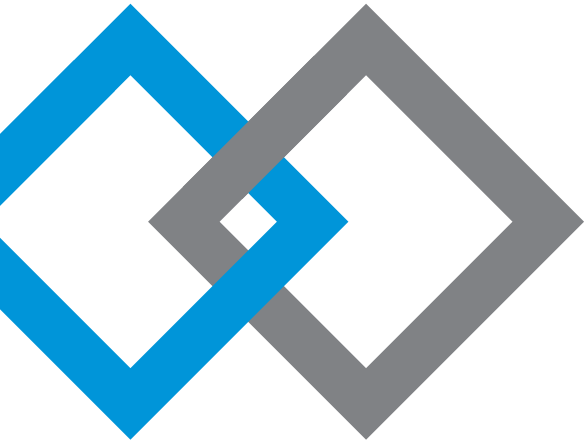


## a string of achievements

 askari Islamic Income Fund

ANNUAL REPORT 2011



# 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 n Sound advice n Great returns

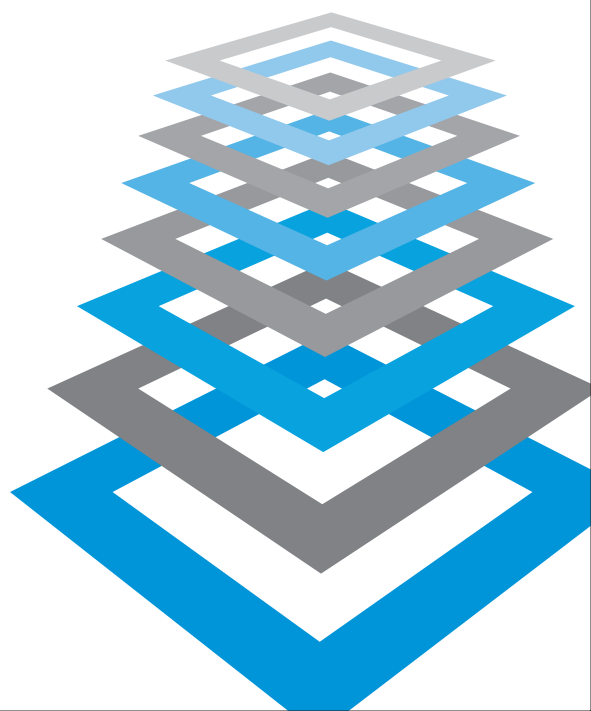
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 **askari Islamic Income Fund**

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## Information about the Management Company

### Registered Office

Askari Investment Management Ltd.  
Room 502, 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

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

### Executive Committee

- n Mr. Muhammad Rafiq Uddin Mekhari - Chairman
- n Mr. Shahid Hafeez Azmi
- n Mr. Tahir Aziz
- n Mr. Adnan Ahmed Siddiqui – CEO

### Audit Committee

- n Mr. Muhammad Naseem- FCA (Chairman)
- n Mr. Shahid Hafeez Azmi
- n Mr. Muhammad Rafiq Uddin Mekhari
- n Mr. Tahir Aziz

### Chief Financial Officer:

Syed Shoaib Jaffery ( Acting)

### Company Secretary:

Syed Shoaib Jaffery

## Fund's Information

### Bankers

- n Askari Bank Limited (Islamic Banking)
- n Dubai Islamic Bank Limited
- n Bank Islami Pakistan Limited
- n UBL Ameen
- n Meezan Bank Limited
- n Bank Alfalah Limited (Islamic Banking)
- n AL Barka Islamic Bank Limited
- n Bank of Khyber Limited (Islamic Banking)

### Trustee

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

### Auditors

- n **A.F. Ferguson & Co.**  
Chartered Accountants  
State Life Building No. 1-C , I.I Chundrigar Road, P.O.  
Box 4716, Karachi-74000, Pakistan.  
Tel: (021) 3246682-6

### Legal Advisor

- n **Mohsin Tayabaly & Company**  
Advocates & Legal Consultants  
2nd Floor, Dine Centre, PC-4, Block 9,  
Kehkashan, Clifton, Karachi

### Registrar

- n **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' 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 Income Fund ("the Fund" or "AIIF") along with the Audited Financial Statements and Auditors' report thereon for the year ended June 30, 2011.

### Economic Overview

The financial year 2011 was overall a challenging one for the economy, characterized by slower GDP growth and higher inflation. The devastating July, 2010 floods were perhaps the most notable event resulting in severe loss of lives, infrastructure and output. Despite this, however, the economy grew at a rate of 2.4% as against 3.7% in the previous year and inflation was recorded at 13.9%, somewhat lower than 15-16% that was projected following the floods.

In the first half of the financial year, SBP was in a monetary tightening phase and cumulatively increased the discount rate from 12.5% at the start of the year to 14% by the November end. The central bank's stance was largely a result of fiscal slippages and subsequent government borrowing from SBP, resulting in higher monetary growth. The monetary tightening was largely successful as M2 growth at 14% was the same as the inflation rate. In addition to this, the government re-iterated its commitment in January to curtail borrowing from SBP with some success as borrowing remained largely under control in the second half. However, borrowing from commercial banks increased further, adding another Rs.600bn to government domestic debt at financial year end.

The fiscal deficit continues to pose a major hurdle in the ability of the economy to post a speedy recovery. The fiscal deficit is expected to come in at 6.2% of GDP, about the same the previous year. Since, the tax collection target was largely met; the deviation was a result of higher spending for current expenditure particularly for subsidies which overshot the budget by Rs.269bn. Removing subsidies has been particularly problematic as it is politically unpopular and has also resulted in the continued circular debt.

The external Balance of Payments position has improved considerably during the year with a Current Account Surplus of US\$ 542mn. This was mainly a result of a 29% growth in exports (mostly due to textiles) amid sharp increase in cotton prices. Imports also moved higher by 14% as oil prices increased however the overall trade deficit improved by 11%. Higher workers' remittances, which grew by 26%, were also responsible for the improvement in the current account. However, the Financial Account Surplus declined significantly to US\$1.7bn from US\$5.1bn a year earlier as result of significantly lower foreign investment and lower disbursement from donors.

### Fixed Income Review

The financial year 2011 saw a general rising trend in interest rates as a result of a worsening fiscal deficit and higher inflation. The central bank reacted by increasing the discount rate by 50bps in each of the July, September and November Monetary Policy Statements bringing the policy rate to 14% from 12.5% at the start of the year. As a result, there was a near parallel shift in the yield curve as of June 30, 2011 as against the same time last year. The overall shape remains relatively flattish implying that the market does not seem to be anticipating a change in the interest rate scenario going forward with high demand exists in shorter term bills. In the short end of the yield curve, the 3, 6 and 12 month rates closed the year at 13.46%, 13.68% and 13.85% respectively. In the longer end, 3, 5 and 10 year PIB rates were 14.00%, 14.05% and 14.09% respectively at financial year end.

In financial year 2011, the government raised a total of Rs. 76bn (net) from T-bills. The government also held PIB auctions however; there was net retirement of Rs.25bn. In the upcoming financial year the government has budgeted Rs.82.1bn (net) to be raised from T-bills and Rs.50bn (net) from PIBs, and Rs.80bn (net) from Govt. Ijarah Sukuk.

The TFC market remained depressed throughout the outgoing financial year due to higher yields on treasuries. Most of the activity took place in high quality liquid Banking sector TFCs. New issues within the sector of significant size included the Bank Al-Habib issue (maturity 2021). Credit spreads in the banking sector varied between 0.75-1.5%. During the year, major TFC defaults included issues by PACE Ltd and Telecard Ltd.

Fresh Issues of Ijara Sukuk were auctioned during the year alone amounting to approximately 182billion which is huge as compared to the previously outstanding issue of 42.2billion at the start of the year. Despite the massive target the prices did not depress at all as the cutoff yield were maintained at par with the 6-month Treasury Bills Weighted Average Yield. Major reason behind this is the enormous growth in the deposit size of Islamic Bank / Islamic Funds in the industry.

### GoP Ijara Sukuks Issued in the Year 2010-2011

Issue	Issue Size	Structure	Last Reset	Issue Date	Maturity Date
Ijara Sukuk V	51,837	6m T.bill+0.00	13.4528%	15-Nov-10	15-Nov-13
Ijara Sukuk VI	37,174	6m T.bill+0.00	13.7077%	20-Dec-10	20-Dec-13
Ijara Sukuk VII	47,539	6m T.bill+0.00	13.6750%	07-Mar-11	07-Mar-14
Ijara Sukuk VIII	45,804	6m T.bill+0.00	13.4528%	16-May-11	16-May-14
<b>Total:</b>	<b>182,354</b>				

#### Performance of the fund

Askari Islamic Income Fund (AIIF) generated a return of 12.24% for FY 2011 outperforming its bench mark by 400bps, hence closing the year as the number one performing fund in its category. Some volatility in fund's return were witnessed later in the year due to volatility in the underlying mark to market prices of its securities primarily GoP Ijara Sukuk, however, the fund has managed to deliver its stated objective of delivering stable return over a horizon of 3 months.

The net assets of the fund increased by 85% to PKR 448 million during the year from PKR 241 million (as on June 2010). Given the better investment opportunities in GoP issued Ijara Sukuks, the fund started to make investment in this asset class from November 2010 and which went to as high as 88% of fund size by April 2011. By June end, however, exposure to Ijara Sukuk was reduced to 36% of fund size as the fund booked gains amid strong gains in prices. On a yearly basis, the fund was invested on an average 39% of fund size in GoP Ijara Sukuks during FY11. Investment in corporate sukuk was initiated during the year, when opportunities arose in August 10, up to 17% of fund size, however, the fund booked its gains by December 10 and has not invested in this asset class during the past six months due to lack of opportunities. Short term deposits and TDRs (with AA & above rated Islamic Bank / Islamic Wings) were on average 42% and 11% of fund size during the year.

The fund will pursue active fund management (capitalizing on market opportunities/inefficiencies) while balancing between risk and return.

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

AIIF was listed on the Islamabad Stock Exchange (Guarantee) Ltd on October 13, 2009 after its 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 of the Fund as on June 30, 2011 is as follows:

Category	Number of unit holders	No. of units held	% of total
Askari Investment Management Limited	1	585,674	13.27%
Askari Bank Limited (holding company of the Management Company)	1	1,105,776	25.06%
Askari Investment Management Employee Provident Fund	1	8,602	0.19%
Individuals	127	1,097,410	24.87%
Insurance companies	1	97,734	2.22%
Banks	2	1,197,607	26.74%
Others	4	337,396	7.65%
	<u>137</u>	<u>4,412,199</u>	<u>100</u>

#### The Board of Directors of the Management Company state that:

1. The financial statements, prepared by the Management Company, 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 statement 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 13 to the financial statements, the management believes that the Fund is not liable to contribute to Workers' Welfare Fund.

During the year, no trades in the units of the Fund were carried out by the Directors, CEO, CFO and Company Secretary and their spouses and minor children, of the Management Company.

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

#### Attendance at these meetings was as follows:

	No of meetings held during appointment	Meetings attended
Lt. Gen. (R.) Imtiaz Hussain - Chairman	7	7
Maj. Gen. (R.) Saeed Ahmed Khan	7	6
Mr. Mohammad Rafiquddin Mehkari	7	6
Mr. Muhammad Naseem	7	7
Mr. Shahid Hafeez Azmi	7	4
Mr. Tahir Aziz	7	7
Mr. Sufian Mazhar	7	4
Mr. Adnan Ahmed Siddiqui- CEO	7	7



**Key operating and financial data of the Fund for the prior periods is as follows:**

	Jun-11	Jun-10 Rupees
Net Assets as June 30th	452,751,707	241,259,745
Net Asset Value per unit as of June 30th	102.6136	106.5258
Net Income for the period	30,585,436	35,563,776
Distribution during the period*	<u>33,833,228</u>	<u>20,784,165</u>

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

On July 06, 2011, the Board of Directors of the Management Company approved a final distribution at the rate of Rs 2.4107 per unit (Par value of Rs. 100 per Unit) out of the accounting income for the year ended June 30, 2011. This distribution has been made in compliance with Regulation 63 of the NBFC Regulations, 2008, and to avail the income tax exemption for the Fund as available under Clause 99 of the Second Schedule to the Income Tax Ordinance, 2001.

**Future Outlook**

Pakistan economy is facing serious challenges in the near term as investment inflows remain very low due to heightened security concerns in the country and unstable domestic politics, while domestic debt is rising rapidly on account of higher fiscal slippages. At the same time, higher domestic interest rates have led to huge crowding out in the form of lower credit availability to the private sector thus decelerating manufacturing and service sectors growth. During the next fiscal year, some ease in interest rates is expected given the fall in international commodity prices and higher domestic output of agriculture outputs. However, fiscal deficit will remain a key concern if government borrowings remains at elevated levels and the targeted increase in tax revenues don't materialize due to slow economic growth. In addition, current account position may fall back into deficit given the likely increase in trade deficit (possible fall in textiles exports) and the absence of inflows from IMF and the scheduled external debt repayments could lead to some reduction in foreign exchange reserves during the year.

In the year ahead, the factors likely to determine economic performance are significant moves to reduce the fiscal deficit and subsequent curtailment of borrowing from the central bank. The fiscal austerity measures include pass-on of subsidies and improvement in the tax collection mechanism. In addition to economic factors, significant measures to improve the law and order situation, political stability and improvement in the Pakistan-U.S. relationship are also critical to improve the health of the local economy. The IMF program continues to be suspended, however, with the country required to make payments in financial year 2012, negotiations with the IMF regarding the existing or a new program will be crucial. On the external side, there are concerns of a second recession globally as a result of debt concerns in the US and EU countries. More significantly, countries having higher and rising debt levels along with higher fiscal deficits are facing even more difficulties in attracting new inflows, while facing difficulties in debt repayments on account of rising cost of borrowing amid credit rating downgrades.

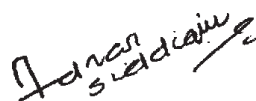
**Auditors**

The Board of Directors on the recommendation of the Audit committee has approved the re-appointment of M/s A.F. Ferguson & Co. - Chartered Accountants as the auditors of the Fund for the financial year ending June 30, 2012.


**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 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.

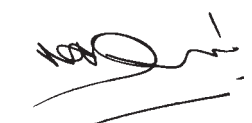
**For Askari Investment Management Limited  
(Management Company)**



**Chief Executive**



**Chairman**



**Director**

August 18, 2011  
Karachi.

# Fund Manager's Report



## ASKARI ISLAMIC INCOME FUND

Askari Islamic Income Fund (AIIF) is an open-ended Shariah Complaint Income Fund which aims to provide investors with a stable stream of Halal income on their investments and generates competitive long-term risk adjusted returns by investing in a mix of Shariah Compliant fixed-income instruments.

### Fixed Income Review

The financial year 2011 saw a general rising trend in interest rates as a result of a worsening fiscal deficit and higher inflation. The central bank reacted by increasing the discount rate by 50bps in each of the July, September and November Monetary Policy Statements bringing the policy rate to 14% from 12.5% at the start of the year. As a result, there was a near parallel shift in the yield curve as of June 30, 2011 as against the same time last year.

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### General Information

Minimum Investment	Rs. 5,000
Sales Load	1.0% front-end on Class B units, 1.0% back-end on Class C units
Management Fee	1.5% p.a.
Risk Benchmark	Low Average 3 Month Placement (Deposit) rate of 3 Islamic Banks
Management Company Rating	AM3+ by PACRA

### Fund Size and Growth

	30th June '11	30th June '10
Fund Size	Rs 453 mn	Rs 241 mn
NAV	Rs 102.6136	Rs 106.5258

### Fund Performance

	1-Month	FY11	Since Inception
Return AIIF	8.36%	12.24%	10.56%
Benchmark	8.18%	8.26	8.15%

### Portfolio Details

Duration (Days)	43 days
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### GoP Ijara Sukuks Issued in the Year 2010-2011

Issue	Issue Size	Structure	Last Reset	Issue Date	Maturity Date
Ijara Sukuk V	51,837	6m T.bill+0.00	13.4528%	15-Nov-10	15-Nov-13
Ijara Sukuk VI	37,174	6m T.bill+0.00	13.7077%	20-Dec-10	20-Dec-13
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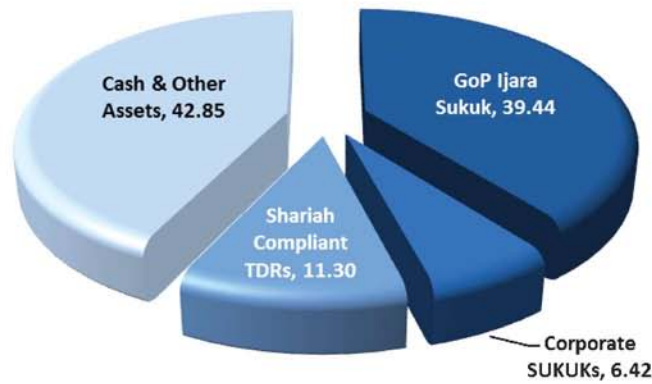
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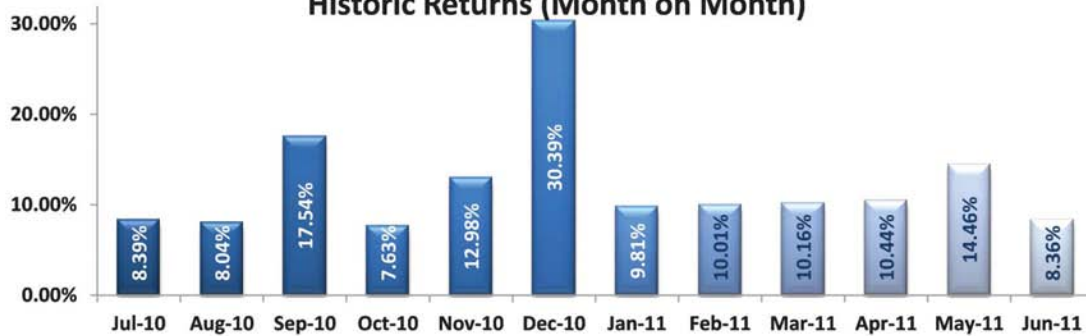
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The fund will pursue active fund management (capitalizing on market opportunities/inefficiencies) while balancing between risk and return.

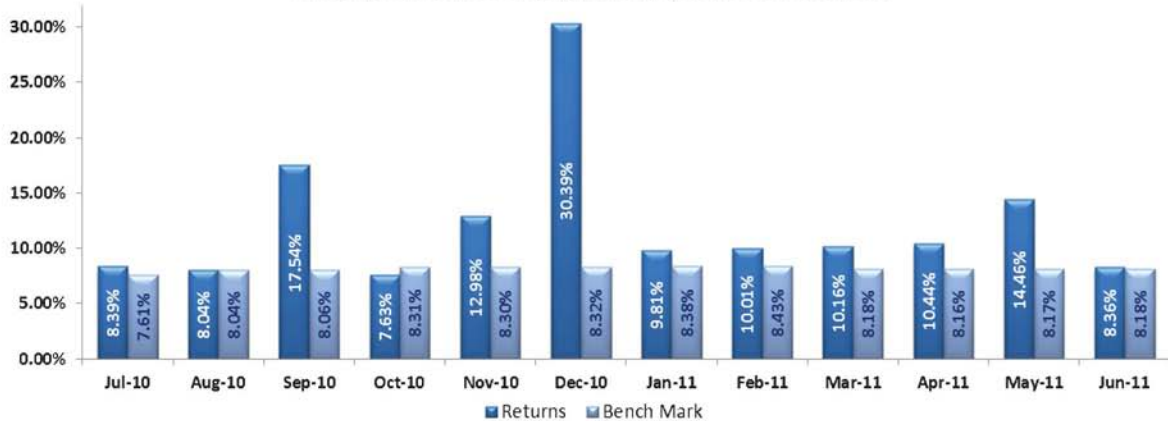
### Average Asset Allocation FY 11



### Historic Returns (Month on Month)



### Historic Returns vs Bench Mark (Month on Month)



# Financial Statements





## MCB FINANCIAL SERVICES LIMITED

### REPORT OF THE TRUSTEE TO THE UNIT HOLDERS

#### ASKARI ISLAMIC INCOME FUND

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

Askari Islamic Income 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, as the Trustee. The Scheme was authorized by Securities and Exchange Commission of Pakistan (Commission) on June 25, 2009.

- I. Askari Investment Management Limited, the Management Company of Askari Islamic Income Fund, has in all material respects, managed Askari Islamic Income Fund during the year ended June 30, 2011 in accordance with the provisions of the following:
  - (i) the limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws;
  - (ii) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;
  - (iii) the creation and cancellation of units are carried out in accordance with the deed;
  - (iv) and any regulatory requirement

Khawaja Anwar Hussain  
Chief Executive Officer  
MCB Financial Services Limited

Karachi: October 18, 2011

---

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>





الجامعة الإسلامية العالمية

INTERNATIONAL ISLAMIC UNIVERSITY

Faculty of Shariah & Law كلية الشريعة والقانون

ISLAMABAD-PAKISTAN إسلام آباد . باكستان

## REPORT OF THE SHARIAH ADVISOR ASKARI ISLAMIC INCOME FUND

Islamabad

August 10, 2011

*Alhamdulillah*, Askari Islamic Income Fund (AIIF or the "Fund") has successfully completed its second year operations for the period from July 01, 2010 to June 30, 2011 and I thank ALLAH Almighty on this occasion. In the capacity of being the Shariah Advisor of AIIF, I am issuing this report in accordance with clause 9.2.5(v) of the Trust Deed of AIIF. 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 AIIF, I have reviewed the following during the period under consideration:

- Mode of investments and placements of AIIF in light of the Shariah guidelines.
- Screening of investments and placements of AIIF in light of the Shariah guidelines.
- Provisions of the scheme and investments & placements made on account on AIIF in accordance with the Shariah criteria established.

In light of the above, I hereby certify that operations of AIIF and its investments & placements for the period ended June 30, 2011 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-AIIF





**A. F. FERGUSON & CO.**

**REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Askari Investment Management Limited** (the Management Company) for and on behalf of **Askari Islamic Income Fund** (the Fund) to comply with the Listing Regulation No. 35 (Chapter XI) of the Islamabad Stock Exchange (Guarantee) Limited where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of the financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Sub-regulation (xiii a) of the Listing Regulation No. 35 requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of the requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2011.

Chartered Accountants

Karachi

Dated: October 5, 2011

**A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network**  
**State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan**  
**Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938; <www.pwc.com/pk>**

Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54660; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872  
 Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924  
 Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320



**A. F. FERGUSON & CO.**

**INDEPENDENT ASSURANCE REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES**

We have performed an independent assurance engagement of Askari Islamic Income Fund (the Fund) to express an opinion on the annexed Statement of compliance with the Shariah principles (the 'Statement') for the year ended June 30, 2011. Our engagement was carried out as required under clause 9.3 of the Trust Deed of the Fund.

**Management Company's responsibility**

Management Company of the Fund is responsible for the preparation of the annexed statement (the subject matter) and for compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor. This responsibility includes designing, implementing and maintaining internal control to ensure that operations of the Fund and its investment and placements have been made in compliance with the Shariah principles.

**Responsibility of independent assurance providers**

Our responsibility is to express our conclusion on the Statement based on our independent assurance engagement, performed in accordance with the International Standards on Assurance Engagements (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 whether the annexed statement reflects the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor (Criteria).

The procedures selected depend on our judgement, including the assessment of the risks of material non-compliance with the Shariah principles. In making those risk assessments, we have considered internal controls relevant to the Fund's compliance with the principles in order to design procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence to determine that the Fund was not materially non-compliant with the principles. Our engagement was not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Amongst others, our scope included procedures to:

- Check compliance of specific guidelines relating to charity, maintaining bank accounts and for making investments of the Fund.
- Check that the Shariah Advisor has certified that operations of the Fund, its investments and placements have been in compliance with the Shariah principles.

**Conclusion**

In our opinion, the annexed statement, in all material respects, present fairly the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for the year ended June 30, 2011.

  
Chartered Accountants

Karachi

Dated: October 5, 2011

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A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network  
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan  
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## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended June 30, 2011

This statement is being presented in compliance with the Code of Corporate Governance ('the Code') contained in the Listing Regulations of Islamabad Stock Exchange (Guarantee) Limited ("the Exchange"). 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 Company" or "the Management Company"), an Unlisted Public Limited Company, is the Management Company of Askari Islamic Income Fund ("the Fund"). The Fund being an open-end Collective Investment Scheme does not have its own Board of Directors. 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 on its Board of Directors. At present, 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 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.
4. 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.
5. 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. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained,
6. 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.
7. 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.
8. The Board encourages the holding of orientation course for its directors to apprise them of their duties and responsibilities.
9. The Directors' Report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
10. The financial statements of the Fund were dully endorsed by the CEO and CFO before approval of the Board.
11. The directors, CEO and executives do not hold any interest in the units of the Fund other than those disclosed in the Directors' Report.
12. The Management Company has complied with all other corporate and financial reporting requirements of the Code as applicable to the Fund.
13. The Board has formed an Audit Committee. It comprises of four members, all of whom are non-executive directors including Chairman of the Committee.
14. The meetings of Audit Committee were held once in every quarter and prior approval of interim and final results of the Fund as required by the Code. The terms of reference of the Committee have been formed and approved by the Board and advised to the Committee for reference.

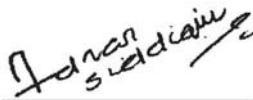
15. The Management Company has established adequate procedures and systems for related party transactions vis-à-vis the pricing method for related party transactions. All the related party transactions are placed before the Audit Committee and the Board of Directors for their review and approval.
16. The Management Company has outsourced the internal audit function to Deloitte M. Yousuf 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.
17. The statutory auditors of the Fund have 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.
18. The statutory auditors or the persons associated with them 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.
19. We confirm that all other material principles contained in the Code have been complied with.

  
Chairman  
Chief Executive

Dated: August 18, 2011

## STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

Askari Islamic Income Fund (the Fund) has fully complied with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for its operations, investments and placements made during the year ended June 30, 2011. This has been duly confirmed by the Shariah Advisor of the Fund.



Chief Executive



Chief Financial Officer





**A. F. FERGUSON & CO.**

#### INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **Askari Islamic Income Fund**, which comprise the statement of assets and liabilities as at June 30, 2011, and the related income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

#### Auditor's responsibility

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

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

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at June 30, 2011, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

#### Other matters

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

The financial statements of Askari Islamic Income Fund for the period from June 25, 2009 to June 30, 2010 were audited by another firm of Chartered Accountants who had expressed an unqualified opinion thereon vide their report dated August 18, 2010.



Chartered Accountants

Engagement Partner: **Salman Hussain**

Dated: October 5, 2011

Karachi

**A. F. FERGUSON & CO.**, Chartered Accountants, a member firm of the PwC network  
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**ASKARI ISLAMIC INCOME FUND**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**AS AT JUNE 30, 2011**

	Note	June 30, 2011	June 30, 2010
		----- (Rupees) -----	
<b>Assets</b>			
Bank balances	4	221,151,018	69,716,648
Placements with Islamic banks	5	66,000,000	170,000,000
Investments	6	160,335,205	-
Deposits, prepayments and other receivables	7	5,870,927	3,292,579
Unamortised formation costs	8	1,412,010	1,846,557
<b>Total assets</b>		<u>454,769,160</u>	<u>244,855,784</u>
<b>Liabilities</b>			
Remuneration payable to Askari Investment Management Limited- Management Company	9	351,443	8,741
Payable to MCB Financial Services Limited - Trustee	10	57,535	57,535
Annual fee payable to the Securities and Exchange Commission of Pakistan	11	172,153	130,156
Payable against redemption of units		1,082,852	361,390
Accrued expenses and other liabilities	12	353,470	3,038,217
<b>Total liabilities</b>		<u>2,017,453</u>	<u>3,596,039</u>
<b>NET ASSETS</b>		<u>452,751,707</u>	<u>241,259,745</u>
<b>Unit holders' fund (as per statement attached)</b>		<u>452,751,707</u>	<u>241,259,745</u>
<b>Contingencies and commitments</b>	13		
----- (Number of units) -----			
<b>Number of units in issue</b>		<u>4,412,199</u>	<u>2,264,802</u>
----- (Rupees) -----			
<b>Net asset value per unit</b>		<u>102,6136</u>	<u>106,5258</u>

The annexed notes 1 to 30 form an integral part of these financial statements.

For Askari Investment Management Limited  
(Management Company)

  
Chief Executive

  
Chairman

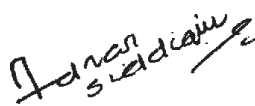
  
Director

**ASKARI ISLAMIC INCOME FUND**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Note	For the year ended June 30, 2011	For the period from June 25, 2009 to June 30, 2010
----- (Rupees) -----			
<b>Income</b>			
Profit on balances and placements with banks		13,551,485	32,782,838
Profit on sukuk certificates		13,466,183	-
Net realised gain on sale of investments		4,583,500	-
Net unrealised gain on revaluation of investments classified as 'at fair value through profit or loss'	6.1	50,205	-
<b>Total income</b>		<b>31,651,373</b>	<b>32,782,838</b>
<b>Expenses</b>			
Remuneration of the Management Company	9.1	3,728,046	3,552,679
Remuneration of the Trustee	10.1	700,000	525,482
Annual fee to the Securities and Exchange Commission of Pakistan	11.1	172,153	130,158
Amortisation of the deferred formation cost	8	434,547	326,208
Auditor's remuneration	14	355,506	335,657
Brokerage commission		46,117	3,082
Legal and professional charges		74,692	-
Custodian fees		12,453	5,513
Bank and settlement charges		27,134	790
Printing charges		123,799	8,291
Rating fees		199,998	-
Listing fees		10,000	-
<b>Total expenses</b>		<b>5,884,445</b>	<b>4,887,860</b>
<b>Net income from operating activities</b>		<b>25,766,928</b>	<b>27,894,978</b>
Element of income / (loss) and capital gains / (losses) included - in prices of units issued less those in units redeemed - net		4,516,883	7,970,423
Reversal of provision/ (provision) for contribution to the Workers' Welfare Fund	13	301,625	(301,625)
<b>Net income for the year / period</b>		<b>30,585,436</b>	<b>35,563,776</b>
Taxation	15	-	-
<b>Net income for the year / period after taxation</b>		<b>30,585,436</b>	<b>35,563,776</b>
<b>Earnings per unit</b>	16		

The annexed notes 1 to 30 form an integral part of these financial statements.

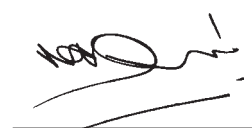
**For Askari Investment Management Limited  
(Management Company)**



**Chief Executive**



**Chairman**



**Director**




**ASKARI ISLAMIC INCOME FUND**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Note	For the year ended June 30, 2011	For the period from June 25, 2009 to June 30, 2010
	----- (Rupees) -----	
Net income for the year / period after taxation	30,585,436	35,563,776
Other comprehensive income for the year / period	-	-
Total comprehensive income for the year / period	<u>30,585,436</u>	<u>35,563,776</u>

The annexed notes 1 to 30 form an integral part of these financial statements.

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

  
 Chief Executive

  
 Chairman

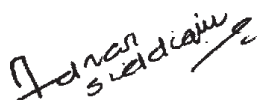
  
 Director

**ASKARI ISLAMIC INCOME FUND**  
**DISTRIBUTION STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	For the year ended June 30, 2011	For the period from June 25, 2009 to June 30, 2010
	------(Rupees)-----	
<b>Undistributed income brought forward</b>		
Realised income	14,779,611	-
Unrealised income	-	-
	<u>14,779,611</u>	<u>-</u>
	30,585,435	35,563,776
Interim distribution at Rs 10.589 per unit on September 18, 2009 for the period from June 25, 2009 to June 30, 2010		
- Bonus units	-	(20,784,165)
Final distribution of Rs 6.40 per unit on July 6, 2010 for the period from June 25, 2009 to June 30, 2010		
- Cash dividend	(12,785,494)	-
- Bonus units	(1,709,235)	-
	<u>(14,494,729)</u>	<u>-</u>
First interim distribution of Rs 1.65 per unit on October 22, 2010 for the year ended June 30, 2011		
- Cash dividend	(2,334,463)	-
- Bonus units	(921,207)	-
	<u>(3,255,670)</u>	<u>-</u>
Second interim distribution of Rs 3.65 per unit on January 5, 2010 for the year ended June 30, 2011		
- Cash dividend	(5,520,746)	-
- Bonus units	(2,343,584)	-
	<u>(7,864,330)</u>	<u>-</u>
Third interim distribution of Rs 4.05 per unit on April 25, 2011 for the year ended June 30, 2011		
- Cash dividend	(4,874,105)	-
- Bonus units	(3,344,394)	-
	<u>(8,218,499)</u>	<u>-</u>
Undistributed income carried forward	<u>11,531,818</u>	<u>14,779,611</u>
Undistributed income comprising:		
Realised income	11,481,613	14,779,611
Unrealised income	50,205	-
	<u>11,531,818</u>	<u>14,779,611</u>

The annexed notes 1 to 30 form an integral part of these financial statements.

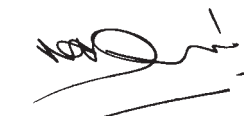
**For Askari Investment Management Limited**  
**(Management Company)**



**Chief Executive**



**Chairman**



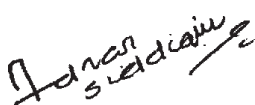
**Director**

**ASKARI ISLAMIC INCOME FUND**  
**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	For the year ended June 30, 2011	For the period from June 25, 2009 to June 30, 2010
	------(Rupees)-----	
Net assets at beginning of the year / period	241,259,745	-
Issued 5,232,935 (2010: 3,512,043) units	537,676,353	342,202,558
Redemption of 3,168,023 (2010: 1,247,241) units	(326,738,136)	(128,536,166)
Unamortised formation costs	210,938,217	213,666,392
Issue of 82,485 bonus (2010: 207,841) units	8,318,420	20,784,165
	<u>460,516,382</u>	<u>234,450,557</u>
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net - transferred to income statement	(4,516,883)	(7,970,423)
Net realised gain on sale of investments	172,153	-
Net unrealised loss on revaluation of investments classified as financial assets 'at fair value through profit or loss'	355,506	-
Other net income for the year / period	30,057,777	35,563,776
Other comprehensive income	-	-
Net income for the year / period	30,585,436	35,563,776
Interim distribution at Rs 10.589 per unit on September 18, 2009 for the period from June 25, 2009 to June 30, 2010 - Bonus units	-	(20,784,165)
Final distribution of Rs 6.40 per unit on July 6, 2010 for the period from June 25, 2009 to June 30, 2010 - Cash dividend	(12,785,494)	-
- Bonus units	(1,709,235)	-
	<u>(14,494,729)</u>	<u>-</u>
First interim distribution of Rs 1.65 per unit on October 22, 2010 for the year ended June 30, 2011 - Cash dividend	(2,334,463)	-
- Bonus units	(921,207)	-
	<u>(3,255,670)</u>	<u>-</u>
Second interim distribution of Rs 3.65 per unit on January 5, 2010 for the year ended June 30, 2011 - Cash dividend	(5,520,746)	-
- Bonus units	(2,343,584)	-
	<u>(7,864,330)</u>	<u>-</u>
Third interim distribution of Rs 4.05 per unit on April 25, 2011 for the year ended June 30, 2011 - Cash dividend	(4,874,105)	-
- Bonus units	(3,344,394)	-
	<u>(8,218,499)</u>	<u>-</u>
Net assets as at the end of the year / period	<u>452,751,707</u>	<u>241,259,745</u>

The annexed notes 1 to 30 form an integral part of these financial statements.

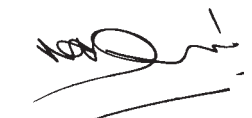
**For Askari Investment Management Limited**  
**(Management Company)**



**Chief Executive**



**Chairman**



**Director**

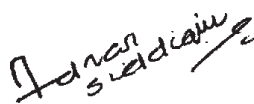
**ASKARI ISLAMIC INCOME FUND**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Note	For the year ended June 30, 2011	For the period from June 25, 2009 to June 30, 2010
	------(Rupees)-----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year / period	30,585,436	35,563,776
<b>Adjustment for:</b>		
Net unrealised gain on investments classified as financial assets 'at fair value through profit or loss'	-	-
Amortisation of formation costs	434,547	326,208
(Reversal of provision) / Provision for contribution to the Workers' Welfare Fund	(301,625)	301,625
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net	-	-
	(4,516,883)	(7,970,423)
	(4,434,166)	(7,342,590)
<b>(Increase)/decrease in assets:</b>		
Investments - net	(160,285,000)	-
Deposits, prepayments and other receivables	(2,578,348)	(3,292,579)
	(162,863,348)	(3,292,579)
<b>Increase/ (decrease) in liabilities</b>		
Remuneration payable to Askari Investment Management Limited - Management Company	342,702	8,741
Payable to MCB Financial Services Limited - Trustee	-	57,535
Annual fee payable to the Securities and Exchange Commission of Pakistan	41,997	130,156
Accrued expenses and other liabilities	(2,383,122)	563,827
	(1,998,423)	760,259
Net cash (outflow) / inflow from operating activities	(138,710,501)	25,688,866
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of units	537,676,353	342,202,558
Payment against redemption of units	(326,016,674)	(128,174,776)
Distributions paid	(25,514,808)	-
<b>Net cash inflow from financing activities</b>	186,144,871	214,027,782
<b>Net increase in cash and cash equivalents during the year / period</b>	47,434,370	239,716,648
Cash and cash equivalents at the beginning of the year / period	239,716,648	-
<b>Cash and cash equivalents at the end of the year / period</b>	287,151,018	239,716,648

17

The annexed notes 1 to 30 form an integral part of these financial statements.

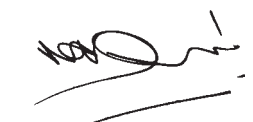
**For Askari Investment Management Limited  
(Management Company)**



Chief Executive



Chairman



Director

**ASKARI ISLAMIC INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**1 LEGAL STATUS AND NATURE OF BUSINESS**

- 1.1** Askari Islamic Income Fund (the Fund) was established under a Trust Deed executed between Askari Investment Management Limited (a wholly owned subsidiary of Askari Bank Limited), as Management Company and MCB Financial Services Limited as Trustee on August 26, 2008 and was approved by the Securities and Exchange Commission of Pakistan (the SECP) as Notified Entity on June 25, 2009 in accordance with Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations). The registered office of the Management Company is situated at Suite No. 502, 5th Floor, Green Trust Tower, Blue Area, Islamabad with its Head Office situated at Mezzanine floor, Bahria Complex III, M.T. Khan Road, Karachi.
- 1.2** The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund except for the core units which are subject to certain restrictions as per the NBFC Regulations and the constitutive documents of the Fund. The units are listed on the Islamabad Stock Exchange (Guarantee) Limited.
- 1.3** As per the offering document, the Fund shall invest in shariah compliant income instruments, such as debt securities, placements under Mudarabah, Murabaha and Musharaka arrangements, government securities and other shariah compliant instruments including shariah compliant securities available outside Pakistan as approved by the Shariah Advisor and SECP from time to time.
- 1.4** The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of 'AM3+' to the Management Company in July 2011. As per the rating scale of PACRA, this rating denotes that the asset manager meets high investment industry standards and benchmarks. Further, PACRA has upgraded the stability rating of the Fund to 'AA-(f)' in February 2011. The upgraded rating of the Fund denotes a very strong capacity to manage relative stability in returns and very low exposure to risks.
- 1.5** Title to the assets of the Fund are held in the name of MCB Financial Services Limited as trustee of the Fund

**2 BASIS OF PREPARATION**

**2.1 Statement of compliance**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by SECP prevail.

- 2.2** Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the year and are mandatory for accounting periods beginning on or after July 1, 2010 but are considered not to be relevant or did not have any significant effect on the Fund's operations and are, therefore, not disclosed in these financial statements.

### 2.3 Standards, interpretations and amendments to published approved accounting standards, as adopted in Pakistan, that are not yet effective:

The following revised standard has been published and is mandatory for accounting periods beginning on or after July 1, 2011: IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund will apply the revised standard from July 1, 2011.

The Management Company is currently in the process of assessing the impact, if any, of the revised standard on the related party disclosures. There are other amendments to the standards, improvements to International Financial Reporting Standards 2010 and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

### 2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies primarily relate to classification and valuation of investments (note 3.2 and 6).

### 2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been carried at fair value.

### 2.6 Functional and presentation currency

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

### 3.1 Cash and cash equivalents

Cash and cash equivalents include balances with banks, other short term highly liquid shariah compliant investments with original maturities of three months or less.

### 3.2 Financial assets

#### 3.2.1 Classification

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

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

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading in the 'Financial assets at fair value through profit or loss' category.

**b) Loans and receivables**

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

**c) Available-for-sale**

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

**3.2.2 Regular way contracts**

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

**3.2.3 Initial recognition and measurement****a) Financial assets 'at fair value through profit or loss'**

These are initially recognised at fair value and transaction costs are expensed in the income statement.

**b) Available-for-sale & Loans and receivables**

These are initially recognised at fair value plus transaction cost that are directly attributable to the acquisition of such investments.

**3.2.4 Subsequent measurement****a) Financial assets 'at fair value through profit or loss' and available-for-sale**

Subsequent to initial recognition, financial assets 'at fair value through profit or loss' and available-for-sale are valued as follows:

- i) Ijara sukuks issued by the Government of Pakistan (GoP Ijara sukuks) are valued on the basis of latest weighted average Reuter's rate; and
- ii) Government securities other than GoP Ijara sukuks are valued on the basis of rates announced by the Financial Market Association of Pakistan.

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

Net gains and losses arising from changes in fair value of available-for-sale financial assets are taken to 'statement of comprehensive income' until these are derecognised or impaired. At this time, the cumulative gain or loss previously recognised directly in the 'statement of comprehensive income' is transferred to the 'income statement'.

**b) Loans and receivables**

Subsequent to initial recognition financial assets classified as 'loans and receivables' are carried at amortised cost using the effective interest method.

Gain or loss is recognised in the income statement when financial assets carried at amortised cost are derecognised or impaired, and through the amortisation process.

### 3.2.5 Impairment

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

### 3.2.6 Derecognition

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

### 3.2.7 Offsetting of financial assets and liabilities

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

## 3.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost.

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

## 3.4 Formation costs

Formation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund and the NBFC Regulations.

## 3.5 Provisions

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

## 3.6 Taxation

### Current

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

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of part IV of the Second Schedule to the Income Tax Ordinance, 2001.

### Deferred

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



### 3.7 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received during business hours of that date. The offer price represents the Net Asset Value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the Management Company as processing fee. Issue of units is recorded upon acceptance of application for sale.

Units redeemed are recorded at the redemption price, applicable to units for which redemption applications are received for redemptions during business hours of that day. The redemption price represents the Net Asset Value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable. Redemption of units is recorded on acceptance of application for redemption.

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

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

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

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

### 3.9 Net asset value per unit

NAV per unit as disclosed in Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units outstanding at year end.

### 3.10 Revenue recognition

- Realised capital gains/ (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Unrealised gains/ (losses) on revaluation of investments classified as Financial assets 'at fair value through profit or loss' are included in the income statement in the period in which they arise.
- Profit on balances and placements with banks is recognised on an accrual basis.
- Profit on sukuk certificate is recognised using the effective interest rate method.

### 3.11 Proposed distributions

Distributions declared subsequent to the reporting date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared by the approval of the Board of Directors of the Management Company.

4	BANK BALANCES	Note	June 30, 2011	June 30, 2010
			------(Rupees)-----	
	Saving accounts	4.1	<u>221,151,018</u>	<u>69,716,648</u>

4.1 These are shariah compliant bank accounts and carry profit at the rates ranging from 5.00% to 12.00% (2010: 5.00% to 8.06%) per annum.

5	PLACEMENTS WITH ISLAMIC BANKS	Note	June 30, 2011	June 30, 2010
			------(Rupees)-----	
	Placements with Islamic banks	5.1	<u>66,000,000</u>	<u>170,000,000</u>

5.1 This represents placement with an Islamic bank carrying profit at the rate of 12.75% (2010: 11% to 11.25%) per annum.

6	INVESTMENTS	Note	June 30, 2011	June 30, 2010
			------(Rupees)-----	
	Financial assets 'at fair value through profit and loss' - Held for trading			
	Sukuk certificates	6.1	<u>160,335,205</u>	<u>-</u>

#### 6.1 Sukuk certificates - At fair value through profit or loss

Face value of Rs 5,000 each unless otherwise stated

Name	-----Number of certificates-----				-----Rupees-----			Market value as percentage of net assets	Market value as percentage of total investment
	As at July 01, 2010	Purchases during the year	Sales during the year	As at 30 June 2011	Cost	Market Value	Appreciation/ (Diminution)		
GoP Ijara sukuk VII	-	16,000	13,000	3,000	15,000,000	15,023,445	23,445	3.00%	9.00%
GoP Ijara sukuk XI	-	11,000	4,000	7,000	35,110,000	35,087,500	(22,500)	8.00%	22.00%
GoP Ijara Sukuk V	-	13,600	4,000	9,600	48,175,000	48,117,600	(57,400)	11.00%	30.00%
GoP Ijara sukuk VI	-	3,400	-	3,400	17,000,000	17,041,650	41,650	4.00%	11.00%
GoP Ijara sukuk IV	-	4,000	-	4,000	20,000,000	20,031,260	31,260	4.00%	12.00%
GoP Ijara sukuk I	-	5,000	-	5,000	25,000,000	25,033,750	33,750	6.00%	16.00%
					<u>160,285,000</u>	<u>160,335,205</u>	<u>50,205</u>	<u>36.00%</u>	<u>100.00%</u>

#### 6.2 Significant terms and conditions of sukuk certificates held as at June 30, 2011 are as follows:

Name	Issue	Expected profit	Maturity	Security
GoP Ijara sukuk VII	November 2010	Average 6 month T-bill rate	November 2010	GoP guaranteed
GoP Ijara sukuk XI	May 2011	Average 6 month T-bill rate	May 2013	GoP guaranteed
GoP Ijara Sukuk V	March 2011	Average 6 month T-bill rate	March 2014	GoP guaranteed
GoP Ijara sukuk VI	March 2011	Average 6 month T-bill rate	March 2014	GoP guaranteed
GoP Ijara sukuk IV	December 2010	Average 6 month T-bill rate	December 2013	GoP guaranteed
GoP Ijara sukuk I	November 2010	Average 6 month T-bill rate	November 2014	GoP guaranteed

	Note	June 30, 2011	June 30, 2010
----- (Rupees) -----			
<b>7</b>			
<b>DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Security deposit with Central Depository Company of Pakistan Limited		100,000	100,000
Prepaid Rating fee		100,002	200,000
Profit receivable on balances and placements with banks		1,672,558	2,992,579
Profit receivable on sukuk certificates		3,998,367	-
		<u>5,870,927</u>	<u>3,292,579</u>
<b>8</b>			
<b>UNAMORTISED FORMATION COSTS</b>			
Opening balance		1,846,557	2,172,765
Less: Amortisation during the year / period		(434,547)	(326,208)
Closing balance	3.4	<u>1,412,010</u>	<u>1,846,557</u>
<b>9</b>			
<b>REMUNERATION PAYABLE TO ASKARI INVESTMENT MANAGEMENT LIMITED - MANAGEMENT COMPANY</b>			
Management fee	9.1	<u>351,443</u>	<u>8,741</u>

**9.1** Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. Management fee is currently being charged at the rate of one and a half percent of the average annual net assets of the Fund. The remuneration is paid to the Management Company monthly in arrears.

	Note	June 30, 2011	June 30, 2010
----- (Rupees) -----			
<b>10</b>			
<b>PAYABLE TO MCB FINANCIAL SERVICES LIMITED - TRUSTEE</b>			
Trustee's remuneration	4.1	<u>57,535</u>	<u>57,535</u>

**10.1** The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein based on daily Net Assets Value (NAV) of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2011 is as follows:

#### Amount of Fund under Management (Average NAV)

- Up to Rs 500 million
- From Rs 500 to Rs 1 billion
- From Rs 1 billion to Rs 2 billion
- Over Rs 2 billion

#### Tariff Per Annum

- Rs 0.7 million or 0.20% per annum of net assets computed on a daily basis, which ever is higher.
- Rs 1 million plus 0.15% per annum of the net assets of the Fund exceeding Rs 500 million computed on a daily basis.
- 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.
- 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.

11	<b>ANNUAL FEE PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>	Note	June 30, 2011 ------(Rupees)-----	June 30, 2010
	Annual fee	11.1	<u>172,153</u>	<u>130,156</u>

- 11.1** Under the provisions of the Non-Banking Finance Companies & Notified Entities Regulations 2008 (NBFC Regulations), a collective investment scheme categorised as income scheme is required to pay an annual fee to the SECP, an amount equal to 0.075% (2010: 0.075%) of the average net assets of the Scheme. The Fund has been categorised as an Islamic Income scheme by the Management Company.

12	<b>ACCRUED EXPENSES AND OTHER LIABILITIES</b>	Note	June 30, 2011 ------(Rupees)-----	June 30, 2010
	Payable against printing expenses		16,293	-
	Auditor's remuneration		250,000	260,536
	Legal and professional charges payable		35,000	-
	Payable to the Management Company		-	2,476,056
	Provision for contribution to Worker's Welfare Fund	13	-	301,625
	Other payable		<u>52,177</u>	-
			<u>353,470</u>	<u>3,038,217</u>

### 13 CONTINGENCIES AND COMMITMENTS

- 13.1** The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In light of this, Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party. Keeping in view the prevalent conditions on this matter, Management Company had made a provision for WWF contribution in the financial statements of the Fund for the period ended June 30, 2010. Subsequently, clarifications were issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. These clarifications were forwarded by the Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal. Based on the positive developments and a legal advice taken by the Management Company thereon, provision for WWF made in the books of accounts of the Fund was reversed on October 7, 2010 and no further provision has been made in the books of accounts.

Further, a fresh Constitutional Petition filed with the Honorable High Court of Sindh by a CIS/mutual fund and a pension fund through their trustee and an asset management company inter alia praying to declare that mutual funds/voluntary pension funds being pass through vehicles/entities are not industrial establishments and hence, are not liable to contribute to the WWF under the WWF Ordinance. The proceedings of the Honorable Court in this matter have concluded and the Honorable Court has reserved its decision.

Based on the current position, the Management Company believes that the Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company. The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs 1,322,985 (including Rs 605,676 in respect of the current year).

- 13.2** There were no other contingencies and commitments outstanding as at June 30, 2011 (2010: Nil).

**14 AUDITORS' REMUNERATION**

Annual Audit fee	130,000	130,000
Half yearly review fee	85,000	75,000
Fee for review of statement of compliance with the Code - of Corporate Governance	50,000	43,000
Other certifications	70,000	77,000
Out of pocket expenses	20,506	10,657
	<u>355,506</u>	<u>335,657</u>

	For the year ended June 30, 2011	For the period from June 25, 2009 to June 30, 2010
	----- (Rupees) -----	
	130,000	130,000
	85,000	75,000
	50,000	43,000
	70,000	77,000
	20,506	10,657
	<u>355,506</u>	<u>335,657</u>

**15 TAXATION**

The income of the Fund is exempt from income tax under Clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded provision for taxation as the Management Company has distributed the required minimum percentage of the Fund's accounting income for the current year as reduced by capital gains (whether realised or unrealised) to its unit holders.

**16 EARNING PER UNIT (EPU)**

Earnings per unit has not been disclosed as in the opinion of the management, determination of weighted average number of outstanding units is not practicable.

**17 CASH AND CASH EQUIVALENTS**

Saving accounts	4	221,151,018	69,716,648
Placements with Islamic banks	5	66,000,000	170,000,000
		<u>287,151,018</u>	<u>239,716,648</u>

Note	June 30, 2011	June 30, 2010
	----- (Rupees) -----	
	221,151,018	69,716,648
	66,000,000	170,000,000
	<u>287,151,018</u>	<u>239,716,648</u>

## 18 FINANCIAL INSTRUMENTS BY CATEGORY

**Financial assets**

Bank balances	221,151,018	-	221,151,018
Placement with Islamic banks	66,000,000	-	66,000,000
Investments	-	160,335,205	160,335,205
Deposits, prepayments and other receivables	5,770,925	-	5,770,925
	<u>292,921,943</u>	<u>160,335,205</u>	<u>453,257,148</u>

-----As at June 30, 2011-----		
Loans and receivables	Financial assets 'at fair value through profit or loss'	Total
-----Rupees-----		
221,151,018	-	221,151,018
66,000,000	-	66,000,000
-	160,335,205	160,335,205
5,770,925	-	5,770,925
<u>292,921,943</u>	<u>160,335,205</u>	<u>453,257,148</u>

**Financial liabilities**

Remuneration payable to Askari Investment Management Limited - Management Company	-	351,443	351,443
Payable to MCB Financial Services Limited - Trustee	-	57,535	57,535
Payable against redemption of units	-	1,082,852	1,082,852
Accrued expense sand other liabilities	-	353,470	353,470
	<u>-</u>	<u>1,845,300</u>	<u>1,845,300</u>

-----As at June 30, 2011-----		
Financial liabilities 'at fair value through profit or loss'	At amortised cost	Total
-----Rupees-----		
-	351,443	351,443
-	57,535	57,535
-	1,082,852	1,082,852
-	353,470	353,470
<u>-</u>	<u>1,845,300</u>	<u>1,845,300</u>

**Financial assets**

Bank balances	69,716,648	-	69,716,648
Placement with Islamic banks	170,000,000	-	170,000,000
Investments	-	-	-
Deposits, prepayments and other receivables	3,092,579	-	3,092,579
	<u>242,809,227</u>	<u>-</u>	<u>242,809,227</u>

-----As at June 30, 2010-----		
Loans and receivables	Financial assets 'at fair value through profit or loss'	Total
-----Rupees-----		
69,716,648	-	69,716,648
170,000,000	-	170,000,000
-	-	-
3,092,579	-	3,092,579
<u>242,809,227</u>	<u>-</u>	<u>242,809,227</u>

**Financial liabilities**

Remuneration payable to Askari Investment Management Limited - Management Company	-	8,741	8,741
Payable to MCB Financial Services Limited - Trustee	-	57,535	57,535
Payable against redemption of units	-	361,390	361,390
Accrued expense sand other liabilities	-	2,736,592	2,736,592
	<u>-</u>	<u>3,164,258</u>	<u>3,164,258</u>

-----As at June 30, 2010-----		
Financial liabilities 'at fair value through profit or loss'	At amortised cost	Total
-----Rupees-----		
-	8,741	8,741
-	57,535	57,535
-	361,390	361,390
-	2,736,592	2,736,592
<u>-</u>	<u>3,164,258</u>	<u>3,164,258</u>

**19 TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES**

- 19.1** Connected persons / related parties include Askari Investment Management Limited being the Management Company, MCB Financial Services Limited being the Trustee, Askari Bank Limited being the holding company of the Management Company, Askari General Insurance Company Limited being an associate company of the Management Company, Askari Investment Management Employees Provident Fund and Askari High Yield Scheme (Formerly Askari Income Fund), Askari Sovereign Cash Fund, Askari Asset Allocation Fund and Askari Islamic Asset Allocation Fund being funds under common management and the directors and officer of the Management Company.
- 19.2** Transactions with connected persons / related parties are in the normal course of business, at contracted rates and terms determined in accordance with market norms.
- 19.3** Remuneration to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed.
- 19.4** Remuneration payable to the Trustee is determined in accordance with the provisions of the Trust Deed.

**19.5 Details of the transactions with connected persons are as follows:****Askari Investment Management Limited**

Remuneration of the Management Company  
 Payment to Management against formation cost and others  
 Expense incurred on behalf of the Fund  
 Units issued / transferred in 810,658 units (2010 : Nil )  
 Units redeemed / transferred out 224,984 units (2010: Nil )

**MCB Financial Services Limited**

Remuneration of the Trustee  
 Custodian fee

**Askari Bank Limited**

Profit on balances and placements with banks  
 Placements / encashments  
 Issue of Nil units (2010: 1,000,000 units)  
 Issue of Nil bonus units (2010: 105,776 units)

**AIM Employees Provident Fund**

Units issued / transferred in 9,843 units (2010 : Nil )  
 Units redeemed / transferred out 1,928 units (2010: Nil )  
 Issue of 687 bonus units (2010: Nil )

**Key Management Personnel**

Issue of Nil units (2010: 28,346 units)  
 Redemption of Nil units (2010: 31,389 units)  
 Issue of Nil bonus units (2010: 1,193 units)

For the year ended June 30, 2011	For the period from June 25, 2009 to June 30, 2010
----------------------------------	--

------(Rupees)-----

3,728,046	3,552,679
2,518,444	-
42,388	2,476,056
83,000,000	-
23,000,000	-

700,000	525,482
-	5,513

110,806	11,770,158
-	2,100,000,000
-	100,000,000
-	10,577,592

1,000,000	-
200,000	-
69,415	-

-	2,930,497
-	3,256,665
-	119,303

June 30, 2011	June 30, 2010
---------------	---------------

------(Rupees)-----

**19.6 Balances outstanding as at year / period end****Askari Investment Management Company Limited**

Remuneration payable  
 Deferred formation cost  
 Security deposit with the Central Depository Company of Pakistan Limited  
 Other payables  
 Outstanding 585,674 Units (2010: Nil units)

351,443	8,741
-	2,172,765
-	100,000
-	203,291
60,098,129	-

	June 30, 2011	June 30, 2010
	------(Rupees)-----	
<b>Askari Bank Limited</b>		
Bank balance	297,561	3,982,615
Accrued profit receivable	3,928	15,394
Outstanding 1,105,776 units (2010: 1,105,776 units)	113,467,648	117,793,673
<b>MCB Financial Services Limited</b>		
Trustee fee payable	57,535	57,535
<b>AIM Employees Provident Fund</b>		
Outstanding 8,602 units (2010: Nil units)	882,682	-
<b>Key Management Personnel</b>		
Outstanding Nil units (2010: Nil units)	-	-

## 20 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

-----2011-----				
S.No	Name	Designation	Qualification	Experience in years
1	Mr. Adnan Siddiqui	Chief Executive Officer	MBA	20
2	Syed Shoaib Jaffery	Financial Controller and Company Secretary	FPA, CA (Finalist)	10
3	Mr. Mustafa Kamal	Fund Manager	MBA	8
4	Mr. Muhammad Farrukh	Senior Compliance Officer	CMA (Finalist)	11
5	Mr. Agha Tariq Ali	Head of Research	B.A (Hons.) - Canada	4

**20.1** Mr. Mustafa Kamal is the Manager of the Fund. He is also the Manager of Askari High Yield Scheme (Formerly Askari Income Fund) and Askari Sovereign Cash Fund.

## 21 TRANSACTIONS WITH TOP BROKERS/DEALERS

	For the year ended June 30, 2011
1 KASB Securities Limited	37.90%
2 JS Global Securities Limited	25.68%
3 BMA Capital Limited	24.65%
4 Global Securities Pakistan Limited	8.89%
5 Elixir Securities	2.88%
	<b>For the period from June 25, 2009 to June 30, 2010</b>
1 Vector Capital (Private) Limited	100%



## 22 PATTERN OF UNIT HOLDING

Category	As at June 30, 2011			
	Number of unit holders	No of units held	Investment amount (Rupees)	Percentage investment
Individuals	127	1,097,410	112,609,212	24.87%
Insurance companies	1	97,734	10,028,839	2.22%
Banks	2	1,179,607	121,043,875	26.74%
Associated companies / connected person	3	1,700,052	174,448,459	38.53%
Others	4	337,396	34,621,322	7.65%
	137	4,412,199	452,751,707	100%

Category	As at June 30, 2010			
	Number of unit holders	No of units held	Investment amount (Rupees)	Percentage investment
Individuals	18	267,068	28,449,632	11.79%
Associated companies / connected person	1	1,105,776	117,793,673	48.82%
Others	2	891,958	95,016,540	39.38%
	21	2,264,802	241,259,845	100%

## 23 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 32nd, 33rd, 34th, 35th, 36th, 37th and 38th Board Meetings were held on July 6, 2010, July 12, 2010, August 18, 2010, October 22, 2010, December 28, 2010, January 5, 2011, February 14, 2011 and April 25, 2011 respectively. Information in respect of attendance of directors in the meetings is given below:

Name of director	Number of meetings			Meetings not attended
	Held	Attended	Leave	
1 Mr. Lt. Gen.(R) Imtiaz Hussain	7	7	-	-
2 Mr. Shahid Hafeez Azmi	7	4	3	32 <sup>nd</sup> , 34 <sup>th</sup> & 37 <sup>th</sup> meeting
3 Mr. Muhammad Naseem	7	7	-	-
4 Mr. Mohammad Rafiquddin Mehkari	7	6	1	34 <sup>th</sup> meeting
5 Mr. Maj Gen.(R) Saeed Ahmed Khan	7	6	1	33 <sup>rd</sup> meeting
6 Mr. Tahir Aziz	7	7	-	-
7 Mr. Sufian Mazhar	7	4	3	32 <sup>nd</sup> , 33 <sup>rd</sup> & 35 <sup>th</sup> meeting
8 Mr. Adnan Siddiqui	7	7	-	-

## 24 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

## 24.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

The Management Company manages market risk through diversification of the investment portfolio and by following the internal risk management policies and investment guidelines approved by the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan.

Market risk comprises three types of risks: currency risk, interest rate risk and other price risk.

### 24.1.1 Currency risk

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

### 24.1.2 Interest Rate Risk

Interest rate risk is the risk that fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

#### a) Sensitivity analysis for fixed rate instruments

Presently, the Fund does not hold any fixed rate instrument which may exposed it to fair value interest rate risk.

#### b) Sensitivity analysis for variable rate instruments

As at June 30, 2011, the Fund holds GoP Ijara sukuks which are classified as 'financial assets at fair value through profit or loss', exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in the coupon rates on June 30, 2011, with all other variables held constant, the net income for the year and net assets as at June 30, 2011 would have been higher / lower by Rs. 946,322 (2010: Nil).

The composition of the Fund's investment portfolio and the coupon rates are expected to change over time. Therefore, the sensitivity analysis prepared as of June 30, 2011 is not necessarily indicative of the effect on the Fund's net assets due to future movements in interest rates.

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

-----As at June 30, 2011-----					
Exposed to Yield/Interest risk					
Effective yield / Interest rate	Up to three months	More than three months and up to one year	More than one year	Not exposed to Yield/ Interest risk	Total
<b>Financial assets</b>					
Bank balances	5.00% to 12.00%	221,151,018	-	-	221,151,018
Placements with Islamic banks	12.75%	66,000,000	-	-	66,000,000
Investments	13.11% to 14.44%	65,159,250	95,175,955	-	160,335,205
Deposits, prepayments and other receivables		-	-	5,770,925	5,770,925
		352,310,268	95,175,955	5,770,925	453,257,148
<b>Financial liabilities</b>					
Remuneration payable to Askari Investment - Company Limited Management Company		-	-	351,443	351,443
Payable to MCB Financial Services Limited - Trustee		-	-	57,535	57,535
Payable against redemption of units		-	-	1,082,852	1,082,852
Accrued expenses and other liabilities		-	-	353,470	353,470
		-	-	1,845,300	1,845,300
<b>On-balance sheet gap</b>		352,310,268	95,175,955	3,925,625	451,411,848
<b>Off-balance sheet financial instruments</b>		-	-	-	-
<b>Off-balance sheet gap</b>		-	-	-	-
<b>Total interest rate sensitivity gap</b>		352,310,268	95,175,955	3,925,625	451,411,848
<b>Cumulative interest rate sensitivity gap</b>		352,310,268	447,486,223	447,486,223	451,411,848

-----As at June 30, 2010-----					
Exposed to Yield/Interest risk					
Effective yield / Interest rate	Up to three months	More than three months and up to one year	More than one year	Not exposed to Yield/ Interest risk	Total
<b>On-balance sheet financial instruments</b>					
<b>Financial assets</b>					
Bank balances	5% to 8.06%	69,716,648	-	-	69,716,648
Placements with Islamic banks	11% to 11.25%	170,000,000	-	-	170,000,000
Investments		-	-	-	-
Deposits, prepayments and other receivables		2,992,579	-	100,000	3,092,579
		<u>242,709,227</u>	-	<u>100,000</u>	<u>242,809,227</u>
<b>Financial liabilities</b>					
Remuneration payable to Askari Investment - Company Limited Management Company		-	-	8,741	8,741
Payable to MCB Financial Services Limited - Trustee		-	-	57,535	57,535
Payable against redemption of units		-	-	361,390	361,390
Accrued expenses and other liabilities		-	-	2,736,592	2,736,592
		-	-	<u>3,164,258</u>	<u>3,164,258</u>
<b>On-balance sheet gap</b>		<u>242,709,227</u>	-	<u>(3,064,258)</u>	<u>239,644,969</u>
<b>Off-balance sheet financial instruments</b>					
		-	-	-	-
<b>Off-balance sheet gap</b>					
		-	-	-	-
<b>Total interest rate sensitivity gap</b>		<u>242,709,227</u>	-	<u>(3,064,258)</u>	<u>239,644,969</u>
<b>Cumulative interest rate sensitivity gap</b>		<u>242,709,227</u>	<u>242,709,227</u>	<u>242,709,227</u>	<u>239,644,969</u>

**24.1.3 Price risk**

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

**24.2 Credit risk**

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

The analysis below summarises the credit rating quality of the Fund's financial assets as at June 30, 2010 and June 30 2011:

**Bank balances by rating category**

A1+ , A-1+  
A1 , A-1  
A2

June 30, 2011	June 30, 2010
----- (Rupees) -----	
214,900,827	3,982,615
160,781	65,734,033
6,089,411	-

Management, after giving due consideration to their strong financial standing, does not expect non-performance by these counter parties on their obligations to the Fund. The maximum exposure to credit risk before any credit enhancement as at June 30, 2011 is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired,

### Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is mostly concentrated in government securities and balance held with a shariah compliant bank having credit rating of A1+.

### 24.3 Liquidity risk

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

The Fund is exposed to daily cash redemptions at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the Fund's reputation.

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold any redemption requests during the year.

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

	-----As at June 30, 2011-----			
	Up-to-three months	More than three months and up to one year	More than one year	Total
	-----Rupees-----			
<b>Financial assets</b>				
Bank balances	221,151,018			221,151,018
Placements with Islamic banks	66,000,000			66,000,000
Investments	-		160,335,205	160,335,205
Deposits, prepayments and other receivables	5,770,925			5,770,925
	<u>292,921,943</u>	<u>-</u>	<u>160,335,205</u>	<u>453,257,148</u>

	-----As at June 30, 2011-----			
	Up-to-three months	More than three months and up to one year	More than one year	Total
	-----Rupees-----			
<b>Financial liabilities</b>				
Remuneration payable to Askari Investment Management - Management Company	351,443	-	-	351,443
Payable to MCB Financial Services Limited - Trustee	57,535	-	-	57,535
Payable against redemption of units	1,082,852	-	-	1,082,852
Accrued expenses and other liabilities	353,470	-	-	353,470
	<u>1,845,300</u>	<u>-</u>	<u>-</u>	<u>1,845,300</u>

**Financial assets**

Bank balances	69,716,648	-	-	69,716,648
Placements with Islamic banks	170,000,000	-	-	170,000,000
Investments	-	-	-	-
Deposits, prepayments and other receivables	3,092,579	-	-	3,092,579
	<u>242,809,227</u>	<u>-</u>	<u>-</u>	<u>242,809,227</u>

-----As at June 30, 2010-----				
Up-to-three months	More than three months and up to one year	More than one year	Total	
-----Rupees-----				
69,716,648	-	-	69,716,648	
170,000,000	-	-	170,000,000	
-	-	-	-	
3,092,579	-	-	3,092,579	
<u>242,809,227</u>	<u>-</u>	<u>-</u>	<u>242,809,227</u>	

**Financial liabilities**

Remuneration payable to Askari Investment Management - Management Company	8,741	-	-	8,741
Payable to MCB Financial Services Limited - Trustee	57,535	-	-	57,535
Payable against redemption of units	361,390	-	-	361,390
Accrued expenses and other liabilities	2,736,592	-	-	2,736,592
	<u>3,164,258</u>	<u>-</u>	<u>-</u>	<u>3,164,258</u>

-----As at June 30, 2010-----				
Up-to-three months	More than three months and up to one year	More than one year	Total	
-----Rupees-----				
8,741	-	-	8,741	
57,535	-	-	57,535	
361,390	-	-	361,390	
2,736,592	-	-	2,736,592	
<u>3,164,258</u>	<u>-</u>	<u>-</u>	<u>3,164,258</u>	

**25 UNITS HOLDERS' FUND RISK MANAGEMENT**

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

The Fund has no restrictions on the subscription and redemption of units. There is no specific capital requirement which is applicable on the Fund.

The Fund's objectives when managing unit holders' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong base of assets to meet unexpected losses or opportunities.

In accordance with the risk management policies stated in note 24, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

**26 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently differences can arise between carrying values and fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradable in an open market are revalued at the market price prevailing at the close of trading on the year end date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from the book values as the items are either short term in nature or periodically expired.

IFRS 7 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

	Level 1	Level 2	Level 3	Total
Financial assets 'at fair value through profit or loss'				
-Sukuk certificates	-	160,335,205	-	160,335,205

## 27 CORRESPONDING FIGURES

Corresponding figures have been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year. No significant rearrangements or reclassifications were made in these financial statements.

## 28 NON - ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in its meeting held on July 06, 2011 has proposed a final dividend distribution in respect of the year ended June 30, 2011 of Rs 2.4107/- per unit (2010: Rs 6.4/- per unit). The financial statements of the Fund for the year ended June 30, 2011 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2012.

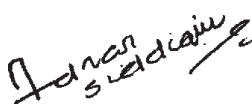
## 29 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on \_\_\_\_\_ by the Board of Directors of the Management Company.

## 30 GENERAL

Figures have been rounded off to the nearest rupee.

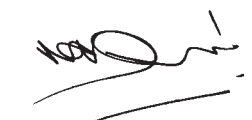
For Askari Investment Management Limited  
(Management Company)



Chief Executive



Chairman



Director



**Invest with Aim!**

**111-AIM-111**

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