

# LAKSON INCOME FUND

Quarterly Report (30 September 2011)



**LAKSON INVESTMENTS**

WE MANAGE YOUR MONEY, AS WE MANAGE OUR OWN

## **CONTENTS**

Fund's Information	1
Review Report of the Directors of the Management Company	3
Condensed Interim Statement of Assets and Liabilities	6
Condensed Interim Income Statement	7
Condensed Interim Statement of Comprehensive Income	8
Condensed Interim Distribution Statement	9
Condensed Interim Statement of Movement in Unit Holders' Fund	10
Condensed Interim Cash Flow Statement	11
Notes to the Condensed Interim Financial Information	12

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## 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

## **REVIEW REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE QUARTER ENDED SEPTEMBER 30, 2011**

The Board of Directors of Lakson Investments Limited, the Management Company of the Lakson Income Fund ("LIF") is pleased to submit its review report together with Condensed Interim Financial Statements for the quarter ended September 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.

### **Fund performance**

During the 1QFY12 the assets under management of the Lakson Income Fund ("LIF") increased by 1.1% from PKR 1.00 billion to PKR 1.02 billion. The LIF yielded an annualized return of 12.56% in the 1QFY12 compared to the Benchmark (average return of all income funds) return of 9.26% p.a. The LIF outperformed the average income fund by 330bps. As of September 30, 2011, the LIF portfolio is invested 77% in T-Bills, 10% in short term sukuks, 7% in TFCs, and 5% in TDRs while the weighted average maturity of the LIF portfolio stands at 265 days. The Standard Deviation, a measure of the volatility of the fund's performance, of monthly returns of the LIF since inception is just 1.10% compared to 5.83% for the Benchmark.

### **Income Distribution**

The Chief Executive Officer of the management company under the authority of the Board of Directors has announced interim distributions of PKR 2.7632 per unit (2.7632% of face value of PKR 100/-) during the quarter ended September ended 30, 2011 amounting to PKR 27.59 million (PKR 24.87 million of Bonus distribution and PKR 2.72 million of cash distribution).

### **Earning per Unit (EPU)**

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

### **Economic Review**

Pakistan continues to face tough economic challenges in FY12 due to a rising fiscal deficit, declining foreign inflows, acute energy shortages and a poor law and order situation. Torrential monsoon rains in Sind triggered floods that damaged 4.2 million acres of land and affected those areas that were still recovering from last year's devastating floods. The floods have serious repercussions for the economy in the form of high inflation, low growth, lower agricultural production and higher fiscal deficit.

The State Bank of Pakistan ("SBP") started the monetary easing cycle during the 1QFY12 on the expectation that the inflation will settle around 12.0% in FY12, which is the target set by the Government for FY12. The SBP cut the discount rate by 50bps in July '11 in its first monetary policy of FY12. The Federal Bureau of Statistics ("FBS") changed the base year for the calculation of price indices from FY01 to FY08. The FBS also altered the weights of different groups in the Consumer Price Index ("CPI"). These changes by the FBS in calculation of price indices caused a steep decline in inflation numbers. The CPI increased by 11.5% YoY on average during the 1QFY12 compared to 13.4% YoY during the 1QFY11. This steep decline in the CPI provided room for the SBP to go for an aggressive monetary easing. The SBP cut the discount rate by 150bps in October '11 bringing it down to 12.0% from 14.0% at the start of FY12. The SBP also draws comfort from the fact that the Government borrowing from the SBP stands below June '11 level as it contracted by PKR 78.9 billion during the 1QFY12. The Government is expected to be the largest beneficiary of this monetary easing as Government is the largest borrower from the banking system.

The external account also came under pressure in the 1QFY12 after a good performance in FY11 as the Balance of Payments posted a deficit of USD 759 million in the 1QFY12 compared to a surplus of USD 88 million in the 1QFY11. The external account has deteriorated on the back of higher current account deficit and a decline in financial account flows. The current account posted a deficit of USD 1,209 million in the 1QFY12 compared to a deficit of USD 597 million during the 1QFY11. A 27.6% decline in international cotton prices compared to a nominal decline of 3.8% in international oil prices (Arab Light) during the 1QFY12 resulted in a 34.9% increase in the trade deficit. The hefty inflow of remittances continued in the 1QFY12 and provided much needed support to the deteriorating external account position. The remittances stood at USD 3.3 billion during the 1QFY12 compared to USD 2.6 billion in the 1QFY11, depicting a growth of 24.6% YoY. The financial account continued to show a dismal performance due to declining Foreign Direct Investment and the foreign outflows from the domestic stock market.

The USD 11.3 billion Stand-By Arrangement ("SBA") from the International Monetary Fund ("IMF") expired in September '11 without completion. In November '08, the IMF approved a USD 7.6 billion SBA for Pakistan which was later on extended to USD 11.3 billion on Pakistan's request. The SBA was stalled last year by the IMF after the disbursement of USD 8 billion as the Government failed to meet its commitments related to fiscal deficit and taxation reforms. Pakistan's forex reserves stood at USD 17.3 billion at the end of the 1QFY12 after peaking to USD 18.3 billion in July '11. The PKR remained fairly stable against the US Dollar in FY11 and depreciated by 0.53% only due to better external account position. A weak external account position has already caused a decline of USD 1.0 billion in reserves while the Government has to pay approximately USD 2.7 billion in FY12 as the principal repayment on outstanding foreign debt. After witnessing relative stability during FY11, Pak Rupee depreciated by 1.7% against US Dollar during the 1QFY12.

The Ministry of Finance ("MoF") released the fiscal operations details of the economy for FY11 and reported a fiscal deficit of PKR 1,194 billion (6.6% of the GDP) compared to a fiscal deficit of PKR 929 billion (6.3% of the GDP) in FY10. The fiscal deficit in FY11 stood well above the revised target of 5.3% of the GDP. The government imposed additional taxes through Presidential Ordinance in March '11 to improve the Tax to GDP ratio and to contain fiscal deficit, however, both the targets were missed. The Tax to GDP ratio declined to 9.6% in FY11 from 10.0% in FY10 as the FBR failed to achieve its tax collection target. In the absence of foreign inflows, the Government had to rely on domestic resources especially commercial banks to finance its fiscal deficit.

### **Fixed Income Market Review**

The money market witnessed a tight liquidity situation during the 1QFY12 as the overnight repo rates averaged 13.2% that is considerably higher than the midpoint (12.17%) of the interest rate corridor. In the 1QFY12 money supply contracted by 0.7% compared to a growth of 0.8% in the 1QFY11. A decline in the bank deposits and the Net Foreign Assets ("NFA") resulted in a contraction of money supply. In order to provide liquidity to the market, the SBP conducted Open Market Operations ("OMO") on regular intervals and injected PKR 314 billion on a net basis to ease off the tight liquidity situation in the market. A decline in bank deposits, contraction in private sector credit, and retirement of borrowing by the Government to the SBP contributed towards tight liquidity situation in the market. The SBP conducted six T-bill auctions on behalf of the MoF during the 1QFY12 and raised PKR 939

billion (face value) against the target of PKR 750 billion and a maturity of PKR 702 billion. Despite tight liquidity situation, healthy participation of PKR 1,292 billion was witnessed in the T-Bill auctions out of which 60% participation was seen in 12-month T-Bills in anticipation of monetary easing by the SBP. The cut-off yields on 3, 6 and 12 month T-Bills declined by 42, 50 and 60 bps respectively during the 1QFY12 while the market yields declined by 36, 65 and 88bps respectively. A higher decline was witnessed in the yields on PIBs that declined on average by 91bps. The SBP conducted two PIB auctions during the 1QFY12 and raised PKR 71 billion against a target of PKR 50 billion. A 50bps decline in the discount rate and an anticipation of further rate cut by the SBP caused a decline in yields of all fixed income instruments. The 6-month KIBOR (benchmark lending rate) also declined by 53bps during the 1QFY12 on the back of monetary easing by the SBP. A decline in KIBOR bodes well for the private sector as their borrowing cost is linked with 6-month KIBOR. Activity in the bonds market improved to some extent as the investors focused on long term investments in the wake of monetary easing by the SBP. The commercial banks did not offer good rates on term deposits during the 1QFY12 despite a decline in the banking sector deposits and the rates on term deposits remained well below the T-Bill yields.

### **Future Outlook**

The SBP started the monetary easing cycle to provide stimulus to the economic growth and to encourage private sector expansion. The key risks faced by the economy in achieving these goals include acute energy shortage, poor law and order situation, economic meltdown in Pakistan's export destinations and long pending circular debt issue that has crippled the productivity of the entire energy chain. In the absence of foreign inflows, external account is expected to come under pressure once the debt repayment starts in 2012. It is possible that the budgetary targets related to revenue collection, fiscal deficit, and GDP growth maybe missed in FY12.

### **Acknowledgement**

The Board is thankful to its valued investors, the Securities and 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 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: October 27, 2011**

**Babar Ali Lakhani**  
**Chief Executive Officer**

**Condensed Interim Statement of Assets and Liabilities  
As at 30 September 2011**

		30 September 2011 (Unaudited)	30 June 2011 (Audited)
	<i>Note</i>	(Rupees)	
<b>Assets</b>			
Bank balances	6	63,615,563	103,217,486
Investments	7	954,809,715	903,703,945
Mark-up receivable		3,946,095	2,695,431
Deposit and prepayment		263,780	100,000
Deferred formation cost		1,141,327	1,233,242
<b>Total assets</b>		<u>1,023,776,480</u>	<u>1,010,950,104</u>
<b>Liabilities</b>			
Payable to the Management Company		1,447,496	1,255,485
Remuneration payable to the Trustee		140,384	141,015
Annual fee payable to Securities and Exchange Commission of Pakistan		190,405	596,133
Dividend payable		930,525	-
Accrued expenses and other liabilities	8	3,423,576	2,757,696
<b>Total liabilities</b>		<u>6,132,386</u>	<u>4,750,329</u>
<b>Net assets</b>		<u>1,017,644,094</u>	<u>1,006,199,775</u>
<b>Unit holders' funds</b> (as per the statement attached)		<u>1,017,644,094</u>	<u>1,006,199,775</u>
		(Number)	
<b>Number of units in issue</b>	13	<u>10,135,733</u>	<u>9,946,564</u>
		(Rupees)	
<b>Net assets value per unit</b>		<u>100.4016</u>	<u>101.1605</u>

The annexed notes from 1 to 12 form an integral part of these condensed interim financial statements.

For Lakson Investments Limited  
(Management Company)

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

\_\_\_\_\_  
Director

**Condensed Interim Income Statement (Unaudited)  
For the quarter ended 30 September 2011**

	30 September	
	2011	2010
	(Rupees)	
<b>Income</b>		
Mark-up income	34,125,534	15,740,181
Gain on sale of 'held for trading' investments - net	102,077	1,861
Unrealised appreciation / (diminution) in the fair value of investments - 'held for trading' - net	1,815,047	(330,414)
Element of income / (loss) and capital gains / (loss) in prices of units sold less those in units redeemed - net	<u>(72,653)</u>	<u>1,899,415</u>
	<b>35,970,005</b>	<b>17,311,043</b>
<b>Expenses</b>		
Remuneration to the Management Company	4,417,397	1,901,367
Remuneration to the Trustee	429,445	253,516
Annual fee to the Securities and Exchange Commission of Pakistan	190,405	95,068
Auditors' remuneration	50,273	66,596
Fees and subscription	60,328	57,975
Printing charges	15,082	25,205
Brokerage expenses	6,919	9,565
Amortization of deferred formation cost	91,915	92,167
Workers' Welfare Fund	613,046	296,147
Bank and settlement charges	55,931	2,214
	<b>5,930,741</b>	<b>2,799,820</b>
<b>Net income for the period</b>	<u><b>30,039,264</b></u>	<u><b>14,511,223</b></u>

The annexed notes from 1 to 12 form an integral part of these condensed interim financial information.

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

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

\_\_\_\_\_  
Director

**Condensed Interim Statement of Comprehensive Income (Unaudited)  
For the quarter ended 30 September 2011**

	30 September	
	2011	2010
	(Rupees)	
Net income for the period	30,039,264	14,511,223
Other comprehensive income	-	-
Total comprehensive income for the period	<u>30,039,264</u>	<u>14,511,223</u>

The annexed notes from 1 to 12 form an integral part of these condensed interim financial information.

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

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

\_\_\_\_\_  
Director

**Condensed Interim Distribution Statement (Unaudited)  
For the quarter ended 30 September 2011**

		30 September	
	Note	2011	2010
		(Rupees)	
Undistributed income at beginning of the period - relased		11,292,694	13,067,161
Accumulated gain at beginning of the period - unrelased		250,666	1,367,074
<b>Undistributed income at beginning of the period</b>		<u>11,543,360</u>	<u>14,434,235</u>
Final distribution at the rate of Rs 0.9979 (2010: Rs 2.9932) per unit approved on 4 July 2011 (2010: 6 July 2010)			
- Cash distribution		(980,437)	(729,825)
- Issue of bonus units		(8,945,241)	(12,337,549)
		<u>(9,925,678)</u>	<u>(13,067,374)</u>
Total comprehensive income		<u>30,039,264</u>	14,511,223
Interim distributions during the period	9		
- Cash distribution		(2,714,842)	-
- Issue of bonus units		(24,871,268)	-
		<u>2,453,154</u>	14,511,223
		<u>4,070,836</u>	<u>15,878,084</u>
Undistributed income at the end of the period - realised		2,255,789	16,208,498
Undistributed income / (accumulated loss) at the end of the period - unrealised		1,815,047	(330,414)
<b>Undistributed income at the end of the period</b>		<u>4,070,836</u>	<u>15,878,084</u>

The annexed notes from 1 to 12 form an integral part of these condensed interim financial information.

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

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

\_\_\_\_\_  
Director

**Condensed Interim Statement of Movement in Unit Holders' Fund (Unaudited)  
For the quarter ended 30 September 2011**

	Note	30 September	
		2011	2010
		(Rupees)	
<b>Net assets at the beginning of the period</b>		<b>1,006,199,775</b>	451,002,913
Cash received on issue of 2,088 (2010: 1,447,900) units		<b>209,621</b>	147,043,000
Cash paid on redemption of 150,323 (2010: 355,858) units		<b>(15,181,940)</b>	(35,977,785)
		<b>(14,972,319)</b>	111,065,215
Element of income / (loss) and capital gains / (loss) in prices of units sold less those in units redeemed - net		<b>72,653</b>	(1,899,415)
Final distribution at the rate of Rs 0.9979 (2010: Rs 2.9932) per unit approved on 4 July 2011 (2010: 6 July 2010)		<b>(980,437)</b>	(729,825)
- Cash distribution		<b>(8,945,241)</b>	(12,337,549)
- Issue of bonus units		<b>(9,925,678)</b>	(13,067,374)
Issue of 89,307 (2010: 122,991) bonus units as final distribution		<b>8,945,241</b>	12,337,549
Total comprehensive income		<b>30,039,264</b>	14,511,223
Interim distributions during the period	9		
- Cash distribution		<b>(2,714,842)</b>	-
- Issue of bonus units		<b>(24,871,268)</b>	-
Net income for the period less distribution		<b>2,453,154</b>	14,511,223
Issue of 248,096 (2010: nil) bonus units as interim distribution		<b>24,871,268</b>	-
<b>Net assets as at end of the period</b>		<b><u>1,017,644,094</u></b>	<u>573,950,111</u>
Net assets value per unit at the beginning of the period		<b><u>101.1605</u></b>	<u>103.3062</u>
Net assets value per unit at end of the period		<b><u>100.4016</u></b>	<u>102.8451</u>

The annexed notes from 1 to 12 form an integral part of these condensed interim financial information.

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

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

\_\_\_\_\_  
Director

**Condensed Interim Cash Flow Statement (Unaudited)  
For the quarter ended 30 September 2011**

	<b>30 September</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Rupees)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income for the period	<b>30,039,264</b>	14,511,223
<b>Adjustments for non-cash and others items:</b>		
Amortisation of formation cost	<b>91,915</b>	92,167
Unrealised appreciation / (diminution) in the fair value of investments - 'held for trading' - net	<b>(1,815,047)</b>	330,414
Element of income / (loss) and capital gains / (loss) in prices of units sold less those in units redeemed - net	<b>72,653</b>	(1,899,415)
	<b>28,388,785</b>	13,034,389
<b>(Increase) / decrease in assets</b>		
Investments	<b>(49,290,723)</b>	(30,596)
Placement	-	35,000,000
Receivable against reverse repurchase transaction	-	(50,000,000)
Mark-up receivable	<b>(1,250,664)</b>	1,128,623
Deposit and prepayment	<b>(163,780)</b>	27,762
	<b>(50,705,167)</b>	(13,874,211)
<b>(Decrease) / Increase in liabilities</b>		
Payable to the Management Company	<b>192,011</b>	(1,692,151)
Remuneration payable to the Trustee	<b>(631)</b>	18,158
Annual fee payable to Securities and Exchange Commission of Pakistan	<b>(405,728)</b>	(78,328)
Accrued expenses and other liabilities	<b>665,880</b>	210,508
	<b>451,532</b>	(1,541,813)
<b>Net cash used in operating activities</b>	<b>(21,864,850)</b>	(2,381,635)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Received on issuance of units	<b>209,621</b>	147,043,000
Paid against redemption of units	<b>(15,181,940)</b>	(35,977,785)
Cash dividend paid	<b>(2,764,754)</b>	(729,825)
Net cash from financing activities	<b>(17,737,073)</b>	110,335,390
<b>Net increase in cash and cash equivalents during the period</b>	<b>(39,601,923)</b>	107,953,755
Cash and cash equivalents at beginning of the period	<b>103,217,486</b>	91,636,330
<b>Cash and cash equivalents at end of the period</b>	<b>63,615,563</b>	199,590,085

The annexed notes from 1 to 12 form an integral part of these condensed interim financial information.

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

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

\_\_\_\_\_  
Director

## **Notes to the Condensed Interim Financial Information (Unaudited) For the quarter ended 30 September 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). Its registered office of the Management Company is located at 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**

This condensed interim financial information has been presented in condensed form in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. They do not include all the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Fund as at and for the year ended 30 June 2011.

This condensed interim financial information comprise of condensed interim statement of assets and liabilities as at 30 September 2011 and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim distribution statement, condensed interim statement of movement in unit holder's fund, and notes thereto, for the quarter ended 30 September 2011.

This unaudited condensed interim financial information is being submitted to the unit holders as required under Regulation 38 (g) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations).

#### **2.2 Functional and presentation currency**

This condensed interim financial information is presented in Pak Rupees which is the functional and presentation currency of the Fund. Figures have been rounded off to the nearest rupees.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of this condensed interim financial information are the same as those applied in the preparation of the published financial statements as at and for the period ended 30 June 2011.

**4. ACCOUNTING ESTIMATES**

The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that were applied to financial statements as at and for the period ended 30 June 2011.

**5. FINANCIAL RISK MANAGEMENT**

The Fund financial risk management objectives and policies are consistent with those disclosed in the annual audited financial statements for the period ended 30 June 2011.

		<b>30 September 2011</b>	30 June 2011
<b>6. BANK BALANCES - local currency</b>		<b>(Rupees)</b>	
In profit and loss sharing accounts	6.1	<b>13,615,563</b>	3,217,486
In term deposits	6.2	<b>50,000,000</b>	100,000,000
		<u><b>63,615,563</b></u>	<u>103,217,486</u>

**6.1** These account carry profit rates ranging between 5% to 11% (30 June 2011: 5% to 11.50%) per annum.

**6.2** This Term Deposit carry profit at the rate of 13.55% (30 June 2011: 13.90%) per annum and will mature on 15 December 2011.

**7. INVESTMENTS**

**Held For Trading**

Government securities	7.1	<b>779,452,957</b>	829,398,330
Term Finance Certificate - Listed	7.2	<b>54,859,438</b>	54,305,615
Term Finance Certificate - Unlisted	7.3	<b>20,497,320</b>	20,000,000

**Available for sale**

Short term Sukuk Certificates	7.5	<b>100,000,000</b>	-
		<u><b>954,809,715</b></u>	<u>903,703,945</u>

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

Government Securities	Note	Number of holdings at beginning of the period	Acquired during the period	Disposed / matured during the period	Number of holdings at end of the period	Carrying Value as at 30 September 2011	Market value as at 30 September 2011	Unrealized appreciation / (diminution)	Net assets of the Fund	Total investments
										Percentage (%)
- Treasury Bills - 3 months (face value of Rs. 100,000 each)	7.1.1	2,914	670	3,584	-	-	-	-	-	-
- Treasury Bills - 6 months (face value of Rs. 100,000 each)	7.1.2	5,650	3,170	3,150	5,670	551,917,377	552,130,537	213,160	54.26	57.83
- Treasury Bills - 12 months (face value of Rs. 100,000 each)	-	-	2,550	-	2,550	226,687,261	227,322,420	635,059	22.34	23.81
					<b>Total</b>	<u><b>778,604,738</b></u>	<u><b>779,452,957</b></u>	<u><b>848,219</b></u>	<u><b>76.59</b></u>	<u><b>81.63</b></u>
Total as at 30 June 2011						<u>829,521,891</u>	<u>829,398,330</u>	<u>(123,561)</u>	<u>85.81</u>	<u>91.78</u>

**7.1.1** These represent 6 months Treasury bills of Government carrying a fixed mark-up rate ranging from 13.2100% to 13.7375% (30 June 2011: 13.5800% to 13.7128%) and maturing between 06 October 2011 and 09 February 2012. The face value of Treasury bills held as at 30 June 2011 amounted to Rs.567 million.

**7.1.2** These represent 12 months Treasury bills of Government carrying a fixed mark-up rate ranging from 13.2867% to 13.3639% (30 June 2011: nil) and maturing between 06 September 2012 and 20 September 2012. The face value of Treasury bills held as at 30 June 2011 amounted to Rs.255 million.

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

Name of Security		Number of holdings at beginning of the period	Acquired during the period	Matured / disposed during the period	Number of holdings at end of the period	Carrying value as at 30 September 2011	Market value as at 30 September 2011	Unrealized appreciation / (diminution)	Net assets of the Fund	Total investments
	Note						(Rupees)		Percentage (%)	
<b>Commercial Banks</b>										
United Bank Limited (face value of Rs.5,000 each)	7.2.1	3,000	-	-	3,000	14,819,141	14,913,976	94,835	1.47	1.56
NIB Bank Limited (face value of Rs.5,000 each)	7.2.2	3,000	-	-	3,000	14,496,095	14,423,968	(72,127)	1.42	1.51
<b>Fertilizer</b>										
Engro Fertilizer Limited (face value of Rs.5,000 each)	7.2.3	1,000	-	-	1,000	5,074,694	5074534	(160)	0.50	0.53
<b>Financial Services</b>										
Orix Leasing Pakistan Limited - III privately placed (face value of Rs.100,000 each)	7.2.4	200	-	-	200	20,000,000	20,446,960	446,960	2.01	2.14
						54,389,930	54,859,438	469,508	5.39	5.75
Total as at 30 June 2011						53,931,388	54,305,615	374,227	5.62	6.01

**7.2.1** These represents listed term finance certificates and carry a rate of mark-up equal to the base rate of 6 months Karachi Inter Bank Offer Rate (KIBOR) per annum (plus margin of 0.85% for the first five periods 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.

**7.2.2** These represents listed term finance certificates and carry a rate of mark-up equal to the base rate of 6 months Karachi Inter Bank 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+.

**7.2.3** This represents listed term finance certificates and carry a rate of mark-up equal to the base rate of 6 months Karachi Inter Bank 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.

**7.2.4** These represents term finance certificates and carry a rate of mark-up equal to the base rate of 3 months Karachi Inter Bank Offer Rate (KIBOR) per annum plus margin of 2.15% receivable quarterly in arrears with no floor or cap and will mature in June 2014. These term finance certificates are secured the rating of the instrument is AA. These term finance certificates are applied for listing on the OTC counter of the Karachi Stock Exchange.

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

Name of Security	Number of holdings at beginning of the period	Acquired during the period	Matured / disposed during the period	Number of holdings at end of the period	Carrying value as at 30 September 2011	Market value as at 30 September 2011	Unrealized appreciation / (diminution)	Market value as percentage of net assets	Market value as percentage of total investment	
Note								(Rupees)	Percentage (%)	
<b>Commercial Banks</b>										
Bank Al Habib Limited -IV privately placed (face value of Rs.5,000 each)	7.3.1	-	4,000	-	4,000	20,000,000	20,497,320	497,320	2.01	2.15
						20,000,000	20,497,320	497,320	2.01	2.15
Total as at 30 June 2011						20,000,000	20,000,000	-	2.07	2.21

7.3.1 These represents un-listed term finance certificates and carry a rate of mark-up rate of 15.00% for the first five periods 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 and the rating of the instrument is AA.

7.4 The term "listed" indicated in note 7.2 refer to listing in the stock exchange. However their rates are quoted by MUFAP.

**7.5 Available for sale - Short term Sukuk Certificates**

Name of security	Number of holdings at beginning of the period	Acquired during the period	Matured / disposed during the period	As at 30 June 2011	Carrying value as at 30 September 2011	Market value as at 30 September 2011	Unrealized appreciation / (diminution)	Market value as percentage of net assets	Market value as percentage of total investment	
Note								(Rupees)	Percentage (%)	
Hub Power Co. Ltd - Sukuk	7.5.1	-	20,000	-	20,000	100,000,000	100,000,000	-	9.83	10.47
						100,000,000	100,000,000	-	9.83	10.47

7.5.1 This represents shortterm sukuk certificates having a face value of Rs. 5000 each and carry a rate of mark-up equal to the base rate of 6 months of Karachi Inter Bank Offer Rate (KIBOR) plus margin of 1.1%. This sukuk certificates will mature on 03 February 2012. The rating of the entity is AA+.

**30 September 2011**      30 June 2011  
**Unaudited**      Audited

**8 ACCRUED EXPENSES AND OTHER LIABILITIES**

(Rupees)

Auditors' remuneration		<b>175,273</b>	125,000
Payable to Workers' Welfare Fund	8.1	<b>3,175,776</b>	2,562,730
Brokerage payable		<b>3,413</b>	3,443
NCCPL payable		<b>16,000</b>	15,000
Rating fee payable		-	15,892
Other liabilities		<b>53,114</b>	35,631
		<b>3,423,576</b>	2,757,696

8.1 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 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. 3.176 million upto 30 September 2011.

## 9 INTERIM DISTRIBUTIONS DURING THE PERIOD

Date of distributions	----- For the period ended 30 September 2011 -----			
	Distribution per unit	No. of Bonus Units Issued	Bonus ----- (Rupees) -----	Cash -----
30 July 2011	0.8598	76,609	7,673,417	844,753
29 August 2011	0.9563	85,876	8,609,905	939,564
29 September 2011	0.9471	85,610	8,587,946	930,525
	<u>2.7632</u>	<u>248,096</u>	<u>24,871,268</u>	<u>2,714,842</u>

**10 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. The management intends to distribute at least 90% of the income earned by the year end by this Fund to the unit holders. The Fund is also exempt from the provisions of Section 113 (minimum tax) under Clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. Accordingly, no provision has been made in these condensed interim financial information.

**11 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. Other transactions are in normal course of business, at contracted rates and terms determined in accordance with the market rates.

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

<b>11.1</b>	<b>Balance as at year / period end</b>	<b>30 September 2011</b>	<b>30 June 2011</b>
		<b>Unaudited</b>	<b>Audited</b>
		<b>(Rupees)</b>	
	<b>Lakson Investments Limited - Management Company of the Fund</b>		
	Remuneration payable	<u>1,447,496</u>	<u>1,255,485</u>
	Units held as at the period / year end		
	782,523 (June 2011: 753,834) units	<u>78,566,549</u>	<u>76,258,229</u>
	<b>Central Depository Company of Pakistan Limited - Trustee of the Fund</b>		
	Remuneration payable	<u>140,384</u>	<u>141,015</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 / year end		
	*5,419 (June 2011: 5,210) units	<u>544,102</u>	<u>527,083</u>

\*5,419 units held in joint account with spouse Ms. Zil Lakhani.

	<b>30 September 2011</b>	<b>30 June 2011</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>(Rupees)</b>	
<b>Key management personnel and Employees of the Management Company</b>		
Units held as at the period / year end		
66 (June 2011: 64) units	<u>6,633</u>	<u>6,438</u>
<b>Associated Companies / Undertaking of the Management Company</b>		
<b>Siza (Private) Limited</b>		
Units held as at the period / year end		
6,866,941 (June 2011: 6,740,594) units	<u>689,451,822</u>	<u>681,881,856</u>
<b>Clover (Pakistan) Limited Employees Contributory Provident Fund</b>		
Units held as at the period / year end		
18,248 (June 2011: 17,579) units	<u>1,832,131</u>	<u>1,778,302</u>
<b>Colgate Palmolive (Pakistan) Limited Employee Contributory Provident Fund</b>		
Units held as at the period / year end		
164,232 (June 2011: 158,211) units	<u>16,489,177</u>	<u>16,004,718</u>
<b>Colgate Palmolive (Pakistan) Limited Employee Gratuity Fund</b>		
Units held as at the period / year end		
91,240 (June 2011: 87,895) units	<u>9,160,654</u>	<u>8,891,510</u>
<b>Accuray Surgical Limited Employee Contributory Provident Fund</b>		
Units held as at the period / year end		
12,165 (June 2011: 11,719) units	<u>1,221,421</u>	<u>1,185,535</u>
<b>Cyber Internet Services (Private) Limited Employee Contributory Provident Fund</b>		
Units held as at the period / year end		
127,712 (June 2011: 123,029) units	<u>12,822,444</u>	<u>12,445,715</u>
<b>GAM Corporation (Private) Limited Employees Contributory Provident Fund</b>		
Units held as at the period / year end		
36,481 (June 2011: 35,144) units	<u>3,662,759</u>	<u>3,555,145</u>

**Princeton Travels (Private) Limited  
Contributory Provident Fund**

Units held as at the period / year end  
14,598 (June 2011: 14,063) units

1,465,705      1,422,642

**Siza Foods (Private) Limited  
Contributory Provident Fund**

Units held as at the period / year end  
79,075 (June 2011: 79,176) units

7,939,234      7,705,975

**Century Insurance Company Limited**

Units held as at the period / year end  
550,504 (June 2011: 551,330) units

55,271,467      55,772,791

**Century Insurance Company Limited Employee  
Contributory Provident Fund**

Units held as at the period / year end  
18,248 (June 2011: 17,579) units

1,832,131      1,778,302

**Period ended**      **Period ended**  
**30 September**      **30 September**  
**2011**      **2010**

**11.2 Transactions during the year / period end**

**(Rupees)**

**Lakson Investments Limited - Management  
Company of the Fund**

Remuneration to the Management Company  
Issue of units - Nil (2010: nil) units  
Bonus - 28,689 (2010: 21,736) units  
Redemption - Nil (2010: nil) units

4,417,397      1,901,367  
-      -  
-      -  
-      -

**Directors of the Management Company  
Babar Ali Lakhani**

Issue of units - 10 (2010: nil) units  
Bonus - 198 (2010: nil) units  
Redemption - Nil (2010: nil) units

1,059      -  
-      -  
-      -

**Central Depository Company of Pakistan  
Limited- Trustee of the Fund**

Remuneration  
Settlement charges

429,445      253,516  
1,524      1,500

	Period ended 30 September 2011	Period ended 30 September 2010
	(Rupees)	
<b>Key management personnel and Employees of the Management Company</b>		
Issue of units - Nil_ (2010: 793) units	-	80,000
Bonus - 2 (2010: 24) units	-	-
Redemption - Nil (2010: nil) units	-	-
<b>Associated Companies / Undertaking of the Management Company</b>		
<b>Siza (Private) Limited</b>		
Issue of units - 2078 (2010: 953,704) units	208,577	97,043,000
Bonus - 252,987(2010: 62,251) units	-	-
Redemption - 128,719 (2010: nil) units	13,000,000	-
<b>Clover (Pakistan) Limited Employees Contributory Provident Fund</b>		
Issue of units - Nil (2010: nil) units	-	-
Bonus - 669 (2010: 461) units	-	-
Redemption - Nil (2010: nil) units	-	-
<b>- Colgate Palmolive (Pakistan) Limited Employee Contributory Provident Fund</b>		
Issue of units - Nil (2010: nil) units	-	-
Bonus - 6,021 (2010: 4,146) units	-	-
Redemption - Nil (2010: nil) units	-	-
<b>Colgate Palmolive (Pakistan) Limited Employee Gratuity Fund</b>		
Issue of units - Nil (2010: nil) units	-	-
Bonus - 3,345 (2010: 2,303) units	-	-
Redemption - Nil (2010: nil) units	-	-
<b>Accuracy Surgical Limited Employee Contributory Provident Fund</b>		
Issue of units - Nil (2010: nil) units	-	-
Bonus - 446 (2010: 307) units	-	-
Redemption - Nil (2010: nil) units	-	-
<b>Cyber Internet Services (Private) Limited Employee Contributory Provident Fund</b>		
Issue of units - Nil (2010: nil) units	-	-
Bonus - 4,682 (2010: 3,224) units	-	-
Redemption - Nil (2010: nil) units	-	-

	Period ended 30 September 2011	Period ended 30 September 2010
<b>GAM Corporation (Private) Limited Employees Contributory Provident Fund</b>	<b>(Rupees)</b>	
Issue of units - Nil (2010: nil) units	-	-
Bonus - 1337 (2010: 921) units	-	-
Redemption - Nil (2010: nil) units	-	-
<b>Princeton Travels (Private) Limited Contributory Provident Fund</b>		
Issue of units - Nil (2010: nil) units	-	-
Bonus -535( 2010: 369) units	-	-
Redemption - Nil (2010: nil) units	-	-
<b>Siza Foods (Pvt) Limited Contributory Provident Fund</b>		
Issue of units - Nil (2010: nil) units	-	-
Bonus - 2,899 (2010: 1,996) units	-	-
Redemption - Nil (2010: nil) units	-	-
<b>Century Insurance Company Limited</b>		
Issue of units - Nil (2010: nil) units	-	-
Bonus - 20,778 (2010: 14,448) units	-	-
Redemption - 21,604 (2010:Nil) units	<b>2,181,940</b>	-
<b>Century Insurance Company Limited Employees Contributory Provident Fund</b>		
Issue of units - Nil (2010: nil) units	-	-
Bonus - 669 (2010: 461) units	-	-
Redemption - Nil (2010: nil) units	-	-

**12 GENERAL**

**12.1** This condensed interim financial information is unaudited.

**12.2** These condensed interim financial information were authorised for issue on 27 October 2011 by the board of directors of the Management Company.

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

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

\_\_\_\_\_  
Director



A Lakson Group Company

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