

LAKSON INCOME FUND  
Annual Report 2011



**LAKSON INVESTMENTS**  
WE MANAGE YOUR MONEY, AS WE MANAGE OUR OWN

## CONTENTS

Mission & Vision Statement	1
Fund's Information	2
Report of the Directors of the Management Company	4
Report of the Fund Manager	10
Trustee Report to the Unit Holders	14
Statement of Compliance with the Code of Corporate Governance	15
Review Report to the Unit Holders on Statement of Compliance with the Best Practices of the Code of Corporate Governance	17
Independent Auditors' Report to the Unit Holders	18
Statement of Assets and Liabilities	20
Income Statement	21
Statement of Comprehensive Income	22
Distribution Statement	23
Statement of Movement in Unit Holders' Fund	24
Cash Flow Statement	25
Notes to the Financial Statements	26

---

## ==== **Vision** =====

To be a top quartile provider of investment solutions to both individuals and institutions. Through the success of our clients and employees we seek to build sustainable and long-term shareholder value, and to be an employer of choice in the asset management industry.



## ==== **Mission** =====

To deliver superior performance as measured by market share parameters, high-quality service and a portfolio of innovative yet tailored products across a range of investment disciplines and distribution channels.

To provide a fulfilling, stimulating and supportive environment for our employees that fosters their personal growth and facilitates our productivity as a team.

## Fund's Information

### Management Company

Lakson Investments Limited  
Head Office  
Lakson Square Building No.2,  
Sarwar Shaheed Road,  
Karachi-74200, Pakistan.  
Phone: (9221) 3569.8000  
Fax: (9221) 3568.1653  
Web site: [www.laksoninvestments.com.pk](http://www.laksoninvestments.com.pk)  
E-mail: [info@laksoninvestments.com.pk](mailto:info@laksoninvestments.com.pk)

### Board of Directors of the Management Company

Mr. Iqbal Ali Lakhani - Chairman  
Mr. Babar Ali Lakhani - Chief Executive Officer  
Mr. A. Aziz H. Ebrahim  
Mr. Mahomed J. Jaffer  
Mr. Sher Afgan Malik  
Mr. Muhammad Abdul Qadir  
Mr. Daniel Scott Smaller  
Mr. Zahid Zakiuddin

### Chief Financial Officer & Company Secretary of the Management Company

Mr. Amir Mobin

### Audit Committee

Mr. Iqbal Ali Lakhani - Chairman  
Mr. A. Aziz H. Ebrahim  
Mr. Sher Afgan Malik  
Mr. Zahid Zakiuddin

### Trustee

Central Depository Company of Pakistan Limited  
CDC House, 99-B, Block-B, S.M.C.H.S.,  
Main Shahra-e-Faisal,  
Karachi, Pakistan.

### Auditors

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Sheikh Sultan Trust Building No.2,  
Beaumont Road,  
Karachi - 75530, Pakistan

### Bankers to the Fund

Allied Bank Limited  
Askari Bank Limited  
Bank Al-Falah Limited  
Faysal Bank Limited  
Habib Bank Limited  
Habib Metropolitan Bank Limited  
MCB Bank Limited  
National Bank of Pakistan  
Standard Chartered Bank (Pakistan) Limited  
United Bank Limited

### Legal Adviser

Fazleghani Advocates  
F-72/1, Block 8, KDA-5,  
Kehkashan, Clifton,  
Karachi, Pakistan.

**Registrar**

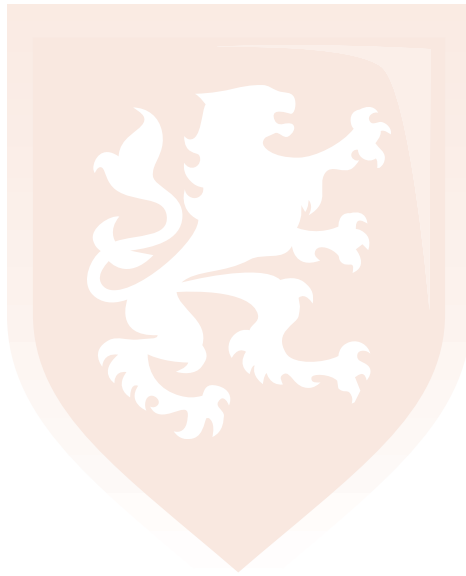
Lakson Investments Limited  
Lakson Square Building No.2,  
Sarwar Shaheed Road,  
Karachi-74200, Pakistan

**Distributors**

Alfalah Securities (Pvt.) Limited  
Burj Capital Limited  
Elixir Securities (Pvt.) Limited  
IGI Investment Bank Limited  
Pearl Securities (Pvt.) Limited  
Vector Capital (Pvt.) Limited

**Rating by PACRA**

AA-(f) : Fund Stability Rating  
AM3 + : Management Company Quality Rating



## **REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011**

The Board of Directors of Lakson Investments Limited, the Management Company of the Lakson Income Fund ('LIF'), is pleased to present its annual report together with the audited financial statements for the year ended June 30, 2011.

### **Fund Objective**

The investment objective of the Scheme is to provide competitive total returns through investment in a diversified portfolio of fixed income securities. The Scheme shall invest in various fixed income securities with a mix of short term, medium term, and longer term maturities depending on the assessment by the Management Company of interest rate trends and prospective returns.

### **Fund Profile**

LIF is an open end income fund which invests in Investment-grade Debt Securities, Government Securities, Certificate of Investments, Clean Placements, Term Deposit Receipts, and other fixed income instruments. The overall duration of the portfolio is kept below 4 years while at least 25% of Net Assets are kept in the form of cash or Treasury Bills of maximum 90 days maturity. LIF is managed through a team-driven, top-down process utilizing active sector rotation, duration and yield curve management. Economic conditions are constantly monitored to forecast interest rate changes. The added value for LIF comes from identifying opportunities to shift investments between various maturities and between different instruments. LIF is allowed to borrow up to 15% of Net Assets to meet redemptions however LIF did not utilize this facility during the period under review.

### **Funds Performance**

The net assets of the LIF as at June 30, 2011 stood at PKR 1,006.200 million compared to PKR 451.003 million at June 30, 2010 registering an increase of 123.10%.

The net income for the year ended June 30, 2011 was PKR 98.756 million which was mainly comprised of mark-up income from bank deposits, treasury bills, placements, certificate of investments and term deposit receipts amounting to PKR 104.154 million. The unrealized appreciation was mainly due to the valuation of Term Finance Certificates amounted to PKR 0.251 million.

The detailed fund performance and significant matters relating to the industry are disclosed in the Fund Manager Report which is a part of this Annual Report.

### **Earning Per Unit (EPU)**

EPU is not being disclosed as we feel determination of weighted average units for calculating EPU is not practicable for open end funds.

### **Income Distribution**

The Board of Directors of the Management Company in its meeting held on July 04, 2011, declared a final payout of PKR 0.9979 per unit amounting to PKR 9.926 million (PKR 8.945 million of Bonus distribution and PKR 0.980 million of cash distribution) for the year ended June 30, 2011. This was in addition to the interim payouts of PKR 10.1860 per unit. The total distribution for the year ended June 30, 2011 was PKR 11.1839 per unit (11.1839% of face value of PKR 100/-).

### **Fund and Asset Manager Rating**

The Pakistan Credit Rating Agency Limited ('PACRA') has upgraded the asset manager rating of the Management Company from AM3 (with Positive Outlook) to "AM3+".

PACRA has maintained the Fund Stability Rating of LIF at "AA-(f)".

### Corporate Governance

The Fund is listed on the Lahore Stock Exchange; therefore, the Management Company is required to comply with the requirements of the Code of Corporate Governance for listed companies.

1. The financial statements prepared by the Management Company present fairly the state of affairs of the Fund, the results of its operations, cash flows and movement in unit holders' fund.
2. Proper books of accounts of the Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
4. Relevant International Financial Reporting Standards, as applicable in Pakistan, provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations, 2008 ('NBFC Regulations'), directives issued by the Securities & Exchange Commission of Pakistan and requirements of the constitutive documents of the Fund have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.
5. The system of internal control 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. A performance table / key financial data is summarized in the Fund Manager Report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges have been fully disclosed in the Financial Statements.
10. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company.
11. Meetings of the Board of Directors of the Management Company are held at least once in every quarter. During the year under review five meetings were held. Attendance of the Directors in these meetings is as follows:

S.No.	Name	Designation	Meetings		
			Total	Attended	Leave Granted
1	Mr. Iqbal Ali Lakhani	Chairman	05	03	02
2	Mr. Babar Ali Lakhani	Chief Executive	05	05	-
3	Mr. A. Aziz H. Ebrahim	Director	05	04	01
4	Mr. Mahomed J. Jaffer	Director	05	03	02
5	Mr. Sher Afgan Malik	Director	05	02	03
6	Mr. M. A. Qadir	Director	05	03	02
7	Mr. Daniel Scott Smaller	Director	05	02	03
8	Mr. Zahid Zakiuddin	Director	05	04	01

During the year ended June 30, 2011, no casual vacancy occurred on the Board of Directors.

12. The pattern of unit holding is given in note no. 21.1 of the Financial Statements.

13. During the year under review trades in the Units of the Fund were carried out by the Directors, the Chief Executive Officer, the Chief Financial Officer / Company Secretary and their spouses and minor children are as under:

S.No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1	Ms. Zil Lakhani / Mr. Babar Ali Lakahi	Spouse of Chief Executive / Chief Executive	4,969	Nil	241

#### External Auditor

The Fund's external auditors M/s. KPMG Taseer Hadi & Co., Chartered Accountants have expressed their willingness to continue as the Fund's auditors for the ensuing year ending June 30, 2012. On the recommendation of the Audit Committee, the Board of Directors of the Management Company has re-appointed M/s. KPMG Taseer Hadi & Co., Chartered Accountants, as the Fund's auditors for the year ending June 30, 2012.

#### Economic Review

Pakistan's economy continues to weather an unprecedented set of challenges in the form of security hazards caused by the intensified war against terrorism, flash floods, rising international commodity prices, a widening energy deficit, and persistent inflation. The economy has lost momentum with the GDP growth in last three years averaging just 2.6%; which is the lowest level in the history of the country. In FY10, the economy showed some resilience and signs of stabilization, however, the flash floods at the start of FY11 hampered the economic recovery process and derailed the economy. In terms of GDP growth in FY11, Pakistan lags behind the projected Global GDP growth rate of 4.4%, developing economies growth rate of 6.5% and the South Asian growth rate of 8.7%. Rising costs, associated with the war against terrorism have limited the fiscal space for critical development and social sector expenditures which in turn will hamper the future growth prospects of the economy.

Heavy rains in the Northern areas of the country, at the start of FY11, triggered flash floods that ravaged 20% of the country's landmass. The flood wrecked havoc on the lives of 20 million people while the destruction to physical and economic infrastructure was significant. The economic impact of the floods was very severe as the destruction of crops and infrastructure lowered the economic growth potential. The National Income Accounts Committee estimated the GDP growth at 2.4% for FY11, which is lower than the growth of 3.8% in FY10. The Commodity Producing Sector ("CPS") which has a 46.7% share in the GDP witnessed a growth of just 0.5% in FY11 compared to a growth of 4.7% in FY10. A 4.0% decline in the production of major crops led to the lowest growth level in the CPS since 1992-93. On a positive note, the post flood recovery in wheat, sugarcane and minor crops helped agricultural growth surpass previous year's level. Pakistan faced a severe energy crisis in FY11 and despite that the industrial output expanded by 3.0% in FY11 supported by 7.5% growth in the Small Scale Manufacturing. Energy crisis further intensified towards the end of the year and the Government is finding it very difficult to come up with a proper gas load management plan. The Large Scale Manufacturing ("LSM") sector that had grown by 4.9% in FY10 is expected to have expanded by just 1.0% in FY11 mainly due to the inter-corporate circular debt that reduced the operating capacity of the entire energy chain. The Services sector with a share of 53.3% in the GDP posted a growth of 4.1% in FY11 as the Wholesale and Retail Trade segment recorded a rise of 3.9%. The per capita income grew by a meager 0.7% in FY11 and currently stands at USD 1,254. The share of Investments in the GDP witnessed further contraction in FY11 to 13.4% compared to 15.4% in FY10 as the gross fixed capital formation contracted by 0.4% in real terms in FY11. Public sector investment, which acts as a catalyst for economic development, declined further as the Government had to cut its development spending due to rising fiscal deficit.



Fiscal management in the outgoing year was very tough owing to modest growth in tax revenues, lower than anticipated foreign inflows and rising expenses associated with war against terrorism and power sector subsidies. The Ministry of Finance ("MoF") reported a consolidated fiscal deficit of PKR 783 billion (4.5% of the GDP) in the 9MFY11 compared to a fiscal deficit of PKR 626 billion (4.2% of the GDP) in the 9MFY10. In the Federal Budget for FY11, the Government targeted to curtail the fiscal deficit at 4.0% of the GDP (PKR 685 billion); however, later on it was revised upward to 5.3% of the GDP in consultation with the International Monetary Fund ("IMF"). The Government had to face severe resistance from the opposition parties and its coalition partners in introducing Reformed General Sales Tax ("RGST") and eventually in March '11 the President of Pakistan promulgated three Ordinances to introduce taxation measures to contain the fiscal deficit at 5.3% of the GDP. All these taxation measures were expected to generate additional PKR 53 billion in revenues. The Federal Government cut its development budget by PKR 100 billion to generate fiscal space to meet its current expenditures. The IMF stalled the Stand-By Arrangement ("SBA") as the Government failed to introduce taxation reforms, remove power sector subsidies, and meet the fiscal deficit and Government borrowing targets. The SBA was scheduled to expire on December 31, 2010 however the Government has been given a nine month extension in the SBA from the IMF. The extension was granted by the IMF providing an opportunity to the Government to implement the taxation and power sector reforms to get the withheld amount of USD 3.6 billion.

Headline inflation, as measured by the YoY variations in the Consumer Price Index ("CPI"), averaged 13.92% in FY11 compared to 11.73% in FY10. Food and Beverages group, that has 40% weight in the CPI basket, recorded an average inflation of 18.1% in FY11 compared to 12.5% in FY10. A sharp increase in the prices of perishable food items was triggered by the supply disruptions caused by the floods at the start of FY11. International oil prices witnessed a sharp increase amidst rising unrest in the Middle East. Due to mounting political pressure, the Government tried to absorb the impact of high international oil prices by reducing the Petroleum Levy but eventually it had to increase the domestic oil prices to contain the fiscal deficit which had a negative impact on inflation. The Wholesale Price Index ("WPI") was up 23.4% on average during FY11 compared to 12.6% in FY10. A very large increase in the WPI was due to high raw material and fuel prices. Core inflation as measured by the Non-Food Non-Energy ("NFNE") Index remained in the single digits for nine consecutive months during FY11 and averaged 9.7% during FY11 compared to 11.0% in FY10.

Despite fiscal slippages, Pakistan's external accounts continue to portray a better image of the economy with a surplus of USD 1.4 billion in the 11MFY11 compared to a surplus of USD 0.8 billion in the 11MFY10. Against all expectations, the current account posted a surplus of USD 0.2 billion compared to a deficit of USD 3.4 billion in the 11MFY10 owing to higher remittances and a lower trade and services deficit. The country received record remittances of USD 11.2 billion in FY11 compared to USD 8.9 billion in FY10, up 26% YoY. In last four months of FY11 country received remittances in excess of USD 1.0 billion every month. The full year target of USD 9.0 billion was achieved in the 10th month of the year. The trade deficit in FY11 increased by a meager 1% aided by a 29% YoY growth in exports versus a 16% YoY increase in the imports.

Textile constitutes the largest share in exports and despite lower cotton output due to floods textile exports increased credited by record cotton prices in the international markets. Total exports in the FY11 stood at USD 24.8 billion which is the highest level of exports ever achieved by the country. As against the current account, the financial account deteriorated in the 11MFY11 due to a decline in both Foreign Direct Investment ("FDI") and loans. The FDI declined by 28.6% YoY to USD 1.2 billion in the 11MFY11 compared to USD 1.7 billion in the 11MFY10. Record remittances and exports provided much needed support to the economy in the wake of weak fiscal position and helped the foreign exchange reserves to cross USD 18 billion. The PKR also exhibited strength against US Dollar and depreciated by only 0.5% compared to an average depreciation of 10.8% in last three years.

Money Supply (M2) growth in FY11 was 15.89% compared to 12.46% in FY10 as the broad money increased by PKR 918 billion. Higher M2 growth in FY11 came on the back of a 43.1% increase in the Net Foreign Assets ("NFA") and 13.1% growth in the Net Domestic Assets ("NDA") of the banking system. In the absence of foreign flows the Government had to rely on the domestic resources to finance its fiscal deficit and the Federal Government borrowed PKR 617 billion from the scheduled banks for budgetary support. The outstanding stock of the Government borrowing from the SBP crossed PKR 1,500 billion in the mid of December '10, however, in the 2HFY11 it was brought down as per the understanding reached with the SBP that the Government will keep this level below PKR 1,290 billion by the end of FY11. Government borrowing for budgetary support was 78.6% higher than the PKR 330 billion borrowed in FY10. The higher borrowing needs of the Government continued to crowd out the private sector borrowing, which increased by a tepid 4.0% as against 23.7% growth in net Government sector borrowing. The Government allowed export of wheat, as FY11 was another year of bumper wheat crop and it helped in reducing the dependence on the banking system for commodity operations financing that contracted by PKR 15.7 billion in FY11.

Given the persistent rise in inflation, continued reliance of the Government on borrowing from the SBP to meet its power, flood and military related expenditure, the SBP was left with no option but to raise the Discount Rate by 150bps during the 1HFY11 to 14%. However, in the 2HFY11 the SBP adopted a wait and see approach by keeping the Discount Rate unchanged at 14%. The SBP's optimism was based on a couple of sources of comfort that were improved external account position and understanding reached between the Government and the SBP to keep the Government borrowing from the SBP at September '10 level. The SBP tried to strike a balance between the risks to inflation and economic growth by keeping policy rate unchanged. The SBP continuously cautioned against the increased risks to macroeconomic stability if the Government failed to initiate meaningful economic reforms to address the structural economic weaknesses.

### **Market Review**

The money market remained fairly liquid during FY11 due to better deposit mobilization by the commercial banks and high Government borrowing for budgetary support. Deposits of the commercial banks grew by 20.1% in FY11 compared to 13.1% growth in FY10. Commercial banks raised deposits aggressively in December '10 (PKR 332 billion) and June '11 (PKR 378 billion) to improve their balance sheet positions. Interest rates on all fixed income instruments and on all tenors surged, compelled by 150 bps increase in the discount rate in FY11. The overnight repo rates averaged 12.4% in FY11 compared to 11.7% in FY10. The SBP proactively managed the liquidity in the system through frequent Open Market Operations ("OMOs"). The Government relied heavily on the banking system for financing the fiscal deficit therefore heavy participation was witnessed in the T-Bill auctions. The SBP conducted 26 T-Bill auctions on behalf of MoF in FY11 with a cumulative target of PKR 3.4 trillion. The MoF accepted bids worth PKR 3.9 trillion out of total offered amount of PKR 6.0 trillion. Highest amount of PKR 1.7 trillion was raised through 3-month T-Bills as the investors preferred to invest in shorter tenure T-Bills due to rising interest rates. The cut-off yields went up by 138, 143 and 149bps for 3, 6 and 12-month T-bills respectively following the cumulative 150 bps hike in the Discount Rate. The SBP also conducted 9 PIB auctions during FY11 with a cumulative target of PKR 120 billion. In the first two auctions all bids were rejected in anticipation of foreign inflows as the investors demanded very high yields, however, in the subsequent auctions, the Government raised PKR 169.3 billion through PIBs. Frequent hikes in the discount rate by the SBP caused an increase in KIBOR on all tenures and the 6-month KIBOR, benchmark lending rate for the corporate loans, averaged 13.3% during FY11 compared to 12.4% in FY10.

A very subdued activity was witnessed in the corporate bonds market which was restricted to only a few bonds. The size of the income funds continued to decline resulting in very low volumes in the bonds market. Discounts on good quality bonds reduced and some of the bonds even traded at premiums. Investor interest was witnessed in bonds issued by the commercial

banks, fertilizer and telecom companies. New bond issuance remained sluggish during the year and there were only a few new issues mainly from commercial banks to meet their tier-II capital requirements. Currently yields on high quality corporate bonds range between 14.50-15.50% indicating a credit spread of 0.70 - 1.70% and the credit spread on the bonds of the commercial banks is lower compared to other sectors as they are considered relatively secure. Revaluation of bonds in the mutual fund portfolios continues to remain a problem in the absence of an actively traded bond market.

**Future Outlook**

As the economy moves through a crucial phase of stabilization, the Government faces tough challenges to bring the economy back on the growth track. Keeping in view the structural issues in the economy, targets set by the Government in Federal Budget FY12 regarding tax collection and fiscal deficit seem very optimistic. Economic stability in the next fiscal year will largely depend upon the capability of the Government to introduce fiscal and energy sector reforms, better debt management, and improved law and order situation. The external account may not be able to repeat the same performance in FY12 due to a decline in international cotton prices, persistence in international oil prices, suspension of the IMF's SBA and the debt obligations due in FY12. Sustainable growth can be achieved if we bring down the debt to manageable levels, contain inflation in single digits, remove the untargeted subsidies, reduce Government borrowing from banking system and increase private investment.

**Acknowledgment**

The Board is thankful to its valued investors, the Securities & Exchange Commission of Pakistan, the State Bank of Pakistan, the Trustee of the Fund - Central Depository Company of Pakistan Limited and the management of the Lahore Stock Exchange (Guarantee) Limited for their continued cooperation and support. The Directors of the Management Company also acknowledge the efforts put in by the team of the Management Company for the growth and the prudent management of the Fund.

For and on behalf of the Board

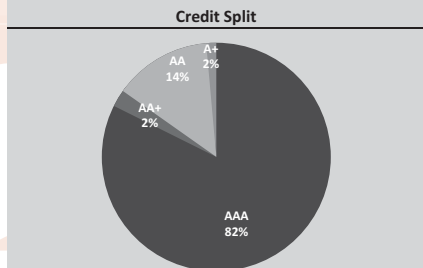
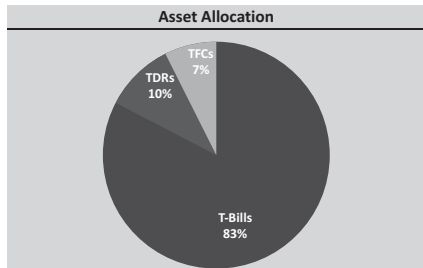
Dated: July 22, 2011

**Babar Ali Lakhani**  
Chief Executive Officer

**REPORT OF THE FUND MANAGER  
FOR THE YEAR ENDED JUNE 30, 2011**

Fund Facts	
Fund Type	Open-End
Category	Income Fund
Net Assets (PKR Mil.)	1,006
NAV (30.06.2010)	101.1605
Pricing Mechanism	Forward Day
Trustee	CDC Pakistan Limited
Auditor	KPMG Taseer Hadi & Co.
Management Fee	1.50%
Front End Load	1.50%
Back End Load	None
Launch Date	November 13, 2009
Benchmark	Average of returns earned by the Income Funds in the industry
Dealing Days	Mon - Sat
Cut-Off Time	04:00 PM (Mon-Fri) 12:00 PM (Sat)
Fund Rating	'AA-' by PACRA
Asset Manager Rating	AM3+

Fund Performance	LIF	Benchmark
June-11	12.93%	6.59%
2 Months	11.72%	7.61%
3 Months	11.92%	10.17%
6 Months	12.07%	11.20%
12 Months	11.50%	10.82%
CY11 - YTD	12.07%	11.20%
FY11 - YTD	11.50%	10.82%
Since Inception	11.47%	8.46%
* All returns have been calculated by Morningstar Method		
** Since Inception returns are from November 13, 2009		



**Investment Committee**

Iqbal Ali Lakhani	Chairman
A. Aziz H. Ebrahim	Director
Babar Ali Lakhani	CEO
Muhammad Umair Chauhan	CIO
Amir Mobin	CFO
Hifza Zia	Head of Research
Syed Imran Raza Kazmi	Assistant Fund Manager
Muhammad Qasim	Officer Risk & Compliance

**Investment Objective**

The investment objective of the Lakson Income Fund ("LIF") is to provide competitive total return through investment in a diversified portfolio of fixed income securities. Investments will be made in a variegated mix of short term, medium term and longer term maturities depending on the assessment by the Investment Team of interest rate trends and prospective returns.

The LIF achieved its investment objective by constructing a diversified portfolio of high credit quality fixed income securities including T-Bills, PIBs TDRs, COIs, TFCs, Reverse Repo and Commercial Papers. The LIF provided positive returns to its investors in every single month during FY11 despite the negative returns provided by other income funds in the industry. The portfolio of the LIF comprises of short, medium and long term instruments ranging from instruments maturing in 1 day to 10 years. However, all the investments with maturities of greater than 6 months are in tradable instruments.

### Investment Strategy

The LIF focused on the constructing a liquid, diverse and high credit quality portfolio in accordance with its Investment Objective. Exposure of the LIF in T-Bills, TDRs, COIs and other money market placements was managed based on the relative yield analysis of these instruments and the yield curve management. The LIF maintained an average exposure of 65% in risk free T-Bills as the T-Bills offered better risk adjusted yields than instruments of similar maturity. High exposure in the T-Bills enabled the LIF to remain liquid and meet all its obligations in a timely manner. During the period under review, the LIF switched between different maturities of the T-Bills depending upon the market dynamics and interest rate outlook. During the 1HFY11 when the State Bank of Pakistan ("SBP") was tightening its monetary policy the LIF kept the Weighted Average Maturity ("WAM") of its T-Bills portfolio low and maintained higher exposure in TDRs, COIs, and Reverse Repo however in the 2HFY11 the LIF increased its WAM and exposure in longer tenor T-Bills as the yields on T-Bills stabilized and the SBP maintained a status quo in its monetary policy stance. As of June 30, 2011 the WAM of the LIF portfolio stood at 232 days. Exposure of the LIF in TFCs averaged 6% during the year compared to 9% in FY10. In the absence of any active debt market prices of the TFCs were very volatile and to avoid unnecessary volatility the LIF maintained a low exposure in TFCs however towards the end of the year a couple of new TFCs were added to the portfolio. The LIF maintained 25% exposure in cash and T-Bills of up to 90 days maturity to keep the fund liquid.

### Market Review

Pakistan witnessed a mixed economic situation in FY11. On the fiscal side, all the targets related to growth, revenue collection, fiscal deficit and inflation were missed while the external front portrayed a very positive image of the economy supported by record remittances and exports.

The flash floods at the start of FY11 hampered the overall economic recovery process and the economy missed the gains of macroeconomic stabilization achieved in FY10 after the global financial crisis. In the absence of foreign flows and a modest growth in tax revenues, the Government had to rely heavily on the banking system to finance the fiscal deficit that resulted in high inflation and consequently monetary tightening by the SBP. Headline inflation, as measured by the YoY variations in the Consumer Price Index ("CPI"), averaged 13.9% in FY11 compared to 11.73% in FY10. Given the persistent rise in inflation, continued reliance of the Government on borrowing from the SBP to meet its power, flood and military related expenditure, the SBP was left with no option but to raise the Discount Rate by 150bps during the 1HFY11 to 14%. The IMF stalled the Stand-By Arrangement ("SBA") as the Government failed to introduce taxation reforms, remove power sector subsidies, and meet the fiscal deficit and Government borrowing targets. In absence of the SBA, record remittances and exports helped the foreign exchange reserves to cross USD 18 billion and provided strength to PKR against US Dollar.

Income Funds with investments in TFCs continued to witness a contraction in their assets under management as the investors were reluctant to invest in those Income Funds due to their very volatile returns. The only growth was seen in those income funds that didn't take any or very low exposure in TFCs. Many income funds categorized themselves as Aggressive Income due to their very high exposures in illiquid TFCs and Sukuks. The assets under management of the Income Funds witnessed an increase of PKR 6.9 billion during FY11 and 3 new funds were launched.

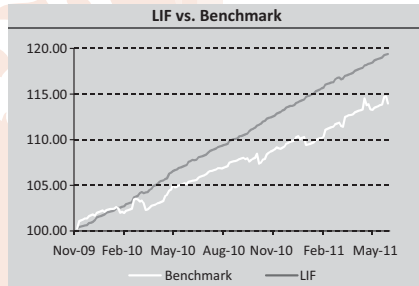
Movement of rates in the money market was largely influenced by the SBP's monetary policy stance and Government borrowing from the banking system. Market rates on all tenors and all instruments witnessed an upward trend during FY11 in response to 150bps increase in the discount rate by the SBP. In the absence of foreign flows the Government had to rely on the domestic resources to finance its fiscal deficit and the Federal Government borrowed PKR 617 billion from the scheduled banks for budgetary support. Money Supply (M2) growth in FY11 was 15.89% compared to 12.46% in FY10 as the broad money increased by PKR 918 billion. Higher M2 growth in FY11 came on the back of a 43.1% increase in the Net Foreign Assets ("NFA") and 13.1% growth in the Net Domestic Assets ("NDA") of the banking system. Deposits

of the commercial banks grew by 20.10% in FY11 compared to 13.1% growth in FY10 mainly due to high Government borrowing for budgetary support. Higher deposit growth helped in keeping the money market fairly liquid as the overnight repo rates averaged 12.4% in FY11 compared to 11.7% in FY10 despite 150bps increase in the discount rate by the SBP. The SBP proactively managed the liquidity in the system through frequent Open Market Operations ("OMOs"). The SBP conducted 26 T-Bill auctions on behalf of Ministry of Finance ("MoF") in FY11 with a cumulative target of PKR 3.4 trillion. The MoF accepted bids worth PKR 3.9 trillion out of total offered amount of PKR 6.0 trillion. Highest amount of PKR 1.7 trillion was raised through 3-month T-Bills as the investors preferred to invest in shorter tenure T-Bills due to rising interest rates. The cut-off yields went up by 138, 143 and 149bps for 3, 6 and 12-month T-bills respectively following the 150 bps hike in the Discount Rate. Frequent hikes in the discount rate by the SBP caused an increase in KIBOR on all tenures and the 6-month KIBOR, benchmark lending rate for the corporate loans, averaged 13.3% during FY11 compared to 12.4% in FY10.

Revaluation of bonds in the mutual fund portfolios continues to remain a problem in the absence of an actively traded bond market and the returns of the income funds are volatile. A very subdued activity was witnessed in the corporate bonds market which was restricted to only a few bonds. Discounts on good quality bonds reduced and some of the bonds even traded at premiums. Investor interest was witnessed in bonds issued by the commercial banks, fertilizer and telecom companies. New bond issuance remained sluggish during the year and there were only a few new issues mainly from commercial banks to meet their Tier-II capital requirements.

**Fund Performance**

Distributions	FY11	FY10
	PKR per Unit	
1st Interim Distribution	2.4702	3.6148
NAV before Distribution	102.8451	104.2186
NAV after Distribution	100.3749	100.6038
Distribution Date	04-Oct-10	02-Apr-10
2nd Interim Distribution	2.9152	
NAV before Distribution	103.0680	
NAV after Distribution	100.1528	
Distribution Date	31-Dec-10	
3rd Interim Distribution	2.8893	
NAV before Distribution	103.0692	
NAV after Distribution	100.1799	
Distribution Date	30-Mar-11	
4th Interim Distribution	0.9481	
NAV before Distribution	101.1442	
NAV after Distribution	100.1961	
Distribution Date	29-Apr-11	
5th Interim Distribution	0.9632	
NAV before Distribution	101.1273	
NAV after Distribution	100.1641	
Distribution Date	30-May-11	
Final Distribution	0.9979	2.9932
NAV before Distribution	101.1605	103.3062
NAV after Distribution	100.1626	100.3130
Distribution Date	04-Jul-11	06-Jul-10



Performance Table	FY11	FY10
Net Assets - Beginning (PKR Mil.)	451	302
Net Assets - Ending (PKR Mil.)	1,006	451
Highest Offer Price (PKR)	104.6153	105.7819
Lowest Offer Price (PKR)	101.6567	101.5254
Highest Redemption Price (PKR)	103.0692	104.2186
Lowest Redemption Price (PKR)	100.1543	100.0250
Beginning NAV - Ex-Div. (PKR)	100.3130	100.0000
Interim Distributions (PKR)	11.1839	3.6148
Final Distribution (PKR)	0.9979	2.9932
Ending NAV - Ex-Div. (PKR)	100.1626	100.3130
Return	11.50%	11.42%
Net Income (PKR Mil.)	99	27
WAM (Days)	232	229

The LIF yielded 11.50% in FY11 compared to 11.42% in FY10. The improved yield in FY11 was a result of 150bps increase in the discount rate by the SBP. The Benchmark of the LIF, average return of income funds, yielded 10.82% in FY11. The LIF outperformed the Benchmark by 68bps. Some of the TFCs were reclassified as performing after their restructuring and it resulted in a reversal of provisions booked in many income funds therefore some of the income funds provided very high but extremely volatile returns. The LIF is also providing for the Workers Welfare Fund ("WWF") liability after the decision of the Sind High Court while there are some income funds in the industry that are not providing for this liability or that reversed the liability provisioned earlier. The LIF grew by 123.1% in FY11 to PKR 1,006 million from PKR 451 million at the start of the year. The standard deviation of monthly returns of the LIF was just 1.07% in FY11 despite the fact that majority of the portfolio of the LIF is comprised of tradable instruments that are affected by the movement in interest rates and in FY11 the discount rate went up by 150bps. As of June 30, 2011, the WAM of the LIF portfolio was 232 days. The WAM of the LIF portfolio moved in line with the interest rate trends. The NAV of the LIF declined on only 3 days during FY11 despite an increasing trend in the interest rates and very volatile TFC prices.

#### Future Outlook

The LIF will increase exposure in high credit quality corporate bonds that offer better risk adjusted yields than Government Securities. The LIF may switch between different maturities depending upon the liquidity conditions of the market and interest rates outlook. We expect the Government borrowing needs to remain high even in FY12 due to higher dependence on the domestic resources for fiscal deficit financing therefore we don't expect any monetary easing in the near future and expect the rates to remain stable in the short term.

#### Breakdown of Unit Holding by Size

Units Range	No. of Clients	Units Held
1 -10,000	4	6,512
10,001 - 100,000	7	260,155
100,001 - 200,000	2	281,241
200,001 - 600,000	2	921,730
600,001 - 1,000,000	2	1,736,333
1,000,001 - 2,000,000	1	1,744,399
2,000,001 - 5,000,000	1	4,996,195
<b>Total</b>	<b>19</b>	<b>9,946,564</b>



**CENTRAL DEPOSITORY COMPANY  
OF PAKISTAN LIMITED**

**Head Office**

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

**TRUSTEE REPORT TO THE UNIT HOLDERS**

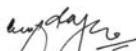
**LAKSON INCOME FUND**

**Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V  
of the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

The Lakson Income Fund (the Fund), an open-end Fund was established under a trust deed dated August 18, 2009, executed between Lakson Investments Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2011 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the management company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.



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

Karachi: October 08, 2011



## **STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011**

This statement is being presented to comply with the Code of Corporate Governance ('the Code') contained in the Regulation No. 35 of the Listing Regulations of the Lahore Stock Exchange (Guarantee) Limited ('the Exchange') for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance. The Board of Directors ('Board') of Lakson Investments Limited ('Management Company'), an un-listed public limited company, manages the affairs of Lakson Income Fund ('Fund'). The Fund being a unit trust open ended scheme does not have its own Board of Directors.

The Management Company has applied the principles contained in the Code to the Fund, whose units are listed as a security on the Exchange, in the following manner:

1. The Management Company encourages representation of independent non-executive directors. All the Directors of the Management Company, except the Chief Executive Officer (CEO) are non-executive directors, three of which are independent non-executive directors.
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 resident Directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year there was no casual vacancy on the Board.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices' which has been approved by the Board of Directors and signed by the Directors and employees of the Management Company.
6. The Board has approved a vision / mission statement, an overall corporate strategy and significant policies of the Fund. A complete record of particulars of significant policies along with the dates on which these were approved has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO of the Management Company have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with the agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. In order to apprise the Directors of their duties and responsibilities and for their orientation purpose, arrangements were made to acquaint the Directors with the recent developments / changes in applicable laws and regulations affecting the mutual fund industry. Furthermore, one Director on the Board also completed one part out of five of the certification "Corporate Governance Leadership Skills" formerly "The Board Development Series" offered by the Pakistan Institute of Corporate Governance. The Directors are conversant of the relevant

laws applicable to the Management Company, its policies and provisions of memorandum and articles of association and are aware of their duties and responsibilities.

10. The Board has approved the appointment, remuneration and terms and conditions of employment of Chief Financial Officer (CFO), Company Secretary and Internal Auditor as determined by the CEO. There has been no new appointment during the period.
11. The Directors' Report of the Fund for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by the CEO and CFO of the Management Company before approval of the Board.
13. The Directors, CEO and executives of the Management Company do not hold any interest in the units of the Fund other than disclosed in the annual report.
14. The Management Company has complied with the corporate and financial reporting requirements of the Code relevant to the Fund.
15. The Board has formed an Audit Committee. It comprises of four members, all of whom are non-executive directors of the Management Company, including the Chairman of the Committee.
16. The meetings of the Audit Committee were held at least once in every quarter and prior to the approval of interim and final results of the Fund as required by the Code. The terms of reference of the Audit Committee have been approved by the Board and advised the Committee for compliance.
17. The Management Company has outsourced the internal audit function to M/s. Anjum Asim Shahid Rahman, Chartered Accountants who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund and their representatives are involved in the internal audit function.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouse and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justification for non arm's length transactions if any, and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
21. We confirm that all other material principles contained in the Code have been complied with.

**For and on behalf of the Board**

Karachi, July 22, 2011

**Babar Ali Lakhani**  
Chief Executive Officer



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
Beaumont Road  
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847  
Fax + 92 (21) 3568 5095  
Internet www.kpmg.com.pk

**Review Report to the Unit Holders on Statement of Compliance  
With Best Practices of 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 the Management Company of the **Lakson Income Fund** to comply with the listing regulation of the Lahore Stock Exchanges, 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.

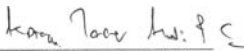
As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express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

Further sub-regulation (xiii-a) of Listing Regulations 35 notified by the Lahore Stock Exchange (Guarantee) Limited 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 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 price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.

Date: 22 JUL 2011

Karachi

  
**KPMG Taseer Hadi & Co.**  
Chartered Accountants



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
Beaumont Road  
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847  
Fax + 92 (21) 3568 5095  
Internet www.kpmg.com.pk

### **Independent Auditors' Report to the Unit Holders**

We have audited the accompanying financial statements of **Lakson Income Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2011, and the income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in Unit Holders' Fund for the year ended 30 June 2011 and a summary of significant accounting policies and other explanatory notes.

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

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

#### *Auditors' responsibility*

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

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

#### *Opinion*

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



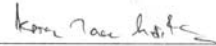
KPMG Taseer Hadi & Co.

*Other matters*

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: 22 JUL 2011

Karachi

  
KPMG Taseer Hadi & Co.  
Chartered Accountants  
Aryn Pirani

**Statement of Assets and Liabilities  
As at 30 June 2011**

	Note	30 June 2011	30 June 2010
		(Rupees)	
<b>Assets</b>			
Bank balances	4	<b>103,217,486</b>	91,636,330
Investments	5	<b>903,703,945</b>	322,418,446
Placements	6	-	35,000,000
Mark-up receivable	7	<b>2,695,431</b>	3,432,441
Advances deposit and prepayment		<b>100,000</b>	284,109
Deferred formation cost	8	<b>1,233,242</b>	1,598,907
<b>Total assets</b>		<b><u>1,010,950,104</u></b>	<u>454,370,233</u>
<b>Liabilities</b>			
Payable to the Management Company	9	<b>1,255,485</b>	2,376,591
Remuneration payable to the Trustee	10	<b>141,015</b>	73,101
Annual fee payable to Securities and Exchange Commission of Pakistan	11	<b>596,133</b>	173,396
Accrued expenses and other liabilities	12	<b>2,757,696</b>	744,232
<b>Total liabilities</b>		<b><u>4,750,329</u></b>	<u>3,367,320</u>
<b>Net assets</b>		<b><u>1,006,199,775</u></b>	<u>451,002,913</u>
<b>Unit holders' funds</b> (as per the statement attached)		<b><u>1,006,199,775</u></b>	<u>451,002,913</u>
		(Number)	
<b>Number of units in issue</b>	13	<b><u>9,946,564</u></b>	<u>4,365,687</u>
		(Rupees)	
<b>Net assets value per unit</b>		<b><u>101.1605</u></b>	<u>103.3062</u>

The annexed notes from 1 to 22 form an integral part of these financial statements.

**For Lakson Investments Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Director

**Income Statement**  
**For the year ended 30 June 2011**

	Note	For the year ended June 30, 2011	For the period from November 14, 2009 to June 30, 2010
		(Rupees)	
<b>INCOME</b>			
Mark-up income	14	<b>104,154,317</b>	28,788,113
Gain on sale of held for trading investments - net		<b>260,210</b>	30,503
Net unrealised appreciation in the fair value of investments - held for trading		<b>250,666</b>	1,367,074
Element of income and capital gains in prices of units sold less those in units redeemed - net		<b>11,018,229</b>	1,911,081
		<b>115,683,422</b>	32,096,771
<b>Expenses</b>			
Remuneration to the Management Company	9.1	<b>11,922,675</b>	3,467,912
Remuneration to the Trustee	10	<b>1,437,278</b>	475,414
Annual fee to the Securities and Exchange Commission of Pakistan	11	<b>596,134</b>	173,396
Auditors' remuneration		<b>225,145</b>	221,290
Fees and subscription		<b>230,002</b>	45,891
Printing charges		<b>57,699</b>	62,075
Brokerage expenses		<b>18,411</b>	39,206
Amortization of deferred formation cost	8	<b>365,665</b>	229,417
Workers' Welfare Fund	12.1	<b>2,015,425</b>	547,305
Bank and settlement charges		<b>59,140</b>	11,309
Other expenses		<b>-</b>	5,632
		<b>16,927,574</b>	5,278,847
<b>Net income for the year / period</b>		<b>98,755,848</b>	26,817,924

The annexed notes from 1 to 22 form an integral part of these financial statements.

**For Lakson Investments Limited**  
**(Management Company)**

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Director

**Statement of Comprehensive Income  
For the year ended 30 June 2011**

	<b>For the year ended June 30, 2011</b>	<b>For the period from November 14, 2009 to June 30, 2010</b>
	<b>(Rupees)</b>	
Net income for the year / period	<b>98,755,848</b>	26,817,924
Other comprehensive income	-	-
Total comprehensive income	<u><b>98,755,848</b></u>	<u>26,817,924</u>

The annexed notes from 1 to 22 form an integral part of these financial statements.

**For Lakson Investments Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Director



**Distribution Statement  
For the year ended 30 June 2011**

	Note	For the year ended June 30, 2011	For the period from November 14, 2009 to June 30, 2010
		(Rupees)	
Undistributed income at beginning of the period - realised		13,067,161	-
Undistributed income at beginning of the period - unrealised		1,367,074	-
<b>Undistributed income at beginning of the year / period</b>		<b>14,434,235</b>	-
Final distribution at the rate of Rs 2.9932 per unit approved on 6 July 2010 (2009: nil)			
- Cash distribution		(729,825)	-
- Issue of bonus units		(12,337,549)	-
		(13,067,374)	-
Interim distributions during the year / period			
- Cash distribution		(6,606,736)	(881,389)
- Issue of bonus units		(81,972,613)	(11,502,300)
		(88,579,349)	(12,383,689)
Total comprehensive income		98,755,848	26,817,924
		<u>11,543,360</u>	<u>14,434,235</u>
Undistributed income at the end of the year / period - realised		11,292,694	13,067,161
Undistributed income at the end of the year / period - unrealised		250,666	1,367,074
<b>Total undistributed income at the end of the year / period</b>		<b>11,543,360</b>	<b>14,434,235</b>

The annexed notes from 1 to 22 form an integral part of these financial statements.

**For Lakson Investments Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Director

**Statement of Movement in Unit Holders' Fund  
For the year ended 30 June 2011**

	Note	For the year ended June 30, 2011  (Rupees)	For the period from November 14, 2009 to June 30, 2010
<b>Net assets at the beginning of the period</b>		<b>451,002,913</b>	-
Cash received on issue of 6,521,802 (2010: 5,764,439) units		<b>666,179,812</b>	581,215,974
Cash paid on redemption of 1,881,982 (2010: 1,513,085) units		<b>(191,384,008)</b>	(154,238,515)
		<b>474,795,804</b>	426,977,459
Element of income and capital gains in prices of units sold less those in units redeemed - net		<b>(11,018,229)</b>	(1,911,081)
Final distribution at the rate of Rs 2.9932 per unit approved on 6 July 2010 (2009:nil)			
- Cash distribution		<b>(729,825)</b>	-
- Issue of bonus units		<b>(12,337,549)</b>	-
		<b>(13,067,374)</b>	-
Issue of 122,991 (2009: nil) bonus units as final distribution		<b>12,337,549</b>	-
<b>Total comprehensive income</b>		<b>98,755,848</b>	26,817,924
Interim distributions during the year / period	15		
- Cash distribution		<b>(6,606,736)</b>	(881,389)
- Issue of bonus units		<b>(81,972,613)</b>	(11,502,300)
Net income for the period less distribution		<b>10,176,499</b>	14,434,235
Issue of 8,180,67 (2010: 114,333) bonus units as interim distribution		<b>81,972,613</b>	11,502,300
<b>Net assets as at end of the year / period</b>		<b>1,006,199,775</b>	451,002,913
Net assets value per unit at the beginning of the year / period		<b>103.3062</b>	-
Net assets value per unit at end of the year / period		<b>101.1605</b>	103.3062

The annexed notes from 1 to 22 form an integral part of these financial statements.

**For Lakson Investments Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Director

**Cash Flow Statement**  
**For the year ended 30 June 2011**

	For the year ended June 30, 2011	For the period from November 14, 2009 to June 30, 2010
	(Rupees)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income for the year / period	98,755,848	26,817,924
<b>Adjustments for non-cash and others items:</b>		
Amortisation of formation cost	365,665	229,417
Net unrealised appreciation in the fair value of investments - held for trading	(250,666)	(1,367,074)
Element of income and capital gains in prices of units sold less those in units redeemed - net	(11,018,229)	(1,911,081)
	<b>87,852,618</b>	<b>23,769,186</b>
<b>Increase in assets</b>		
Investments	(581,034,833)	(321,051,372)
Placements	35,000,000	(35,000,000)
Mark-up receivable	737,010	(3,432,441)
Advances deposit and prepayment	184,109	(284,109)
	<b>(545,113,714)</b>	<b>(359,767,922)</b>
<b>Increase in liabilities</b>		
Payable to the Management Company	(1,121,106)	548,267
Remuneration payable to the Trustee	67,914	73,101
Annual fee payable to Securities and Exchange Commission of Pakistan	422,737	173,396
Accrued expenses and other liabilities	2,013,464	744,232
	<b>1,383,009</b>	<b>1,538,996</b>
<b>Net cash used in operating activities</b>	<b>(455,878,087)</b>	<b>(334,459,740)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Received on issuance of units	666,179,812	581,215,974
Paid against redemption of units	(191,384,008)	(154,238,515)
Cash dividend paid	(7,336,561)	(881,389)
<b>Net cash from financing activities</b>	<b>467,459,243</b>	<b>426,096,070</b>
<b>Net increase in cash and cash equivalents during the year / period</b>	<b>11,581,156</b>	<b>91,636,330</b>
Cash and cash equivalents at beginning of the year / period	91,636,330	-
<b>Cash and cash equivalents at end of the year / period</b>	<b>103,217,486</b>	<b>91,636,330</b>

The annexed notes from 1 to 22 form an integral part of these financial statements.

**For Lakson Investments Limited**  
**(Management Company)**

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Director

## **Notes to the Financial statements For the year ended 30 June 2011**

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

The Lakson Income Fund (the "Fund") was established under the Trust Deed executed on 18 August 2009 between the Lakson Investments Limited as its Management Company and the Central Depository Company of Pakistan Limited (CDC) as its Trustee. The Fund has been registered as a Notified Entity on 18 September 2009 by the Securities and Exchange Commission of Pakistan (SECP) in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). The Management Company of the Fund has been licensed by SECP to undertake Asset Management and Investment Advisory Services as a Non-Banking Finance Company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). During the year the registered office of the Management Company has been shifted to 14 - Ali Block, New Garden Town, Lahore

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

The fund primarily invests in Government Securities, certificate of investment, certificates of deposits, term deposits Receipts, commercial papers, reverse repo, preference shares, spread transactions and corporate debt securities (subject to the guidelines given by SECP).

Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as Trustee of the Fund.

### **2. BASIS OF PREPARATION**

#### **2.1 Statement of Compliance**

These financial statements of the Fund as at and for the year ended 30 June 2011 have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, requirements of Trust Deed, Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC rules and regulations). In case, the requirements differ, the provisions or directives of the Companies Ordinance, 1984, the requirements of the Trust Deed and Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008 shall prevail.

#### **2.2 Basis of measurement**

These financial statements have been prepared under the historical cost convention, except that investments are stated at fair values.

### **2.3 Functional and presentation currency**

These financial statements are presented in Pakistan Rupees, which is the Fund's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest rupees.

### **2.4 Use of estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material judgment in the next year are as follows:

#### *Classification and valuation of investments*

For details please refer note 3.1 and 19 to these financial statements.

#### *Impairment of investment*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. This objective evidence of impairment of fixed income securities is determined in accordance with provisioning criteria for non performing exposures as per the requirements of Annexure II of SECP Circular no. 1 of 2009 dated 6 January 2009.

#### *Element of income and capital gains in prices of units sold less those in units redeemed - net*

For details please refer note 3.9 to these financial statements.

#### *Provision for taxation*

For details please refer note 3.7 to these financial statements.

#### *Workers welfare fund liability*

For details please refer note 12.1 to these financial statements.

#### *Other assets*

Judgment is involved in assessing the realisability of other assets balances.

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

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below:

- IAS 24 Related Party Disclosures (revised 2009) – (effective for annual periods beginning on or after 1 January 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government- related entities. The amendment would result in certain changes in disclosures.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Fund’s financial statements.
- Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2011). These amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity’s exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.
- Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2011) These amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes.

Apart from above certain other standards, amendments to published standards and interpretations of accounting standards became effective for accounting periods beginning on or after 1 January 2011, however, they do not affect the Fund’s financial statements.

## **2.6 Changes in accounting policies**

There were no changes in the accounting policies of the Fund during the year.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below:

### **3.1 Investments**

- 3.1.1** All investments are initially recognised at cost, being the fair value of the consideration given including the transaction cost associated with the investment, except in case of held for trading investments, in which case the transaction costs are charged off to the income statement.

**3.1.2** The Fund classifies its investments in the following categories:

*Held for trading*

Investments which are acquired principally for the purposes of generating profit from short term fluctuation in price or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading.

After initial recognition, above investments are remeasured at fair value determined with reference to the period-end quoted rates. Gains or losses on re-measurement of these investments are recognised in income statement.

*Available for sale*

Investments which do not fall under the above category and which may be sold in response to the need for liquidity or changes in market rates are classified as available-for-sale. After initial recognition, investments classified as available-for-sale are remeasured at fair value, determined with reference to the period end / year-end quoted rates. Gains or losses on remeasurement of these investments are recognised directly in the unit holders' funds until the investment is sold, collected or otherwise disposed-off, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in unit holders' funds is included in income.

**3.1.3** **Basis of valuation of investments**

Fair value of the investments in Federal Government securities comprising Treasury Bills is determined by reference to the quotations obtained from the PKRV rate sheet on the Reuters page.

The fair value of term finance certificates is determined on the basis of rates notified by the Mutual Funds Association of Pakistan (MUFAP) as at the period end.

**3.1.4** All regular way of purchases and sales of investments are recognised on the trade date i.e. the date the Fund commits to purchase / sell the investments.

**3.1.5** Income accrued on treasury bills are included in the carrying value of investments.

**3.2** **Securities under resale agreements**

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

**3.3** **Formation cost**

This represents expenses incurred on the formation of the Fund. As permitted in the Non-Banking Finance Companies and Notified Entities Regulations, 2008, these expenses are being amortised to the income statement over a period of not less than five years effective from 14 November 2009.

### **3.4 Unit holders' fund**

Unit holders' fund representing the units issued by the Fund, is carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets.

### **3.5 Issue and redemption of units**

Units issued are recorded at the offer price, determined by the Fund, applicable for the day on which the completed application form is received. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load (if any).

Units redeemed are recorded at the redemption price, applicable to the units for which the Fund receives redemption applications during business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day plus the allowable purchase load (if any). Redemption of units is recorded on acceptance of application for redemption.

### **3.6 Net asset value per unit**

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

### **3.7 Taxation**

The Fund is exempt from taxation on income under clause 99 of Part I to the Second Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90 percent of its income excluding realised and unrealised capital gain for the year is distributed amongst the unit holders. Since the Board of Directors of the management company has declared such a dividend (refer note 16 & 20), accrual of the tax liability has not been made.

### **3.8 Revenue recognition**

- Gains / (losses) arising on sale of investments are included in the income on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets held for trading are included in the income statement in the period in which they arise.
- Income on Government securities, reverse repurchase arrangements, margin trading system, certificates of investment, certificates of deposits, term deposit receipts, commercial paper, placements, bank deposits and investment in other debt securities are recognised in the income statement at rate of return implicit in the instrument on a time proportionate basis.

### **3.9 Element of income / (loss) and capital gains / (losses) in prices of units sold less those in units redeemed - net**

To prevent the dilution of per unit income and distribution of income already paid out on redemption, as dividend, an equalisation account called "element of income and capital gains included in prices of units sold less those in units redeemed" is created.



The "element of income and capital gains included in prices of units sold less those in units redeemed" account is credited with the amount representing net income and capital gains accounted for in the last announced net assets value and included in the sale proceeds of units. Upon redemption of units, the element of income included in prices of units sold less those in units redeemed account is debited with the amount representing net income and capital gains accounted for in the last announced net assets value and included in the redemption price.

The net "element of income / (loss) and capital gains / (losses) in prices of units sold less those in units redeemed" during an accounting year is recognised in the income statement.

### **3.10 Financial instruments**

All the financial assets and liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of the financial asset and financial liabilities is taken to income directly.

### **3.11 Offsetting of financial assets and financial liabilities**

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

### **3.12 Impairment**

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. A financial assets is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit and loss account.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated cash flows discounted at the original effective interest rate.

### **3.13 Provision**

A provision is recognised in the balance sheet when the Fund has a legal or constructive obligation as result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### **3.14 Cash and cash equivalents**

Cash and cash equivalent comprise of bank balances including term deposits with banks (that are readily convertible to known amount of cash) are subject to an in significant risk of significant changes of values and have maturities of less than three months from the date of acquisition.

**3.15 Dividend (including bonus units)**

Dividend (including the bonus units) declared subsequent to the balance sheet date are recorded in the period in which they are approved.

**3.16 Other assets**

Other assets are stated at cost less impairment losses, if any.

		<b>30 June 2011</b>	30 June 2010
<b>4. BANK BALANCES - local currency</b>			<b>(Rupees)</b>
In profit and loss sharing accounts	4.1	<b>3,217,486</b>	1,636,330
In term deposits	4.2	<b>100,000,000</b>	90,000,000
		<b><u>103,217,486</u></b>	<u>91,636,330</u>

**4.1** These accounts carry profit rates ranging between 5% to 11.50% (30 June 2010: 5% to 11%) per annum.

**4.2** This Term Deposits carry profit rates 13.90% (30 June 2010: 12.25% to 12.40%) per annum and will mature on 13 July 2011.

**5. INVESTMENTS**

**Held For Trading**

Government securities	5.1	<b>829,398,330</b>	274,035,861
Term Finance Certificate - Listed	5.2	<b>54,305,615</b>	33,612,205
Term Finance Certificate - Unlisted	5.3	<b>20,000,000</b>	14,770,380
		<b><u>903,703,945</u></b>	<u>322,418,446</u>

**5.1 Held for trading investments - government securities**

Government Securities	Note	Number of holdings at beginning of the year	Acquired during the year	Disposed / matured during the year	Number of holdings at end of the year	Cost as at 30 June 2011	Market value as at 30 June 2011	Unrealized diminution	Net assets of the Fund	Total investments	
						(Rupees)		Percentage (%)			
- Treasury Bills - 3 months (face value of Rs. 100,000 each)	5.1.1	1,750	29,463	28,299	2,914	284,660,718	284,646,715	(14,003)	28.29	31.49	
- Treasury Bills - 6 months (face value of Rs. 100,000 each)	5.1.2	800	10,900	6,050	5,650	544,861,173	544,751,615	(109,558)	54.14	60.28	
- Treasury Bills - 12 months (face value of Rs. 100,000 each)		250	1,850	2,100		-	-	-			
						<b>Total</b>	<b>829,521,891</b>	<b>829,398,330</b>	<b>(123,561)</b>	<b>82.43</b>	<b>91.78</b>
						Total as at 30 June 2010	<u>274,145,689</u>	<u>274,035,861</u>	<u>(109,828)</u>	<u>60.76</u>	<u>85.00</u>

**5.1.1** These represent 3 months Treasury bills of Government carrying a fixed mark-up rate ranging from 13.4389% to 13.5000% (30 June 2010: 11.8742% to 12.1013%) and maturing between 14 July 2011 and 25 August 2011. The face value of Treasury bills held as at 30 June 2011 amounted to Rs. 291.40 million.

**5.1.2** These represent 6 months Treasury bills of Government carrying a fixed mark-up rate ranging from 13.5800% to 13.7128% (30 June 2010: 12.1223% to 12.2577%) and maturing between 06 October 2011 and 15 December 2011. The face value of Treasury bills held as at 30 June 2011 amounted to Rs. 565.00 million.

## 5.2 Held for trading investments - Term Finance Certificates (listed debt securities)

### Term finance certificates

Name of Security	Note	Number of holdings at beginning of the year	Acquired during the year	Matured / disposed during the year	Number of holdings at end of the year	Carrying value as at 30 June 2011	Market value as at 30 June 2011	Unrealized appreciation / (diminution)	Net assets of the Fund	Total investments
						(Rupees)		Percentage (%)		
<b>Commercial Banks</b>										
United Bank Limited (face value of Rs.5,000 each)	5.2.1	3,000	-	-	3,000	14,362,695	14,789,436	426,741	1.47	1.64
NIB Bank Limited (face value of Rs.5,000 each)	5.2.2	3,000	-	-	3,000	14,595,933	14,441,644	(154,289)	1.44	1.60
<b>Fertilizer</b>										
Engro Fertilizer Limited (face value of Rs.5,000 each)	5.2.3	1,000	-	-	1,000	4,972,760	5,074,535	101,775	0.50	0.56
<b>Financial Services</b>										
Orix Leasing Pakistan Limited - III privately placed (face value of Rs.100,000 each)	5.2.4	-	200	-	200	20,000,000	20,000,000	-	1.99	2.21
						<u>53,931,388</u>	<u>54,305,615</u>	<u>374,227</u>	<u>5.40</u>	<u>6.01</u>
					Total as at 30 June 2010	<u>32,098,796</u>	<u>33,612,205</u>	<u>1,513,409</u>	<u>7.45</u>	<u>10.42</u>

- 5.2.1** These represent listed term finance certificates and carry a rate of mark-up equal to the base rate of 6 months Karachi Interbank Offer Rate (KIBOR) per annum (plus margin of 0.85% for the first five years and 1.35% for the remaining period) receivable semi-annually in arrears with no floor or cap and will mature in February 2018. These term finance certificates are unsecured. The rating of the instrument is AA.
- 5.2.2** These represent listed term finance certificates and carry a rate of mark-up equal to the base rate of 6 months Karachi Interbank Offer Rate (KIBOR) per annum plus margin of 1.15% receivable semi-annually in arrears with no floor or cap and will mature in March 2016. These term finance certificates are unsecured. The rating of the instrument is A+.
- 5.2.3** This represents listed term finance certificates and carry a rate of mark-up equal to the base rate of 6 months Karachi Interbank Offer Rate (KIBOR) per annum plus margin of 2.40% receivable semi-annually in arrears with no floor or cap and will mature in March 2016. These term finance certificates are secured. The rating of the instrument is AA.
- 5.2.4** These represent listed term finance certificates and carry a rate of mark-up equal to the base rate of 3 months Karachi Interbank Offer Rate (KIBOR) per annum plus margin of 2.15% receivable quarterly in arrears with no floor or cap and will mature in in June 2014. These term finance certificates are secured. The rating of the instrument is AA.

**5.3 Held for trading investments - Term Finance Certificates (un-listed debt securities)**

Name of Security	Number of holdings at beginning of the year	Acquired during the year	Matured / disposed during the year	Number of holdings at end of the year	Carrying value as at 30 June 2011	Market value as at 30 June 2011	Unrealized appreciation / (diminution)	Market value as percentage of net assets	Market value as percentage of total investment
Note									
					----- (Rupees) -----		----- Percentage (%) -----		
<b>Technology and Communication</b>									
Pakistan Mobile Communication Limited - privately placed (face value of Rs.5,000 each)	6,000	-	6,000	-	-	-	-	-	-
<b>Commercial Banks</b>									
Bank Al Habib Limited -IV privately placed (face value of Rs.5,000 each)	5.3.1	-	4,000	4,000	20,000,000	20,000,000	-	1.99	2.21
					<u>20,000,000</u>	<u>20,000,000</u>	<u>-</u>	<u>1.99</u>	<u>2.21</u>
Total as at 30 June 2010					<u>14,805,890</u>	<u>14,770,380</u>	<u>(36,510)</u>	<u>3.28</u>	<u>4.58</u>

**5.3.1** These represent un-listed term finance certificates and carry a rate of mark-up rate of 15.00% for the first five years and 15.50% for the remaining period receivable semi-annually in arrears with no floor or cap and will mature in June 2021. These term finance certificates are unsecured. The rating of the instrument is AA.

**5.4** The term "listed" indicated in note 5.2 refer to listing in the stock exchange. However their rates are quoted by MUFAP.

**5.5 Available for sale - Commercial paper**

Commercial paper (face value of Rs. 100,000 each)

Name of security	Number of holdings at beginning of the year	Acquired during the year	Matured / disposed during the year	As at 30 June 2011	Carrying value as at 30 June 2011	Market value as at 30 June 2011	Unrealized appreciation / (diminution)	Market value as percentage of net assets	Market value as percentage of total investment
					----- (Rupees) -----		----- Percentage (%) -----		
Engro Fertilizer Limited	-	40	40	-	-	-	-	-	-
					<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

		30 June 2011	30 June 2010
<b>6.</b>	<b>PLACEMENTS</b>		(Rupees)
	Certificates of investment - unsecured	<u>-</u>	<u>35,000,000</u>
<b>7.</b>	<b>MARK-UP RECEIVABLE - considered good</b>		
	Mark-up / return receivable on:		
	- profit and loss sharing bank balances 7.1	<b>71,708</b>	69,017
	- term deposits with banks	<b>685,479</b>	1,116,384
	- term finance certificates	<b>1,598,858</b>	1,943,170
	- Pre-IPO investment	<b>339,386</b>	-
	- certificates of investments	<u>-</u>	<u>303,870</u>
		<u><b>2,695,431</b></u>	<u><b>3,432,441</b></u>
<b>7.1</b>	The amount was received subsequent to the period-end.		
<b>8.</b>	<b>DEFERRED FORMATION COST</b>		
	Unamortised cost		
	Amortised to the income statement 8.1	<b>1,598,907</b>	1,828,324
	during the year		
		<u><b>(365,665)</b></u>	<u>(229,417)</u>
		<u><b>1,233,242</b></u>	<u><b>1,598,907</b></u>
<b>8.1</b>	This represents expenses incurred on the formation of the Fund. Regulation 60 (2) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 requires that all expenses incurred in connection with the incorporation, establishment and registration of collective investment scheme (formation cost) shall be reimbursable by a collective investment scheme to an AMC subject to the audit of expenses. The said formation cost shall be amortised by the collective investment scheme over a period of not less than five years or within the maturity date of collective investment scheme. Accordingly the said expenses are being amortised over a period of five years effective from 14 November 2009, i.e. after the close of initial period of the Fund.		
<b>9.</b>	<b>PAYABLE TO THE MANAGEMENT COMPANY</b>		
		30 June 2011	30 June 2010
			(Rupees)
	Remuneration payable to the management company		
	Preliminary and formation cost payable	<b>1,255,485</b>	548,267
		<u>-</u>	<u>1,828,324</u>
		<u><b>1,255,485</b></u>	<u><b>2,376,591</b></u>
<b>9.1</b>	The Management Company is entitled to remuneration for services rendered to the Fund under the of an amount not exceeding three percent per annum of the average daily net assets of the Fund during first five years of the Fund's existence and thereafter an amount equal to two percent per annum of such assets of the Fund. Currently the Management Fee is charged @ 1.5% of the average daily net assets of the Fund.		

**10. REMUNERATION TO THE TRUSTEE**

The Trustee is entitled to monthly remuneration for services under the provision of Trust Deed. Effective from January 01, 2011 the Trustee has revised the trustee fee as under.

**Net assets up to 1 billion**

Rs 0.6 million or 0.17% per annum of the daily average net assets of the Fund, which ever is higher.

**Net assets ranging between Rs 1 billion to Rs 5 billion**

Rs 1.70 million plus 0.085% per annum of the daily average net assets of the Fund exceeding Rs 1 billion.

**Exceeding Rs 5 Billion**

Rs 5.1 million plus 0.07% per annum of the daily average net assets of the Fund exceeding Rs 5 billion.

Up to 31 December 2010 the trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per following rates:

**Net assets up to 1 billion**

Rs 0.7 million or 0.20% per annum of the daily average net assets of the Fund, which ever is higher.

**Exceeding Rs 1 billion**

Rs 2 million plus 0.10% per annum of the daily average net assets of the Fund exceeding Rs 1 billion.

**11. ANNUAL FEE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

This represents annual fee payable to Securities and Exchange Commission of Pakistan (SECP) in accordance with Rule 62 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, whereby the Fund is required to pay annual fee to SECP at the rate of 0.075% of the average daily net assets of the Fund.

<b>12. ACCRUED EXPENSES AND OTHER LIABILITIES</b>	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>(Rupees)</b>	
Auditors' remuneration	<b>125,000</b>	165,000
Payable to Workers' Welfare Fund	<b>2,562,730</b>	547,305
Brokerage payable	<b>3,443</b>	-
NCCPL payable	<b>15,000</b>	-
Rating fee payable	<b>15,892</b>	-
Other liabilities	<b>35,631</b>	31,927
	<b><u>2,757,696</u></b>	<b><u>744,232</u></b>

**12.1** Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. The Trustee of the Collective Investment Schemes (CISs) filed a petition before the Honourable High Court of Sindh on the ground that the CIS (mutual funds) are not establishments and as a result not liable to pay contribution to WWF.

Subsequently, the Ministry of Labour and Manpower (the Ministry) vide its letter dated 8 July 2010 issued advice and clarifications which stated that WWF Ordinance 1971 does not have any provisions for the applicability of WWF on those entities whose incomes are exempt from income tax under any provisions of any law, and West Pakistan and West Pakistan Shops and Establishment Ordinance, 1969 is not applicable to any public listed company and any organized financial institutions including Mutual Funds because they are ruled and governed by separate laws. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income on Mutual Fund(s), the product being sold, is exempted under the law *ibid*."

Further, the Secretary (Income Tax Policy) Federal Board of Revenue issued a letter dated 6 October 2010 to the Members (Domestic Operation) North and South FBR. In the letter reference was made to the clarification issued by the Ministry of Labour and Manpower stating that mutual funds are a product and their income are exempted under the law *ibid*. The Secretary (Income Tax Policy) Federal Board of Revenue directed that the Ministry's letter may be circulated amongst field formation for necessary action. Following the issuance of FBR Letter, show cause notice which had been issued by taxation office for two mutual funds for payment of levy under WWF has been withdrawn. However, there have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds and MUFAP has requested Member Policy Direct Taxes for withdrawal of such show cause notices issued to such mutual funds. However, the Secretary (Income Tax Policy) Federal Board of Revenue vide letter 4 January 2011 has cancelled ab-initio clarificatory letter dated 6 October 2010 on applicability of WWF on mutual funds. On December 14, 2010, the Ministry filed its response to the constitutional petition pending in the Court. As per the legal counsel who is handling the case, there is contradiction between the above earlier letter and clarification of the Ministry and the response filed by the Ministry in the Court.

In view of above stated facts and considering the uncertainty on the applicability of WWF to mutual funds due to show cause notices issued to a number of mutual funds, the management company as a matter of abundant caution has decided to continue to maintain the provision for WWF amounting to Rs. 2.563 million upto 30 June 2011.

	30 June 2011	30 June 2010
<b>13. NUMBER OF UNITS IN ISSUE</b>	<b>(Numbers)</b>	
Total outstanding at beginning of the period	4,365,687	-
Sales during the period	6,521,802	5,764,439
Bonus units issued	941,058	114,333
Redemption during the period	<u>(1,881,982)</u>	<u>(1,513,085)</u>
Total units in issue at the end of the period	<u>9,946,564</u>	<u>4,365,687</u>

Face value of the unit is Rs. 100 each.

	For the year ended 30 June 2011	For the period from 14 November 2009 to 30 June 2010
<b>14. MARK-UP INCOME</b>	<b>(Rupees)</b>	
Mark-up / return on:		
- Government securities	65,861,510	15,234,257
- placements	3,174,608	3,482,195
- profit and loss sharing account	2,095,055	1,946,649
- term deposits with banks	20,734,117	4,459,013
- Commercial paper	2,620,976	-
- Pre-IPO investment	339,386	-
- Reverse repo	3,274,900	-
- term finance certificates	6,053,765	3,665,999
	<u>104,154,317</u>	<u>28,788,113</u>

**15. INTERIM DISTRIBUTIONS DURING THE PERIOD**

Date of distributions	----- For the year ended 30 June 2011 -----			
	Distribution per unit	No. of Bonus Units Issued	Bonus (Rupees)	Cash
4 October 2010	2.4702	131,340	13,183,192	602,303
31 December 2010	2.9152	253,360	25,374,688	1,719,121
30 March 2011	2.8893	261,040	26,151,000	2,407,462
29 April 2011	0.9481	85,062	8,522,891	931,507
30 May 2011	0.9632	87,265	8,740,842	946,343
	<u>10.1860</u>	<u>818,067</u>	<u>81,972,613</u>	<u>6,606,736</u>

Date of distributions	---- For the period from 14 November 2009 to 30 June 2010 ----			
	Distribution per unit	No. of Bonus Units Issued	Bonus (Rupees)	Cash
2 April 2010	3.6148	114,333	11,502,300	881,389
		<u>114,333</u>	<u>11,502,300</u>	<u>881,389</u>



**16. TAXATION**

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. Since the management has distributed the income earned by the Fund during the period to the unit holders in the manner explained above, no provision for taxation has been made in these financial statements.

**17. TRANSACTIONS AND BALANCES WITH CONNECTED PERSONS / RELATED PARTIES**

Related parties include Lakson Investments Limited being the Management Company, Central Depository Company of Pakistan Limited (CDC) being the trustee, Siza Services (Private) Limited being holding company of the Management Company, associated companies of the Management Company, Key Management personnel and other funds being managed by the Management Company.

Remuneration to the Management Company and the Trustee is determined in accordance with the provisions of Non - Banking Finance Companies and Notified Entities Regulations, 2008, and the Trust Deed respectively as disclosed in note 9 and 10 of these financial statements. Other transactions are in normal course of business and at contracted rates.

Transactions and balances with related parties other than those disclosed elsewhere are as follows:

17.1	Balance as at year / period end	30 June 2011	30 June 2010
		(Rupees)	
<b>Lakson Investments Limited - Management Company of the Fund</b>			
	Remuneration payable	<u>1,255,485</u>	<u>548,267</u>
	Formation cost payable	<u>-</u>	<u>1,828,324</u>
	Units held as at the period ended 753,834 (June 2010: 728,450) units	<u>76,258,229</u>	<u>75,253,423</u>
<b>Central Depository Company of Pakistan Limited - Trustee of the Fund</b>			
	Remuneration payable	<u>141,015</u>	<u>73,101</u>
	Security deposit	<u>100,000</u>	<u>100,000</u>
<b>Directors of the Management Company</b>			
<b>Babar Ali Lakhani</b>			
	Units held as at the period ended	<u>527,083</u>	<u>-</u>

\*5,210 (June 2010: nil) units

\*5,210 units held in joint account with spouse Ms. Zil Lakhani.

	30 June 2011	30 June 2010
	(Rupees)	
<b>Key management personnel and Employees of the Management Company</b> Units held as at the period ended 64 (June 2010: 793) units	<u>6,438</u>	<u>81,880</u>
<b>Associated Companies / Undertaking of the Management Company</b>		
<b>Siza (Private) Limited</b> Units held as at the period ended 6,740,594 (June 2010: 2,086,248) units	<u>681,881,856</u>	<u>215,522,321</u>
<b>Clover (Pakistan) Limited Employees Contributory Provident Fund</b> Units held as at the period ended 17,579 (June 2010: 15,438) units	<u>1,778,302</u>	<u>1,594,916</u>
<b>Colgate Palmolive (Pakistan) Limited Employee Contributory Provident Fund</b> Units held as at the period ended 158,211 (June 2010: 138,948) units	<u>16,004,718</u>	<u>14,354,241</u>
<b>Colgate Palmolive (Pakistan) Limited Employee Gratuity Fund</b> Units held as at the period ended 87,895 (June 2010: 77,193) units	<u>8,891,510</u>	<u>7,974,579</u>
<b>Accuray Surgical Limited Employee Contributory Provident Fund</b> Units held as at the period ended 11,719 (June 2010: 10,292) units	<u>1,185,535</u>	<u>1,063,277</u>
<b>Cyber Internet Services (Private) Limited Employee Contributory Provident Fund</b> Units held as at the period ended 123,029 (June 2010: 108,051) units	<u>12,445,715</u>	<u>11,162,258</u>
<b>GAM Corporation (Private) Limited Employees Contributory Provident Fund</b> Units held as at the period ended 35,144 (June 2010: 30,865) units	<u>3,555,145</u>	<u>3,188,523</u>
<b>Princeton Travels (Private) Limited Contributory Provident Fund</b> Units held as at the period ended 14,063 (June 2010: 12,351) units	<u>1,422,642</u>	<u>1,275,933</u>

	30 June 2011	30 June 2010
	(Rupees)	
<b>Siza Foods (Private) Limited Contributory Provident Fund</b>		
Units held as at the period ended 76,176 (June 2010: 66,901) units	<u>7,705,975</u>	<u>6,911,301</u>
<b>Century Insurance Company Limited</b>		
Units held as at the period ended 551,330 (June 2010: 484204) units	<u>55,772,791</u>	<u>50,021,257</u>
<b>Century Insurance Company Limited Employee Contributory Provident Fund</b>		
Units held as at the period ended 17,579 (June 2010: 15,439) units	<u>1,778,302</u>	<u>1,594,916</u>
	<b>For the Year Ended 30 June 2011</b>	<b>For the period from 14 November 2009 to 30 June 2010</b>
	(Rupees)	
<b>17.2 Transactions during the year / period</b>		
<b>Lakson Investments Limited - Management Company of the Fund</b>		
Issue of units - nil (2010: 703,184) units	<u>-</u>	<u>70,347,166</u>
Bonus - 99,564 (2010: 25,266) units	<u>-</u>	<u>-</u>
Redemption - 74,180 (2010: nil) units	<u>7,500,000</u>	<u>-</u>
<b>Directors of the Management Company Babar Ali Lakhani</b>		
Issue of units - 4,969 (2010: nil) units	<u>500,000</u>	<u>-</u>
Bonus - 241 (2010: nil) units	<u>-</u>	<u>-</u>
Redemption - nil (2010: nil) units	<u>-</u>	<u>-</u>
<b>Central Depository Company of Pakistan Limited- Trustee of the Fund</b>		
Remuneration	<u>11,922,675</u>	<u>475,414</u>
Settlement charges	<u>6,274</u>	<u>2,516</u>
<b>Key management personnel and Employees of the Management Company</b>		
Issue of units - nil (2010: 1,684) units	<u>-</u>	<u>52,000</u>
Bonus - 80 (2010: 4) units	<u>-</u>	<u>-</u>
Redemption - 809 (2010: 895) units	<u>81,386</u>	<u>42,290</u>

<b>Associated Companies / Undertaking of the Management Company</b>	<b>For the Year Ended 30 June 2011</b>	<b>For the period from 14 November 2009 to 30 June 2010</b>
	<b>(Rupees)</b>	
<b>Siza (Private) Limited</b>		
Issue of units - 4,451,573 (2010: 2,526,881) units	<u>455,679,812</u>	<u>254,184,857</u>
Bonus - 658,355 (2010: 72,361) units	<u>-</u>	<u>-</u>
Redemption - 455,583 (2010: 512,995) units	<u>45,933,000</u>	<u>52,326,818</u>
<b>Clover (Pakistan) Limited Employees Contributory Provident Fund</b>		
Issue of units - nil (2010: 14,903) units	<u>-</u>	<u>1,500,000</u>
Bonus - 2,140 (2010: 535) units	<u>-</u>	<u>-</u>
Redemption - nil (2010: nil) units	<u>-</u>	<u>-</u>
<b>- Colgate Palmolive (Pakistan) Limited Employee Contributory Provident Fund</b>		
Issue of units - nil (2010: 134,129) units	<u>-</u>	<u>13,500,000</u>
Bonus - 19,263 (2010: 4,819) units	<u>-</u>	<u>-</u>
Redemption - nil (2010: nil) units	<u>-</u>	<u>-</u>
<b>Colgate Palmolive (Pakistan) Limited Employee Gratuity Fund</b>		
Issue of units - nil (2010: 74,516) units	<u>-</u>	<u>7,500,000</u>
Bonus - 10,701 (2010: 2,677) units	<u>-</u>	<u>-</u>
Redemption - nil (2010: nil) units	<u>-</u>	<u>-</u>
<b>Accuray Surgical Limited Employee Contributory Provident Fund</b>		
Issue of units - nil (2010: 9,935) units	<u>-</u>	<u>100,000,000</u>
Bonus - 1,427 (2010: 357) units	<u>-</u>	<u>-</u>
Redemption - nil (2010: nil) units	<u>-</u>	<u>-</u>
<b>Cyber Internet Services (Private) Limited Employee Contributory Provident Fund</b>		
Issue of units - nil (2010: 104,303) units	<u>-</u>	<u>10,500,000</u>
Bonus - 14,979 (2010: 3,748) units	<u>-</u>	<u>-</u>
Redemption - nil (2010: nil) units	<u>-</u>	<u>-</u>
<b>GAM Corporation (Private) Limited Employees Contributory Provident Fund</b>		
Issue of units - nil (2010: 29,794) units	<u>-</u>	<u>3,000,000</u>
Bonus - 4,279 (2010: 1,071) units	<u>-</u>	<u>-</u>
Redemption - nil (2010: nil) units	<u>-</u>	<u>-</u>

	<b>For the Year Ended 30 June 2011</b>	<b>For the period from 14 November 2009 to 30 June 2010</b>
	<b>(Rupees)</b>	
<b>Princeton Travels (Private) Limited Contributory Provident Fund</b>		
Issue of units - nil (2010: 11,923) units	-	1,200,000
Bonus - 1,712 (2010: 428) units	-	-
Redemption - nil (2010: nil) units	-	-
<b>Siza Foods (Pvt) Limited Contributory Provident Fund</b>		
Issue of units - nil (2010: 64,581) units	-	6,500,000
Bonus - 9,275 (2010: 2,320) units	-	-
Redemption - nil (2010: nil) units	-	-
<b>Century Insurance Company Limited</b>		
Issue of units - nil (2010: 974,521) units	-	100,000
Bonus - 67,126 (2010: nil) units	-	-
Redemption - nil (2010: 490,317) units	-	50,584,605
<b>Century Insurance Company Limited Employees Contributory Provident Fund</b>		
Issue of units - nil (2010: 14,903) units	-	1,500,000
Bonus - 2,140 (2010: 535) units	-	-
Redemption - nil (2010: nil) units	-	-
<b>Other transactions during the period</b>		
<b>Lakson Investments Limited - Management Company</b>		
Remuneration of the management company	<u>11,922,675</u>	<u>3,467,912</u>
<b>Central Depository Company of Pakistan Limited - Trustee of the Fund</b>		
Remuneration	<u>1,437,278</u>	<u>475,414</u>

**18. FINANCIAL RISK MANAGEMENT**

**Introduction and overview**

The Fund has exposure to following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

### *Risk management framework*

The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily set up based on limits established by the management company, Fund's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that Fund is willing to accept. The Board of Directors of the management company supervises the overall risk management approach within the Fund.

The Fund maintains positions in a variety of financial instruments in accordance with guidelines given by SECP and the constitutive documents of the Fund. The Fund primarily invests in Government Securities, Certificates of Investment, Certificates of Deposits, Term Deposit Receipts, Commercial Papers, reverse repo, Term Finance Certificates etc (subject to above guidelines, etc). Such investments are subject to varying degrees of risk.

The management of these risks is carried out by the Investment Committee (IC) under the policies and procedures approved by the Board. IC is constituted by the Board of Directors of the Management Company. IC is responsible to advise the investment strategy and manage the investment portfolio of the Fund in accordance with the limits prescribed and restrictions imposed in the Non-Banking Finance Companies and Notified Entities Regulations, 2008, Rules, and Constitutive Documents of the Fund in addition to the Fund's internal risk management policies.

### **18.1 Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. At the year-end it arises principally from debt securities held, bank balances, term deposit and profit / mark-up recoverable, etc.

#### *Management of credit risk*

The Fund's policy is to enter into financial contracts in accordance with the investment guidelines approved by the Investment Committee, its Trust Deed, the requirements of NBFC rules and regulations and guidelines given by SECP from time to time.

Credit risk is managed and controlled by the management company of the Fund in the following manner:

- Where the investment committee makes an investment decision, the credit rating and credit worthiness of the issuer is taken into account along with the financial background so as to minimise the risk of default.
- Analyzing credit ratings and obtaining adequate collaterals wherever appropriate / relevant.
- The risk of counterparty exposure due to failed trades causing a loss to the Fund is mitigated by a periodic review of the credit ratings and financial statements on a regular basis.
- Cash is held only with reputable banks with minimum long term credit rating of AA-

*Exposure to credit risk*

In summary, compared to the maximum amount included in Statement of Assets and Liabilities, the maximum exposure to credit risk at 30 June was as follows:

	Note	30 June 2011		30 June 2010	
		Statement of Assets and Liabilities	Maximum exposure	Statement of Assets and Liabilities	Maximum exposure
		----- (Rupees) -----		----- (Rupees) -----	
Bank balances	4	103,217,486	103,217,486	91,636,330	91,636,330
Investments	5	903,703,945	74,305,615	322,418,446	48,382,585
Placements	6	-	-	35,000,000	35,000,000
Mark-up receivable	7	2,695,431	2,695,431	3,432,441	3,432,441
Deposit		100,000	100,000	100,000	100,000
		<u>1,009,716,862</u>	<u>180,318,532</u>	<u>452,587,217</u>	<u>178,551,356</u>

Difference in the balances as per the Statement of Assets and Liabilities and maximum exposure in investments is due to the fact that investments of Rs. 829.40 million relates to investments in Government Securities which are not considered to carry credit risk.

*Past due / impaired assets*

None of the financial assets of the Fund are past due or impaired as at 30 June 2011.

*Credit ratings and Collaterals*

Credit risk arising on debt securities is mitigated by investing primarily in investment-grade rated instruments published by MUFAP (and as determined by Pakistan Credit Rating Agency or JCR-VIS). Further credit risk arising from bank balances is mitigated through deposit held with banks which are rated AA or above. The Fund is required to follow the guidelines / restrictions imposed in its offering document and the SECP in respect of the minimum ratings prior to any investment, etc.

Details of the credit ratings of investments in debt securities (other than treasury bills), placements and bank balances including term deposits as at 30 June 2011 are as follows:

Ratings	June 30, 2011		
	Debt securities (including profit due)	Bank balances (including profit due)	Placements (including profit due)
	% of balance	% of balance	% of balance
AAA	-	-	-
AA+	-	0.74%	-
AA	-	96.52%	-
AA-	80.02%	2.42%	-
A+	-	0.32%	-
<b>Total</b>	<b>19.98%</b>	<b>-</b>	<b>-</b>
	<u>100%</u>	<u>100%</u>	<u>-</u>

Ratings	June 30, 2010		
	Debt securities (including profit due) % of balance	Bank balances (including profit due) % of balance	Placements (including profit due) % of balance
AAA	-	0.016	-
AA+	29.79	0.011	43.33
AA	9.94	56.646	-
AA-	29.90	43.327	56.67
A+	30.37	-	-
Total	100%	100%	100%

Above rates are on the basis of available ratings assigned by PACRA and JCR-VIS (as of 30 June 2011). The investments in debt securities and the placements and bank balances are unsecured except for those mentioned in Note 5.2.3 and 5.2.4 of these financial statements.

#### *Concentration of credit risk*

Concentration of credit risk exists when changes in economic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Around 82.14% of the Fund's financial assets are in Government securities which are not exposed to the credit risk, while the remaining portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Details of Fund's concentration of credit risk of financial instruments by industrial distribution are as follows:

	30 June 2011		30 June 2010	
	(Rupees)	(%)	(Rupees)	(%)
Commercial banks	<b>154,853,926</b>	<b>85.878</b>	35,303,870	19.772
Fertilizers	<b>5,074,535</b>	<b>2.814</b>	123,404,901	69.115
Technology and communication	-	-	4,972,205	2.785
Financial services	<b>20,290,071</b>	<b>11.252</b>	14,770,380	8.272
Miscellaneous	<b>100,000</b>	<b>0.055</b>	100,000	0.056
	<b>180,318,532</b>	<b>100</b>	<b>178,551,356</b>	<b>100</b>

#### *Settlement risk*

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.



## 18.2 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by Securities and Exchange Commission of Pakistan (SECP).

### Management of liquidity risk

The Fund's policy is to manage this risk by investing majority of its assets in investments that are traded in an active market and can be readily disposed. The Fund invests primarily in marketable debt securities and other financial instruments, which under normal market conditions are readily convertible to cash. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirement.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of total assets at the time of borrowing with repayment within 90 days of such borrowings. No such borrowings were made during the period.

In order to manage the Fund's overall liquidity, the Fund also has the option to withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. However, during the period no such option was exercised or considered necessary.

### Maturity analysis for financial liabilities

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

<b>30 June 2011</b>	<b>Carrying amount</b>	<b>Less than 1 month</b>	<b>1 to 3 months</b>	<b>Total</b>
	----- <b>(Rupees)</b> -----			
<i>Non-derivative liabilities</i>				
Payable to Lakson Investments Limited - Management Company	1,255,485	1,255,485	-	1,255,485
Payable to Central Depository Company of Pakistan Limited - Trustee	141,015	141,015	-	141,015
Payable to Securities and Exchange Commission of Pakistan	596,133	-	596,133	596,133
Accrued expenses and other liabilities (excluding WWF)	194,966	194,966	-	194,966
	<u>2,187,599</u>	<u>1,591,466</u>	<u>596,133</u>	<u>2,187,599</u>

<u>30 June 2010</u>	Carrying amount	Less than 1 month	1 to 3 months	Total
	------(Rupees)-----			
<i>Non-derivative liabilities</i>				
Payable to Lakson Investments Limited - Management Company	2,376,591	548,267	1,828,324	2,376,591
Payable to Central Depository Company of Pakistan Limited - Trustee	73,101	73,101	-	73,101
Payable to Securities and Exchange Commission of Pakistan	173,396	-	173,396	173,396
Accrued expenses and other liabilities (excluding WWF)	<u>196,927</u>	<u>6,927</u>	<u>190,000</u>	<u>196,927</u>
	<u>2,820,015</u>	<u>628,295</u>	<u>2,191,720</u>	<u>2,820,015</u>

Above financial liabilities do not carry any mark-up.

### 18.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will effect the Fund's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

#### *Management of market risks*

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan. The maximum risk resulting from financial instruments equals their fair values.

The Fund is exposed to interest rate risk only.

#### 18.3.1 Interest rate risk

**18.3.1.1** Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Currently the Funds interest rate exposure arises on investment in Government securities, term deposit receipts with banks and profit and loss sharing bank balances. Currently all of the Fund's investment carry fixed interest rates, except for certain term deposit certificates. The Management Company monitors the interest rate environment on a regular basis and may change the mix of its portfolio to enhance the earning potential of the Fund subject to the above defined guidelines, etc. Other risk management procedures are the same as those mentioned in the credit risk management.

**18.3.1.2** At 30 June, details of the interest rate profile of the Fund's interest bearing financial assets were as follows:

	30 June 2011	30 June 2010
	(Rupees)	
<b>Fixed rate instruments</b>		
Investments in Government treasury bills	829,398,330	274,035,861
Placements	-	35,000,000
Bank balance	<u>103,217,486</u>	<u>91,636,330</u>
	<u>932,615,816</u>	<u>400,672,191</u>
<b>Variable rate instruments</b>	<u>74,305,615</u>	<u>48,382,585</u>
Investment in Term Finance Certificates		

None of the financial liabilities carry any interest rate.

**Fair value sensitivity analysis for fixed rate instruments**

Interest bearing Government securities are held by the Fund at fair value through profit and loss account (held for trading) exposes the Fund to the fair value risk. In case of 100 basis points increase / decrease in yield rates of the above Government Securities as on 30 June 2011, the net assets of the Fund would have been higher / lower by Rs.1.924 million with consequential effect on net income for the period.

Other balances are not carried at fair value through profit and loss. Therefore a change in interest rate at the reporting date would not effect the income statement and unit holder's fund.

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the period end, unit holder fund would have increased / (decreased) by Rs. 0.101 million. The analysis assumes that all other variables remain constant.

**18.3.1.3** A summary of the Fund's interest rate gap position, categorised by the earlier of contractual re-pricing or maturity date is as follows:

	mark-up/ profit (%)	Less than one month	One to three months	More than three months and upto an exceed one year	More than one year and upto five year	Total
	(Rupees)					
<b>30 June 2011</b>						
<b>Assets</b>						
Bank balances	5 to 11.50	103,217,486	-	-	-	103,217,486
Investments	13.49 to 16.17	1,393,405	472,524,484	409,258,442	20,000,000	903,176,331
Placements	-	-	-	-	-	-
<b>Total assets</b>		<u>104,610,891</u>	<u>472,524,484</u>	<u>409,258,442</u>	<u>20,000,000</u>	<u>1,006,393,817</u>
<b>30 June 2010</b>						
<b>Assets</b>						
Bank balances	5 to 12.40	1,636,330	90,000,000	-	-	91,636,330
Investments	11.87 to 14.75	79,754,059	136,701,093	105,963,276	-	322,418,428
Placements	12.25 to 12.5	-	35,000,000	-	-	35,000,000
<b>Total assets</b>		<u>81,390,389</u>	<u>261,701,093</u>	<u>105,963,276</u>	<u>-</u>	<u>449,054,758</u>

None of the Fund's liability is subject to interest rate risk.

### Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's operations either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all of the Fund's activities.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the board of directors. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

### 18.4 Unit Holders' Fund risk management

Management's objective when managing unit holders' funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders' and to ensure reasonable safety of unit holders' funds.

The Fund manages its investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in markets' conditions. The capital structure depends on the issuance and redemption of units and the Fund is not subject to any externally imposed minimum Fund maintenance requirement except for Rs.250 million which shall remain invested in the fund for atleast two years from the date of its establishment.

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund's accounting policy on fair value measurements of the investments is discussed in note 3.1 to these financial statements.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

<b>30 June 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	----- <b>(Rupees)</b> -----			
<i>Financial assets at fair value through profit and loss (held for trading)</i>				
Government Securities	-	<b>829,398,330</b>	-	<b>829,398,330</b>
Debt securities	-	<b>29,231,080</b>	<b>45,074,535</b>	<b>74,305,615</b>
	-	<b>858,629,410</b>	<b>45,074,535</b>	<b>903,703,945</b>

**30 June 2010**

*Financial assets at fair value through profit and loss (held for trading)*

Government Securities	274,035,861	274,035,861
Debt securities	33,612,205	48,382,585
	-	14,770,380
	<b>307,648,066</b>	<b>322,418,446</b>

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>(Rupees)</b>	
Opening balance	<b>14,770,380</b>	-
Amortisation of discount	<b>2,555</b>	381,890
Unrealised appreciation in the fair value of investment	<b>101,775</b>	(36,510)
Transferred from level 2	<b>4,972,205</b>	-
Purchase during the period (at cost)	<b>40,000,000</b>	19,425,000
Matured / redemption during the year	<b>(14,772,380)</b>	(5,000,000)
Ending balance	<b>45,074,535</b>	<b>14,770,380</b>

\*During the year, term finance certificate of Engro Fertilizer Limited has been transferred to level 3

**20. DISTRIBUTIONS BY THE FUND**

**20.1 Non-adjusting event after the balance sheet date**

The Board of Directors of the management company have approved a final distribution of Rs.0.9979 per unit for the period ended 30 June 2011, amounting to Rs. 9.93 million in their meeting (Rs. 8.95 million of Bonus distribution and Rs.0.98 million of cash distribution) in their meeting held on 04 July 2011. These financial statements do not include the effect of the above final distribution of Rs. 9.93 million that will be accounted for subsequent to the year end.

**21. SUPPLEMENTARY NON FINANCIAL INFORMATION**

The information regarding unit holding pattern, top brokers, members of the Investment Committee, Fund manager, meetings of the Board of Directors of the management company and rating of the Fund and the management company are as follows:

**21.1 Unit holding pattern of the Fund**

<u>30 June 2011</u>	No. of Investors	Investment amount (Rupees)	% of total net assets
<b>Category</b>			
Individuals	3	131,634	0.01
Associated Companies and Directors	14	869,207,803	86.39
Banks and DFIs	1	99,390,099	9.88
NBFCs	1	37,469,868	3.72
	<b>19</b>	<b>1,006,199,404</b>	<b>100.00</b>

30 June 2010

Individuals	7	277,893	0.06
Associated Companies and Directors	12	389,917,291	86.46
Banks and DFIs	2	60,807,729	13.48
NBFCs	-	-	-
	<b>21</b>	<b>451,002,913</b>	<b>100.00</b>

**21.2 List of brokers by percentage of commission paid**

<b>Name of broker</b>	<b>Commission paid (Percentage %)</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
- BMA Capital Management Limited	7.45	6.38
- Elixir Securities Pakistan Limited	1.77	0.83
- Invest Capital Investment Bank Limited	8.62	7.79
- Invisor Securities (Pvt.) Limited	28.29	33.47
- JS Global Capital Limited	32.41	50.71
- KASB Securities Limited	16.15	0.83
- IGI Finex Securities (Private) Limited	1.77	-
- Alfalah Securities (Private) Limited	1.77	-
- Vector Capital (Private) Limited	1.77	-
	<b>100.00</b>	<b>100.00</b>

**21.3 Particulars of the Investment Committee and Fund manager**

Following are the members of the investment committee of the Fund:

- Mr. Iqbal Ali Lakhani
- Mr. Babar Ali Lakhani
- Mr. A. Aziz H. Ebrahim
- Mr. Amir Mobin
- Mr. Muhammad Umair Chauhan (Fund Manager)
- Ms. Hifza Zia (Head of Research)
- Syed Imran Raza Kazmi
- Mr. Muhammad Qasim

**Mr. Iqbal Ali Lakhani - Chairman of the Board**

Mr. Iqbal Ali Lakhani is the Chairman of the Lakson Group of Companies, five of which are listed on the Stock Exchanges of Pakistan covering a diversified range of businesses such as paper & board, soap, detergents and toothpaste, printing & packaging, food and insurance. Three Funds of a Group Investment Company are also listed and traded. American franchises / affiliation includes Colgate-Palmolive Company & McDonalds Corporation. The spectrum of unlisted Companies includes textiles, surgical, media (T.V. & Print), software development & consultancy, travel & tourism, investment & mutual funds, ISP-broad band & data centre, business process outsourcing house into call centre & I.T. The businesses of the Lakson Group provide gainful employment to over 12,000 persons.

Mr. Lakhani attained his Bachelor of Business Administration from the University of California at Berkeley, U.S.A. with Majors in Marketing and Finance. While at UC Berkeley he received many awards such as Beta Alpha PSI - The National Accounting Fraternity, Honour Students' Society – High Scholastic Attainment, Departmental Citation Award – Outstanding Undergraduates Accomplishment, Phi Beta Kappa – High Attainment in Liberal Scholarship etc.

Mr. Lakhani has over 38 years experience of Senior Management in consumer marketing, finance, manufacturing, industry and government relations. Areas of special interest cover marketing, total quality management and leadership. He is a Charter Member of The Indus Entrepreneurs and Director of Pakistan Business Council. In addition, he is also on the Board of Trustees of the Layton Rahmatullah Benevolent Trust. Previously he has served as the Chairman Cigarette Manufacturers Association of Pakistan, Chairman Aga Khan Economic Planning Board for Pakistan and Vice President American Business Council of Pakistan.

Mr. Lakhani has travelled widely and has attended international seminars, meetings and conferences in several countries of the world.

**Mr. Babar Ali Lakhani - Chief Executive**

Mr. Lakhani has over 12 years of investment and portfolio management experience in domestic and international equity and fixed income markets. Mr. Lakhani most recently served as the Chief Investment Officer of Century Insurance, a Public Limited Company listed on the Karachi and Lahore Stock Exchanges of Pakistan. He was an Investment Associate at High Street Advisors and a Research Analyst at Credit Suisse Equity Group (formerly Credit Suisse First Boston). Mr. Lakhani brings extensive

investment experience, globally practiced portfolio management discipline, and a comprehensive understanding of the global asset management industry to Lakson Investments Limited.

Mr. Lakhani received his BA in Finance from Bentley College, and his MBA from Brandeis University.

Mr. Lakhani is the Chairman of Tritex Cotton Mills Ltd., a board member of the Mutual Fund Association of Pakistan (MUFAP), a member of the Global Association of Risk Professionals (GARP), the Society of Financial Service Professionals and the Young President's Organization (YPO). Mr. Lakhani is a member of the Alumni Trustee Committee of Brandeis University and is the school's representative in Pakistan.

#### **Mr. A. Aziz H. Ebrahim**

Mr. Ebrahim has over 44 years of varied experience in financial management in Private Industries in Pakistan. After qualifying Chartered Accountancy Examination, (at present fellow member of Institute of Chartered Accountant of Pakistan) Mr. Ebrahim started his career in 1967 as Finance Manager with ARAG Industries dealing in various businesses such as Pharmaceuticals, Cosmetics, and Biscuits Manufacturing etc. He left the ARAG Group in 1977, as a Financial Advisor.

In 1977, Mr. Ebrahim joined Lakson Group of Companies. Mr. Ebrahim is as Director on Board in many Companies of the Group. He has been instrumental in running the Hasanali Karabhai Foundation providing educational, medical, and helping other social activities, besides handling the finances of five other Group Companies.

#### **Mr. Amir Mobin - Chief Financial Officer and Company secretary**

Mr. Amir has over 3 years of post qualification experience which includes working at IGI funds Limited as Head of Operations and National Clearing of Pakistan Limited as Manager-Operations. At IGI Mr. Amir has been actively involved in acquisition of the software application, preparation of manuals and operations related procedures. He has actively participated in the rating process of the company and was responsible for managing the settlement and Unit holder management functions. At NCCPL Amir has been an active member of the team responsible for the implementation of the Financial Institution Risk Management System. He has actively participated in the implementation of the CFS Mk-II. Further, he has worked on the concept paper of the Security Lending and Borrowing Module.

He has worked with KPMG Taseer Hadi & CO. Chartered Accountants in various capacities for 5 years which includes 4 years of article ship. During his article ship he has conducted the audits of various asset management companies, brokerage houses, commercial banks and service sector entities. He has also performed due diligence assignments.

Mr. Mobin is an Associate Member of the Institute of Chartered Accountants of Pakistan and graduated as Bachelors of Commerce from University of Karachi.



**Mr. Muhammad Umair Chauhan - Chief Investment Officer and Fund Manager**

Mr. Muhammad Umair Chauhan has over six years of experience in the asset management industry of Pakistan. He has previously served as Vice President Investments & Research at IGI Funds Limited and was part of Investment & Research Team at Al Meezan Investment Management. In his previous assignments he managed PKR 12 billion in both equity and fixed income funds.

Mr. Umair received his MBA from the Institute of Business Administration, Karachi.

Mr. Umair is also looking after Lakson Income Fund and Lakson Equity Funds.

**Ms. Hifza Zia - Head of Research**

Ms. Hifza Zia joined Lakson Investments Limited in February 2011 as Senior Equity Research Analyst and was later on promoted to Head of Research. She is currently covering Economy and Financial sector besides Telecom and Textiles. She has been associated with the equity research for more than six years. Prior to joining Lakson, she worked for Elixir Securities Pakistan, Atlas Capital Market and First National Equities where she covered Banking, Telecom, Fertilizer and Auto sectors.

Hifza holds an MBA degree (Finance majors) from Institute of Business Administration, Karachi. Currently, she is also CFA Level I candidate for December 2011.

**Syed Imran Raza Kazmi - Assistant Fund Manager**

Mr. Imran Kazmi has over 6 years of Experience in Fixed Income Market. He was previously affiliated with Alfalah GHP Investment Management Limited as Assistant Manager – Fixed Income he managed Income fund & Cash fund with the fund size of PKR 4.5 billion. He has also worked with IGI Finex Securities Ltd (Formerly; Finex Securities Ltd.) for 2.5 years as Money Market Dealer.

During his entire career, He attended different Seminars and workshop organized by FMA to enhance the market knowledge and to improve market skills. He is the Member of Financial Market Association of Pakistan.

Mr. Kazmi holds a MBA in Finance from PAF-Karachi Institute of Economics & Technology, Karachi.

**Mr. Muhammad Qasim - Officer Risk Management and Compliance**

Mr. Muhammad Qasim has four years of experience in the asset management industry. Before joining Lakson Investments Limited in 2010 he was previously served as Senior Executive Funds Accounting and Operations at Arif Habib Investments Limited.

Mr. Qasim is an Associated Member of Institute of Cost and Management Accountants of Pakistan.

**21.4 Directors meeting attendance**

Information in respect of attendance by Directors in the meeting is given below:

Name of directors	Meeting Attended	30 June 2011				
		06 Jul 10	28 Jul 10	28 Oct 10	21 Feb 11	21 Apr 11
Mr. Iqbal Ali Lakhani	3	✓	X	✓	X	✓
Mr. Babar Ali Lakhani	5	✓	✓	✓	✓	✓
Mr. A. Aziz H. Ebrahim	4	✓	✓	✓	✓	X
Mr. Mahomed J. Jaffer	3	X	X	✓	X	✓
Mr. Sher Afgan Malik	2	X	X	✓	X	✓
Mr. M. A. Qadir	3	✓	✓	✓	X	X
Mr. Daniel Scott Smaller	2	X	✓	X	✓	X
Mr. Zahid Zakiuddin	4	X	✓	✓	✓	✓
		4	5	7	5	5

**21.5 Rating of the Fund and the management company**

PACRA Rating	Management Quality Rating	Stability Rating
Lakson Investments Limited (Management Company)	AM3 +	N/A
Lakson Income Fund	N/A	AA-(f)

**22. GENERAL**

These financial statements were authorized for issue by Board of Directors of the Management Company on 22 July 2011.

**For Lakson Investments Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Director



A Lakson Group Company

**Lakson Investments Limited**  
Lakson Square Building No.2,  
Sarwar Shaheed Road  
Karachi- 74200, Pakistan

UAN +92.21 111-LAKSON  
T +92.21 3569.8000  
F +92.21 3568.1653  
E [info@li.com.pk](mailto:info@li.com.pk)  
[www.li.com.pk](http://www.li.com.pk)