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Annual Report 2010 Askari Income Fund Invest with AIM A Wholly Owned  
 Subsidiary of Title Inside vision The leading quality investment advisor  
 providing excellent returns in a dynamic market place, based on the superior  
 expertise of a committed team of professionals who value ? service to the  
 customer? Askari Investment Management Limited Good people. Sound  
 advice. Great returns. contents Fund? s Information 01 Directors? Report 03  
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 company fund's information Registered Office Askari Investment  
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 Askari Bank Limited I Bank Al-Falah Limited I Royal Bank of Scotland Limited I  
 Bank Al-Baraka Limited I Summit Bank Limited (Formerly: Arif Habib Bank  
 Limited) Board of Directors I Lt. Gen. (R. ) Imtiaz Hussain ? Chairman I Mr.  
 Shahid Hafeez Azmi I Mr. Muhammad Naseem- FCA I Mr. Mohammad

Rafiquddin Mekhari | Maj Gen (R) Saeed Ahmed Khan | Mr. Sufian Mazhar Mr. Tahir Aziz | Mr. Adnan Ahmed Siddiqui ? CEO Trustee | CDC House, 99-B, Block B, S. M. C. H. S. , Main Shahrah-e-Faisal, Karachi Tel: (92-021) 111-111-500 Executive Committee Mr. Mohammad Rafiquddin Mehkari – Chairman | Mr. Shahid Hafeez Azmi | Mr. Tahir Aziz | Mr. Adnan Ahmed Siddiqui ? CEO Auditors | Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants Progressive Plaza, Beaumont Road P. O. Box 15541, Karachi Tel: (92-021) 3565-0007 | Audit Committee Mr. Muhammad Naseem- FCA (Chairman) | Mr. Shahid Hafeez Azmi | Mr. Mohammad Rafiquddin Mekhari | Mr. Tahir Aziz | Chief Financial Officer:

Mr. Irfan Saleem Awan, ACA Company Secretary: Syed Shoaib Jaffery Legal Advisor | Haidermota & Company Barristers-at-Law & Corporate Counselors D-79, Block-5, Clifton KDA Scheme no. 5, Karachi directors? report 03 ANNUAL REPORT 2010 DIRECTORS? REPORT TO THE UNITHOLDERS On behalf of the Board of Directors of Askari Investment Management Limited (? the Management Company? or ? the Company? ), we are pleased to present the annual report of Askari Income Fund (? the Fund? or ? AIF? ) along with the Audited financial Statements and Auditors? report thereon for the year ended June 30, 2010. Economic Overview

Commodity prices have rebounded strongly from their lows of late 2008 and early 2009, driven by strong recoveries of industrial production especially in emerging-market economies. Recently, world oil prices again pierced \$80 per barrel mark before coming back to just under \$78. The rise in commodity prices has contributed to moderate acceleration of overall consumer price inflation in a number of emergingmarket economies and perhaps also to the

modest pickup in core inflation in many of these countries. Monetary policies have been tightened in several countries (including China and India) to contain the rise of inflationary pressures.

This will likely slow the pace of economic expansion somewhat but is not a major threat to continued global recovery. The world oil price is potentially a more immediate concern for global growth, especially if prices rise above \$100 per barrel. With considerable excess capacity available, however, it seems reasonable to expect that dramatic increases in oil prices will not be driven by global supply and demand conditions before 2012. In Pakistan, the shocks of political uncertainty and the energy crisis has badly affected the industrial production growth and it declined to six years low in 2008-09.

The economy recovered slightly during the last fiscal year after setback of the preceding year due to political uncertainty in the country and global recession. Curtailing electricity shortfall is still a challenge for the government in order to improve industrial production output. Moreover, the recent hike in interest rates will not bode well with the market. The stock market is likely to react negatively to this in the short term. Although this increase will help the government control rising inflation, it is likely to stifle growth and investment, which the economy currently needs desperately.

The government therefore needs to carefully balance this sensitive tradeoff between controlling inflation and encouraging investment and growth in order to bring the economy back on track. KSE100 gained 36% in FY10 due to continued economic improvement, thus outshining its peers in the region. Net foreign inflows were recorded at USD567mn. Net foreign investment in

KSE100 was recorded at 6.8% of the total market cap (USD 2.1bn by the end of June 2010). A longer-term goal for the Pakistan's equities is to be included in the MSCI Emerging Markets as Pakistan may be put on review during the 4Q FY11. This will likely improve Pakistan's visibility on the international financial markets, thus leading to increased foreign flows. The real expected GDP growth rate for the next fiscal year is 4.5%. The sectoral growth rates are expected to be 3.8% for agriculture, 4.9% for industry and 4.7% for services sectors. The fiscal deficit is estimated to be 4.0% of GDP but the achievement of the fiscal deficit target could be difficult because of the ambitious revenue target and uncertainty over the external financial inflows arising from sources such as Coalition Support Fund and Kerry-Lugar Act and due to the possible impacts of recent floods in the Country.

Further, with the Capital Gains Tax (CGT) implemented, the market may continue to be dull for the next couple of months. Performance of the Fund Returns of AIF for the year ended 30 June 2010 were negative 7.09% with the fund size at Rs 1.3 billion as compared to Rs 3.1 billion last year. The adverse performance and loss to the Fund is mainly attributable to the provisions for diminution in value of debt securities and other assets including TFCs, Sukuks, Term Finance Agreements, Leased Asset and Properties (acquired against settlement of investments) due to their non performing status and/or the valuation impacts.

Further during the year, the Fund suffered additional losses due to sale of certain TFCs at lower than carrying value in order to meet redemption requests of the Unit Holders of the Fund. The massive decrease in fund size together with the depressing economic scenario resulted in deterioration of

credit quality of portfolio with increase in non-performing and/or non-earning assets. The Board of Directors of the Management Company has approved to categorize this Fund as Aggressive Fixed Income Scheme.

Necessary legal and procedural formalities are being completed to implement this decision. ANNUAL REPORT 2010 04 The past year proved to be a testing year for Askari Income Fund, however we believe that the management has the ability to bring about positive change in the Fund? s performance with its innovative ideas and focused objective based fund management efforts. The asset allocation of the Fund as of 30 June 2010 was as follows: Asset Allocation TFCS / SUKUK S , 7 7% TFAs. 15% Lease Assets, 8% Properties, 8% Cash & Equivalent, 1%

Other Assets, 2% The asset allocation is based on net assets. Details required by the Code of Corporate Governance: AIF was listed on the Lahore Stock Exchange (Guarantee) Ltd on April 13, 2006 and Askari Investment Management Limited, as its Management Company, is committed to observe the Code of Corporate Governance as applicable. The details as required by the Code of Corporate Governance regarding the pattern of unit holding of the Fund as on June 30, 2010 is as follows (Also refer to Annexure ? I to the financial statements): Category

Number of unit holders	Number of units held	% of total	Associated companies/Related Parties:
1	242, 927	1. 76	Askari Investment Management Limited (Management Company)
1	10, 073, 188	72. 81	Askari Bank Limited (Holding company of the Management Company)
1	13, 075	0. 09	Askari Bank Employees' Cement Limited (Group Company)

Provident Fund (A fund related to the Holding Company) 1 301, 376 2. 18  
 President Askari Bank Limited Fund (A fund related to the Holding Company)  
 1 82, 434 0. 60 2 1, 534, 071 11. 09 1 246 – 151 1, 587, 127 11. 47 159 3,  
 834, 444 100 Commercial banks Insurance company Others ANNUAL REPORT  
 2010 05 The Board of Directors of the Management Company state that: 1.  
 2. 3. 4. 5. 6. 7. 8. The financial statements present fairly the statement of  
 affairs, the results of operations, cash flows and the changes in unit holders?  
 fund. Proper books of accounts have been maintained by the Fund.  
 Appropriate accounting policies have been consistently applied in the  
 preparation of the financial statements and accounting estimates are based  
 on reasonable and prudent judgment.

Relevant International Accounting Standards, as applicable in Pakistan,  
 provision of the Non-Banking Finance Companies (Establishment and  
 Regulation) Rules 2003, Non Banking Finance Companies and Notified  
 Entities Regulations 2008 (NBFC Regulations, 2008), requirements of the  
 trust deed and directives issued by the Securities and Exchange Commission  
 of Pakistan have been followed in the preparation of the financial statements  
 and any deviation there from has been disclosed. The system of internal  
 controls is sound in design and has been effectively implemented and  
 monitored.

There are no significant doubts upon the fund? s ability to continue as a  
 going concern. There has been no material departure from the best practices  
 of corporate governance, as detailed in the listing regulations. As detailed in  
 note 23 to the financial statements, the Management Company following a  
 prudent approach made a provision for Workers Welfare Fund (WWF) levy

during the year. However, the matter of applicability of WWF on mutual funds is under consideration at various levels, including Honorable Sindh High Court, Mutual Funds Association of Pakistan and the Ministry of Labor and Manpower.

The payment or reversal of the said amount of provision is dependant on a final decision about the applicability of this levy on mutual funds. Trades in the units of the Fund by the Directors, CEO, CFO and Company Secretary of the Management Company their spouses and minor children have been disclosed in Note 24 to the financial statements. Meetings of the Board of Directors of the Management Company were held once in every quarter. During the year five board meetings were held. Attendance at these meetings was as follows: Meetings attended No. of meetings held during appointment

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

\*The Securities and Exchange Commission of Pakistan approved appointment of Mr. Sufian Mazhar as director of the company on January 29, 2010. \*\* Mr. Saeed Aziz Khan had resigned from the office of Chief Executive Officer with effect from May 31, 2010. \*\*\* Mr. Adnan Siddiqui was appointed as Chief Executive Officer on June 01, 2010 after prior approval of Securities and Exchange Commission of Pakistan.

ANNUAL REPORT 2010 06 Key operating and financial data of the Fund for prior years since inception is as follows: Jun-10 Jun-09 Jun-08 Jun-07 Jun-06



----- Rupees -----Net Assets as on  
 June 30th 1, 312, 868, 229 3, 049, 420, 048 8, 346, 972, 640 9, 399, 362,  
 925 1, 163, 679, 611 Net Asset Value per unit as on June 30th 94. 90 102. 14  
 103. 98 111. 74 104. 98 Net (loss)/ income for the year/ period (134, 398,  
 403) 137, 287, 852 1, 019, 929, 464 982, 145, 998 55, 216, 301 392, 798,  
 236 1, 688, 176, 556 49, 783, 007 - \*Dividend Distribution during the  
 ear/period - \*This excludes dividend distribution for any year approved after  
 the year-end. Due to accounting loss of the Fund for the year, no dividend  
 was announced for the year ended June 30, 2010. Future Outlook Going  
 forward, in view of the economic scenario and the impact of recent floods,  
 external flows are going to be a key factor in the economic recovery of the  
 Country. Funds from Friends of Democratic Pakistan (FoDP), Kerry-Lugar Bill  
 and other bilateral and multilateral assistance, can provide SBP room for  
 quantitative easing which may boost private sector credit off take.

The fiscal deficit target of 4. 5% is likely to be breached by the government  
 under the current scenario. As a result, the government may be forced to  
 reduce the PSDP as well as power and other subsidies. There is likely to be  
 an increase in government borrowing from the private sector, which will  
 result in reduced liquidity in the market. Moreover, with rising inflationary  
 pressures mostly due to the impact of recent floods, the State Bank is  
 expected to maintain a tight monetary stance.

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

can result in higher government borrowings particularly in the form of shorter duration Islamic instruments which may give Islamic mutual funds more space to diversify their portfolio, shorten their duration and increase the level of credit. The Company's strategy going forward will be to capitalize on the best available opportunities arising in the market while maintaining its focus on the credit quality of the portfolio through active fund management with an endeavor to achieve targeted objectives of the Fund.

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

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

Director fund manager's report ANNUAL REPORT 2010 08 FUND MANAGER'S REPORT OVERALL ECONOMIC SCENARIO Global Outlook The global economy is moving into a more mature phase led by growing domestic demand. So far, the uncertainty about the sustainability of fiscal positions in several high-income European countries has had limited impacts on

developing countries. Stock markets in highincome and emerging economies have recovered much of the value they lost, and most developing-country currencies have regained their pre-crisis levels against the dollar, with some having appreciated.

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

High-income countries' growth is expected to accelerate from about 2-2.3 percent in 2010 to between 2.3 and 2.7 percent in 2012. Although the global financial crisis has had important consequences for economic activity in South Asia, that impact was much less pronounced than in all other developing regions save East Asia. Regional economic activity benefitted from limited exposures to the subprime markets and global banking systems-as the region's financial markets are less integrated than elsewhere-and relatively resilient capital inflows, which increased as a share of GDP.

Economic Update The International Finance Cooperation assigned Pakistan the 85th rank vis a vis China's 89th and India's 133rd among countries in terms of 'ease of doing business' in 2010. Pakistan's improved macro

economic fundamentals was also reflected in Moody's outlook upgrade to 'Stable' from 'Negative' in August 2009, while S upgraded Pakistan's rating to 'B-/Stable' from 'CCC+/Developing' on the 24th of the same month. As a result of the commodity super spike and poor macro economic governance Pakistan hit the macroeconomic trough in FY09.

GDP reduced to 2.0%, compared to the last five years average of 6.4%, C/A deficit peaked to US\$13.87bn in FY08, compared to US\$9.39 in FY09, a decline of 32.6% Year on Year (YoY). The deficit has been brought down further. Current a/c deficit for FY10 stood at USD 3.5bn (1.96% GDP) against USD 9.3bn (5.56% GDP) in FY09, recording a massive drop of 62% Y/Y. CAD for the year was much lower than IMF's last projection of 3.8% of GDP and SBP's estimate of 2.2-2.8% of GDP.

Contraction in the current account deficit was helped by a 10% reduction in trade deficit which fell to USD 11.4bn in FY10, or 6.4% GDP as compared to 7.6% of GDP in FY09. Country's total foreign exchange reserves (as on July 2, 2010) stood at USD 16.8bn, while reserves held by the central bank reached USD 12.95bn. Besides, build up of FX reserves also reflected in M2 growth, with growth in NFA accounting for 24% of growth in monetary aggregated during FY10. Foreign Direct Investment shrunk 41% Y/Y to USD 2.2bn FY10, on top of a 31% fall witnessed in FY09.

Meanwhile, in terms of sector-wise share in FDI, the balance tilted in favor of oil/gas exploration and food sectors, while telecom and financial services, which were major FDI recipients in recent past, saw their share decrease in FY10. On the other hand, net inflow of USD 588mn in equity portfolio

investment in FY10, against a net outflow of USD 511mn in FY09, was the redeeming factor in an otherwise disappointing financial account performance. Money supply grew by 12.46% in FY10 compared to only 9.56% in FY09 mainly on account of 1) 12.4% growth in deposit base against only 7. % last year in line with increased economic activity; and 2) 12.4% growth in currency in circulation outside the banking system indicating higher liquidity. On the asset side, the supply was driven by higher demand from government for its budgetary support coupled with enhanced borrowing by private sector to meet its rising working capital requirements. Consumer price index (CPI) had crept to 11.73% for the full FY10, much higher than government's single digit target. The headline Consumer price index (CPI) recessed to 12.69% YoY basis in Jun'10, in comparison to 13.07% YoY during May'10.

Core inflation, which according to the IMF, should be the key in determining any cut in the discount rate, increased by 10.4% YoY in Jun'10. Core inflation is seen to be on a decreasing trend since Feb'09 when it had peaked to 21.10% YoY. 09 ANNUAL REPORT 2010 Performance of Pakistan Markets KSE100 closed up 36% in FY10 on the back of low base and continued economic improvement - earmarking itself as one of the best performing equity markets. Net foreign inflows were recorded at USD567mn while OGDC, the star performer, gained 79% for the year and alone contributed ~1,125 points to the index.

Domestic investors were seen on the selling side, by virtue of which foreign investors are now estimated to account for over 28% of free float weighted market capitalization of Pakistan equities. Moreover Pakistan's equities have

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outperformed MSCI FM by 40% during FY10. Net foreign investment in KSE100 stood at 6.8% of the total market cap (USD 2.1bn by the end of Jun10). Despite healthy foreign flows volumes remained thin especially in the months of May-Jun10 on the back of new taxes imposed on the local bourses and liquidity concerns.

KSE100 volumes touched its bottom of 36.6mn on Jun21'10 as local investors remained concerned over CGT imposition and income disclosure to tax authorities. Retail money has been the most effected as investors have diverted their investments from equity market till further clarity comes on disclosure laws. Credit risk premium on 10yr bonds reflected by the spread on credit default swap has reduced significantly to 705bps in Jun10 from a peak of 2,336bps in Apr09 which highlights renewed investor's confidence in the modest economic recovery.

A longer-term theme for the Pakistan's equities is the inclusion in the MSCI Emerging Markets as Pakistan may be put on review during the 4Q FY11. Resultantly Pakistan's visibility on the international radar screen would improve leading to increased foreign flows. The sluggish performance in the equity market during 4Q FY10 is likely to be reversed mainly triggered by improvement in liquidity coupled with positive earnings surprise. Furthermore with KSE100 Index trading at a wide discount of 38% to its peers, we believe there is strong potential for Pakistan to outperform most regional markets in FY11.

In November 2008, the State Bank of Pakistan boosted the discount rate by 200 basis points to 15 percent from 13 percent amid high government

borrowings, persistent demand pressures, frequent hike in core inflation and widening current account deficit. Later on in January 2010, easing of inflationary pressure helped the central bank to slash its discount rate by 250 basis points to 12.5 percent ANNUAL REPORT 2010 10 FUND

PERFORMANCE Askari Income Fund (AIF) is an open-ended income Fund, invested in interest bearing instruments with no exposure to stock market.

The objective of the Fund is to provide investors with a broad range of asset classes so as to diversify Fund risk and to optimize potential returns. Thus even an investor with only one unit will get invested into spread transactions, a range of debt instruments, short maturity securities and certificates of investment. This Fund also offers investors the opportunity to exit at short notice. Benchmark of the Fund is 3-Month KIBOR rate is the benchmark for the Fund. Pursuant to the Securities & Exchange Commission of Pakistan's (SECP) Circular 7 f 2009, the Board of Directors of the management company decided to categorise this Fund as an ' Aggressive Income Scheme'. The constitutive documents of the Fund are in the process of being altered to incorporate the necessary amendments required therein. AIF's return for the year ended June 2010 was negative 7.09% and hence the Fund underperformed against its benchmark. The Fund size declined to Rs. 1.3 billion in June 2010 from Rs. 3.1 billion last year. General Information Minimum Investment Sales Load Management Fee Risk Benchmark Management Company Rating

Fund Size and Growth th 30 June ? 10 Rs 1,313 mn Rs 94.90 Fund Size NAV Fund Performance Return AIF Benchmark\* \*Monthly Average 1-Month -106.37% 12.26% 3M KIBOR 6M KIBOR CPI (YoY) th 30 June ? 09 Rs 3,049 mn Rs  
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102. 14 FY10 -7. 09% 12. 33% Portfolio Details Weighted Average Maturity Standard Deviation\* \*Monthly Basis Economic Data Rs. 5, 000 Upto 2. 0% front-end on Class B & D units, Upto 1. 0% back-end on Class C & D units 1. 5% p. a. Low 3-Month KIBOR AM3 by PACRA (Feb-2010) 3. 49 years 1. 67% Sep 09 12. 22% 12. 30% 10. 12% Dec 09 12. 57% 12. 62% 10. 52% Mar 10 2. 28% 12. 35% 12. 91% Jun 10 12. 23% 12. 32% 12. 69% The adverse performance of the Fund can be attributed to the valuation adjustments of “ other portfolio assets” which included leased asset, Term Finance Agreements (TFAs), properties and non-performing Term Finance Certificates (TFCs) and Sukuks. The leased asset and properties were acquired in settlement of placements and certificates of investment with an NBFC. TFCs of Dewan Cement Limited and New Allied Electronics Industries (Private) Limited were already classified as non-performing as of June 30, 2009.

Agritech Limited, Azgard Nine Limited and Maple Leaf Cement Factory Limited also defaulted on their repayments and were classified as non-performing during the year. In addition to that, the leased asset and TFA of Saudi Pak Leasing Company Limited were classified as non-performing during the year in accordance with the Fund’s provisioning policy for non-performing exposures. The management is actively involved and is monitoring various recovery procedures and restructuring arrangements with the issuers of instruments and counterparties.

Further, wherever possible, restructurings have been agreed in the best interest of the Fund. The Fund had entered into borrowing arrangement on January 04, 2010 to meet redemption requests. However, due to liquidity constraints and redemption requests during the period, these borrowings



were rolled over for a period of more than ninety days thereby exceeding the limit of 90 days prescribed in the NBFC & Notified Entities Regulations, 2008. These borrowings have been fully repaid on July 23, 2010. For unit holding pattern of the Fund, please refer to Annexure – I to the financial statements of AIF.

Further, pursuant to circular 16 of 2010 issued by the SECP on July 07, 2010, the detail of non-compliant assets held by the Fund is disclosed in note 9.5 of the financial statements of the Fund. ANNUAL REPORT 2010 11 ASSET ALLOCATION AS OF JUNE 30, 2010 Properties, 7% TFCs / Sukuks 69% TFAs, 14% Leased Assets, 7% Other Assets, 2% Cash & Cash Equivalents, 1% \*as a percentage of gross assets ASSET ALLOCATION AS OF JUNE 30, 2009 Properties, 4% TFAs, 17% TFCs / Sukuks 65% Leased Assets, 4% Cash & Cash Equivalents, 7% \*as a percentage of gross assets Other Assets, 3% financial statements 13 ANNUAL REPORT 2010 ANNUAL REPORT 2010 14

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2010 This statement is being presented in compliance with the Code of Corporate Governance (? the Code? ) contained in the Listing Regulations of Lahore Stock Exchange where Askari Income Fund (the Fund) is listed. The purpose of the Code is to establish a framework of good governance, where by a listed entity is managed in compliance with the best practices of corporate governance. Askari Investment Management Limited (the Management Company) which manages the affairs of the Fund has applied the principles contained in the Code in the following manner: . The Management Company encourages representation of independent non-executive directors. Presently, all the board members are

non-executive directors except Chief Executive Officer. 2. The directors of the Management Company have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company. 3. All the directors of the Management Company have confirmed that they are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

No director of the Management Company or his spouse is engaged in the business of stock brokerage. 4. The three year term of office of previous Board of Directors was completed and new board comprising of seven directors were elected for next term of three years during the year. Further, during the year, the CEO had resigned with effect from May 31, 2010 and the new CEO was appointed by the board on June 01, 2010 after obtaining prior approval from Securities & Exchange Commission of Pakistan. 5. The Management Company has prepared a ?

Statement of Ethics and Business Practices? which has been signed by all the directors and employees of the Management Company. 6. The Management Company has adopted a vision / mission statement and overall corporate strategy and formulated significant policies of the Fund which have been approved by the Board. 7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO has been taken by the Board. 8.

The meetings of the Board were presided over by the Chairman, and in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter during the year. Written notices of the meetings of the Board, along with agenda and working papers, were circulated at least seven days before the meetings and any exceptions thereto which were executed specifically with approval of the Board. The minutes of the meetings were appropriately recorded and circulated. 9. The Board arranged an orientation course for its directors to appraise them of their duties and responsibilities.

Furthermore, the directors are conversant of the relevant laws applicable to the Management Company, its policies and procedures and provision of memorandum and articles of association and are aware of their duties and responsibilities. 10. During the year, the Management Company has appointed a new CFO. The remuneration and terms and conditions of the employment of CFO and Company Secretary have been approved by the Board. 11. The Directors' Report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed. ANNUAL REPORT 2010 15 12.

The financial statements of the Fund have been prepared in accordance with the approved accounting standards as applicable in Pakistan and were duly endorsed by the CEO and CFO before approval of the Board. 13. The directors, CEO and executives do not hold any interest in the units of the Fund other than those disclosed in the Directors' Report. 14. The Management Company has complied with all other corporate and financial reporting requirements of the Code with respect to the Fund. 15. The Board

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has formed an Audit Committee. It comprises of four members, all of whom are non-executive directors including Chairman of the Committee. 6. The meetings of Audit Committee were held once in every quarter and prior approval of interim and final results of the Fund is required by the Code. The Board has approved terms of reference of the Audit Committee. 17. The Management Company has established adequate procedures and systems for related party transactions vis-a-vis the pricing method for related party transactions. All the related party transactions are placed before the Audit Committee and the Board of Directors for their review and approval. 18. The Management Company has outsourced the internal audit function to Deloitte M. Yousaf Adil Saleem & Co.

Chartered Accountants who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund. 19. The statutory auditors has confirmed that they have been given a satisfactory rating under the Quality Control Review Program of Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units / share of the Fund or its Management Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the ICAP. 0. The statutory auditors have not been appointed to provide other services to the Management Company except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard. 21. We confirm that all other material principles contained in the Code have been complied with. \_\_\_\_\_ Chairman

KARACHI: 18 AUGUST 2010 \_\_\_\_\_ CEO ANNUAL

REPORT 2010 6 REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of the Management Company of Askari Income Fund (the Fund) to comply with the Listing Regulations of the Lahore Stock Exchange where the Fund is listed.

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

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii a) of Listing Regulation 35 of the Lahore Stock Exchange requires the Management Company to place before the Board of Directors for their consideration and approval related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism.

Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedure to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code in respect of the Fund for the year ended 30 June 2010. KARACHI: 18 AUGUST 2010 CHARTERED ACCOUNTANTS 17

ANNUAL REPORT 2010 ANNUAL REPORT 2010 18 ASKARI INCOME FUND  
STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2010 Note 2010

2009 —————Rupees————— Assets 9, 776, 325 200, 950, 000 1, 011, 880, 472 217, 987, 640 33, 413, 273 243, 827 , 474, 251, 537 239, 166, 833 534, 000, 000 2, 092, 078, 513 263, 370, 344 82, 274, 475 743, 830 3, 211, 633, 995 64, 039 147, 574, 350 1, 738, 502 199, 103 1, 871, 900 9, 935, 414

908, 352 150, 000, 000 3, 572, 020 321, 337 4, 129, 031 3, 283, 207 161,  
 383, 308 162, 213, 947 Net assets 1, 312, 868, 229 3, 049, 420, 048 Unit  
 holders' fund 1, 312, 868, 229 3, 049, 420, 048 13, 834, 444 29, 855, 979  
 94. 90 102. 14 7 8 9 10 11 12 Bank balances Placements with banks and  
 other financial institutions Investments Assets acquired in settlement of  
 investments Deposits and other receivables Deferred formation cost Total  
 assets Liabilities Payable against redemption of units

Borrowing under repurchase agreement Remuneration payable to the  
 Management Company Remuneration payable to the Trustee Annual fee  
 payable to the Securities and Exchange Commission of Pakistan Accrued and  
 other liabilities 13 14 Total liabilities Number of units in issue Net asset value  
 per unit The annexed notes from 1 to 29 form an integral part of these  
 financial statements. For Askari Investment Management Limited

(Management Company) \_\_\_\_\_ Chief Executive Officer  
 \_\_\_\_\_ Chairman \_\_\_\_\_ Director ANNUAL

#### REPORT 2010 19 ASKARI INCOME FUND INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2010 Note 2010 2009 -----Rupees  
 ----- Income Net loss on investments at fair value through income  
 statement: Net loss on sale of investments Net unrealized loss on revaluation  
 of investments 17 (124, 989, 197) (237, 522, 319) (362, 511, 516) 306, 276,  
 192 22, 022, 456 649, 591, 015 50, 219 1, 995, 450 (121, 800, 414) (29,  
 402, 015) 16 (20, 079, 386) (215, 820, 863) (235, 900, 249) (18, 319, 756)  
 270, 805, 412 37, 438, 002 3, 495, 866 1, 871, 900 500, 003 31, 774 30, 000  
 200, 000 7, 149 132, 106 13, 154, 961 140, 000 665, 500 487, 671 2, 550,  
 000 41, 249, 969 2, 745, 757 295, 730 104, 996, 388 9, 377, 780 5, 625, 185

4, 129, 031 500, 000 168, 236 45, 000 100, 000 56, 463 194, 612 51, 547,  
367 1, 006, 536 575, 000 169, 650 22, 700 133, 517, 560 (134, 398, 403)

Return on bank balances, placements and investments Income on CFS

transactions Income on assets acquired in settlement of investments

Element of income / (loss) and capital gain / (loss) included in prices of units

issued less those in units redeemed - net 15 137, 287, 852 Expenses

Remuneration of the Management Company Remuneration of the Trustee

Annual fee of the Securities and Exchange Commission of Pakistan

Amortization of deferred formation cost

Brokerage commission Listing fee Rating fee Custodian fee Bank and

settlement charges Financial charges on borrowing under repurchase

agreement Legal and professional charges Auditors? remuneration Printing

and stationery Provision against non-performing placements Provision

against assets acquired in settlement of investments Provision for

contribution to Workers' Welfare Fund Others Net (loss) / income for the year

18 19 20 21 8. 2 22 23 The annexed notes from 1 to 29 form an integral part

of these financial statements. For Askari Investment Management Limited

(Management Company) \_\_\_\_\_ Chief Executive Officer

\_\_\_\_\_ Chairman \_\_\_\_\_ Director ANNUAL

REPORT 2010 20 ASKARI INCOME FUND STATEMENT OF COMPREHENSIVE

INCOME FOR THE YEAR ENDED 30 JUNE 2010 Net (loss) / income for the year

2010 2009 ——— Rupees ———(134, 398, 403) Other comprehensive income

137, 287, 852 - - Total comprehensive (loss) / income for the year (134, 398,

403) 137, 287, 852 The annexed notes from 1 to 29 form an integral part of



these financial statements. For Askari Investment Management Limited  
(Management Company) \_\_\_\_\_

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

Director ANNUAL REPORT 2010 21 ASKARI INCOME FUND DISTRIBUTION

STATEMENT FOR THE YEAR ENDED 30 JUNE 2010 2010 2009 -----

Rupees----- Undistributed income brought forward 285, 597, 964 (221,  
776, 148) 63, 821, 816 Realised Unrealised Distribution Nil (2009: Rs. 2. 99/-  
per unit declared on 7 July 2008) - Cash - Bonus units Distribution Nil (2009:  
Rs. 2. 37/- per unit declared on 7 October 2008) - Cash - Bonus units 277,  
613, 543 41, 718, 657 319, 332, 200 - (84, 201, 573) (155, 705, 494) 239,  
907, 067) - (68, 209, 424) (84, 681, 745) (152, 891, 169) (134, 398, 403)  
137, 287, 852 270, 553, 149 (341, 129, 736) (70, 576, 587) Net (loss) /  
income for the year 285, 597, 964 (221, 776, 148) 63, 821, 816

(Accumulated loss) / undistributed income carried forward Realised

Unrealised The annexed notes from 1 to 29 form an integral part of these  
financial statements. For Askari Investment Management Limited

(Management Company) \_\_\_\_\_ Chief Executive Officer

\_\_\_\_\_ Chairman \_\_\_\_\_ Director ANNUAL

REPORT 2010 22 ASKARI INCOME FUND CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2010 2010 2009 -----Rupees-----

CASH FLOW FROM OPERATING ACTIVITIES (134, 398, 403) 137, 287, 852

235, 900, 249 500, 003 2, 550, 000 41, 249, 969 2, 745, 757 362, 511, 516

500, 000 - 121, 800, 414 18, 319, 756 404, 746, 392 381, 331, 272 40, 500,

000 844, 297, 792 4, 132, 735 48, 861, 202 937, 791, 729 Net (loss) /

income for the year 206, 338, 628 15, 797, 094 1, 322, 167, 787 (263, 370,

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344) 181, 751, 570 1, 462, 684, 735 Adjustments: Net loss on investments at fair value through income statement Amortization of deferred formation cost Provision against non-performing placements

Provision against assets acquired in settlement of investments Provision for contribution to Workers' Welfare Fund Element of loss / (income) and capital loss / (gain) included in prices of units issued less those in units redeemed - net Decrease / (increase) in assets Placements with financial institutions Receivable against Continuous Funding System Investments Assets acquired in settlement of investments Deposits and other receivables Increase / (decrease) in liabilities (844, 313) (2, 425, 650) (1, 833, 518) (122, 234) (2, 257, 131) 3, 906, 450 (20, 604, 150) 150, 000, 000 (6, 757, 050) 447, 729 (7, 616, 901) (6, 623, 147) (3, 576, 396) Payable against redemption of units Borrowing under repurchase agreement Remuneration payable to the Management Company Remuneration payable to the Trustee Annual fee payable to the Securities and Exchange Commission of Pakistan Accrued and other liabilities 107, 951, 023 1, 204, 563, 322 2, 089, 254, 882 3, 327, 430, 661 (5, 051, 384, 491) (1, 723, 953, 830) 4, 205, 918, 533 (9, 506, 667, 735) (152, 410, 997) (5, 453, 160, 199) (519, 390, 508) (3, 363, 905, 317) 529, 166, 833 3, 893, 072, 150 9, 776, 325 Net cash inflow from operating activities 529, 166, 833

CASH FLOW FROM FINANCING ACTIVITIES Receipts in respect of issuance of units Payments against redemption of units Dividend paid Net cash used in financing activities Net decrease in cash and cash equivalent Cash and cash equivalent at the beginning of the year Cash and cash equivalent at the end of the year The annexed notes from 1 to 29 form an integral part of these

financial statements. For Askari Investment Management Limited

(Management Company) \_\_\_\_\_ Chief Executive Officer

\_\_\_\_\_ Chairman \_\_\_\_\_ Director ANNUAL

REPORT 2010 3 ASKARI INCOME FUND STATEMENT OF MOVEMENT IN UNIT  
HOLDERS' FUND FOR THE YEAR ENDED 30 JUNE 2010 2010 2009 -----

Rupees-----Net assets at the beginning of the year [Rs. 102. 14/-

(2009: Rs. 103. 98/-) per unit] 3, 049, 420, 048 8, 346, 972, 639 Issue of 31,

702, 137 (2009: 41, 750, 666) units of Rs. 100/- each 3, 327, 430, 661 4,

205, 918, 533 (5, 051, 384, 491) (9, 506, 667, 735) Redemption of 47, 723,

672 (2009: 94, 548, 491) units of Rs. 100/- each Element of (income) / loss

and capital (gain) / loss included in prices of units issued less those in units

redeemed - net

Distribution to unit holders in cash during the year 121, 800, 414 - Net

(loss) / income for the year Other comprehensive income Total

comprehensive (loss) / income for the year (134, 398, 403) (134, 398, 403)

Net assets at the end of the year [Rs. 94. 90/- (2009: Rs. 102. 14/-) per unit]

1, 312, 868, 229 18, 319, 756 (152, 410, 997) 137, 287, 852 137, 287, 852 3,

049, 420, 048 The annexed notes from 1 to 29 form an integral part of these

financial statements. For Askari Investment Management Limited

(Management Company) \_\_\_\_\_ Chief Executive Officer

\_\_\_\_\_ Chairman \_\_\_\_\_

Director ANNUAL REPORT 2010 24 ASKARI INCOME FUND NOTES TO THE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 1. LEGAL

STATUS AND NATURE OF BUSINESS 1. 1 Askari Income Fund (the Fund) was

established under the Non-Banking Finance Companies (Establishment and

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Regulation) Rules, 2003 (the NBFC Rules) as an open end unit trust scheme. It was constituted under the Trust Deed, dated 16 December 2005 between Askari Investment Management Limited (a wholly owned subsidiary of Askari Bank Limited), as the Management Company and Central Depository Company of Pakistan Limited as its Trustee. . 2 The Fund offers units for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The units are listed on the Lahore Stock Exchange. As per the offering document, the Fund shall invest in a mix of spread transactions, Continuous Funding System (CFS) transactions, debt securities, currency forwards, money market instruments and short-maturity reverse repurchase transactions. 2. STATEMENT OF COMPLIANCE

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

Wherever the requirements of the Trust Deed, the NBFC Regulations or the directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the requirements of the said directives prevail. 3. BASIS OF MEASUREMENT

3. 1 These financial statements have been prepared under the historical cost

convention except for investments, derivatives and assets held for sale which are valued as stated in notes 4. , 4. 3 and 4. 6. 3. 2 These financial statements are presented in Pakistan Rupees, which is the functional and presentation currency of the Fund and rounded to the nearest rupee. 4.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 4. 1** The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as follows:

The Fund has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year: IFRS 2 ? Share Based Payment ? Amendments regarding Vesting Conditions and Cancellations (Amendment) IFRS 3 ? Business Combinations (Revised) IFRS 7 ? Financial Instruments: Disclosures (Amendments) IFRS 8 ? Operating Segments

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