance with the Fund's provisioning policy for non-performing exposures.

10.3 Represents settlement value (together with related direct costs incurred) of seven different properties situated in Karachi. Titles of four properties have been transferred to the Fund and the title transfer for the remaining three properties in the name of the Trustee of the Fund is in process. In terms of the SECP's letter dated 12 August 2009, the Fund was required to dispose off these properties within 1 year of the letter i.e. 12 August 2010. However, due to the prevailing conditions in the property market, these properties remain unsold as of the year end. The Management Company of the Fund remains committed to sell these properties at the earliest available suitable opportunity in the best interest of the Fund and, hence the same continue to be classified as held for sale. Further, the Fund, vide its letter dated 22 July 2010, has sought an extension of six months from the SECP to dispose off the above properties and this request is under consideration of the SECP.

10.4 As of 30 June 2010, the fair value of these properties has been assessed by an independent valuer as to Rs. 114,023,730/- (2009: 161,622,852/-). Accordingly, a provision for impairment in the value of these properties amounting to Rs. 25,951,908/- (2009: nil) has been made during the year based on the value assessed by this independent valuer.

11. DEPOSITS AND OTHER RECEIVABLES

Security deposits with:

National Clearing Company of Pakistan Limited
Central Depository Company of Pakistan Limited

Accrued return on:

Bank balances 11.1
Placements with other financial institutions
Investments

Withholding tax receivable

Insurance claim receivable

Receivable against principal redemption of fixed income investments

	2010	2009
	-----Rupees-----	
	3,500,000	3,500,000
	100,000	100,000
	<u>3,600,000</u>	<u>3,600,000</u>
	7,422	1,891,325
	1,667,583	2,450,551
	<u>26,719,319</u>	<u>72,470,082</u>
	28,394,324	76,811,958
	405,442	76,817
	1,013,507	-
	-	1,785,700
	<u>33,413,273</u>	<u>82,274,475</u>
	2,500,000	2,500,000
	(2,256,173)	(1,756,170)
	<u>243,827</u>	<u>743,830</u>

11.1 Represents amount of Rs. 4,465/- receivable from Askari Bank Limited (a related party).

12. DEFERRED FORMATION COST

Deferred formation cost

Amortisation of deferred formation cost - accumulated

13. BORROWING UNDER REPURCHASE AGREEMENT

Represents borrowing under repurchase agreement availed from Askari Bank Limited (a related party) against term finance certificates of Pace Pakistan Limited, World Telecom Limited-I & IIA and Agritech Limited (formerly Pak American Fertilizer Limited) as disclosed in note 9. It carries mark-up rate of 15.45% and has matured on 23 July 2010.

14. ACCRUED AND OTHER LIABILITIES

Reimbursement to the Management Company

Financial charges payable

Rent received in advance

Accrued expenses

Provision for contribution to Workers' Welfare Fund

Note

	2010	2009
	-----Rupees-----	
	1,289,244	223,712
	374,796	348,697
	2,021,535	-
	3,504,082	2,710,798
	2,745,757	-
	<u>9,935,414</u>	<u>3,283,207</u>

14.1 Represents amount payable to Askari Bank Limited (a related party) in respect of borrowing under repurchase agreement.

15. NET UNREALIZED LOSS ON REVALUATION OF INVESTMENTS

Includes the impact of provision made against non-performing debt securities of Rs. 183,619,196/- (2009: Rs. 59,687,498/-) as disclosed in 9.4.

16. RETURN ON BANK BALANCES, PLACEMENTS AND INVESTMENTS

Bank balances		45,783,922	233,329,328
Placements with banks and other financial institutions	16.1	29,887,712	2,444,176
Term finance certificates / Sukuks	16.2	224,869,208	411,373,335
Government securities		5,735,350	-
Commercial papers		-	2,444,176
		<u>306,276,192</u>	<u>649,591,015</u>

16.1 Mark-up on placements amounting to Rs. 697,880/- (2009: Nil) has not been recognised during the year in accordance with the Fund's provisioning policy.

16.2 Mark-up on securities amounting to Rs. 37,652,608/- (2009: Rs. 12,497,507/-) has not been recognised during the year in accordance with the SECP's Circular 1 of 2009 and the Fund's provisioning policy.

17. INCOME ON ASSETS ACQUIRED IN SETTLEMENT OF INVESTMENTS

Mark-up on finance lease	17.1	19,697,834	1,995,450
Rental income on properties - held for sale		2,324,622	-
		<u>22,022,456</u>	<u>1,995,450</u>

17.1 Mark-up on non-performing lease receivables amounting to Rs. 3,599,511/- (2009: nil) has not been recognised during the year in accordance with the Fund's provisioning policy.

18. REMUNERATION OF THE MANAGEMENT COMPANY

According to the provisions of the Trust Deed of the Fund, the Management Company has charged its remuneration at the rate of 1.5% (2009: 1.5%) per annum of the net assets of the Fund computed on a daily basis.

19. REMUNERATION OF THE TRUSTEE

According to the provisions of the Trust Deed of the Fund, the Trustee is entitled to a monthly remuneration for services rendered to the Fund as follows:

On net assets:

- up to Rs.1 billion Rs. 0.7 million or 0.2% per annum of the net assets of the Fund computed on a daily basis, whichever is higher.
- exceeding Rs.1 billion Rs. 2 million plus 0.1% per annum of the net assets of the Fund exceeding Rs.1 billion computed on a daily basis.

20. ANNUAL FEE OF THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Represents annual fee of the SECP in accordance with the NBFC Regulations, whereby the Fund is required to pay the SECP at the rate of 0.075% (2009: 0.075%) per annum of the net assets of the Fund computed on a daily basis.

21. AUDITORS' REMUNERATION

Audit fee			
Half year review fee			
Review of compliance with the Code of Corporate Governance			
Out of pocket expenses			

Note

	2010	2009
	-----Rupees-----	
	450,000	350,000
	150,000	150,000
	43,000	50,000
	22,500	25,000
	<u>665,500</u>	<u>575,000</u>

22. PROVISION AGAINST ASSETS ACQUIRED IN SETTLEMENT OF INVESTMENTS

Provision against non-performing lease receivables	10.2	15,298,061	-
Provision for diminution in value of properties held for sale	10.4	25,951,908	-
		<u>41,249,969</u>	<u>-</u>

23. PROVISION FOR CONTRIBUTION TO 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. As a result of this amendment and to avoid any possible applicability of the WWF Ordinance to the Collective Investment Schemes (CIS) whose income exceeds Rs. 0.5 million in a tax year, thus rendering them liable to pay contribution to WWF at the rate of 2% of the accounting income or declared income, whichever is higher, the Mutual Fund Association of Pakistan (MUFAP) had filed a constitutional petition in the Honorable High Court of Sindh (the Court) challenging the applicability of WWF to the CIS. This petition was dismissed by the Court vide its order dated 12 May 2010 on the main ground that the MUFAP (the petitioner) cannot be held to be entitled to maintain a petition in respect of its members as MUFAP is not the aggrieved party in respect of its members. Therefore, subsequently a CIS and a pension fund through their trustee along with an investor from the industry has filed a constitution petition before the Court on the same matter which is pending adjudication. However, without prejudice to the above, the Management Company, following a prudent approach and in the best interest of the Fund, has made a provision for WWF during the current year amounting to Rs. 2,745,757/- in the financial statements.

24. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

Askari Investment Management Limited (Management Company)

Remuneration of the Management Company	37,438,002	69,377,780
Reimbursement of expenses	1,073,787	-
Issue of units	74,000,000	65,000,000
Redemption of units	50,000,000	166,696,632
Outstanding 242,927 units	23,053,745	-
Bonus units issued	-	5,935,272

Central Depository Company of Pakistan Limited (Trustee)

Remuneration of the Trustee	3,495,866	5,625,185
Settlement charges	120,000	174,168
Custodian fee	7,149	56,463

Askari Bank Limited (Holding company of the Management Company)

	2010	2009
Return on bank balances	18,238,997	17,262,375
Financial charges on borrowing under repurchase agreement	13,154,961	51,547,367
Issue of units	10,073,188	550,000,000
Redemption of units	9,798,740	-
Outstanding 10,073,188 (2009:9,798,740) units	955,930,599	1,000,820,447

Askari General Insurance Company Limited (Group Company)

Issue of units	456,462	5,261,895
Redemption of units	509,785	-
Outstanding nil (2009:53,323) units	-	5,446,244
Bonus units	-	274,785

Askari Cement Limited (Group Company)

Outstanding 13,075 (2009: 13,075) units	1,240,798	1,335,462
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Askari Asset Allocation Fund (Fund under common management)

Purchase of term finance certificates
Sale of term finance certificates

Askari Bank Employees' Provident Fund

Outstanding 301,376 (2009: 301,376) units
Bonus units

President Askari Bank Limited Fund

Outstanding units 82,434 (2009: 82,434) units

Key Management Personnel

Issue of units
Redemption of units
Outstanding units nil (2009: 3,279) units
Bonus units

	2010	2009
	-----Rupees-----	
	50,455,025	5,704,110
	-	110,342,937
	28,600,136	30,781,855
	-	1,553,070
	7,822,978	8,419,607
	-	13,523,620
	334,917	59,685,201
	-	334,895
	-	1,119,937

24.1 The transactions with related parties / connected persons are in the normal course of business at contracted rates.

24.2 The outstanding balances due to / from related parties / connected persons are included in the respective notes to the financial statements.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

25.1 The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily set up to be performed based on limits established by the Management Company, Fund's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that Fund is willing to accept. The Board of Directors of the Management Company supervises the overall risk management approach within the Fund. The Fund is exposed to various risks including market risk, liquidity risk and credit risk arising from the financial instruments it holds.

25.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

(i) Interest rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. As of 30 June 2010, the Fund is exposed to such risk in respect of bank balances, placements and investments in debt securities. The bank balances are subject to interest rates as declared by the respective bank on periodic basis. Debt securities and placements are mainly subject to floating interest rates. The sensitivity of the income / (loss) for the year is the effect of the assumed changes in interest rates on the interest income based on floating rate financial assets held at year end. Management of the Fund estimates that 1% increase in the market interest rate, with all other factors remaining constant, would decrease the Fund's loss by Rs. 2,219,218/- and a 1% decrease would increase the Fund's loss by the same amount. However, in practice the actual results may differ from the sensitivity analysis.

The following table analyses the Fund's interest rate risk exposure. The Fund's assets and liabilities are categorised by the earlier of contractual re-pricing or maturity dates;

As at 30 June 2010	Within 1 month	1 to 3 months	3 to 12 months	More than 1 year	Non - interest bearing	Total
----- Rupees -----						
Assets						
Bank balances	9,776,325	-	-	-	-	9,776,325
Placements with banks and other financial institutions	-	170,500,000	-	30,450,000	-	200,950,000
Investments	7,130,335	162,643,285	842,106,852	-	-	1,011,880,472
Net investment in finance lease	-	-	-	108,375,839	-	108,375,839
Deposits and other receivables	-	-	-	-	33,413,273	33,413,273
	<u>16,906,660</u>	<u>333,143,285</u>	<u>842,106,852</u>	<u>138,825,839</u>	<u>33,413,273</u>	<u>1,364,395,909</u>
Liabilities						
Payable against redemption of units	-	-	-	-	64,039	64,039
Borrowing under repurchase agreement	147,574,350	-	-	-	-	147,574,350
Remuneration payable to Management Company	-	-	-	-	1,738,502	1,738,502
Remuneration payable to the Trustee	-	-	-	-	199,103	199,103
Annual fee payable to the SECP	-	-	-	-	1,871,900	1,871,900
Accrued and other liabilities	-	-	-	-	9,935,414	9,935,414
	<u>(147,574,350)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,808,958)</u>	<u>(161,383,308)</u>
Interest sensitivity gap	<u>(130,667,690)</u>	<u>333,143,285</u>	<u>842,106,852</u>	<u>138,825,839</u>	<u>19,604,315</u>	<u>1,203,012,601</u>
2009						
	Within 1 month	1 to 3 months	3 to 12 months	More than 1 year	Non - interest bearing	Total
----- Rupees -----						
Assets						
Bank balances	239,166,833	-	-	-	-	239,166,833
Placements with banks and other financial institutions	-	-	-	534,000,000	-	534,000,000
Investments	-	129,407,901	1,962,670,612	-	-	2,092,078,513
Net investment in finance lease	-	-	-	134,713,880	-	134,713,880
Deposits and other receivables	-	-	-	-	82,274,475	82,274,475
	<u>239,166,833</u>	<u>129,407,901</u>	<u>1,962,670,612</u>	<u>668,713,880</u>	<u>82,274,475</u>	<u>3,082,233,701</u>
Liabilities						
Payable against redemption of units	-	-	-	-	908,352	908,352
Borrowing under repurchase agreement	150,000,000	-	-	-	-	150,000,000
Remuneration payable to Management Company	-	-	-	-	3,572,020	3,572,020
Remuneration payable to the Trustee	-	-	-	-	321,337	321,337
Annual fee payable to the SECP	-	-	-	-	4,129,031	4,129,031
Accrued and other liabilities	-	-	-	-	3,283,207	3,283,207
	<u>(150,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,213,947)</u>	<u>(162,213,947)</u>
Interest sensitivity gap	<u>89,166,833</u>	<u>129,407,901</u>	<u>1,962,670,612</u>	<u>668,713,880</u>	<u>70,060,528</u>	<u>2,920,019,754</u>

(ii) Foreign currency risk

Foreign 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 does not have any financial instruments in foreign currencies and hence is not exposed to such risk.

25.3 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its redeemable units on a regular basis. Units are redeemable at the unit holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive documents. The table below summarises the maturity profile of the Fund's financial instruments. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity date.

2010	Within 1 month	1 to 12 months	More than 1 year	Total
----- Rupees -----				
Assets				
Bank balances	9,776,325	-	-	9,776,325
Placements with banks and other financial institutions	-	-	200,950,000	200,950,000
Investments	21,876,249	198,248,317	791,755,906	1,011,880,472
Net investment in finance lease	-	-	108,375,839	108,375,839
Deposits and other receivables	4,756,306	25,056,967	3,600,000	33,413,273
	36,408,880	223,305,284	1,104,681,745	1,364,395,909
Liabilities				
Payable against redemption of units	64,039	-	-	64,039
Borrowing under repurchase agreement	147,574,350	-	-	147,574,350
Remuneration payable to the Management Company	1,738,502	-	-	1,738,502
Remuneration payable to the Trustee	199,103	-	-	199,103
Annual fee payable to the SECP	-	1,871,900	-	1,871,900
Accrued and other liabilities	1,077,569	8,857,845	-	9,935,414
	(150,653,563)	(10,729,745)	-	(161,383,308)
	<u>(114,244,683)</u>	<u>212,575,539</u>	<u>1,104,681,745</u>	<u>1,203,012,601</u>

2009	Within	1	More than	Total
	1 month	to 12 months	1 year	
----- Rupees -----				
Assets				
Bank balances	239,166,833	-	-	239,166,833
Placements with banks and other financial institutions	-	-	534,000,000	534,000,000
Investments	3,150,600	36,281,832	2,052,646,081	2,092,078,513
Net investment in finance lease	-	-	134,713,880	134,713,880
Deposits and other receivables	27,966,179	50,708,296	3,600,000	82,274,475
	270,283,612	86,990,128	2,724,959,961	3,082,233,701
Liabilities				
Payable against redemption of units	908,352	-	-	908,352
Borrowing under repurchase agreement	150,000,000	-	-	150,000,000
Remuneration payable to the Management Company	3,572,020	-	-	3,572,020
Remuneration payable to the Trustee	321,337	-	-	321,337
Annual fee payable to the SECP	-	4,129,031	-	4,129,031
Accrued and other liabilities	757,810	2,012,227	513,170	3,283,207
	(155,559,519)	(6,141,258)	(513,170)	(162,213,947)
	114,724,093	80,848,870	2,724,446,791	2,920,019,754

25.3.1 Effective interest rates have been disclosed in the respective notes to the financial statements.

25.4 Credit risk

- (i) Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Fund by failing to discharge its obligation. The Fund's policy is to enter into financial contracts with reputable counter parties in accordance with the internal guidelines, constitutive documents and regulatory requirements. The table below analyses the Fund's maximum exposure to credit risk:

	2010	2009
----- Rupees -----		
Bank balances	9,776,325	239,166,833
Placements with banks and other financial institutions	200,950,000	534,000,000
Investments	1,011,880,472	2,092,078,513
Net investment in finance lease	108,375,839	134,713,880
Deposits and other receivables	33,413,273	82,274,475
	1,364,395,909	3,082,233,701

- (ii) Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The table below analyses the Fund's concentration of credit risk by industrial distribution:

	% of debt instruments	
	2010	2009
Financial Services	11.58	17.14
Personal goods	2.13	-
Construction & Materials	9.86	10.82
Real Estate Investment and Services	7.13	3.97
Chemicals	4.27	13.41
Fixed Line Telecommunication	12.26	6.60
Mobile Telecommunications	40.18	35.60
Travel and leisure	6.38	3.38
Household goods	6.21	4.18
Liesure goods	-	0.38
Miscellaneous	-	4.52
	100	100

(iii) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates:

Rating	% of debt instruments	
	2010	2009
AA	-	18.52
AA -	-	43.52
A +	53.52	8.71
A	13.29	9.43
A -	7.08	12.50
BBB	5.66	1.07
BBB -	4.19	2.58
NPA	16.26	3.67
	100	100

25.5 Fair value of financial instruments

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties. The following methods are used to estimate the fair values of financial assets:

Debt securities

These are valued at the rates notified by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the SECP's Circular 1 of 2009. The said circular prescribes a valuation methodology which in case of currently traded securities, is based on weighted average prices during the 15 days preceding the valuation date and in case of thinly or non-traded securities, on the basis of discount coupon method which takes into consideration credit risk and maturities of the instruments. Further, the above circular allows the asset management companies, the discretion to apply a mark-up/ mark-down, within the available limits to yield of any specific security used by the MUFAP for the purpose of determining the fair value of securities. Accordingly, the Fund has applied discretionary discounts by increasing the yield used by the MUFAP in accordance with the available limit. Consequently, carrying value of investments subject to discretionary discount as of 30 June 2010 has decreased and the unrealized loss for the year ended 30 June 2010 has increased by approximately Rs. 6.207 million.

Government securities

These are valued by reference to the quotations obtained from the PKRV rate sheet on the Reuters page.

The fair value of placements and lease receivables over one year cannot be computed with sufficient reliability due to non-availability of relevant active market. However, these have been measured at cost less provision for impairment, if any in their values. The fair value of other financial assets and liabilities of the Fund appropriate their carrying amount.

25.6 Fair value hierarchy

The Fund uses the following hierarchy for disclosure of the fair value of financial instruments by valuation technique:

Level 1 : quoted prices in active markets for identical assets.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. The Fund includes non-performing securities under this category which are valued after taking into account, the impairment loss in accordance with SECP's Circular 1 of 2009 and the Fund's provisioning policy.

As at 30 June 2010, the Fund held the following financial instruments measured at fair value:

	Level 1	Level 2	Level 3 (Note 25.7)
	-----Rupees-----		
At fair value through income statement	-	847,315,217	164,565,255

25.7 The reconciliation from beginning to ending balance for assets measured at fair value using level 3 valuation technique is given below:

	2010 Rupees
Opening balance	136,458,323
Additional securities classified during the year and related revaluations	271,413,626
Provision against non-performing securities	(243,306,694)
Closing balance	<u>164,565,255</u>

26. CAPITAL MANAGEMENT

The Fund's objective when managing unit holder's funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide investors a broad range of asset classes so as to diversify the Fund's risk and to optimize potential returns. The Fund manages its investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in market's conditions. The capital structure depends on the issuance and redemption of units.

27. COMPARATIVE FIGURES

Prior year figures have been reclassified for better presentation.

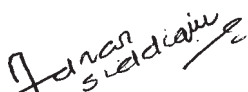
28. SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding unit holding pattern, top brokers, members of the Investment Committee, Fund manager, meeting of the Board of Directors of the Management Company and rating of the Management Company and the Fund has been disclosed in Annexure I to the financial statements.

29. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 18, 2010.

For Askari Investment Management Limited
(Management Company)


Chief Executive Officer


Chairman


Director

**SUPPLEMENTARY NON FINANCIAL INFORMATION
AS REQUIRED UNDER SECTION 6(D), (F), (G), (H), (I) AND (J)
OF THE FIFTH SCHEDULE TO THE NBFC REGULATIONS**

Annexure I

(i) UNIT HOLDING PATTERN OF THE FUND

Category	Number of unit holders	No. of units held	(Investment at par value of Rs. 100)	% of total
Individuals	122	319,090	31,909,000	2.31
Associated companies	5	10,713,000	1,071,300,000	77.44
Insurance companies	1	246	24,600	-
Commercial banks	2	1,534,071	153,407,100	11.09
Retirement funds	16	689,299	68,929,900	4.98
NGOs	7	157,146	15,714,600	1.14
Others	6	421,592	42,159,200	3.05
	159	13,834,444	1,383,444,400	100

(ii) LIST OF TOP BROKERS

Name of broker	% of commission paid
Global Securities Pakistan Limited	24.25
JS Global Capital Limited	22.41
KASB Securities Limited	15.38
Invisor Securities (Private) Limited	11.93
BMA Capital Management Limited	8.35
Arif Habib Securities Limited	8.08
First Capital Securities Corporation Limited	5.39
Invest Capital Investment Bank Limited	4.21
	100

(iii) MEMBERS OF THE INVESTMENT COMMITTEE / FUND MANAGER

Following are the members of the Investment Committee of the Fund:

Name	Designation	Qualification	Over all Experience
Mr. Adnan Siddiqui	CEO	MBA	19 years
Mr. Irfan Saleem Awan	CFO	ACA	11 years
Mr. Mustafa Kamal *	Fund Manager	MBA	7 years
Mr. Sameen Shaukat Malik	Head of Risk & Compliance	MBA	17 years

* Mr. Mustafa Kamal is also managing Askari Sovereign Cash Fund and Askari Islamic Income Fund

Annexure I

(iv) MEETINGS OF BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

Following is the analysis of the attendance in the meetings of the Board of Directors of the Management Company during the year:

Name of Directors	Designation	Meetings attended	Meetings held on				
			17 Aug 2009	20 Oct 2009	12 Feb 2010	20 April 2010	8 June 2010
Lt Gen(R.) Imtiaz Hussain	Chairman	4	P	P	P	L	P
Mr. Shahid Hafeez Azmi	Director	5	P	P	P	P	P
Mr. Muhammad Naseem	Director	5	P	P	P	P	P
Mr. M.R Mehkari	Director	5	P	P	P	P	P
Maj Gen(R.) Saeed Ahmed Khan	Director	4	P	L	P	P	P
Mr. Tahir Aziz	Director	5	P	P	P	P	P
Mr. Sufian Mazhar	Director	1	N/A	N/A	L	P	L
Mr. Saeed Aziz Khan	Ex-CEO	4	P	P	P	P	N/A
Mr. Adnan Ahmed Siddiqui	CEO	1	N/A	N/A	N/A	N/A	P

P Present
L Leave of absence

(v) RATING OF THE MANAGEMENT COMPANY AND THE FUND

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of 'AM3' to the Management Company in February 2010. As per the rating scale of PACRA, this rating denotes that the asset manager meets high investment industry standards and benchmarks.

The process for stability rating of the Fund shall be initiated upon completion of the requisite formalities for its categorisation.

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WHAT'S YOUR AIM?



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