

# Annual Report 2010

## Askari Islamic Asset Allocation Fund



*Invest with AIM*

Title Inside

*askari*  
*islamic asset allocation*   
*Fund*

# 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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**askari**  
**islamic asset allocation** 



## 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

### Bankers

- Askari Bank Limited
- Dubai Islamic Bank Limited
- Emirates Global Islamic Bank Limited

### Trustee

- MCB Financial Services Limited  
Formerly Muslim Commercial Financial Services Ltd  
3rd Floor Adamjee House, I.I Chundrigar Rd.,  
Karachi  
Tel: (92-021) 3241-9770

### 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

- Mohsin Tayabaly & Company  
Advocates & Legal Consultants  
2nd Floor, Dine Centre, PC-4, Block 9,  
Kehkashan, Clifton, 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 Islamic Asset Allocation Fund ("AIAAF" or "the Fund") along with the Audited Financial Statements and Auditors' Report thereon for the period from June 25, 2009 to 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.

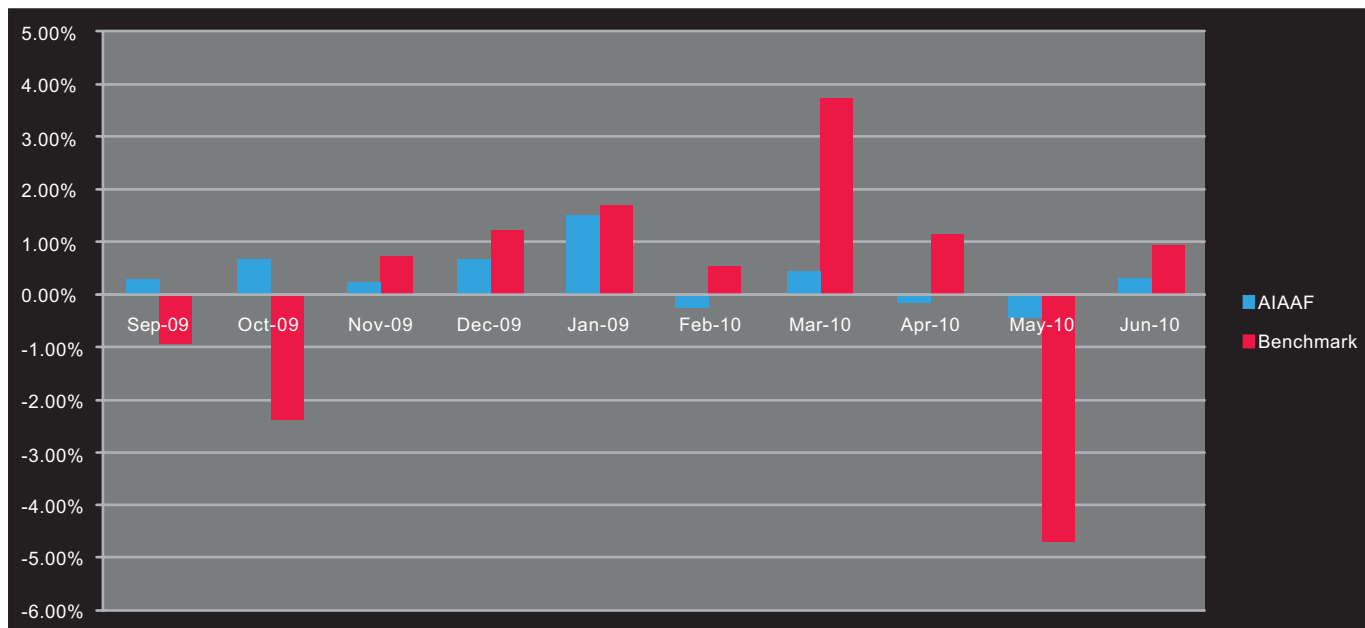
KSE100 gained 36% in FY10 due to continued economic improvement, thus outshining its peers in the region. Net foreign inflows were recorded at USD567mn. Net foreign investment in KSE100 was recorded at 6.8% of the total market cap (USD 2.1bn by the end of June 2010). A longer-term goal for the Pakistan's 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

The target return for the Fund is 50% three month average deposit rate of 3 Islamic banks + 50% Islamic equity index (KMI 30 index). Since inception, AIAAF has consistently outperformed its competitors and recorded a return of 3.02% (since inception - the highest in its peer group) for FY10. This return was in the backdrop of prevailing challenging political and economic conditions, a volatile macro economic environment and a lackluster performance by the Karachi Stock Exchange (KSE). Following is a comparison of the Fund returns since inception with its benchmark:





Going forward, the Fund will continue to vary exposure depending on market fundamentals and focus on its long-term objectives of providing competitive returns to its investors.

#### Details required by the Code of Corporate Governance:

AIAAF was listed on the Islamabad Stock Exchange (Guarantee) Ltd on October 13, 2009 after its public launch in September 2009 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 as on June 30, 2010 is as follows (Also refer to Annexure - I to the financial statements):

Category	Number of unit holders	No. of units held	% of total
Askari Bank Limited (Holding company of the Management Company)	1	1,095,837	100
	1	1,095,837	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 18 to the financial statements, the Management Company following a prudent approach made a provision for Workers Welfare Fund (WWF) levy during the period. The matter of applicability of WWF on mutual funds is under consideration at various levels, including Honorable Sindh High Court, MUFAP 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 19 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 the period from June 25, 2009 to June 30, 2010 is as follows:

	Jun-10
	Rupees
Net Assets as June 30th	112,897,341
Net Asset Value per unit as of June 30th	103.0238
Net Income for the period	12,897,340
Distribution during the period*	9,583,729

\*This excludes dividend distribution approved after the period-end.

During the period, Rs 9.588 per unit (Par value of Rs. 100 per Unit) was distributed to the pre-IPO investors at the time of launch of Fund, i.e. on September 18, 2009. Apart from that, on July 06, 2010, the Board of Directors of the Management Company approved a final distribution at the rate of Rs 2.95 per unit out of the accounting income for the period ended June 30, 2010. The distribution for the period has been made in compliance with Regulation 63 of the NBFC Regulations, 2008 and to avail the income tax exemption as available under Clause 99 of the Second Schedule to the Income Tax Ordinance, 2001.

### Future Outlook

Going forward, in view of the economic scenario and the impacts 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. Further interest rates are expected to remain on the higher side going forward due to rising inflationary pressures and expected increase in fiscal deficit. On the equity front, the medium term impact of the floods can be negative on the market however we also see a positive side to it. The key sectors that are likely to be affected are fertilizer, textiles and banks, to the extent that they have direct exposure to agriculture based loans. However, we see a positive impact of this natural calamity on certain sectors like Pharma and Cement.

The anticipated foreign inflows along with recent news flow, regarding US\$700mn assistance pledged by China for dam construction and the reduction in power subsidies should provide the Government of Pakistan (GoP) the necessary fiscal space to achieve higher PSDP utilization going forward.

The Company's going forward strategy will be to capitalize on the best available opportunities arising in the market from time to time through active fund management with an endeavor to achieve targeted objectives of the Fund.

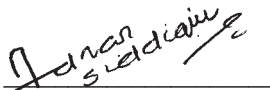
### Auditors

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 Islamic Asset Allocation 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

AUGUST 18, 2010  
KARACHI

# 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

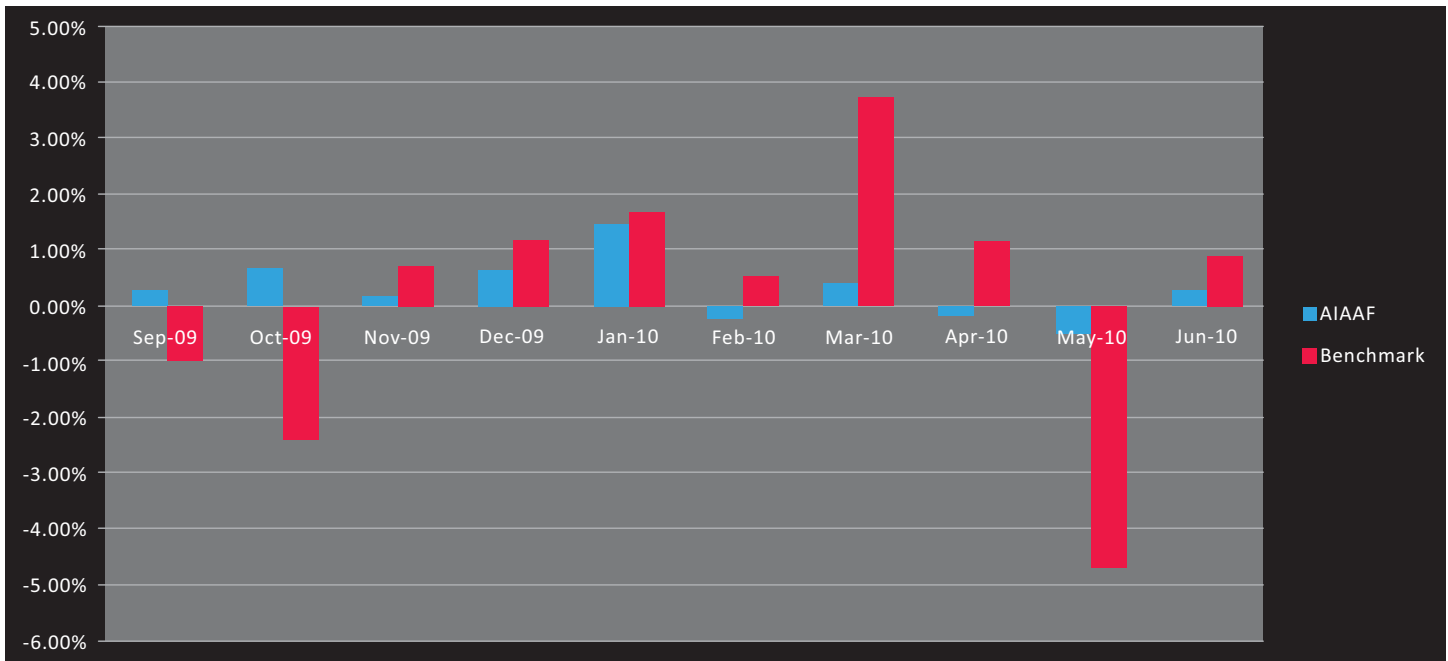
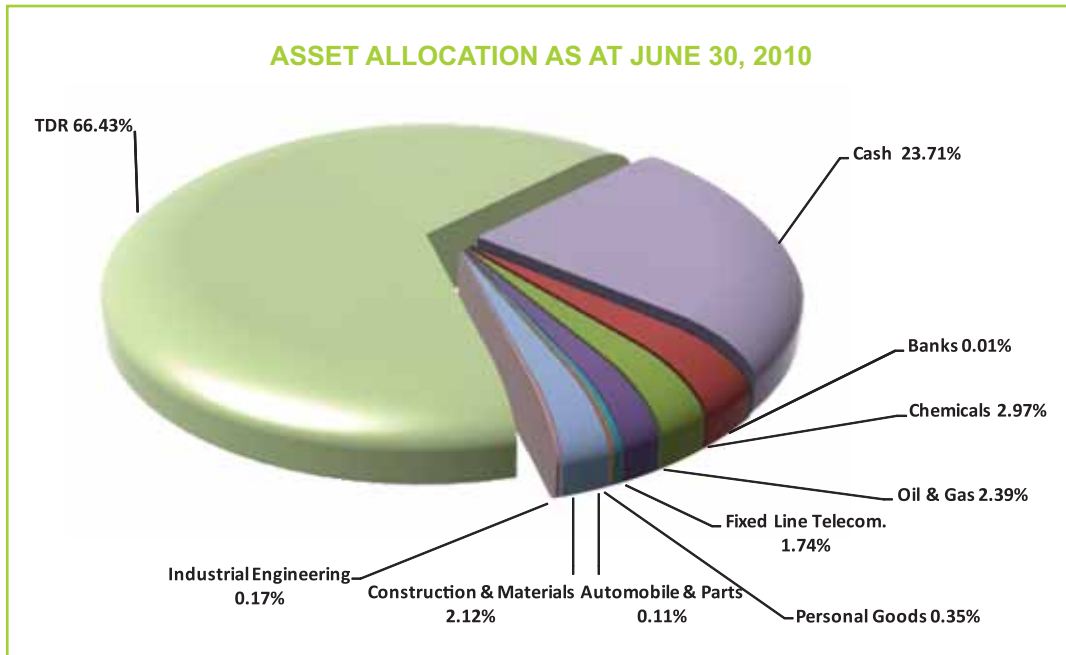
Askari Islamic Asset Allocation Fund (AIAAF) is an open end Islamic asset-allocation Fund which invests in Shariah Compliant debt and equity securities. Given the inverse relationship between the two asset classes, the Fund seeks to maximize investor return by shifting allocations between the two, and subsequently minimize risk. The asset universe of the Fund includes Shariah compliant debt instruments like Sukuk certificates and Shariah compliant equities.

The target return for the Fund is 50% three month average deposit rate of 3 Islamic banks + 50% Islamic equity index (KMI 30 index). The Fund was launched on September 18, 2009, and its IPO was from 18th to 29th September, 2009.

The AIAAF followed its "PE Band" valuation methodology, investing in undervalued scrips to benefit from their upside potential in terms of intrinsic values. The methodology derived from the "FED model", decides exposure levels based on the earning yield and discount rate. The Fund size at June 30, 2010 was PKR 112.897million. Since inception, AIAAF has consistently outperformed its competitors and recorded a return of 3.02% (since inception - the highest in its peer group) for FY10 and underperformed against its benchmark. This underperformance against benchmark return was in the backdrop of increased political and economic instability, a volatile macro economic environment and a lackluster performance by the Karachi Stock Exchange (KSE). The interim distribution to unit holders at the time of launch of Fund, i.e. September 18, 2009 in was at the rate of Rs 9.588 per unit in the form of bonus units. Final distribution of income for the period ended June 30, 2010 was at the rate of Rs 2.95 per unit resulting in an ex-div. NAV of Rs 100.0738 per unit. This was in addition to the distribution at the time of public launch of the Fund.

General Information				
Minimum Investment	Rs. 5,000			
Sales Load	2.5% front-end on Class B units, 5.0% back-end on Class C units			
Management Fee	3.0% p.a.			
Risk	Moderate			
Benchmark	50% KMI-30 Index + 50% of Average of 3-Month deposit rate of 3 Islamic Banks			
Management Company Rating	AM3 by PACRA (Feb-2010)			
Fund Size and Growth				
	30 <sup>th</sup> June '10	Inception		
Fund Size	Rs 112.89mn	Rs 109.584 mn		
NAV	Rs 103.0238	Rs 100		
Fund Performance				
Rolling Return	1-Month	3-Month	Since Inception	FY10
AIAAF	0.29%	-0.24%	3.02%	3.02%
Benchmark	0.92%	-1.81%	5.48%	2.46%
Portfolio Details				
P/E (FY10)	8.00			
Beta	0.092			
R <sup>2</sup>	31.15%			
Max Drawdown (DD)	1.68%			
Number of Days in DD	86			
Standard Deviation*	0.56%			
*Monthly Basis				
Economic Data				
	Sep 09	Dec 09	Mar 10	Jun 10
KSE100 Index	9,349.67	9,386.92	10,178.43	9,722
6M KIBOR	12.30%	12.62%	12.35%	12.32%
CPI (YoY)	10.12%	10.52%	12.91%	12.69%
Top Ten Holdings of the AIAAF				
1.) Fauji Fertilizer Bin Qasim Ltd.	2.) Pakistan State Oil			
3.) Lucky Cement	4.) Pak Datacom Ltd			
5.) Pak Telecommunications	6.) Fauji Fertilizer Co. Ltd			
7.) NishatChunian	8.) Shell Pakistan Ltd.			
9.) Millat Tractor	10.) Pak Suzuki Motors			

For unit holding pattern of the Fund, please refer to Annexure - I to the financial statements of AIAAF.



**financial statements**





# MCB FINANCIAL SERVICES LIMITED

[FORMERLY MUSLIM COMMERCIAL FINANCIAL SERVICES LIMITED]

## REPORT OF THE TRUSTEE TO THE UNIT HOLDERS

### ASKARI ISLAMIC ASSET ALLOCATION FUND

#### Report of the Trustee Pursuant to Regulation 41(h) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

Askari Islamic Asset Allocation Fund , an open-end scheme established under a Trust Deed dated August 26, 2008 executed between Askari Investment Management Limited, as the Management Company and MCB Financial Services Limited (Formerly: Muslim Commercial Financial Services Limited, as the Trustee . The Scheme was authorized by Securities and Exchange Commission of Pakistan (Commission) on June 25, 2009.

1. Askari Investment Management Limited, the Management Company of Askari Islamic Asset Allocation Fund, has in all material respects, managed Askari Islamic Asset Allocation Fund during the period from June 25, 2009 to 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;
  - (ii) the valuation and pricing of Units are carried out in accordance with the requirements of the Trust Deed and the Offering Document;
  - (iii) the creation and cancellation of Units are carried out in accordance the requirements of the Trust Deed and the Offering Document;
  - (iv) the Non-Banking Finance Companies (Establishment and Regulation ) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008; and the constitutive documents.

For the purpose of information, the attention of unit holders is drawn towards Annexure-1of the financial statements regarding the breach of brokerage commission limit in case of Foundation Securities Private Limited.

Khawaja Anwar Hussain  
Chief Executive Officer

MCB Financial Services Limited  
(formerly: Muslim Commercial Financial Services Limited)

Karachi: August 27, 2010

3rd Floor, Adamjee House, I. I. Chundrigar Road, Karachi - 74000  
Direct Nos. 021-32430485, 32415454, 32415204, 32428731 PABX No. 021-32419770, Fax No. 021-32416371  
Website: <http://www.mcbfsl.com.pk>

## REPORT OF THE SHARIAH ADVISOR ASKARI ISLAMIC ASSET ALLOCATION FUND

Islamabad

August 9, 2010

Alhamdulillah, Askari Islamic Asset Allocation Fund (“AIAAF” or “Fund”) has successfully completed its first year operations for the period from June 25, 2009 to June 30, 2010 and I thank ALLAH Almighty on this occasion. In the capacity of being the Shariah Advisor of AIAAF, I am issuing this report in accordance with clause 6.2(c) (v) of the Trust of AIAAF. The scope of this report is to express an opinion on the shariah compliance of Fund’s activities.

To establish and maintain a system for ensuring Shariah compliance according to the guidelines provided by the Shariah Advisor is the responsibility of the Management Company. The Shariah Advisor is responsible to form and express an opinion, based on its random checking and periodic review of the representation made by the management, to the extent where such compliance can be objectively verified.

In light of the above, as Shariah Advisor to AIAAF, I have reviewed the following during the period under consideration:

- Mode of investments and placements of AIAAF in light of the Shariah guidelines.
- Screening of investments and placements of AIAAF in light of the Shariah guidelines.
- Provisions of the scheme and investments & placements made on account of AIAAF in accordance with the Shariah criteria established.
- Amount of provision for charity made in the books of accounts of AIAAF. I confirm having checked and verified the amount of said provision and having approved the same from Shariah perspective.

In light of the above, I hereby certify that operations of AIAAF and its investments & placements for the period from June 25, 2009 to June 30, 2010 have been in compliance with Shariah principles.

May ALLAH bless us with best Tawfeeq to accomplish our cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.



**Dr. Muhammad Tahir Mansoori**  
Shariah Advisor-AIAAF

## INDEPENDENT ASSURANCE REPORT TO THE UNIT HOLDERS OF THE FUND IN RESPECT OF THE FUND'S COMPLIANCE WITH THE SHARIAH RULES AND PRINCIPLES

We have performed an independent assurance engagement of Askari Islamic Income Fund (the Fund) to ensure that the Fund has complied with the Shariah rules and principles prescribed by the Shariah Advisor of the Fund during the period ended 30 June 2010, in accordance with clause 9.3 of the Trust Deed of the Fund.

### 2. Management's responsibility for Shariah compliance

It is the responsibility of the management of the Fund to ensure that the financial arrangements, contracts and transactions entered into by the Fund are, in substance and in their legal form, in compliance with the requirements of the Shariah rules and principles. The management is also responsible for design, implementation and maintenance of appropriate internal control procedures with respect to such compliance and maintenance of relevant accounting records.

### 3. Our responsibility

**3.1.** We planned and performed our evidence gathering procedures to obtain a basis for our conclusion in accordance with International Standard for Assurance Engagements 3000 (ISAE 3000) "Assurance Engagements other than Audits or Reviews of Historical Financial information". This Standard requires that we comply with ethical requirements and plan and perform the engagement to obtain reasonable assurance regarding the subject-matter i.e. the Fund's compliance with the Shariah rules and principles as determined by the Shariah Advisor.

**3.2.** The "Assurance Procedures" selected by us for the engagement were dependent on our judgment, including the assessment of the risks of material non-compliance with the Shariah rules and principles. In making those risk assessments, we considered internal controls relevant to the Fund's compliance with the Shariah rules and principles in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal controls.

**3.3.** Our responsibility is to express an opinion, based on the procedures performed on the Fund's financial arrangements, contracts and transactions having Shariah implications, on a test basis whether such financial arrangements, contracts and transactions, having Shariah implications, are in line with the Shariah rules and principles as prescribed by Shariah Advisor of the Fund.

### 4. Our opinion

In our opinion, the Fund was, in all material respect, in compliance with the Shariah rules and principles as determined by Shariah Advisor of the Fund during the period ended 30 June 2010.

*Eunil Yong Eun Rinda Sidat Hapla*

CHARTERED ACCOUNTANTS

KARACHI: 18 AUGUST 2010

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE PERIOD FROM JUNE 25, 2009 TO JUNE 30, 2010

This statement is being presented in compliance with the Code of Corporate Governance ('the Code') contained in the Listing Regulations of Islamabad Stock Exchange where Askari Islamic Asset Allocation 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:

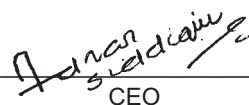
1. The Management Company encourages representation of independent non-executive directors. Presently, all the board members are non-executive directors except Chief Executive Officer.
2. The directors of the Management Company have confirmed that none of them is serving as a director in more than ten 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 period. Further, during the period, 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 period. 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 period, 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 dully 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 Islamic Asset Allocation Fund (the Fund) to comply with the Listing Regulations of the Islamabad 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 Islamabad 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 period from 25 June 2009 to 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 Islamic Asset Allocation 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 period from 25 June 2009 to 30 June 2010, 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 period from 25 June 2009 to 30 June 2010 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

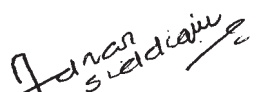
A member firm of Ernst & Young Global Limited

**ASKARI ISLAMIC ASSET ALLOCATION FUND**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**AS AT 30 JUNE 2010**

	Note	Rupees
<b>Assets</b>		
Bank balances	7	26,539,962
Placements with Islamic banks	8	75,000,000
Investments	9	11,125,774
Receivable against sale of securities		815,953
Deposit and other receivables	10	787,022
Deferred formation cost	11	931,314
<b>Total assets</b>		<b>115,200,025</b>
<b>Liabilities</b>		
Remuneration payable to the Management Company		279,174
Remuneration payable to the Trustee		57,536
Annual fee payable to the Securities and Exchange Commission of Pakistan		80,015
Accrued and other liabilities	12	1,885,959
<b>Total liabilities</b>		<b>2,302,684</b>
<b>Net assets</b>		<b>112,897,341</b>
<b>Unit holders' fund</b>		<b>112,897,341</b>
<b>Number of units in issue</b>		<b>1,095,837</b>
<b>Net asset value per unit</b>		<b>103.0238</b>

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Askari Investment Management Limited  
(Management Company)

  
Chief Executive Officer

  
Chairman

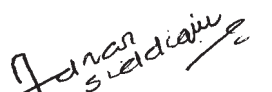
  
Director


**ASKARI ISLAMIC ASSET ALLOCATION FUND**  
**INCOME STATEMENT**  
**FOR THE PERIOD FROM 25 JUNE 2009 TO 30 JUNE 2010**

	Note	Rupees
<b>Income</b>		
Profit on bank balances and placements	13	17,230,057
Dividend income		223,650
Net gain on investments at fair value through income statement:		
Net gain on sale of investments		2,957,140
Net unrealised loss on revaluation of investments		(165,012)
		2,792,128
Element of income / (loss) and capital gain / (loss) included in prices of units issued less those in units redeemed - net		(508)
		<u>20,245,327</u>
<b>Expenses</b>		
Remuneration of the Management Company	14	4,856,979
Remuneration of the Trustee	15	525,480
Annual fee of the Securities and Exchange Commission of Pakistan	16	80,015
Auditors' remuneration	17	445,108
Brokerage commission		952,401
Custodian fee		20,612
Amortisation of deferred formation cost		164,523
Bank charges		750
Provision for charity	12.2	233,604
Provision for contribution to Workers' Welfare Fund	18	67,625
Printing charges		890
		7,347,987
<b>Net income for the period</b>		<u><u>12,897,340</u></u>

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Askari Investment Management Limited  
(Management Company)

  
Chief Executive Officer

  
Chairman

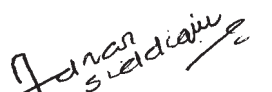
  
Director

**ASKARI ISLAMIC ASSET ALLOCATION FUND**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE PERIOD FROM 25 JUNE 2009 TO 30 JUNE 2010**

	Rupees
Net income for the period	12,897,340
Other comprehensive income	-
<b>Total comprehensive income for the period</b>	<b><u>12,897,340</u></b>

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Askari Investment Management Limited  
 (Management Company)

  
 Chief Executive Officer

  
 Chairman

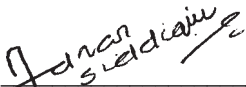
  
 Director

**ASKARI ISLAMIC ASSET ALLOCATION FUND**  
**DISTRIBUTION STATEMENT**  
**FOR THE PERIOD FROM 25 JUNE 2009 TO 30 JUNE 2010**

	Rupees
Net income for the period	12,897,340
Distribution at Rs. 9.588 per unit as bonus units on 18 September 2009	(9,583,729)
<b>Undistributed income carried forward</b>	
Realised	3,478,623
Unrealised	(165,012)
	<b>3,313,611</b>

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Askari Investment Management Limited  
 (Management Company)

  
 Chief Executive Officer

  
 Chairman

  
 Director



**ASKARI ISLAMIC ASSET ALLOCATION FUND**  
**CASH FLOW STATEMENT**  
**FOR THE PERIOD FROM 25 JUNE 2009 TO 30 JUNE 2010**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income for the period

**Adjustments for:**

Profit on bank balances and placements  
 Net gain on investments at fair value through income statement  
 Amortisation of deferred formation cost  
 Provision for contribution to Workers' Welfare Fund  
 Element of (income) / loss and capital (gains) / losses in prices  
 of units issued less those in units redeemed - net

**Increase in assets:**

Deposit and other receivables  
 Receivable against sale of securities

**Increase in liabilities:**

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

Purchase of investments  
 Sale of investments  
 Profit received on bank balances and placements  
**Net cash inflow from operating activities**

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from issuance of units  
 Payments against redemption of units  
**Net cash inflow from financing activities**

**Cash and cash equivalent at the end of the period**

Rupees

12,897,340

(17,230,057)  
 (2,792,128)  
 164,523  
 67,625  
 508  
 (19,789,529)

(161,250)  
 (815,953)  
 (977,203)

279,174  
 57,536  
 80,015  
 722,497  
 1,139,222

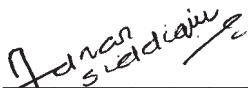
(691,475,994)  
 683,142,348  
 16,604,285  
 1,540,469

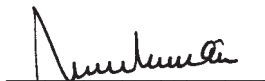
100,100,001  
 (100,508)  
 99,999,493

101,539,962

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Askari Investment Management Limited  
 (Management Company)

  
 Chief Executive Officer

  
 Chairman

  
 Director

**ASKARI ISLAMIC ASSET ALLOCATION FUND**  
**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND**  
**FOR THE PERIOD FROM 25 JUNE 2009 TO 30 JUNE 2010**

Issue of 1,096,819\* units of Rs. 100/- each  
 Redemption of 982 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

Net income for the period  
 Other comprehensive income  
 Total comprehensive income for the period

**Net assets at the end of the period**  
**[Rs 103.0238 per unit]**

Rupees

100,100,001  
 (100,508)

508

12,897,340

-

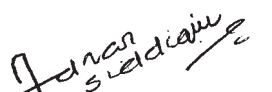
12,897,340


112,897,341

\* Including 95,837 bonus units issued during the period

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Askari Investment Management Limited  
 (Management Company)

  
 Chief Executive Officer

  
 Chairman

  
 Director

## ASKARI ISLAMIC ASSET ALLOCATION FUND

### NOTES TO THE FINANCIAL STATEMENTS

### FOR THE PERIOD FROM 25 JUNE 2009 TO 30 JUNE 2010

#### 1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** Askari Islamic Asset Allocation 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 26 August 2008 between Askari Investments Management Limited (a wholly owned subsidiary of Askari Bank Limited) as its Management Company and MCB Financial Services Limited as its Trustee.
- 1.2** The Fund offers units for public subscription on a continuous basis. The units are transferable and can also be redeemed by surrendering them to the Fund. The units are listed on the Islamabad Stock Exchange. As per the offering document, the Fund shall invest in shariah compliant securities such as equities, debt securities and other shariah compliant instruments including shariah compliant securities available outside Pakistan.
- 1.3** These are the first annual financial statements of the Fund for a period commencing from the date of the registration of the Fund with the Securities and Exchange Commission of Pakistan (SECP) i.e. 25 June 2009 as allowed by the SECP. Accordingly, there are no comparative figures to report.

#### 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 SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, 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 and derivatives which are accounted for as stated in notes 4.1 and 4.2 below.
- 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

During the period, the Fund has adopted the following significant accounting policies:

##### 4.1 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.

#### 4.2 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.

#### 4.3 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.

#### 4.4 Issue and redemption of units

Units are issued at the offer price determined at the close of business when funds in respect of purchase of units are realised. 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 upon realisation of related funds.

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.

#### 4.5 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, debt and government securities is recognised on an accrual basis. However, wherever required, recognition of income on exposures is suspended in accordance with the SECP's Circular 1 of 2009 and Fund's provisioning policy.

#### 4.6 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.

#### 4.7 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.

#### 4.8 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 intends to avail such exemption in current and future periods. Accordingly, no provision is required for current and deferred taxation in these financial statements.

#### 4.9 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.

#### 4.10 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.

#### 4.11 Distribution to unit holders

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

#### 4.12 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 asset of the Fund by the number of units in issue at the reporting date.

#### 4.13 Cash and cash equivalent

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

### 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 judgments about carrying values of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis.

Judgements made by management in the application of accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment are explained in the relevant accounting policies / notes in the financial statements.

### 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 - 2 Related Party Disclosures (Revised)	01 January 2011
IAS - 3 Financial Instruments: Presentation - Classification of Right (Amendment)	01 February 2010
IFRS - Share based payment - Amendments relating to Group Cash-settled Share-based payment transactions	01 January 2010
IFRIC · IAS - 19 - The limit on a defined benefit asset, Minimum Funding Requirements and their Interaction (Amendments)	01 January 2011
IFRIC · 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.

	Note	2010 Rupees
<b>7. BANK BALANCES</b>		
PLS saving accounts	7.1	<u>26,539,962</u>
<b>7.1</b>	These carry expected profit rates ranging from 5% to 8.06% per annum and include balance of Rs. 1,588,412/- with Askari Bank Limited - Islamic Banking Services Division (a related party).	
<b>8. PLACEMENTS WITH ISLAMIC BANKS</b>		
Represents placements with an Islamic bank that is subject to expected rate of return of 11% per annum. These placements have matured in July 2010.		
<b>9. INVESTMENTS</b>		
<b>At fair value through income statement</b>		
<b>Held-for-trading</b>		
Listed shares	9.1	<u>11,125,774</u>
<b>Cost of investments</b>		<u>11,290,786</u>

## 9.1 Listed shares

(Ordinary shares of face value of Rs.10/- each)

**Oil and Gas**

	Number of shares			Carrying value (Rupees)	% of total investments	
	Acquired during the period	Bonus shares	Disposed during the period			At the end of the period
Attock Refinery Limited	44,948	-	44,948	-	-	
Oil & Gas Development Company Limited	1,166,540	-	1,166,540	-	-	
Pakistan Oilfields Limited	506,126	-	506,126	-	-	
Pakistan Petroleum Limited	58,274	-	58,274	-	-	
Pakistan State Oil Company Limited	671,598	-	662,398	9,200	2,393,840	21.52
Shell Pakistan Limited	125,086	-	123,768	1,318	302,626	2.72

2,696,466 24.24

**Chemicals**

Engro Corporation Limited (formerly Engro Chemical Pakistan Limited)	51,200	-	51,200	-	-	-
Fauji Fertilizers Bin Qasim Limited	219,500	-	114,500	105,000	2,734,200	24.56
Fauji Fertilizers Company Limited	131,500	-	125,500	6,000	618,420	5.56
I.C.I. Pakistan Limited	3,500	-	3,500	-	-	-

3,352,620 30.12

**Construction and Materials**

Lucky Cement Limited	1,036,176	-	997,676	38,500	2,392,390	21.50
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**General Industrials**

Tri-Pack Films Limited	13,500	-	13,500	-	-	-
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**Automobile and Parts**

Atlas Battery Limited	7,565	-	7,565	-	-	-
Millat Tractors Limited	54,072	-	53,672	400	192,124	1.73
Pak Suzuki Motor Company Limited	98,981	-	97,381	1,600	126,832	1.14

318,956 2.87

**Personal Goods**

Colgate Palmolive Pakistan Limited	4,950	-	4,950	-	-	-
Nishat (Chunian) Limited	50,000	-	25,000	25,000	394,500	3.55
Nishat Mills Limited	80,882	-	80,882	-	-	-

394,500 3.55

**Pharma and Bio Tech**

GlaxoSmithKline Pakistan Limited	8,000	-	8,000	-	-	-
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**Fixed Line Telecommunication**

Pak Datacom Limited	21,731	-	9,792	11,939	1,336,929	12.02
Pakistan Telecommunication Company Limited	855,000	-	820,000	35,000	623,000	5.60

1,959,929 17.62

**Electricity**

Hub Power Company Limited	113,000	-	113,000	-	-	-
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**Gas Water and Multiutilities**

Sui Northern Gas Pipelines Limited	15,000	-	15,000	-	-	-
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**Banks**

Meezan Bank Limited	289,111	750	289,111	750	10,913	0.10
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11,125,774 100



	Note	Rupees
<b>10. DEPOSIT AND OTHER RECEIVABLES</b>		
Security deposit with Central Depository Company of Pakistan Limited (CDC)		100,000
Accrued return on bank balances and placements	10.1	625,772
Dividend receivable		61,250
		<u>787,022</u>
<b>10.1</b> Includes Rs. 6,519/- due from Askari Bank Limited - Islamic Banking Services Division (a related party).		
<b>11. DEFERRED FORMATION COST</b>		
Deferred formation cost incurred		1,095,837
Amortisation of deferred formation cost		(164,523)
		<u>931,314</u>
<b>12. ACCRUED AND OTHER LIABILITIES</b>		
Payable to the Management Company	12.1	1,195,980
Provision for contribution to Workers' Welfare Fund		67,625
Accrued expenses		388,750
Charity payable	12.2	233,604
		<u>1,885,959</u>
<b>12.1 Payable to the Management Company</b>		
Formation cost		1,095,837
Security deposit with Central Depository Company of Pakistan Limited (CDC)		100,000
Others		143
		<u>1,195,980</u>
<b>12.2</b> Represents the portion of income determined as shariah non-compliant in line with the advice of the Shariah Advisor. This amount is to be paid to charities with the approval of the Shariah Advisor in accordance with the constitutive documents of the Fund.		
<b>13. PROFIT ON BANK BALANCES AND PLACEMENTS</b>		
Includes Rs. 99,577,324/- pertaining to period prior to the registration of the Fund with the SECP.		
<b>14. REMUNERATION OF THE MANAGEMENT COMPANY</b>		
According to the provisions of the Trust Deed of the Fund, the Management Company has charged its remuneration at the rate of 3% per annum of the net assets of the Fund computed on a daily basis.		
Management remuneration charged in these financial statements includes Rs. 2,330,184/- pertaining to period prior to the registration of the Fund as allowed by the SECP and Trustee.		

## 15. REMUNERATION OF THE TRUSTEE

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

On net assets:

- |   |   |
|---|---|
| - upto Rs.500 million                       | Rs. 0.7 million or 0.20% per annum of the net assets of the Fund computed on a daily basis, which ever is higher.     |
| - exceeding Rs. 500 million to Rs.1 billion | Rs.1 million plus 0.15% per annum of the net assets of the Fund exceeding Rs. 500 million computed on a daily basis.  |
| - exceeding Rs 1 billion to Rs.2 billion    | Rs.1.75 million plus 0.08% per annum of the net assets of the Fund exceeding Rs. 1 billion computed on a daily basis. |
| - over Rs. 2 billion                        | Rs.2.55 million plus 0.05% per annum of the net assets of the Fund exceeding Rs. 2 billion computed on a daily basis. |

## 16. ANNUAL FEE OF THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Represents annual fee of SECP in accordance with the NBFC Regulations, whereby the Fund is required to pay SECP an amount at the rate of 0.095% per annum of the net assets of the Fund computed on a daily basis.

## 17. AUDITORS' REMUNERATION

Annual audit fee  
Half year review fee  
Review of compliance with the Code of Corporate Governance  
Other certifications and services  
Out of pocket expenses

**Period from  
25 June 2009  
to  
30 June 2010  
Rupees**

180,000
50,000
43,000
165,000
7,108
<u>445,108</u>

## 18. 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 for the current period amounting to Rs. 67,625/- in the financial statements.

## 19. TRANSACTIONS WITH RELATED PARTIES/CONNECTED PERSONS

### Askari Investment Management Limited (Management Company)

Remuneration of the Management Company	4,856,979
Payments on behalf of the Fund	1,195,980

### MCB Financial Services Limited (Trustee)

Remuneration of the Trustee	525,480
Custodian fee	20,612

### Askari Bank Limited (Holding company of the Management Company)

Profit on bank balances and placements (from Islamic Banking Services Division)	12,509,912
Issue of units (1,000,000)	100,000,000
Placements / encashment (from Islamic Banking Services Division)	2,000,000,000
Outstanding (1,095,837 units )	112,897,341
Bonus Units (95,837 units)	9,583,729

Period from  
25 June 2009  
to  
30 June 2010  
Rupees

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

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

## 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

20.1 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, credit risk and liquidity risk arising from the financial instruments it holds.

### 20.2 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 profit rates, foreign exchange rates and equity prices.

#### (i) Profit rate risk

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates. As of 30 June 2010, the Fund is exposed to such risk in respect of bank balances and placements. The bank balances are subject to profit rates as declared by the respective bank on periodic basis. Management of the Fund estimates that 1% increase in the profit rate, with all other factors remaining constant, would increase the Fund's income by Rs. 265,400/- and a 1% decrease would result in a decrease in the Fund's income by the same amount. However, in practice, the actual results may differ from the sensitivity analysis.

**(ii) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments 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.

**(iii) Equity price risk**

Equity price risk is the risk of volatility in share prices resulting from their dependence on market sentiments, speculative activities, supply and demand for shares and liquidity in the market. The value of investments may fluctuate due to change in business cycles affecting the business of the company in which the investment is made, change in business circumstances of the company, its business sector, industry and / or the economy in general. Management of the Fund estimates that 10% increase in the overall equity prices in the market with all other factors remaining constant would increase the Fund's income by Rs. 1,112,577/- and a 10% decrease would result in decrease in the Fund's profit by the same amount. However, in practice, the actual results may differ from the sensitivity analysis.

**20.3 Liquidity risk**

Liquidity risk is defined as 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 summaries 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. However, for equity securities at fair value through income statement, the period in which those assets are assumed to mature is taken as the expected date on which these assets will be realised.

2010	Within 1 month	1 to 12 months	More than 1 year	Total
----- Rupees -----				
<b>Assets</b>				
Bank balances	26,539,962	-	-	26,539,962
Placements with Islamic banks	75,000,000	-	-	75,000,000
Investments	-	11,125,774	-	11,125,774
Receivable against sale of securities	-	-	-	-
	815,953	-	-	815,953
Deposit and other receivables	687,022	-	100,000	787,022
	103,042,937	11,125,774	100,000	114,268,711
<b>Liabilities</b>				
Remuneration payable to the Management Company	-	-	-	-
	279,174	-	-	279,174
Remuneration payable to the Trustee	57,536	-	-	57,536
Annual fee payable to the Securities and Exchange Commission of Pakistan	-	-	-	-
	-	80,015	-	80,015
Accrued and other liabilities	-	690,122	1,195,837	1,885,959
	(336,710)	(770,137)	(1,195,837)	(2,302,684)
	102,706,227	10,355,637	(1,095,837)	111,966,027

## 20.4 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 document and regulatory requirements. The table below analyses the Fund's maximum exposure to credit risk:

	2010 Rupees
Bank balances	26,539,962
Placements with Islamic banks	75,000,000
Receivable against sale of securities	815,953
Deposits and other receivable	787,022
	<u>103,142,937</u>

- (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 Fund is exposed to concentration of credit risk in mainly respect of placements with Islamic banks amounting to Rs. 75,000,000/- with an Islamic Bank. The credit rating of such bank was 'A' as of 30 June 2010.

## 20.5 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 fair value of listed equity shares is determined on the basis of market price quoted on the respective stock exchange. The fair value of other financial assets and liabilities appropriate their carrying value.

## 20.6 Fair value hierarchy

The Fund uses the following hierarchy for determining and disclosing 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.

As at 30 June 2010, the Fund has only investments at fair value through income statement measured at fair value using level 1 valuation technique.

## 21. 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.

## 22. SUBSEQUENT EVENT - DISTRIBUTION TO THE UNIT HOLDERS

The Board of Directors of the Management Company in their meeting held on July 6, 2010 has approved distribution to unit holders at the rate of Rs.2.95/- per unit.

Zakat payment is the responsibility of each unit holder. Nevertheless, the fund follows the provision of Zakat and Ushr Ordinance, 1980. Units held by individual resident Pakistan shareholders are subject to Zakat @ 2.5% of the par value of the unit under the said Ordinance, except those exempted from Zakat. Zakat is deducted at source from dividend or from redemption proceeds, if units are redeemed during the Zakat year before the payment of Zakat.

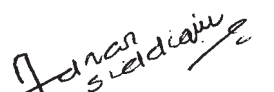
## 23. SUPPLEMENTARY NON FINANCIAL INFORMATION

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.

## 24. 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
Associated company	1	1,095,837	109,583,729	100

## (ii) LIST OF TOP BROKERS

Name of broker	% of commission paid
Foundation Securities (Private) Limited	67.71
AKD Securities Limited	19.32
KASB Securities Limited	12.97
	<u>100</u>

## (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. Zain Hamidi	Fund Manager	Bachelors	16 years
Mr. Sameen Shaukat Malik	Head of Risk & Compliance	MBA	17 years

## 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.

This is the first year of operations of the Fund. Rating process of the Fund shall be initiated in line with the criteria for performance ratings established by the rating agencies.





Back Inside

# WHAT'S YOUR AIM?

*askari*  
**islamic asset allocation**   
Fund