

LAKSON EQUITY FUND  
Annual Report 2018



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

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



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

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

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

## Fund's Information

### Management Company

Lakson Investments Limited  
Head Office  
Lakson Square, Building No.2,  
Sarwar Shaheed Road,  
Karachi-74200, Pakistan.  
Phone: (9221) 3840.0000  
Fax: (9221) 3568.1653  
Web site: www.li.com.pk  
E-mail: info@li.com.pk

Lakson Investments Limited  
(Regulated by the DFSA as a Representative Office)  
Level 15, Gate Building  
DIFC, P.O. Box 507054  
Dubai, U.A.E.  
Phone: +971.4 401.9284  
Fax: +971.4 401.9578

### Board of Directors of the Management Company

Mr. Iqbal Ali Lakhani - Chairman  
Mr. Babar Ali Lakhani - Chief Executive Officer  
Mr. Jamil Ahmed Mughal (March 30, 2018)  
Mr. Mahomed J. Jaffer  
Mr. Amin Mohammed Lakhani  
Mr. Daniel Scott Smaller  
Mr. Zahid Zakiuddin  
Mr. Jacques John Visser  
Mr. Aziz H. Ebrahim (Till February 02, 2018)

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

Mr. Salman Shafiq Hashmi

### Audit Committee

Mr. Zahid Zakiuddin - Chairman  
Mr. Amin Mohammed Lakhani  
Mr. Iqbal Ali Lakhani  
Mr. Aziz H. Ebrahim (Till February 02, 2018)

### Human Resource and Remuneration Committee

Mr. Iqbal Ali Lakhani - Chairman  
Mr. Babar Ali Lakhani  
Mr. Daniel Scott Smaller

### 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  
JS Bank Limited  
National Bank of Pakistan  
Silk Bank Limited  
Sindh Bank Limited  
United Bank Limited

**Legal Adviser**

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

**Registrar**

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

**Distributors**

Metro Securities Pvt. Limited  
Ismail Iqbal Securities  
BMA Financial  
Amir Noorani  
Topline Securities (Pvt.) Limited  
Adam Securities  
Elixir Securities (Pvt.) Limited  
Vector Capital (Pvt.) Limited  
Pearl Securities Pvt. Limited  
Rabia Fida

**Rating by PACRA**

1 Year : 3-Star (Average)  
3 Year : 3-Star (Average)  
5 Year : 3-Star (Average)  
AM2+ : Asset Manager Rating by PACRA



## **REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2018**

The Board of Directors of Lakson Investments Limited, the Management Company of the Lakson Equity Fund ('LEF' or 'Fund') is pleased to submit its report together with Audited Financial Statements for the year ended June 30, 2018.

### **Fund Objective**

The objective of the Fund is to provide long term capital appreciation by investing mainly in equity and related listed securities. Investments will be made in companies of substance, financial strength and demonstrably superior management skills with some exposure given to smaller capitalized value stocks.

### **Principal activities**

The Fund is an actively managed open-end equity fund and is listed on Pakistan Stock Exchange Limited. LEF maintains an average exposure of 70% of Net Assets in listed equity securities. The asset allocation to different sectors and stocks is made on the basis of relative attractiveness of each sector and individual stocks in that particular sector. The allocations may change from time to time keeping in view the market conditions, opportunities, political and economic factors. LEF is allowed to borrow up to 15% of Net Assets to meet redemptions however LEF did not utilize this facility during the period under review.

### **Development and Performance Review**

The LEF closed FY18 on a muted noted, with a return of -12.7% vs -10.0% of the benchmark, underperforming the benchmark by 2.7%. The LEF provided a return of -7.6% (BM: -8.6%) during 4QFY18. As of June 29, 2018, the fund had 83% exposure in equities and 16% in cash. Sector allocation is skewed towards Commercial Banks (19.0%), Oil & Gas Exploration (16.4%), Chemicals (14.5%), Oil & Gas Marketing (8.3%), Construction & Materials (6.4%), Electricity (3.4%) and others (15.3%).

### **Loss Per Unit (LPU)**

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

### **Reason for loss**

The fund underperformed the market in FY18, when the KSE 100 declined by 10.0% after hitting a high of 52,877 in May 2017. Since the LEF has a high correlation with its benchmark, the downward movement resonated in the portfolio, causing a decline of 12.7%. Exposure in underperforming sectors, such as Cements, and specific stocks, like HBL and UBL, aided in the underperformance. Given these factors, the Board has not proposed any distribution for the year ended June 30, 2018.

### **Principal Risk and Uncertainties**

The economic instability, escalating current account deficits and oil prices, consistent depleting FX reserves, declining financial aid by US and other friendly countries, higher devaluation of Pak Rupee against US Dollar, going back to IMF program, monetary tightening by central bank and worsening of external relations remains a risk for all business sectors in Pakistan. These risks could push the foreign and local investors to liquidate their investments which may affect the financial market adversely and may affect the Fund's profitability as well.

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

The Pakistan Credit Rating Agency Limited ('PACRA') has upgraded the asset manager rating of the Management Company to AM2+ from AM2. The PACRA has given the one year, three years and five years performance ranking of "3-Star" to LEF.

### **Additional Matters:**

1. The detail of Directors of the Management Company is disclosed in this Annual Report.



2. During the year ended June 30, 2018, the Directorship of Mr. A. Aziz H. Ebrahim was ceased on February 2, 2018 due to his sad demise (May Allah rest his departed soul in eternal peace). The Board Members placed their gratitude on record for the services rendered by him for the Lakson Group and the Company.

Mr. Jamil Ahmed Mughal was appointed as a Director to fill the casual vacancy with effect from March 30, 2018. The Securities & Exchange Commission of Pakistan pursuant to the requirement of the Non-Banking Finance Companies & Notified Entities Regulations, 2008, accorded its approval for the appointment of Mr. Jamil Ahmed Mughal.

3. The financial statements prepared by the Management Company present fairly the state of affairs of the Fund, the results of its operations, cash flows and movement in unit holders' fund.
4. Proper books of accounts of the Fund have been maintained.
5. Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
6. Relevant International Financial Reporting Standards, as applicable in Pakistan, provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations, 2008 ('NBFC Regulations), directives issued by the Securities & Exchange Commission of Pakistan and requirements of the constitutive documents of the Fund have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.
7. The system of internal control is adequate and sound in design and has been effectively implemented and monitored.
8. There are no significant doubts upon the Fund's ability to continue as a going concern.
9. Key financial data as has been summarized in this Annual Report.
10. Outstanding statutory payments on account of taxes, duties, levies and charges have been fully disclosed in these financial statements.
11. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company.
12. The pattern of unit holding as at June 30, 2018 is given in note No. 21.1 of the Financial Statements.
13. A performance table / key financial data is annexed to this annual report.

#### **External Auditor**

The existing auditors M/s. KPMG Taseer Hadi & Co., Chartered Accountants being eligible have given their consent for reappointment as auditors for the year ending June 30, 2019. The Board of Directors, on the recommendations of the Audit Committee, has reappointed M/s. KPMG Taseer Hadi & Co., Chartered Accountants for the year ending June 30, 2019.

#### **ECONOMY REVIEW**

Inflation was recorded at 5.21% YoY in June, which is the highest growth in 44 months (since October 2014). This brought the FY18 inflation to 3.92%, which is lower than FY17 average of 4.15%. Recent inflationary pressures are mostly attributable to local fuel prices, which have surged following the rise in international crude oil prices. CPI growth is expected to remain north of 5.5% for the remainder of the year due to the base effect as well as high fuel prices. Going forward oil prices are expected to remain high due to the upcoming sanctions on Iran, which will affect a majority of the 2.5m b/d of oil that Iran currently exports. Furthermore, economic problems in Venezuela may also disrupt supply in that country and thereby prop up oil prices. On the other hand the trade war may restrain oil prices because disruption in trade will affect global economic growth.



Pakistan's external position remained problematic in June as PKR depreciated by 5.1% during the month to reach PKR 121.4972/USD. During FY18 PKR depreciated by 15.9%, while in 1HCY18 it depreciated by 10.0%. Due to Pakistan's heightened external vulnerability, Moody's changed the outlook on its rating for Pakistan, B3, to "Negative" from its previous outlook of "Stable". In order to stabilize the external position, the government has borrowed USD 1bn from China in June and may borrow further from the country. Moreover, the government appears to be upbeat over attracting foreign exchange through its amnesty scheme, the deadline for which has been extended till the end of July. According to news sources, revenue worth PKR 65bn had been generated through this scheme till the end of June.

### **Equity Market Review**

The KSE-100 Index declined by 10.0% during FY18 mostly because of the continuously deteriorating external position. Foreign exchange reserves slipped from USD 21.4 billion to 16.4 billion and PKR devalued by 15.9%. Further, politics created jitters as the ex-Prime Minister was disqualified in July 2017 and sentenced in July 2018. The downward pressure was also attributable to flight of foreign capital from the country as foreign portfolio investors were wary of movement in the exchange rate ahead of PKR's depreciation. Another reason for the foreign portfolio outflow was the trade war between US and China, which prompted foreign investors to pull out of emerging markets at large. Net FIPI was reported at negative USD 289 million in FY18, compared to negative USD 652 million in FY17. KSE-100 closed the period at a forward P/E of 9.41, which was at a 21.0% discount to MSCI's EM Index (last five year average is 24.8% discount). Activity also took a downturn as daily average volume traded was recorded at only 175 million shares compared to 349 million shares in FY17.

Banks HBL and UBL were among the top contributors to the Index's decline due to certain one-offs. HBL was penalized by New York State's Department of Financial Services for USD 225 million, which wiped off most of the company's earnings in 2017. Moreover, both HBL and UBL, along with other top banks MCB and ABL, were ordered by the Supreme Court to pay their pensioners, which again dented their earnings. Cements were also top contributors to the Index's decline due to rise in coal prices, slippage in Northern cement prices, and certain detrimental tax measures in the Federal Budget including a rise in Federal Excise Duty.

### **Future Outlook**

Despite greater energy availability and improvement in physical infrastructure, economic growth is likely to slow in FY19. The World Bank in its report issued in June commented that Pakistan's growth in FY19 is likely to moderate to 5.0% (against 5.8% estimated for FY18) due to tighter policies to improve macroeconomic stability.

The general elections brought the Pakistan Tehreek e Insaaf (PTI) to power at the head of a coalition government. The immediate concerns which need to be addressed are the current account and fiscal deficits which threaten to derail macroeconomic stability.

Tough decisions in the form of fiscal and monetary adjustments will have to be made which will test the resolve and vision of the new government. Austerity measures including reduction in subsidies, lower development spending and rationalization of gas/power tariffs will have to be complemented by a comprehensive reform program targeting tax collection and loss making public sector enterprises.

Higher interest rates, currency depreciation and increase in import duties will be employed to defuse inflationary pressures and contain the external account as FX reserves have dipped to dangerously low levels. There is an emergent need to obtain funding from multilateral creditors (IMF/WB/ADB/IDB) and friendly countries (KSA/UAE/China) to plug a financing gap of over USD 20 billion. As a result of these expected measures, FY19 is expected to be a year of macroeconomic consolidation with GDP projected to slow down to 4.8%.

How fast the new Government can tackle the currency and external position crisis will determine the course of the market in the first six months of FY19. A new IMF package, and its terms and conditions, will also play a major role in the coming months. Further, developments related to the US-China trade war may start affecting Pakistan in that foreigners may continue to pull out funds, exports may take a hit and oil import bill may reduce as crude oil prices are likely to decline because of the trade war.



**Acknowledgment**

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

**For and on behalf of the Board**

**Chief Executive Officer**

**Director**

**Dated: August 15, 2018  
Karachi**





## لیکسن ایکویٹی فنڈ

30 جون 2018 کو ختم ہونے والے سال کے لیے

بینجمنٹ کمپنی کے ڈائریکٹرز کی رپورٹ

لیکسن انویسٹمنٹس لیڈنگ بورڈ آف ڈائریکٹرز، لیکسن ایکویٹی فنڈ ("LEF") یا فنڈ کی بینجمنٹ کمپنی 30 جون 2018 کو ختم ہونے والے سال کے لیے اپنی رپورٹ مع آڈٹ شدہ مالیاتی گوشوارے پیش کرتے ہوئے خوش محسوس کرتی ہے۔

### فنڈ کا مقصد

فنڈ کا مقصد بنیادی طور پر ایکویٹی اور متعلقہ سیکورٹیز میں انویسٹمنٹ کے ذریعے طویل مدتی خطرہ منافع جات حاصل کرنا ہے۔ یہ انویسٹمنٹس ممتاز، مالیاتی طاقت اور ثابت شدہ اعلیٰ انتظامی مہارت کی حامل کمپنیوں میں کی جائیں گی جب کہ کچھ حصہ مختصر سرماہی جاتی قدر والے اسٹاکس کے لیے مختص کیا جائے گا۔

### نمایاں سرگرمیاں

LEF ایک فعال انداز میں چلایا جانے والا اوپن اینڈ ایکویٹی فنڈ ہے اور پاکستان اسٹاک ایکسچینج لیڈنگ میں اسٹڈ ہے۔ LEF خالص اثاثوں کا کم از کم 70% حصہ اسٹڈ ایکویٹی سیکورٹیز میں رکھتا ہے مختلف شعبوں اور اسٹاکس میں اثاثے کو ہر شعبے اور اس مخصوص شعبے میں انفرادی اسٹاکس متعلقہ کشش کی بنیاد پر مخصوص کیا جاتا ہے۔ یہ تقصیص مارکیٹ کے حالات، مواقع، سیاسی اور اقتصادی عوامل کو پیش نظر رکھتے ہوئے وقتاً فوقتاً تبدیلی کی جاسکتی ہے۔ LEF کو ریڈیٹیشن کی تحمیل کے لیے خالص اثاثوں کے 15 فی صد تک قرض لینے کی اجازت ہے، تاہم LEF نے اس ہولت کو زیر جائزہ مدت کے دوران استعمال نہیں کیا۔

### پیش رفت اور کارکردگی کا جائزہ

LEF نے شیئ مارک منافع 10.0% کے مقابلے میں 12.7% منافع کے ساتھ ایک ناقابل ذکر کارکردگی سے مانی سال 2018 کا اختتام کیا اور شیئ مارک سے 2.7% کم تر کارکردگی کا مظاہرہ کیا۔ LEF نے مانی سال 2018 کی پچھلی سہ ماہی میں 7.6% منافع فراہم کیا (شیئ مارک -8.6%)۔ لیڈنگ ایکویٹی میں 83% اور کیش میں 16% سرماہیہ کاری رکھتا ہے۔ شعبہ جاتی تفویض کا جھکاؤ اس طرح ہے کہ کرشل بینکس (19.0%)، آئل اینڈ گیس ایکسپلوریشن (16.4%)، کیپیکلز (14.5%)، آئل اینڈ گیس مارکیٹنگ (8.3%)، ہکنسٹرکشن اینڈ میٹیریلز (6.4%)، ایکویٹی سٹی (3.4%) اور دیگر (15.3%)۔

### فی یونٹ نقصان (LPU)

فی یونٹ نقصان (LPU) ظاہر نہیں کیا گیا ہے کیوں کہ ہم محسوس کرتے ہیں کہ LPU شمار کرنے کے لیے تخمینہ شدہ اوسط پونٹس کا تعین اوپن اینڈ فنڈز کے لیے قابل عمل نہیں ہے۔

### نقصان کی وجہ

مانی سال 2018 میں فنڈ نے مارکیٹ کے مقابلے میں کم تر کارکردگی کا مظاہرہ کیا جب کہ KSE 100 نے مئی 2017 میں 52,877 کی بلند ترین سطح چھونے کے بعد 10.0% کمی دکھائی۔ چون کہ LEF اپنے شیئ مارک کے ساتھ گہرا تعلق ہے، چنانچہ پستی کی جانب حرکت کی بازگشت پورٹ فولیو تک پہنچی جس کے نتیجے میں 12.7% کمی ہوئی۔ کم تر کارکردگی دکھانے والے شعبوں، مثلاً بینکس، اور مخصوص اسٹاکس مثلاً HBL اور UBL میں سرماہیہ کاری نے کم تر کارکردگی میں اضافہ کیا۔ ان عوامل کے پیش نظر بورڈ نے 30 جون 2018 کو ختم ہونے والے سال کے لیے منافع کی تقسیم کی تجویز پیش نہیں کی۔

نمایاں خطرات اور خدشات



معاش عدم استحکام، کرنٹ اکاؤنٹ کے خساروں اور تیل کی قیمتوں میں اضافہ، مسلسل کم ہوتے زرمبادلہ کے ذخائر، امریکا اور دیگر دوست ممالک کی طرف سے مالی امداد میں کمی، امریکی ڈالر کے مقابلے میں پاکستانی روپے کی قدر میں بھاری کمی، آئی ایم ایف پروگرام کی طرف واپسی، مرکزی بینک کی طرف سے مالیاتی سختی اور بگڑتے خارجہ تعلقات پاکستان میں تمام کاروباری شعبوں کے لیے خطرات بنے رہے۔ یہ خطرات غیر منگلی اور مقامی سرمایہ کاروں اپنی سرمایہ کاریوں سے پیسہ نکالنے پر مجبور کر سکتے ہیں جس کے مالیاتی مارکیٹ پر منفی اثرات مرتب ہو سکتے اور فنڈ کی منافع کمانے کی اہلیت متاثر ہو سکتی ہے۔

### ایسٹ ٹیچر اینڈ فنڈ ریٹنگ

پاکستان کریڈٹ ریٹنگ ایجنسی لمیٹڈ (PACRA) نے مینجمنٹ کمپنی کی AM2 ایسٹ ٹیچر اینڈ فنڈ کو بڑھاکر AM2+ کر دیا ہے۔ PACRA نے LEF کو '3 اسٹار' کی ایک سالہ، تین سالہ اور پانچ سالہ پرفارمنس ریٹنگ دی ہے۔

### اضافی معاملات

- 1- مینجمنٹ کمپنی کے ڈائریکٹرز کی تفصیل اس سالانہ رپورٹ میں ظاہر کی گئی ہے۔
- 2- مالی سال 30 جون 2018 کے دوران، 2 فروری 2018 کو جناب عزیز ایچ اے ایم صاحب کا انتقال ہو گیا تھا (اللہ ان کی مغفرت فرمائے اور جنت میں اعلیٰ مقام عطا فرمائے) جس کے باعث ان کی ڈائریکٹر شپ ختم ہو گئی۔ بورڈ کے ارکان نے ان کی خدمات کو لیکن گروپ اور کمپنی کے لیے کو سراہا ہے۔ 30 مارچ 2018 کو جناب جمیل احمد مغل صاحب کو بطور ڈائریکٹر تعینات کیا گیا۔ سیکورٹی اینڈ ایکسچینج کمیشن آف پاکستان نے نان بینکنگ فنانس کمپنیز اور مطلع شدہ اداروں کی ریگولیشنز، 2008 کے مطابق جناب جمیل احمد مغل کی تقرری کی منظوری دی ہے۔
- 3- مینجمنٹ کمپنی کی طرف سے تیار کردہ مالیاتی گوشوارے فنڈ کے معاملات کی کیفیت، اس کی کاروباری سرگرمیوں کے نتائج، کمیشن فلو ز اور یونٹ ہولڈر کے فنڈ میں تبدیلی کی منصفانہ عکاس کرتے ہیں۔
- 4- فنڈ کے اکاؤنٹس کے کھاتے درست انداز میں رکھے ہوئے ہیں۔
- 5- مالیاتی گوشواروں کی تیاری میں اکاؤنٹنگ کی مناسب پالیسیوں کی مسلسل پیروی کی گئی ہے اور شرایاتی تخمینے مناسب اور معقول نظریات پر مبنی ہیں۔
- 6- ان مالیاتی گوشواروں کی تیاری میں مالیاتی رپورٹنگ کے بین الاقوامی معیاروں، جہاں تک وہ پاکستان میں قابل اطلاق ہیں، نان بینکنگ فنانس کمپنیز (آئینہ شلیمینٹ اینڈ ریگولیشن) رولز 2003 کے تقاضوں، نان بینکنگ فنانس کمپنیز اینڈ نوٹیفائیڈ اینٹی پیڈ اینٹی پیڈ ریگولیشنز، 2008 (NBFC ریگولیشنز)، سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان کے جاری کردہ ڈائریکٹریوز اور فنڈ کی تشکیل دینے والے متاخرات کے تقاضوں کی پیروی کی گئی ہے اور ان سے کسی بھی انحراف کی مناسب انداز میں نشان دہی کی گئی ہے۔
- 7- انٹرنل کنٹرول کا نظام مستحکم اور موثر طریقے سے نافذ ہے اور اس کی مسلسل نگرانی کی جاتی ہے۔
- 8- فنڈ کی رواں دواں رہنے کی صلاحیت کے بارے میں کوئی شکوک و شبہات نہیں ہیں۔
- 9- اہم مالیاتی ڈیٹا کا خلاصہ اس سالانہ رپورٹ میں شامل ہے۔
- 10- میکسیمز، ڈیویڈنڈ، جصولات اور چارجز کی مدد میں واجب الادا سرکاری ادائیگیاں مالیاتی گوشواروں میں پوری طرح ظاہر کر دی گئی ہیں۔
- 11- پروویڈنٹ فنڈ کی سرمایہ کاری کی مالیت سے متعلق گوشوارہ فنڈ پر قابل اطلاق نہیں ہے جیسا کہ ایسے اخراجات مینجمنٹ کمپنی کی طرف سے برداشت کیے جاتے ہیں۔

30-31 جون 2018 کے مطابق یونٹ ہولڈنگ کا پیرن مالیاتی گوشوارے کے نوٹ نمبر 21.1 میں دیا گیا ہے۔



13- کارکردگی کی جدول / اہم اقتصادی ڈیٹا اس سالانہ رپورٹ کے ساتھ منسلک ہے۔

بیرونی آڈیٹر

موجودہ آڈیٹر میسرز KPMG تاخیر ہادی اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس نے اہلیت کی بنیاد پر 30 جون 2019 کو ختم ہونے والے سال کیلئے بطور آڈیٹر دو بارہ تقرری کے لیے اپنی رضامندی ظاہر کی ہے۔ آڈٹ کمپنی کی سفارش پر بورڈ آف ڈائریکٹرز نے میسرز KPMG تاخیر ہادی اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس کو 30 جون 2019 کو نوٹم ہونے والے سال کے لیے دوبارہ مقرر کر دیا ہے۔

معاشی جائزہ

جون میں سال بہ سال بنیاد پر 5.21% افراط زر ریکارڈ کیا گیا جو 44 مہینوں میں (اکتوبر 2014 سے) بلند ترین نمونہ ہے۔ اس نے مالی سال 2018 کے افراط زر کو 3.92% تک پہنچا دیا جو مالی سال 2017 کی 4.15% اوسط سے کم ہے۔ افراط زر کا حالیہ دباؤ زیادہ تر شیول کی مقامی قیمتوں کا نتیجہ ہے، جن میں خام تیل کی بین الاقوامی قیمتوں میں اضافے کے بعد تیزی آئی ہے۔ گزشتہ سہ ماہی میں افراط زر کی کم ترین سطح کے اثرات (Base effect) اور شیول کی بلند قیمتوں کی وجہ سے سال کی بلند قیمت میں CPI نمو 5.5% کے لگ بھگ رہنے کی توقع ہے۔ آئندہ بھی ایران پر لاگو ہونے والی پابندیوں کی وجہ سے تیل کی قیمتیں بلند رہنے کی توقع ہے جس سے 2.5 ملین بیرل روزانہ تیل کا بڑا حصہ متاثر ہوگا جو ایران اس وقت برآمد کرتا ہے۔ مزید برآں ویزو بیلا میں معاشی مسائل بھی اس ملک کی سپلائی معطل کر سکتے ہیں جس کے نتیجے میں تیل کی قیمتوں میں اضافہ ہو جائے گا۔ دوسری طرف تجارتی جنگ تیل کی قیمتوں کو محدود کر سکتی ہے کیوں کہ تجارت میں بندش عالمی معاشی نمو کو متاثر کرے گی۔

پاکستان کی بیرونی صورت حال جون میں پریشان کن رہی جیسا کہ مہینے کے دوران روپے کی قدر 5.1% کم ہو کر 121.4972 روپے فی امریکی ڈالر تک پہنچی گئی۔ مالی سال 2018 میں روپے کی قدر میں 15.9% کمی ہوئی، جب کہ موجودہ سال 2018 کے پہلے نصف میں اس کی قدر 10.0% گر گئی۔ پاکستان کی برہتی بیرونی کمزور حالت کی وجہ سے سوڈیز نے پاکستان کے لیے توقعات پر اپنی ریٹینو، سابقہ توقعات B3 ”مستحکم“ سے کم کر کے ”مفتی“ کر دی۔ بیرونی صورت حال کو مستحکم کرنے کے لیے حکومت نے جون چینی سے ایک ارب ڈالر قرضہ لیا ہے اور اس ملک سے مزید قرض لیا جاسکتا ہے۔ مزید برآں حکومت اپنی اینٹسٹی اسکیم کے ذریعے، جس کی آخری تاریخ جولائی تک بڑھادی گئی ہے، زرمبادلہ کو راغب کرنے کے بارے میں ہنر مند ہے۔ خبروں کے ذرائع کے مطابق اس اسکیم کے ذریعے جون کے آخر تک 65 ارب روپے اکٹھے کیے جاسکتے ہیں۔

ایکویٹی مارکیٹ کا جائزہ

مالی سال 2018 کے دوران KSE-100 انڈیکس میں 10.0% کمی ہوئی جس کی بڑی وجہ مسلسل بگڑتی ہوئی صورت حال ہے۔ زرمبادلہ کے ذخائر 21.4 ارب ڈالر سے گزر کر 16.4 ارب ڈالر ہو گئے اور پاکستانی روپوں کی قدر میں 15.9% کمی ہوئی۔ مزید برآں سیاست میں افراتفری کا ماحول رہا جیسا کہ جولائی 2017 میں سابق وزیر اعظم کے نال کیے گئے اور جولائی 2018 میں جیل بھیج دیے گئے۔ پختی کی جانب دباؤ ملک سے غیر ملکی سرمایے کے اخراج کا بھی نتیجہ تھا جیسا کہ غیر ملکی پورٹ فولیو اور سرمایہ کار پاکستانی روپے کی قدر میں کمی سے پہلے زرمبادلہ میں نقل و حرکت کے حوالے سے خدشات میں مبتلا تھے۔ غیر ملکی پورٹ فولیو کے بیرونی اخراج کی ایک اور وجہ امریکا اور چین کے درمیان تجارتی جنگ تھی جس نے غیر ملکی سرمایہ کاروں کو بحیثیت مجموعی افراتفری مارکیٹوں سے سرمایہ کھانے پر اکسایا۔ مالی سال 2017 میں مئی 652 ملین امریکی ڈالر کے مقابلے میں مالی سال 2018 میں مئی 289 ملین امریکی ڈالر فی پی FIPI درج کر لیا گیا۔ KSE-100 نے 9.41 کے فارورڈ P/E پر مدد کا اختتام کیا، MSCI کے EM انڈیکس کے مقابلے میں 21.0% ڈسکاؤنٹ پر تھا (گزشتہ پانچ سال کا اوسط ڈسکاؤنٹ 24.8% ہے)۔ خرید و فروخت کی سرگرمی بھی پختی کا شکار رہی، جیسا کہ یومی اوسط حجم



مالی سال 2017 میں 349 ملین شیئرز کے مقابلے میں صرف 175 ملین شیئرز ریکارڈ کیا گیا۔

ٹیکس HBL اور UBL بعض مخصوص اتفاقہ معاملات کی وجہ سے انڈیکس کے زوال میں سب سے بڑے حصہ داروں میں شامل تھے۔ HBL پر نیویارک اسٹیٹ ڈپارٹمنٹ آف فنانشل سروسز کی طرف سے 225 ملین ڈالر جرمانہ عائد کیا گیا جس نے کمپنی کی 2017 میں آمدنی کے بیش تر حصے کا صفایا کر دیا۔ مزید HBL اور UBL کو مزید متاثر بنائیں اور ABL کے ہمراہ سپریم کورٹ کی طرف سے اپنے پشتر ذکوہا نکلیاں کرنے کا حکم دیا گیا، جس نے ایک بار پھر آمدن کو ضرب لگائی۔ سیکٹس بھی انڈیکس میں کمی کے سرفہرست حصہ داروں میں شامل تھیں جس کی وجہ کوئلے کی قیمتوں میں اضافہ، شالی سینٹ کی قیمتوں میں گراؤ، اور وفاقی بجٹ میں ٹیکس سے متعلق مخصوص نقصان دہ اقدامات تھے جس میں فیڈرل ایکسائز ڈیوٹی میں اضافہ شامل ہے۔

مستقبل کی توقعات

بجلی کی بہتر دستیابی اور فزیکل انفراسٹرکچر میں بہتری کے باوجود، مالی سال 2019 میں معاشی نمو سست رہنے کے امکانات ہیں۔ ورلڈ بینک نے جون میں جاری کردہ اپنی رپورٹ میں تبصرہ کیا ہے کہ مجموعی اقتصادی استحکام میں بہتری کے لیے نسبتاً سخت پالیسیوں کی وجہ سے مالی سال 2019 میں پاکستان کی نمو 5.0% تک متوسط رہنے کا امکان ہے۔

مالی سال 2018 کے پہلے تھے ماہ میں اس پر مارکیٹ کی سمت کا یقین ہوگا کہ نئی حکومت کتنی تیزی سے کرنسی اور خارجی حالات کے بحران سے نمٹ سکتی ہے۔ ایک نیا IMF پیکج اور اس کی شرائط وضو ایٹا بھی آنے والے مہینوں میں ایک نمایاں کردار ادا کریں گے۔ مزید برآں، امریکی چینی تجارتی جنگ سے متعلق پیش رفت بھی پاکستان کو متاثر کرنا شروع کر سکتی ہے جس میں غیر ملکیوں کی طرف سے سرمایہ نکالے جانے کا سلسلہ جاری رہ سکتا ہے، برآمدات کو ضرب لگ سکتی ہے اور تیل کی اپورٹ کا بل کم ہو سکتا ہے جیسا کہ تجارتی جنگ کے نتیجے میں خام تیل کی قیمتوں میں کمی کا امکان ہے۔

عام انتخابات پاکستان تحریک انصاف (PTI) کو ایک اتحادی حکومت کے بل پر اقتدار میں لے آئے۔ فوری خدشات جن سے عہدہ برآ ہونے کی ضرورت ہے، کرنٹ اور مالیاتی خسارہ ہیں جن سے مجموعی اقتصادی استحکام کے پڑی سے اترنے کا خطرہ دوڑ چکا ہے۔

مالیاتی اور مالی ایڈجسٹمنٹس کی شکل میں مشکل فیصلے کرنے پڑیں گے جو نئی حکومت کے عزموں اور بصیرت کی آزمائش کریں گے۔ سادگی پسندانہ اقدامات بشمول سوسائٹی میں کمی، برقیاتی مصارف میں کٹوتی اور ٹیکس/بجلی کے نرخوں کے محض پسندانہ یقین کو جامع اصلاحاتی پروگرام سے تقویت دینی ہوگی جس کا ٹیکس جمع کرنا اور خسارے میں چلنے والے سرکاری ادارے ہدف ہوں۔

بلند شرح سود، کرنسی کی قدر میں کمی اور اپورٹ ڈیویڈنڈ میں اضافے سے افراط زر کا دباؤ کم کیا جائے گا اور بیرونی اکاؤنٹ کو قابو میں رکھا جائے گا جیسا کہ زر مبادلہ کے ذخائر خطرناک سطح تک گر چکے ہیں۔ 20 ارب امریکی ڈالر سے زائد کا مالیاتی خلا پُر کرنے کے لیے متعدد قرض فراہم کرنے والوں (IMF/WB/ADB/IDB) اور دوست ممالک (سعودی عرب/اتحادہ عرب امارات/چین) سے فنڈز حاصل کرنے کی چنگامی ضرورت ہے۔ ان متوقع اقدامات کے نتیجے میں مالی سال 2019 کے مجموعی اقتصادی استحکام کا سال بننے کی توقع ہے، جیسا کہ GDP میں 4.8% تک مندی کی پیش گوئی کی جاتی ہے۔

مالی سال 2018 کے پہلے تھے ماہ میں اس پر مارکیٹ کی سمت کا یقین ہوگا کہ نئی حکومت کتنی تیزی سے کرنسی اور خارجی حالات کے بحران سے نمٹ سکتی ہے۔ ایک نیا IMF پیکج اور اس کی شرائط وضو ایٹا بھی آنے والے مہینوں میں ایک نمایاں کردار ادا کریں گے۔ مزید برآں، امریکی چینی تجارتی جنگ سے متعلق پیش رفت بھی پاکستان کو متاثر کرنا شروع کر سکتی ہے جس میں غیر ملکیوں کی طرف سے سرمایہ نکالے جانے کا سلسلہ جاری رہ سکتا ہے، برآمدات کو ضرب لگ سکتی ہے اور تیل کی اپورٹ کا بل کم ہو سکتا ہے جیسا کہ تجارتی جنگ کے نتیجے میں خام تیل کی قیمتوں میں کمی کا امکان ہے۔



اظہار تشکر

یہ بورڈ اپنے قابل قدر انویسٹرز، سکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان، اسٹیٹ بینک آف پاکستان، فنڈ کے ڈسٹری بیوٹرز، سٹاک ایکسچینج کمپنی آف پاکستان، اینڈ انٹرنیشنل ڈیپازٹری کمپنی آف پاکستان لمیٹڈ اور پاکستان اسٹاک ایکسچینج کی مینجمنٹ کا، ان کے مسلسل تعاون اور مدد پر شکر گزار ہے۔ مینجمنٹ کمپنی کے ڈائریکٹرز فنڈ کی ترقی اور عمدہ نظم و نسق کے لیے اپنی ہم کی کاوشوں کا بھی اعتراف کرتے ہیں۔

برائے اور از طرف بورڈ

.....  
ڈائریکٹر

.....  
چیف ایگزیکٹو آفیسر

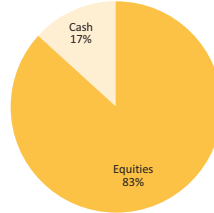
بتاریخ: 15 اگست 2018

**REPORT OF THE FUND MANAGER  
FOR THE YEAR ENDED JUNE 30, 2018**

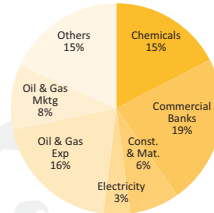
**Fund Facts**

Fund Type	Open-End
Category	Equity Fund
Net Assets (PKR Mil.)	3,235
NAV (30.06.2018)	114.2367
Pricing Mechanism	Forward Day
Trustee	CDC Pakistan Limited
Auditor	KMPG Taseer Hadi & Co.
Management Fee	2.00%
Front End Load	3.00%
Back End Load	None
Launch Date	November 13, 2009
Benchmark	KSE-30 Index (Total return index)
Dealing Days	Mon-Fri
Cut-Off Time	04:00 PM
Asset Manager Rating	AM2+ by PACRA (15.5.2017)

**Asset Allocation**



**Sectorwise Exposure**



**Fund Performance**

	LEF	KSE-30
FY18 - YTD	-12.74%	-10.03%
June-18	-1.84%	-1.58%
2 Months	-6.97%	-7.41%
3 Months	-7.61%	-8.59%
6 Months	2.91%	4.29%
12 Months	-13.16%	-10.74%
CY18-YTD	2.91%	4.29%
3 Year	21.99%	6.48%
5 Year	99.79%	44.69%
Since Inception	267.30%	235.20%

**Investment Committee**

Babar Ali Lakhani	Chairman
Kashif Mustafa	
Mustafa O. Pasha, CFA	
Syed Saifullah Kazmi	
Shahbaz Ashraf, CFA	
Hassan Bin Nasir	
Junaid Arshad, ACCA	
M. Fakhir Musharraf	

**Investment Objective**

The investment objective of the Lakson Equity Fund ("LEF") is to provide long term capital appreciation by investing mainly in equity and related listed securities. Investments will be made in companies of substance, financial strength and demonstrably superior management skills with some exposure given to smaller capitalized value stocks.

The LEF achieved its investment objective by building a diverse portfolio comprising of fundamentally strong stocks that offered high growth potential in the form of capital appreciation and/or high dividend yields. The LEF did not take exposure in any speculative stocks and only stocks with the potential to perform in the present, challenging economic environment were selected.

**Investment Strategy**

The LEF invests in fundamentally sound stocks based on the recommendations of its team of equity analysts and market dynamics. The asset allocation to different sectors and different stocks in the same sector remained dynamic, keeping in view the market conditions, opportunities and the relative attractiveness of each sector and individual stocks. The asset allocation pattern of the LEF changed from time to time keeping in view the market conditions, opportunities, political and economic factors. The LEF aims to build a diverse portfolio ranging across companies deemed the most attractive among peers. Companies with high earnings potential despite a weak economic outlook were sought, resulting in a portfolio that was heavily invested with stocks offering high dividend yields and lower price to earnings multiples relative to the market. The LEF adopted a combination of top-down and bottom-up methodologies to invest in fundamentally sound stocks.



### **Economic Review**

Inflation was recorded at 5.21% YoY in June, which is the highest growth in 44 months (since October 2014). This brought the FY18 inflation to 3.92%, which is lower than FY17 average of 4.15%. Recent inflationary pressures are mostly attributable to local fuel prices, which have surged following the rise in international crude oil prices. CPI growth is expected to remain north of 5.5% for the remainder of the year due to the base effect as well as high fuel prices. Going forward oil prices are expected to remain high due to the upcoming sanctions on Iran, which will affect a majority of the 2.5m b/d of oil that Iran currently exports. Furthermore, economic problems in Venezuela may also disrupt supply in that country and thereby prop up oil prices. On the other hand the trade war may restrain oil prices because disruption in trade will affect global economic growth.

Pakistan's external position remained problematic in June as PKR depreciated by 5.1% during the month to reach PKR 121.4972/USD. During FY18 PKR depreciated by 15.9%, while in 1HCY18 it depreciated by 10.0%. Due to Pakistan's heightened external vulnerability, Moody's changed the outlook on its rating for Pakistan, B3, to "Negative" from its previous outlook of "Stable". In order to stabilize the external position, the government has borrowed USD 1bn from China in June and may borrow further from the country. Moreover, the government appears to be upbeat over attracting foreign exchange through its amnesty scheme, the deadline for which has been extended till the end of July. According to news sources, revenue worth PKR 65bn had been generated through this scheme till the end of June.

### **Outlook**

Despite greater energy availability and improvement in physical infrastructure, economic growth is likely to slow in FY19. The World Bank in its report issued in June commented that Pakistan's growth in FY19 is likely to moderate to 5.0% (against 5.8% estimated for FY18) due to tighter policies to improve macroeconomic stability.

### **Equity Market Review**

The KSE-100 Index declined by 10.0% during FY18 mostly because of the continuously deteriorating external position. Foreign exchange reserves slipped from USD 21.4 billion to 16.4 billion and PKR devalued by 15.9%. Further, politics created jitters as the ex-Prime Minister was disqualified in July 2017 and sentenced in July 2018. The downward pressure was also attributable to flight of foreign capital from the country as foreign portfolio investors were wary of movement in the exchange rate ahead of PKR's depreciation. Another reason for the foreign portfolio outflow was the trade war between US and China, which prompted foreign investors to pull out of emerging markets at large. Net FIPI was reported at negative USD 289 million in FY18, compared to negative USD 652 million in FY17. KSE-100 closed the period at a forward P/E of 9.41, which was at a 21.0% discount to MSCI's EM Index (last five years average is 24.8% discount). Activity also took a downturn as daily average volume traded was recorded at only 175 million shares compared to 349 million shares in FY17.

Banks HBL and UBL were among the top contributors to the Index's decline due to certain one-offs. HBL was penalized by New York State's Department of Financial Services for USD 225 million, which wiped off most of the company's earnings in 2017. Moreover, both HBL and UBL, along with other top banks MCB and ABL, were ordered by the Supreme Court to pay their pensioners, which again dented their earnings. Cements were also top contributors to the Index's decline due to rise in coal prices, slippage in Northern cement prices, and certain detrimental tax measures in the Federal Budget including a rise in Federal Excise Duty.

### **Fund Performance**

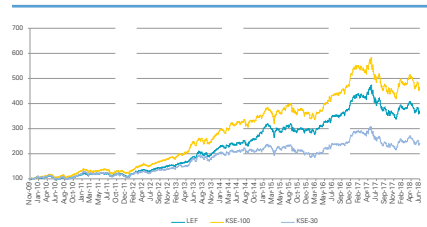
LEF closed FY18 on a muted note, generating a FY'18 return of -12.7% vs. -10.0% for the benchmark registering an underperformance of 2.7%. This was a significant under performance on YoY basis, when the fund recorded a return of 26.4% in FY17. LEF maintained a neutral stance in FY18 with an average equity exposure of 85%.



Performance Table	FY18	FY17
Net Assets - Beginning (PKR Mil.)	4,217	2,838
Net Assets - Ending (PKR Mil.)	3,235	4,217
Highest Offer Price (PKR)	135.3738	167.6648
Lowest Offer Price (PKR)	107.8971	117.7529
Highest Redemption Price (PKR)	131.4308	162.7813
Lowest Redemption Price (PKR)	104.7544	114.3232
Beginning NAV - Ex-Div. (PKR)	130.9153	114.3295
Interim Distributions (PKR)	-	13.3237
Final Distribution (PKR)	-	-
Ending NAV - Ex-Div. (PKR)	114.2367	128.2755
Return	-12.70%	26.40%
Net Income / (Loss) (PKR Mil.)	(523.00)	1,031.00

Distributions	FY18	FY17
Interim Distribution	-	13.3237
NAV before Distribution	114.2367	141.5992
NAV after Distribution	114.2367	128.2755
Distribution Date	Nil	22-Jun-17

**LEF vs. Benchmark**



### Future Outlook

How fast the new Government can tackle the currency and external position crisis will determine the course of the market in the first six months of FY19. A new IMF package, and its terms and conditions, will also play a major role in the coming months. Further, developments related to the US-China trade war may start affecting Pakistan in that foreigners may continue to pull out funds, exports may take a hit and oil import bill may reduce as crude oil prices are likely to decline because of the trade war.

LEF will look to maintain a cautious exposure in the market, as political pressure will dilute investor interest and create index volatility until the settlement of Elections. In addition, rising interest rate and depreciating PKR-USD parity will also reduce volumes in the market. The fund will focus on sectors that match the thematic strategy and are trading at a fundamental discount to their valuations. The fund will look to cherry pick as shallow volumes will allow for deep discount in prices in the short term.

### Circumstances Materially Affecting Interests of Unit Holders

PACRA upgraded the Asset manager Rating of Lakson Investments to 'AM2+' during FY18.

As of June 29, 2018, the LEF has maintained provisions against Sindh Workers' Welfare Fund's liability to the tune of PKR 38.1 million. If the same were not made the NAV per unit of the LEF would be higher by PKR 1.3455. If the LEF would not have made the WWF provisions for the period, the year to date return of LEF for FY18 would be higher by 0.0%.

### Other Disclosures

Lakson Investments Limited or any of its delegates did not receive any soft commission from its broker(s) or dealer(s).

There was no unit split undertaken during the year.

As of June 29, 2018, the LEF does not employ leverage.

### Breakdown of Unit Holding by Size

Units Range	No. of Clients	Units Held
1 - 100	4	185
101 - 500	11	2,782
501 - 1,000	6	4,057
1,001 - 5,000	13	35,982
5,001 - 10,000	6	43,308
10,001 - 50,000	15	323,737
50,001 - 100,000	4	259,558
100,001 - 500,000	7	1,456,515
500,001 - 1,000,000	4	2,615,918
1,000,001 - 5,000,000	8	23,571,980
5,000,001 - above	0	-
	<b>78</b>	<b>28,314,022</b>

**CENTRAL DEPOSITORY COMPANY  
OF PAKISTAN LIMITED**

**Head Office:**

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Fax: (92-21) 34326020 - 23  
URL: [www.cdcpk.com](http://www.cdcpk.com)  
Email: [info@cdcpc.com](mailto:info@cdcpc.com)



**TRUSTEE REPORT TO THE UNIT HOLDERS**

**LAKSON EQUITY FUND**

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

We Central Depository Company of Pakistan Limited, being the Trustee of Lakson Equity Fund (the Fund) are of the opinion that Lakson Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2018 in accordance with the provisions of the following:

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

**Aftab Ahmed Diwan**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

Karachi: September 19, 2018





**INDEPENDENT AUDITOR'S REPORT**  
To the Unit holders of Lakson Equity Fund

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the annexed financial statements of Lakson Equity Fund ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2018, income statement, statement of comprehensive income, statement of movement in unit holders' fund, statement of cash flows for the year then ended, and notes to the financial statements, including summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with the accounting and reporting standards as applicable in Pakistan.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted by the Institute of Chartered Accountants of Pakistan together with the ethical requirements that are relevant to our audit of the financial statements in Pakistan and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matter**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Following is the Key audit matter:

S.#	Key audit matters	How the matter was addressed in our audit
1.	<p><b>Valuation of Investments</b></p> <p>Refer to note 5 to the financial statements for the details of investments and the accounting policy in note 3.2 to the financial statements.</p> <p>At 30 June 2018, the Fund's investment portfolio classified as at "Fair value through income statement" comprised of listed equity shares of Rs. 2.725 billion million representing 84.23 % of net assets value of the Fund as of that date.</p> <p>We identified the valuation of investments as a key audit matter because of its significance in relation to the net asset value of the Fund.</p>	<p>Our audit procedures to assess the valuation of investments included the following:</p> <ul style="list-style-type: none"> <li>- obtained an understanding of and testing the design and operating effectiveness of the key controls for the valuation of investments; and</li> <li>- assessed on a sample basis whether the investments were valued at fair value based on the rates quoted on the Pakistan Stock Exchange as at 30 June 2018.</li> </ul>



### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit, in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

#### **Report on Other Legal and Regulatory Requirements:**

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

The engagement partner responsible for the audit resulting in this independent auditor's report is Aryn Pirani.

**Date: August 15, 2018**

**Karachi**

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

**Statement of Assets and Liabilities  
As at June 30, 2018**

	Note	2018 (Rupees)	2017
<b>Assets</b>			
Bank balances	4	574,381,423	211,565,577
Investments	5	2,724,525,859	3,928,175,055
Dividend and other receivables	6	5,599,775	11,142,981
Mark-up accrued on bank balances		4,283,429	665,843
Advances and deposits	7	10,150,000	2,650,000
Receivable against sale of investments		18,765,382	184,290,034
<b>Total assets</b>		<b>3,337,705,868</b>	<b>4,338,489,490</b>
<b>Liabilities</b>			
Payable to the Management Company	8	27,471,148	29,427,571
Remuneration payable to the Trustee	9	406,947	504,769
Annual fee payable to the Securities and Exchange Commission of Pakistan	10	3,333,685	3,771,056
Accrued expenses and other liabilities	11	39,232,962	80,686,590
Dividend payable		-	116,524
Payable against purchase of investments		32,759,230	7,192,750
<b>Total liabilities</b>		<b>103,203,972</b>	<b>121,699,260</b>
<b>Contingencies and commitments</b>	13		
<b>Net assets</b>		<b>3,234,501,896</b>	<b>4,216,790,230</b>
<b>Unit holders' fund (As per statement attached)</b>		<b>3,234,501,896</b>	<b>4,216,790,230</b>
		<b>(Number)</b>	
<b>Number of units in issue</b>	14	<b>28,314,022</b>	<b>32,210,062</b>
		<b>(Rupees)</b>	
<b>Net assets value per unit</b>		<b>114.2367</b>	<b>130.9153</b>

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

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

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

\_\_\_\_\_  
Chief Financial Officer

\_\_\_\_\_  
Director



**Income Statement**  
**For the year ended June 30, 2018**

		2018	2017
<b>Income</b>	<b>Note</b>	<b>(Rupees)</b>	
(Loss) / Gain on sale of held for trading investments - net		<b>(268,924,481)</b>	526,610,754
Unrealised (loss) / gain on revaluation of held for trading investments - net	5.1	<b>(344,182,385)</b>	252,064,627
Dividend income on held for trading investments		<b>150,959,348</b>	155,843,737
Mark-up on bank balances		<b>33,134,667</b>	27,691,818
		<b>(429,012,851)</b>	962,210,936
Reversal of workers' welfare fund provision	11.1	-	19,867,065
		<b>(429,012,851)</b>	982,078,001
<b>Expenses</b>			
Remuneration of the Management Company	8.1	<b>70,182,848</b>	79,390,657
Sindh Sales Tax on remuneration of the Management Company	8.2	<b>9,123,770</b>	10,320,786
Remuneration of the Trustee	9	<b>5,095,331</b>	5,615,572
Annual fee to the Securities and Exchange Commission of Pakistan	10	<b>3,333,685</b>	3,771,056
Auditors' remuneration	15	<b>255,361</b>	292,109
Fees and subscription		<b>442,403</b>	331,861
Printing charges		<b>109,678</b>	75,777
Brokerage expenses		<b>4,467,470</b>	8,657,344
SECP supervisory fee		<b>2,500</b>	5,000
Settlement charges		<b>716,149</b>	934,949
Bank and other charges		<b>52,765</b>	36,779
Provision for Sindh workers' welfare fund (SWWF)	11.1	-	38,096,893
Total expenses		<b>93,781,960</b>	147,528,783
Element of income / (loss) and capital gains / (loss) in prices of units sold less those in units redeemed - net		-	196,911,672
<b>Net (loss) / income before taxation</b>		<b>(522,794,811)</b>	1,031,460,890
Taxation	17	-	-
<b>Net (loss) / income for the year after taxation</b>		<b>(522,794,811)</b>	1,031,460,890
<b>Allocation of net income for the year:</b>			
Net income for the year		-	-
Income already paid on units redeemed		-	-
<b>Accounting income available for distribution</b>		-	-
-Related to capital gains - net		-	-
-Excluding capital gains		-	-
		-	-

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

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

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

\_\_\_\_\_  
Chief Financial Officer

\_\_\_\_\_  
Director



**Statement of Comprehensive Income  
For the year ended June 30, 2018**

	2018	2017
	(Rupees)	
Net (loss) / income for the year	(522,794,811)	1,031,460,890
Other comprehensive income for the year	-	-
<b>Total comprehensive (loss) / income for the year</b>	<u><u>(522,794,811)</u></u>	<u><u>1,031,460,890</u></u>

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



For Lakson Investments Limited  
(Management Company)

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

\_\_\_\_\_  
Chief Financial Officer

\_\_\_\_\_  
Director

**Statement of Movement in Unit Holders' Fund  
For the year ended June 30, 2018**

	Year ended 2018		Year ended 2017	
	Capital value	Undistributed income	Capital value	Undistributed income
<b>Net assets at beginning of the year</b>				
Issuance of 8,309,763 units (2017: 15,317,139)				
Total proceeds on issuance of units	3,221,006,224	995,784,006	2,482,021,657	355,662,785
<b>Redemption of 12,205,803 units (2017: 7,927,293)</b>				
Total payments on redemption of units	(1,444,830,131)	-	(792,729,333)	(387,623,155)
Distribution to the unit holders in cash		985,336,608	1,531,713,900	584,534,827
Element of loss / (income) and capital losses / (gains) in prices of units sold less those in units redeemed - net				
Total comprehensive (loss) / income for the year		(522,794,811)		(391,339,669)
<b>Net assets as at end of the year</b>	<b>2,761,512,701</b>	<b>472,989,195</b>	<b>3,221,006,224</b>	<b>995,784,006</b>
<b>Undistributed income brought forward:</b>				
- Realized income	743,719,379		232,267,587	
- Unrealized income	252,064,627		123,395,198	
	995,784,006		355,662,785	
<b>Accounting income available for distribution:</b>				
Relating to capital gains				
Excluding capital gains				
<b>Net (loss) / income for the year after taxation</b>				
Interim distribution for 2017: Rs. 13,324 per Unit approved on 22 June 2017				
<b>Undistributed income / (loss) at end of the year</b>				
<b>Undistributed income brought forward:</b>				
- Realized income	817,171,580		743,719,379	
- Unrealized (loss) / income	(344,182,385)		252,064,627	
	472,989,195		995,784,006	
<b>Undistributed income / (loss) at end of the year</b>				
Net assets value per unit at beginning of the year		130.9153		114.3295
Net assets value per unit at end of the year		111.0029		130.9153

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

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

Chief Executive Officer

Chief Financial Officer

Director



**Statement of Cash Flow**  
**For the year ended June 30, 2018**

	2018	2017
	(Rupees)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) / income for the year	(522,794,811)	1,031,460,890
<b>Adjustments for:</b>		
Unrealised loss / (gain) on revaluation of held for trading investments - net	344,182,385	(252,064,627)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net	-	(196,911,672)
Mark-up on bank balances	(33,134,667)	(27,691,818)
Dividend income on held for trading investments	(150,959,348)	(155,843,737)
	<u>(362,706,441)</u>	<u>398,949,036</u>
<b>Decrease / (increase) in assets</b>		
Investments	859,466,811	(1,037,232,919)
Other receivables	(3)	(1,244)
Advances and Deposits	(7,500,000)	-
Receivable against sale of investments	165,524,652	(175,689,084)
	<u>1,017,491,460</u>	<u>(1,212,923,247)</u>
<b>(Decrease) / Increase in liabilities</b>		
Payable to the Management Company	(1,956,423)	2,939,299
Remuneration payable to the Trustee	(97,822)	146,400
Annual fee payable to Securities and Exchange Commission of Pakistan	(437,371)	974,220
Payable against purchase of investments	25,566,480	4,688,276
Dividend payable	(116,524)	-
Accrued expenses and other liabilities	(41,453,628)	59,363,094
	<u>(18,495,288)</u>	<u>68,111,289</u>
Profit received on bank balances	29,517,081	27,333,307
Dividend income received on held for trading investments	156,502,557	148,205,127
<b>Net cash flows from operating activities</b>	<u>822,309,369</u>	<u>(570,324,488)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of units	985,336,608	2,116,248,727
Payments on redemption of units	(1,444,830,131)	(1,180,352,488)
Distribution to unit holders' in cash	-	(391,223,145)
<b>Net cash flows from financing activities</b>	<u>(459,493,523)</u>	<u>544,673,094</u>
<b>Net increase in cash and cash equivalents</b>	<u>362,815,846</u>	<u>(25,651,394)</u>
Cash and cash equivalents at beginning of the year	211,565,577	237,216,971
<b>Cash and cash equivalents at end of the year</b>	<u>574,381,423</u>	<u>211,565,577</u>

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

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

Chief Executive Officer

Chief Financial Officer

Director

## Notes to and forming part of the Financial Statements For the year ended June 30, 2018

### 1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 The Lakson Equity Fund (the "Fund") was established under the Trust Deed executed on 2 September 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).

1.2 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). The registered office of the Management Company is located at 14 - Ali Block, New Garden Town, Lahore, while the Head Office is in the Lakson Square building No.2 , Karachi.

1.3 The Fund is an open end mutual fund and is listed on Pakistan Stock Exchange Limited. 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 is categorised as "Equity Scheme" as per the Circular 07 of 2009 issued by SECP and it primarily invests in listed equity securities and other avenues of investment, which include cash or near cash instruments, cash in bank accounts (excluding TDR) and treasury bills not exceeding 90 days maturity and any other investment authorised 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.

1.4 The Pakistan Credit Rating Company Limited (PACRA) has maintained asset manager rating of the Management Company of the Fund to the scale 'AM2+' (stable outlook) dated 22 December 2017 (AM2+ as on 15 May 2017).

On 24 May 2018, PACRA assigned following rankings to the Fund based on the performance review for the period ended 31 December 2017 (trailing 12 months for 1 Year ranking, trailing 36 months for 3 Year ranking, and trailing 60 months for 5 Year ranking.)

1 Year : 3-Star (Average)  
3 Year : 3-Star (Average)  
5 Year : 3-Star (Average)

### 2. BASIS OF PREPARATION

#### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Provisions of and directives issued under the Companies Act, 2017 along with part VIIIA of the repealed Companies Ordinance, 1984; and



- Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules), Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations).

Where provisions of and directives issued under the Companies Act, 2017, part VIII A of the repealed Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017, part VIII A of the repealed Companies Ordinance, 1984, the NBFC Rules and the NBFC Regulations have been followed.

## **2.2 Basis of measurement**

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

## **2.3 Functional and presentation currency**

These financial statements are presented in Pak Rupees, which is the fund's functional and presentation currency. All amount have been rounded off to the nearest of rupees, unless otherwise indicated.

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in the application of accounting policies are given below:

### **a) Judgements**

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the note 3.2 regarding the Classification of investments.

### **b) Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements for the year ending 30 June 2017 is included in the following notes:

- Note 3.2 - Valuation of investments
- Notes 3.10 and 3.14 - Impairment of financial instruments and other assets
- Notes 11.1, 8.3 and 8.2 - Recognition of provision for Sindh Workers' Welfare Fund, Federal Excise Duty and Sindh Sales Tax on Federal Excise Duty respectively
- Notes 3.5 and 17 - Taxation



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

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 July 2018:

- Classification and Measurement of Share-based Payment Transactions - amendments to IFRS 2 clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on the Fund's financial statements.
- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' -effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on the Fund's financial statements.
- Annual Improvements to IFRSs 2014-2016 Cycle [Amendments to IAS 28 'Investments in Associates and Joint Ventures'] (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non- investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on the Fund's financial statements.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The application of interpretation is not likely to have an impact on the Fund's financial statements.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on the Fund's financial statements.



- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 July 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The management is currently in the process of analyzing the potential impact of changes required in revenue recognition policies on the adoption of the standard. However the management considers that the impact would not be significant.
- IFRS 9 'Financial Instruments' and amendment - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 July 2018 and 1 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The management is in the process of analyzing the potential impact of changes required in classification and measurement of financial instruments on the adoption of the standard and impairment required under the expected credit loss model. However the management considers that there would not be a significant financial impact.
- IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The amendments are not likely to have an impact on the Fund's financial statements.
- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on the Fund's financial statements.
- Amendments to IAS 19 'Employee Benefits'- Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, the Fund now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on the Fund's financial statements.
- Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:
  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangement - the amendment aims to clarify the accounting treatment when the Fund increases its interest in a joint operation that meets the definition of a business. The Fund remeasures its previously



held interest in a joint operation when it obtains control of the business. The Fund does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

- IAS 12 Income Taxes - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.
- IAS 23 Borrowing Costs - the amendment clarifies that the Fund treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The above amendments are effective from annual period beginning on or after 1 January 2019 and are not likely to have an impact on the Fund's financial statements.

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

The principal accounting policies applied in the preparation of these financial statements have been consistently applied to periods presented except for the change in accounting policy of element of income.

#### **New, Amended and Revised Standards and Interpretations of IFRSs**

There are new and amended standards and interpretations that are mandatory for accounting periods beginning 01 July 2017 but are considered not to be relevant or do not have any significant effect on the Funds' financial statements and are therefore not stated in these financial statements.

#### **3.1 Element of Income**

Up to 30 June 2017, the element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed to the extent that it is represented by income earned during the accounting period is recognized in income statement and to the extent that it is represented by unrealised appreciation / (diminution) arising during the year on available for sale securities is included in distribution statement.

Securities & Exchange Commission of Pakistan through its SRO 756(I)/2017 dated 03 August 2017 has made certain amendments in NBFCs and Notified Entities Regulations, 2008. The SRO changed the definition of accounting income in regulation (63) sub-regulation (I) which excludes the element of income from "accounting income". As per SRO, element of income represents the difference between net assets value per unit on the issuance or redemption date, as the case may be, of units and the net assets value per unit at the beginning of the relevant accounting period. It also specifies that element of income is a transaction of capital nature and the receipt and payment of element of income shall be taken to unit holders' fund. However, to maintain the same ex-dividend net asset value of all units outstanding on the accounting date, net element of income contributed on issue of units lying in unit holders fund will be refunded on units in the same proportion as dividend bears to accounting income available for distribution.

The said SRO also deleted 'Distribution Statement' and requires additional disclosures with respect to "Income Statement" (relating to allocation of net income for the year) and "Statement of Movement in Unit Holders' Fund" and recording of element of income / loss included in price of unit issued or redeemed directly in Statement of movements in unit holders' fund instead of income statement. "MUFAP, in consultation with the SECP, has specified a methodology for the determination of income paid on units redeemed (income already paid) under which such income is paid on gross element receipt basis and is calculated from the latest date at which the Fund achieved net profitability during the year.



by IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors', a change in accounting policy requires retrospective application as if that policy had always been applied. However, the Management Company has applied the above changes in accounting policy, including the additional disclosures requirements in the 'Income Statement' and 'Statement of Movement in Unit Holders' Fund', prospectively from 01 July 2017 as clarified by SECP vide its email dated 7 February 2018. Accordingly, corresponding figures have not been restated. Had the element of income been recognised as per the previous accounting policy, the loss of the Fund would have been higher by Rs. 69.89 million in respect of element of income. However the net per unit would still have been the same.

### **3.2 Investments**

The Fund classifies its investments as at fair value through profit or loss account (as Held for Trading).

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

Held for trading investments are initially recognised at cost, being the fair value of the consideration given excluding the transaction cost associated with the investment which is charged off to the income statement. After initial recognition, above investments are remeasured at fair value determined with reference to Stock Exchange quoted market prices at the close of period end. Gains or losses on re-measurement of these investments are recognised in income statement.

All regular way purchases and sales of investments are recognised on the trade date, i.e. the date on which commitment to purchase / sale is made by the Fund. Regular way purchases or sales of investment require delivery of securities within two days after transaction date as required by stock exchange regulations.

### **3.3 Issue and redemption of units**

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors / Management Company during business hours on the date on which the funds are actually realized against application. The offer price represents the net assets value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company. Transaction costs are recorded as the income of the Fund.

Units redeemed are recorded at the redemption price, applicable to the units for which the distributors / Management Company receive redemption applications during business hours of that day. The redemption price represents the net assets value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

### **3.4 Net asset value per unit**

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

### **3.5 Taxation**

The Fund is exempt from taxation under clause 99 of the Part I of the 2nd Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders, provided that for the purpose of determining distribution of not less than 90% of its accounting income for the year, the income distributed through bonus units shall not be taken into account.



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.

### **3.6 Revenue recognition**

- Dividend income is recognised when the right to receive dividend is established.
- Gain or loss arising on sale of investment is accounted for in the income statement in the period in which it arises.
- Profit on bank balances is recognised at effective profit rates on a time proportion basis.
- Unrealised gain or loss arising on the revaluation of investment classified as held for trading is included in the income statement in the period in which it arises.
- Income from investments in treasury bills are recognised at the rate of return implicit in the instrument on a time proportionate basis.

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

Element of Income represents the difference between net assets value on the issuance or redemption date, as the case may be, of units and the Net asset Value (NAV) at the beginning of the relevant accounting period.

Element of Income is a transaction of capital nature and the receipt and payment of element of income is taken to unit holders' fund; however, to maintain same ex-dividend net asset value of all units outstanding on accounting date, net element of income contributed on issue of units lying in unit holders fund is refunded on units (refund of capital) in the same proportion as dividend bears to accounting income available for distribution. As per guideline provided by MUFAP (MUFAP Guidelines consented upon by SECP) the refund of capital is made in the form of additional units at zero price. The income already paid on redemption of units during the year are taken separately in statement of movement in unitholders' fund.

### **3.8 Financial instruments**

Financial assets and financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Fund ceases to be a party to such contractual provisions of the instrument. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on the derecognition of the financial assets and financial liabilities is taken to income currently.

All financial assets are initially recognised at cost, being the fair value of the consideration given. Subsequent to initial recognition, financial assets (other than the held for investments mentioned in note 3.2 above) comprising of loans and receivables (representing non-derivative financial assets with fixed or determinable payments that are not quoted in an active market) are carried at amortised cost. However, these are estimated to approximate to its fair value. Investments are measured in the manner explained in note 3.2.

Financial liabilities are initially recognised at fair value and subsequently stated at amortised cost, which is also estimated to approximate to its fair value.

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

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



**3.10 Impairment**

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

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

**3.11 Provisions**

Provisions are recognised when the Fund has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and reliable estimate of the amount can be made. Provision are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

**3.12 Cash and cash equivalents**

Cash and cash equivalents comprise of bank balances including term deposits with banks (with maturity period of less than three months from the date of deposit) that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

**3.13 Dividend distribution**

Dividend distributions (including the bonus units) are recorded in the period in which the distributions are approved. 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 capital gains to the unit holders. As the fund sustains net loss during the year, so the distribution is not required.

**3.14 Other assets**

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

**3.15 Earnings per unit (EPU)**

Earnings Per Unit (EPU) has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

4.	BANK BALANCES	Note	2018	2017
			(Rupees)	
	Current accounts		7,908	16,004
	Profit and loss sharing accounts	4.1	<u>574,373,515</u>	<u>211,549,573</u>
			<u>574,381,423</u>	<u>211,565,577</u>
4.1	These carry mark-up rates ranging from 4.00% to 7.30% (30 June 2017: from 3.75% to 6.40%) per annum.			
<b>5.</b>	<b>INVESTMENTS</b>			
<b>At fair value through profit or loss</b>				
<b>- held for trading</b>				
	Listed equity securities	5.1	<u>2,724,525,859</u>	<u>3,928,175,055</u>



**5.1 At fair value through profit or loss - held for trading**

Shares of listed companies - fully paid up ordinary shares of Rs. 10 each unless stated otherwise

Sectors / Companies	Holding as at July 01, 2017	Purchased during the year	*Bonus shares / letter of right received during the year	Disposed during the year	Holding as at June 30, 2018	Carrying value before revaluation as of June 30, 2018	Market value as of 30 June 2018 (after revaluation)	Unrealised gain / (loss) - net	Market value as percentage of net assets		Par value of shares held as a percentage of total paid up capital of the investor Company
									(Rupees)	(%)	
<b>Commercial Banks</b>											
Allied Bank Limited	456,800	-	-	456,800	-	15,206,482	21,121,553	5,916,072	0.78	0.65	0.02
Bank Al-Habib Limited	2,317,917	-	-	2,049,979	267,938	20,495,744	21,420,553	9,147,844	1.45	1.22	0.05
Bank Al-Falah Limited	1,404,600	-	-	1,854,500	753,600	307,388,537	159,969,811	(47,418,726)	5.87	4.95	0.07
Habib Bank Limited	876,226	682,900	-	5,988,000	961,126	-	-	-	-	-	-
JS Bank Limited	5,000,500	-	-	5,000,500	-	220,974,389	206,462,387	(14,512,002)	7.58	6.38	0.09
MCB Bank Limited	194,100	444,100	-	194,100	1,043,952	38,390,013	38,390,013	2,039,484	1.41	1.19	0.05
Meezan Bank Limited	1,526,089	17,000	92,585	1,165,899	469,775	204,917,766	157,379,523	(47,538,243)	5.78	4.87	0.08
United Bank Limited	898,800	470,600	-	438,050	931,350	<b>715,094,605</b>	<b>622,729,051</b>	<b>(92,365,553)</b>	<b>22.86</b>	<b>19.25</b>	
<b>Chemicals</b>											
Archroma Pakistan Limited	97,800	1,000	-	37,000	61,800	44,044,510	31,209,000	(12,835,510)	1.15	0.96	0.18
Engro Polymer & Chemicals	800	1,448,700	-	110,000	1,138,700	41,962,250	35,709,632	(6,252,618)	1.31	1.10	0.02
Engro Polymer & Chemicals - Ior	65,150	384,319	-	3,500	384,319	3,389,694	3,389,694	0.12	0.10	0.00	
ICI Pakistan Limited	27,250	27,250	-	3,500	88,900	90,106,975	71,233,350	(18,873,625)	2.82	2.20	0.10
						<b>176,115,735</b>	<b>141,961,676</b>	<b>(34,154,059)</b>	<b>3.20</b>	<b>4.38</b>	
<b>Fertilizers</b>											
Engro Corporation Limited (5.1.1)	627,968	211,100	-	281,300	557,768	176,306,095	175,061,064	(1,244,940)	6.43	5.41	0.01
Engro Fertilizers Limited	-	1,082,700	-	1,082,700	1,082,700	81,193,893	81,105,057	(88,786)	2.98	2.51	0.01
Fuji Fertilizers Bin Qasim Limited	-	1,856,600	-	1,729,200	127,400	4,525,664	4,917,640	391,976	0.18	0.15	0.00
Fuji Fertilizer Company Limited	-	711,000	-	-	711,000	70,914,360	70,310,790	(603,570)	2.58	2.17	0.01
						<b>332,939,872</b>	<b>331,394,551</b>	<b>(1,545,320)</b>	<b>12.16</b>	<b>10.25</b>	
<b>Pharma &amp; Bio Tech</b>											
The Searl Company Limited (5.1.2)	4,412	-	882	-	5,294	<b>2,258,856</b>	<b>1,797,313</b>	<b>(461,543)</b>	<b>0.07</b>	<b>0.06</b>	0.00
<b>Textile Composite</b>											
Gul Ahmed Textile Mill Limited	999,826	36,800	-	403,200	633,426	25,867,189	27,192,978	1,325,789	1.00	0.84	0.18
Kohinoor Textile Mills Limited	302,000	81,700	23,022	406,722	403,200	105,357,342	94,106,376	(11,250,966)	3.45	2.91	0.19
Nishat Mills Limited	931,900	185,700	-	449,800	667,800	<b>131,224,331</b>	<b>121,299,354</b>	<b>(9,925,177)</b>	<b>4.45</b>	<b>3.75</b>	
<b>Cement</b>											
Fuji Cement Company Limited	250,897	6,100	-	109,483	147,514	121,927,636	74,926,786	(47,000,850)	2.75	2.32	0.05
Lucky Cement Company Limited (5.1.1)	809,375	139,700	-	668,102	280,973	51,345,362	32,168,599	(19,176,763)	1.18	0.99	0.06
D.G Khan Cement Company Limited	358,900	970,400	48,487	671,387	706,400	52,284,480	35,842,736	(16,441,744)	1.32	1.11	0.13
Maple Leaf Cement Factory Limited	524,100	101,900	-	377,028	248,972	52,060,497	30,640,984	(21,419,513)	1.12	0.95	0.16
Kohat Cement Company Limited	-	-	-	-	-	-	-	-	-	-	-
Cherat Cement Company Limited	-	-	-	-	-	-	-	-	-	-	-
Pioneer Cement Company Limited	729,442	462,300	-	449,800	741,942	75,194,303	34,767,402	(40,426,901)	1.28	1.07	0.33
						<b>352,812,279</b>	<b>208,346,507</b>	<b>(144,465,771)</b>	<b>7.65</b>	<b>6.44</b>	
<b>Power Generation &amp; Distribution</b>											
K-Electric Limited (Face value of Rs. 3.5 each)	12,372,388	-	-	12,372,388	-	-	-	-	-	-	-
The Hub Power Company Limited	1,247,888	434,600	-	482,000	1,200,488	140,771,154	110,636,974	(30,134,180)	4.06	3.42	0.10
Kor-Addu Power Company Limited	-	-	-	-	-	-	-	-	-	-	-
Lalpur Power Limited	-	-	-	-	-	-	-	-	-	-	-
						<b>140,771,154</b>	<b>110,636,974</b>	<b>(30,134,180)</b>	<b>4.06</b>	<b>3.42</b>	

Sectors / Companies	Holding as at July 01, 2017	Purchased during the year	*Bonus shares / letter of right received during the year	Disposed during the year	Holding as at June 30, 2018	Carrying value before revaluation as of June 30, 2018 (Rupees)	Market value as of 30 June 2018 (after revaluation)	Unrealised gain / (loss) - net	Market value as percentage of total investments	Market value as percentage of net assets	Par value of shares held as a percentage of the capital of the investee company
	Number of Shares					Percentage (%)					
<b>Oil and Gas Exploration Companies</b>											
Mair Petroleum Company Limited (5:1.2)	92,980	11,800	-	26,364	78,416	123,946,968	118,008,611	(5,840,357)	4.34	3.65	0.07
Oil and Gas Development Company Limited (5:1.1)	1,058,900	611,100	-	359,324	1,310,766	194,544,821	203,981,405	9,436,584	7.49	6.31	0.03
Pakistan Oilfield Limited	75,250	172,250	-	54,450	193,050	15,250,000	15,250,000	0	2.76	4.34	0.05
Pakistan Petroleum Limited (5:1.1)	467,360	446,600	-	260,296	653,664	10,363,669	14,619,672	3,255,963	13.16	16.63	0.03
<b>Oil and Gas Marketing Companies</b>											
Attock Petroleum Limited	64,210	45,100	-	6,400	102,910	61,543,453	60,715,871	(827,582)	2.23	1.88	0.04
Pakistan State Oil Company Limited (5:1.2)	395,150	226,748	*52,870	296,982	377,786	123,331,540	120,553,062	(3,078,478)	4.41	3.72	0.46
Sui Northern Gas Pipeline Limited	1,147,867	274,800	-	506,200	916,467	127,220,956	91,948,323	(35,372,633)	3.37	2.84	0.14
<b>Food &amp; Personal Care Products</b>											
Shezhan International Limited	-	-	-	-	-	-	-	-	-	-	-
Al-Shaheer Corporation Limited	969,821	-	-	969,821	-	-	-	-	-	-	-
<b>Cable and Electrical Goods</b>											
Pak Elektron Limited	897,569	1,664,000	-	897,569	1,664,000	75,012,860	59,005,440	(16,007,420)	2.17	1.82	0.33
<b>Technology and Communication Systems Limited</b>											
Thal Limited (Face value of Rs. 5 each)	698,374	152,100	-	40,000	810,474	62,959,671	82,036,178	19,076,507	3.01	2.54	0.72
<b>Automobile and Parts</b>											
Thal Limited (Face value of Rs. 5 each)	64,200	38,950	-	-	103,150	57,905,847	49,257,220	(8,648,627)	1.81	1.52	0.13
<b>Automobile Assemblers</b>											
Indus Motor Company Limited	79,360	7,830	-	68,561	18,629	33,296,055	26,480,378	(6,815,676)	0.97	0.82	0.02
Millar Tractors Limited	55,550	4,900	-	57,697	2,753	3,740,099	3,270,729	(469,370)	0.12	0.10	0.01
Pak Suzuki Motor Company Limited	112,250	300	-	112,550	-	-	-	-	-	-	-
<b>Engineering</b>											
Crescent Steel & Allied Products International Industries Limited	-	296,200	-	296,200	-	-	-	-	-	-	-
International Steel Industries Limited	109,716	111,000	-	111,950	108,766	31,705,138	25,385,254	(6,439,884)	0.93	0.78	0.03
Mughal Iron & Steel Industries Limited	688,444	572,600	-	111,900	1,153,644	140,145,076	115,311,935	(24,833,141)	4.23	3.57	0.95
<b>Paper and Board</b>											
Chart Packaging Company Limited	-	107,400	-	-	107,400	15,526,795	15,632,306	(94,489)	0.57	0.48	-
Roshan Packages Limited	-	-	-	-	-	15,526,795	15,632,306	(94,489)	0.57	0.48	-
<b>Total as at 30 June 2018</b>											
<b>Total cost as at 30 June 2018</b>											
Total as at 30 June 2017											
Total cost as at 30 June 2017											



**5.1.1 Following shares have been pledged with National Clearing Company of Pakistan Limited:**

	2018 ----- (Number of shares) -----	2017	2018 ----- (Rupees) -----	2017
Engro Corporation Limited	85,000	85,000	26,678,100	27,702,350
Oil and Gas Development Company Limited	70,000	70,000	10,893,400	9,848,300
Pakistan Petroleum Limited	330,000	330,000	70,917,000	48,886,200
Lucky Cement Company Limited	50,000	50,000	25,396,500	41,813,000
	<u>535,000</u>	<u>535,000</u>	<u>133,885,000</u>	<u>128,249,850</u>

**5.1.2** Finance Act, 2014 had introduced tax on bonus shares issued by the Companies. Most Equity Funds including the Fund have challenged the applicability of withholding tax provision on bonus shares before Honourable High Court of Sindh ("the Court") on various legal grounds and have sought relief from the Court. In the Fund's case, up to the year end, tax in the shape of 5,294 shares of The Searle Company Limited (2017: 4,412 shares), 2,644 shares of Pakistan State Oils Company Limited (2017: Nil) and 1,010 shares of Mari Petroleum Limited (2017: 1,010 shares) had been withheld by CDC. Market value of these shares as at 30 June 2018 amounted to Rs. 4.160 millions (30 June 2017: 3.850 million) and are included in the Fun these financial statements.

	Note	2018 (Rupees)	2017
<b>6. DIVIDEND AND OTHER RECEIVABLES</b>			
- Dividend receivable		5,597,701	11,140,910
- Others		2,074	2,071
		<u>5,599,775</u>	<u>11,142,981</u>
<b>7. ADVANCES AND DEPOSITS</b>			
Security deposits with:			
- National Clearing Company of Pakistan Limited		2,550,000	2,550,000
- Central Depository Company of Pakistan Limited		100,000	100,000
Advances against:			
- Pre - IPO Subscription	7.1	7,500,000	-
		<u>10,150,000</u>	<u>2,650,000</u>

**7.1** This represents the subscription amount in the book building of ordinary shares of Al-Tahir Limited. However, the bid not being successful was refunded to the fund subsequent to the year end.

**8. PAYABLE TO THE MANAGEMENT COMPANY**

Remuneration payable to the Management Company	8.1	5,558,759	7,290,106
Sindh Sales Tax on Management Company's remuneration	8.2	3,422,065	3,647,142
Federal Excise Duty on Management Company's remuneration	8.3	18,483,430	18,483,429
Sales load payable to the Management Company		6,894	6,894
		<u>27,471,148</u>	<u>29,427,571</u>



- 8.1** Under the provisions of Non-Banking Finance Companies and Notified Entities Regulations 2008, an Asset Management Company shall be entitled to remuneration equal to an amount not exceeding 2% of average annual net assets. Management Company has charged remuneration at 2% per annum based on the daily net assets of the Fund during the year ended 30 June 2018. Remuneration is paid to the Management company in arrears on a monthly basis.
- 8.2** The Sindh Provincial Government has levied Sindh Sales Tax at the rate of 13% (2017: 13%) on Management Company's remuneration. Above liability includes Rs. 2,699,429 (2017: Rs. 2,699,429) accrued on Federal Excise Duty (FED) on the management remuneration as more fully explained in note 8.3 below. Had the provision on FED not been made, Net Asset Value per unit of the Fund as at 30 June 2018 would have been higher by Re. 0.0953 (2017: Re. 0.0838) per unit. The amount is payable to the management company for onwards payment to the Government
- 8.3** As per the requirements of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16 percent on the remuneration of the Management Company has been applied effective from 13 June 2013. The Management Company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law, hence, a petition was collectively filed by the Mutual Fund Association of Pakistan with the Sindh High Court (SHC) on 4 September 2013.
- While disposing the above petition through order dated 16 July 2016, the SHC declared the said provisions to be ultra vires and as a result no FED is payable with effect from 01 July 2016. However, the tax authorities subsequently filed appeal against the decision of the SHC in the Supreme Court of Pakistan, which is pending for the decision.
- Furthermore, the Finance Act 2016 also introduced an amendment to the Federal Excise Act, 2005 whereby FED was withdrawn on services of different industries including Non-Banking Financial Institutions, which are already subject to provisional sales tax.
- However, since the appeal is pending in the Supreme Court of Pakistan, the Management Company, as a matter of abundant caution, is carrying provision for FED for the period up to 30 June 2016 aggregating to Rs. 18.843 million. Had the provision not been made, NAV per unit of the Fund as at 30 June 2018 would have been higher by Re. 0.6528 (2017: Re. 0.5738) per unit.
- The amount is payable to the management company, if any, for onwards payment to the Government.
- 8.4** As per the clause 60(s) of the Non-Banking Finance Companies and Notified Entities Regulation, 2008 fees and expenses for registrar services, accounting, operation and valuation services relating to the Fund up to maximum of 0.1% of the average annual net assets of the Fund or actual expenses, whichever is less, shall be charged to the Fund by the Management Company.

However, above mentioned expenses have not been charged by the Management Company to the Fund during the period under audit. Had the above expenses been charged to the Fund, these would not have been material.



**9. REMUNERATION PAYABLE TO THE TRUSTEE**

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provision of Trust Deed as follows:

- Net assets up to 1 billion                      Rs. 0.7 million or 0.20% per annum of the daily average net assets of the Fund, which ever is higher.
- Net assets exceeding Rs 1 billion              Rs 2 million plus 0.10% per annum of the daily average net assets of the Fund exceeding Rs 1 billion.

The remuneration is paid to the trustee in arrears on a monthly basis.

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

This represents annual fee payable to SECP in accordance with the NBFC Regulations, whereby the Company is required to pay SECP an amount at the rate of 0.095% per annum of the average daily netassets of the fund in accordance with the regulation 62 of the NBFC Regulation 2008.

	Note	2018	2017
		(Rupees)	
<b>11. ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Payable to Sindh workers' welfare fund	11.1	<b>38,096,893</b>	38,096,893
Capital gain tax payable		<b>534,460</b>	-
Brokerage payable		<b>359,234</b>	1,992,358
Auditors' remuneration		<b>164,975</b>	206,219
Fee payable to National Clearing Company of Pakistan Limited		<b>40,000</b>	11,120
Other liabilities		<b>20,000</b>	20,000
Fee payable to Central Depository Company of Pakistan Limited		<b>17,400</b>	22,925
Withholding tax payable		-	40,337,075
		<b><u>39,232,962</u></b>	<b><u>80,686,590</u></b>

**11.1** Provision for Sindh Workers' Welfare Fund is being made on a daily basis pursuant to MUFAP's recommendation to all its members on 12 January 2017 against the backdrop of the Sindh Revenue Board (SRB) letter to mutual funds in January 2016 whereby SRB directed the certain mutual funds to register and pay Sindh Workers Welfare Fund (SWWF) for the accounting year closing on or after 31 December 2013. This is on the premise that mutual funds are included in the definition of financial institutions in the Financial Institutions (Recovery of Finance) Ordinance, 2001 hence WWF is payable by them. Though MUFAP has taken up the matter with the Sindh Finance Ministry to have CISs / mutual funds excluded from the applicability of SWWF, but as a matter of abundant caution management has recorded SWWF with effect from the date of the applicability of the SWWF Act, 2014 (i.e. with effect from 01 July 2014).

Total provision for SWWF till 30 June 2018 is Rs. 38.069 million. Had the provision not been made, Net Asset Value per unit of the Fund as at 30 June 2018 would have been higher by Re. 1.35 (2017: Re. 1.18) per unit.



**11.2** Furthermore on 10 November 2016, Honourable Supreme Court of Pakistan (SCP) passed a judgment declaring the amendments made in the Finance Acts 2006 and 2008 pertaining to WWF as illegal citing that WWF was not in the nature of tax and could, therefore, not have been introduced through money bills. Accordingly, the aforesaid amendments have been struck down by the SCP. The Federal Board of Revenue has filed a petition with the SCP against the said judgment, which is pending hearing. While the petitions filed by the Collective Investment Schemes (CISs) on the matter are still pending before the Sindh High Court (SHC), the Mutual Funds Association of Pakistan (MUFAP) (collectively on behalf of the asset management companies and their CISs) have taken legal and tax opinions on the impact of the SCP's judgement on the CISs petition before the SHC. Both the legal and tax advisors consulted were of the view that the SCP's judgment has removed the very basis on which the demands were raised against the CISs. Therefore, there was no longer any liability against the CISs under the WWF Ordinance and that all cases pending in the SHC or lower appellate forums will now be disposed of in light of the earlier judgement of the SCP.

Pursuant to above and on the recommendation of the MUFAP the entire provision of Rs. 19.867 million against WWF held by the CISs till 30 June 2015, had been reversed on 12 January 2017.

**12. TOTAL EXPENSE RATIO**

Securities and Exchange Commission of Pakistan (SECP) vide its directive no. SCD/PRDD/Direction/18/2016 dated 20 July 2016, required that Collective Investment Scheme (CIS) shall disclose Total Expense Ratio (TER) in the periodic financial statements of CIS / the Fund. TER of the Fund for the year ended 30 June 2018 is 2.67% which includes 0.40% representing the government levies, (comprising of Sindh Workers Welfare Fund and SECP fee, etc.). As per the NBFC Regulation total expense ratio of the Equity Scheme shall be capped up to 4%.

**13. CONTINGENCIES AND COMMITMENTS**

The Fund had no contingency or commitment at the year end except as those mentioned elsewhere in these financial statements

**14. NUMBER OF UNITS IN ISSUE**

	Note	2018 (Rupees)	2017
Total outstanding as of 1 July		<b>32,210,062</b>	24,820,216
Issued during the year	14.1	<b>8,309,763</b>	15,317,139
Redemptions during the year	14.2	<b>(12,205,803)</b>	(7,927,293)
Total units in issue as of 30 June		<b><u>28,314,022</u></b>	<u>32,210,062</u>

**14.1** Includes 4.006 million (2017: 2.53 million) units on the conversion of units from the related funds.

**14.2** Includes 2.079 million (2017: 2.72 million) units on the conversion of units to the related funds.



**15. AUDITORS' REMUNERATION**

	2018	2017
	(Rupees)	
Annual audit fee	157,500	157,500
Fee for the review of half yearly financial statements	52,500	52,500
Fee for the review of statement of compliance with the best practices of Code of Corporate Governance	-	26,250
Report on the statement of income and expenses	-	15,750
Out of pocket and sales tax expenses	45,361	40,109
	<u>255,361</u>	<u>292,109</u>

**16. INTERIM DISTRIBUTIONS DURING THE YEAR**

	Distribution per unit	Distribution Amount
	(Rupees)	
	2018	
Nil Distribution during the year	-	-
	2017	
Cash distribution declared on 22 June 2017	13.324	391,339,669

**17. TAXATION**

The Fund's income is exempt from Income Tax as per clause 99 of Part I of the Second Schedule to 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, provided that for the purpose of determining distribution of not less than 90% of its accounting income for the year, the income distributed through bonus units shall not be taken into account. 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 capital gains 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. However, since the Fund has incurred loss during the year, no provision for taxation has been made.

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

Connected persons / 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 and the holding company, key management personnel, other funds being managed by the Management Company and also include entities having holding 10% or more in the units of the Fund as at 30 June 2018. It also includes staff retirement funds of the above related parties / connected persons.



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

**18.1 Details of balance with related parties / connected persons at the year end**

	Note	2018 (Rupees)	2017
<b>Lakson Investments Limited - Management Company of the Fund</b>			
Remuneration payable (including the Sindh Sales Tax and Federal Excise Duty amounting to Rs. 21.905 million (2017: Rs. 22.130 million)) *	18.4	<u>27,464,254</u>	<u>29,420,677</u>
Sales load payable		<u>6,894</u>	<u>6,894</u>
<b>Central Depository Company of Pakistan Limited - Trustee of the Fund</b>			
Remuneration payable (including Sindh Sales tax of Rs. 46,814 (2017: 58,069))*	18.4	<u>406,947</u>	<u>504,769</u>
Security deposit		<u>100,000</u>	<u>100,000</u>
Settlement charges payable		<u>40,000</u>	<u>11,120</u>

**18.2 Details of transaction with related parties / connected persons at the year end**

<b>Lakson Investments Limited - Management Company of the Fund</b>			
Remuneration for the year		<u>70,182,848</u>	<u>79,390,657</u>
Sindh sales tax on remuneration of Management Company *		<u>9,123,770</u>	<u>10,320,786</u>
Dividend paid		<u>-</u>	<u>14,480,109</u>
<b>Central Depository Company of Pakistan Limited - Trustee of the Fund</b>			
Remuneration for the year (including Sindh Sales Tax of Rs. 586,188 (2017: Rs. 646,039))*		<u>5,095,331</u>	<u>5,615,572</u>
Settlement charges for the year		<u>201,420</u>	<u>348,744</u>
<b>Other key management personnel</b>			
Dividend paid		<u>-</u>	<u>85,117,626</u>
<b>Century Insurance Company Limited</b>			
Dividend paid		<u>-</u>	<u>34,121,397</u>
<b>Siza Service (Private) Limited</b>			
Dividend paid		<u>-</u>	<u>34,920,813</u>
<b>Premier Fashions (Private) Limited</b>			
Dividend paid		<u>-</u>	<u>19,565,415</u>

\* Sales tax is paid / payable to the management company for onwards payment to the Government.

**18.3 Details of units held, issued and redeemed by the related parties / connected persons**

	Number of Units				Rupees			
	Number of units as at 01 July 2017	Units issued during the year	Units redeemed during the year	Number of holdings at the year ended 30 June 2018	Balance as at July 01, 2017	Units issued during the year	Units redeemed during the year	Balance at the year ended 30 June 2018 (Investment at current NAV)
	1,185,566	-	348,849	836,717	155,208,729	-	40,000,000	95,583,789
	12,490,259	10,276	4,715,570	7,784,965	1,635,166,004	1,260,000	550,000,000	889,328,746
	15,500	822	3,214	13,108	2,029,187	100,000	397,167	1,497,457
	2,793,706	-	-	2,793,706	365,738,859	-	-	319,143,754
	2,859,158	1,714,753	-	4,573,911	374,307,527	200,000,000	-	522,508,455
	1,601,928	857,376	-	2,459,304	209,716,885	100,000,000	-	280,942,808
	-	1,838,321	-	1,838,321	-	214,412,415	-	210,003,753
	-	10,067	-	10,067	-	1,150,000	-	1,149,973
	-	14,006	-	14,006	-	1,600,000	-	1,599,999
	-	15,756	-	15,756	-	1,800,000	-	1,799,913
	-	22,759	-	22,759	-	2,600,000	-	2,599,913
	-	1,263	-	1,263	-	144,246	-	144,281
	-	140,057	-	140,057	-	16,000,000	-	15,999,649
	-	60,400	-	60,400	-	6,900,000	-	6,899,897
	-	23,635	-	23,635	-	2,700,000	-	2,699,984
	-	9,454	-	9,454	-	1,080,000	-	1,079,994
	3,217,393	-	-	3,217,393	421,205,994	-	-	367,544,380

Lakson Investments Limited - Management Company of the Fund

Directors, Chief Executive and their spouse and minors

Other key management personnel

**Associated companies / undertakings of the Management Company**

- Century Insurance Company Limited
- Siza Service (Private) Limited
- Premier Fashions (Private) Limited
- Siza Private Limited
- Siza Foods Private Limited Employees Contributor
- Accuracy Surgical Limited Employees Contributor
- Cyber Internet Services (Pvt.) Ltd. Empl. CPFT
- Gam Corporation Private Limited Employees Contributor
- Lakson Business Solutions Limited Employees Contributor
- Century Paper & Board Mills Limited ECPFT
- Century Paper & Board Mills Limited EGF
- Merit Packaging Limited ECPFT
- Merit Packaging Limited EGF
- Sindh Province Pension Fund (Being more than 10% unit holding)

**18.3 Details of units held, issued and redeemed by the related parties / connected persons**

	Year ended June 30, 2017							
	Number of Units			Rupees				
	Number of units as at 01 July 2016	Units issued during the year	Units redeemed during the year	Number of holdings at the year ended 30 June 2017	Balance as at July 01, 2016	Units issued during the year	Units redeemed during the year	Balance at the year ended 30 June 2017 (Investment at current NAV)
Lakson Investments Limited - Management Company of the Fund	1,086,793	98,773	-	1,185,566	124,252,541	12,670,095	-	155,208,729
Directors, Chief Executive and their spouse and minors	10,735,365	1,754,894	-	12,490,259	1,227,368,865	250,204,413	-	1,635,166,004
Other key management personnel	18,680	9,261	12,441	15,500	2,135,623	1,218,164	1,765,000	2,029,187
Associated companies / undertakings of the Management Company								
- Century Insurance Company Limited	2,681,913	554,003	442,210	2,793,706	306,621,767	75,856,223	65,757,986	365,738,859
- Siza Service (Private) Limited	2,820,353	578,182	539,377	2,859,158	322,449,564	80,555,711	80,500,000	374,307,527
- Premier Fashions (Private) Limited	563,260	1,038,668	-	1,601,928	64,397,210	143,119,738	-	209,716,885



- 18.4 Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of NBFC Regulations and the Trust Deed respectively.
- 18.5 Purchase and redemption of the Fund's unit by related parties / connected persons are recorded at the applicable net asset value per unit. Dividend income are recorded at the rates and amount declared by the investee entities. Other transactions are at agreed rates.

## 19. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

### Introduction and overview

The Fund has exposure to the following risks from financial instruments:

- credit risk (refer note 19.1)
- liquidity risk (refer note 19.2)
- market risk (refer note 19.3)
- operational risk (refer note 19.4)

### Risk management framework

The Fund's board of directors has overall responsibility for the establishment and oversight of the Fund's risk management framework.

Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily setup to be performed based on limits established by the management company, Fund's constitutive documents and the regulations and directives of the SECP. The policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The audit committee oversees how management monitors compliance with the Fund's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund. The audit committee is assisted in its oversight role by internal audit. Internal audit undertakes regular reviews of risk management controls and procedures, the results of which are reported to the audit committee.

Asset purchases and sales are determined by the Fund's Investment Manager, who has been authorised to manage the distribution of the assets to achieve the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio is monitored by the Investment Committee. In instances where the portfolio has diverged from target asset allocations, the Fund's Investment Manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

### 19.1 Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from bank balances, receivable against sale of marketable securities and security deposits.

### Management of credit risk

The Fund's policy is to enter into financial contracts in accordance with the investment guidelines approved by the Investment Committee, its Trust Deed and the requirements of NBFC rules and regulations. Before making investment decisions, the credit rating and credit worthiness of the issuer is taken into account along with the financial background so as to minimise the risk of default.

Credit risk is managed and controlled by the Management Company of the Fund in the following manner:

- Where the investment committee makes an investment decision, the credit rating and credit worthiness of the issuer is taken into account along with the financial background so as to minimise the risk of default.
- Analysing of credit ratings and obtaining adequate collaterals wherever appropriate / relevant.
- The risk of counterparty exposure due to failed trades causing a loss to the Fund is mitigated by a periodic review of the credit ratings and financial statements on a regular basis.
- Cash is held only with reputable banks with high quality external credit enhancements.
- Investment transactions are carried out with a large number of brokers, whose credit worthiness is taken into account so as to minimise the risk of default and transactions are settled or paid for only upon delivery.

**Exposure to credit risk**

The maximum exposure to credit risk as at 30 June 2018 was as follows:

	2018		2017	
	Balance as per the Statement of Asset and Liabilities	Maximum Exposure	Balance as per the Statement of Asset and Liabilities	Maximum Exposure
------(Rupees)-----				
Bank balances (including profit due)	578,664,852	578,664,852	212,231,420	212,231,420
Investments	2,724,525,859	-	3,928,175,055	-
Dividend and other receivable	5,599,775	5,599,775	11,142,981	11,142,981
Deposits and advances	10,150,000	10,150,000	2,650,000	2,650,000
Receivable against sale of investments	18,765,382	18,765,382	184,290,034	184,290,034
	<b>3,337,705,868</b>	<b>613,180,009</b>	4,338,489,490	410,314,435

Difference in the balance as per the Statement of Assets and Liabilities and maximum exposure in investments is due to the fact that investments in equity securities of Rs. 2,724,525,859 (2017: Rs. 3,928,175,055) do not carry credit risk.

**Bank balances**

The Fund's cash and cash equivalents at 30 June 2018 with banks had the following credit ratings:

Rating	2018	2017	2018	2017
	(Rupees)		(%)	
AAA	11,946,619	45,157	2.06	0.02
AA+	43,080,732	30,546,891	7.44	14.39
AA	35,309	59,740	0.01	0.03
AA-	473,431,203	181,579,632	81.81	85.56
A-	50,170,990	-	8.67	0.00
Total balance including profit due	<b>578,664,852</b>	212,231,420	<b>100.00</b>	100.00



Above rates are on the basis of available ratings assigned by PACRA and JCR-VIS.

### Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affects the group of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure.

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

	2018		2017	
	(Rupees)	(%)	(Rupees)	(%)
Commercial banks (including profit due)	578,664,852	94.37	212,231,420	51.72
National Clearing Company of Pakistan Limited	21,317,456	3.48	186,842,105	45.54
Central Depository Company of Pakistan Limited - security deposit	100,000	0.02	100,000	0.02
Oil and Gas sector - Dividend receivable	4,285,860	0.70	5,827,988	1.42
Fertilizers sector - Dividend receivable	1,311,841	0.21	3,098,840	0.76
Engineering sector - Dividend receivable	-	-	2,214,082	0.54
Other - Pre IPO Advance - note 7.1	7,500,000	1.22	-	-
	<u>613,180,009</u>	<u>100.00</u>	<u>410,314,435</u>	<u>100.00</u>

### Past due and impaired assets and collaterals held

None of the financial assets of the Fund are past due or impaired as at 30 June 2018.

### Settlement risk

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

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

## 19.2 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund aims to maintain the level of cash and cash equivalents and other highly marketable securities at an amount in excess of expected cash outflows on financial liabilities. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by Securities and Exchange Commission of Pakistan (SECP).

**Management of liquidity risk**

The Fund's policy is to manage this risk by investing majority of its assets in investments that are traded in an active market and can be readily disposed. The Fund invests primarily in marketable securities and other financial instruments, which under normal market conditions are readily convertible to cash. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirement. The present settlement system is a T+2 system, which means that proceeds from sales (to pay off redemptions) of holdings will be received on the second day after the sale, while redemptions have to be paid within a period of six working days from the date of the redemption request.

In addition, the Fund is entitled to borrow, with prior approval of trustee, for meeting redemptions. No such borrowings were made during the year. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of net assets at the time of borrowing with repayment within 90 days of such borrowings.

In order to manage the Fund's overall liquidity, the Fund can also withhold daily redemption request in excess of ten percent of the units in issue and such requests would be treated as redemption request qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

**Maturity analysis for financial liabilities**

Following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted.

	<b>2018</b>	
	<b>Contractual cash flows</b>	
	<b>Carrying amount</b>	<b>Less than 3 month</b>
	----- (Rupees) -----	
<b>Non-derivative financial liabilities (excluding unit holders' fund)</b>		
Payable to the Management Company	5,565,653	5,565,653
Remuneration payable to the Trustee	406,947	406,947
Accrued expenses and other liabilities	601,609	601,609
Payable against purchase of investments	<b>32,759,230</b>	<b>32,759,230</b>
	<b><u>39,333,439</u></b>	<b><u>39,333,439</u></b>
Unit holders' fund	<b><u>3,234,501,896</u></b>	<b><u>3,234,501,896</u></b>
	<b>2017</b>	
	<b>Contractual cash flows</b>	
	<b>Carrying amount</b>	<b>Less than 3 month</b>
	----- (Rupees) -----	
<b>Non-derivative financial liabilities (excluding unit holders' fund)</b>		
Payable to the Management Company *	7,297,000	7,297,000
Remuneration payable to the Trustee	504,769	504,769
Accrued expenses and other liabilities *	2,252,622	2,252,622
Dividend payable	116,524	116,524
Payable against purchase of investments	7,192,750	7,192,750
	<b><u>17,363,665</u></b>	<b><u>17,363,665</u></b>
Unit holders' fund	<b><u>4,216,790,230</u></b>	<b><u>4,216,790,230</u></b>



- \* excluding provision for workers' welfare fund, federal excise duty on Management Company's remuneration, annual fee payable to Securities and Exchange Commission of Pakistan and Sindh Sales Tax payable on Management Company's remuneration.

Above financial liabilities do not carry any mark-up.

### 19.3 Market risk

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest rates and equity prices - will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### Management of market risks

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

The Fund is exposed to interest rate risk and equity price risk.

#### 19.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. Risk management procedures are the same as those mentioned in the credit risk management.

#### Exposure to interest rate risk

Interest rate profile of the Fund's interest-bearing financial instruments is as follows:

	2018	2017
	(Rupees)	
<b>Variable-rate instrument</b>		
Financial assets (bank balances)	<u>574,373,515</u>	<u>211,549,573</u>

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased / decreased unit holder fund and income statement by Rs. 5,743,426 (2017: Rs. 2,115,496). The analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Above bank balances are reprised by the bank after changes in the State Bank of Pakistan's policy rate and do not have any contractual maturity.

None of the other assets and Fund's liabilities are exposed to interest rate risk.

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

----- June 30, 2018 -----				
Interest rate %  Note	Exposed to interest rate risk		Not exposed to interest rate risk	Total
	No later than one year			
	----- Rupees -----			
<b>Financial assets</b>				
Bank balances	4.1	574,373,515	4,291,337	578,664,852
Investments		-	2,724,525,859	2,724,525,859
Dividend and other receivable		-	5,599,775	5,599,775
Advances and deposits		-	10,150,000	10,150,000
Receivable against sale of investments		-	18,765,382	18,765,382
		<u>574,373,515</u>	<u>2,763,332,353</u>	<u>3,337,705,868</u>
----- June 30, 2017 -----				
Interest rate %  Note	Exposed to interest rate risk		Not exposed to interest rate risk	Total
	No later than one year			
	----- Rupees -----			
<b>Financial assets</b>				
Bank balances (including profit due)	4.1	211,549,573	681,847	212,231,420
Investments		-	3,928,175,055	3,928,175,055
Dividend and other receivable		-	11,142,981	11,142,981
Deposits		-	2,650,000	2,650,000
Receivable against sale of investments		-	184,290,034	184,290,034
		<u>211,549,573</u>	<u>4,126,939,917</u>	<u>4,338,489,490</u>

### 19.3.2 Other market price risk

The Fund is exposed to equity price risk i.e. the risk of unfavourable changes in the fair value of equity securities as a result changes in the levels of Pakistan Stock Exchange Index and the value of individual shares, which arises from investments measured at fair value through income statement.

The management of the Fund monitors the proportion of equity securities in its investment portfolio based on market indices. The Fund's policy is to manage price risk through diversification and selection of securities within the specified limits set by internal risk management guidelines or the requirements of NBFC regulations. The Fund manages those risk by limiting exposure to any single investee company to the extent of 10% of the issued capital of that investee company and the net assets of the Fund with overall limit of 30% or index weight whichever is higher subject to maximum of 35% to a single industry sector of the net assets of the Fund (the limit set by NBFC regulations).

The Fund also manages its exposure to price risk by reviewing portfolio allocation as frequently as necessary and at least once a quarter from the aspect of allocation within industry and individual stock within that allocation. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Investment Committee. The primary goal of the Fund's investment strategy is to maximise investment returns.

Details of the Fund's investment in industrial / economic sector are given in note 5.1.

### Sensitivity analysis - Equity price risk



All of the Fund's listed equity investments are listed on Pakistan Stock Exchange Limited. For such investments classified as at fair value through income statement the impact on income statement and unit holders' fund, due to a 5% increase or decrease in the fair values of the equity investments, would have been an increase or decrease of Rs. 136,226,293 (2017: Rs. 196,408,753).

#### **19.4 Operational risks**

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

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

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

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

#### **19.5 Unit holder's fund risk management**

The Fund's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to continue as a going concern so that it can continue to provide returns to its unit holders. Management monitors the return on capital as well as the level of dividends to unit holders and makes adjustments to it in the light of changes in markets' conditions.

Under the NBFC regulations 2008, the minimum size of an open end scheme shall be one hundred million rupees at all the times during the life of the scheme. The Fund size depends on the issuance and redemption of units.

#### **19.6 Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market prices used for financial assets held by the Fund is current bid price.



A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

IFRS 13, 'Fair Value Measurements' requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (level 2).
- Unobservable inputs for the asset or liability (level 3).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

		June 30, 2018				Fair Value	
		Carrying amount					
	Note	Held for trading investments	Loans and receivables	Other financial liabilities	Total	Level 1	Total
		(Rupees)					
<b>On-balance sheet financial instruments</b>							
<b>Financial assets measured at fair value</b>							
Listed equity securities	5	2,724,525,859	-	-	2,724,525,859	2,724,525,859	2,724,525,859
<b>Financial assets not measured at fair value</b>							
Bank balances	4	-	574,381,423	-	574,381,423	-	-
Receivable against sale of investments		-	18,765,382	-	18,765,382	-	-
Return receivable on bank balances		-	4,283,429	-	4,283,429	-	-
Dividend receivable on held for trading investments		-	5,599,775	-	5,599,775	-	-
Deposits and advances		-	10,150,000	-	10,150,000	-	-
		-	613,180,009	-	613,180,009	-	-
<b>Financial liabilities not measured at fair value</b>							
Payable to the Management Company	8	-	-	5,565,653	5,565,653	-	-
Remuneration payable to the Trustee	9	-	-	406,947	406,947	-	-
Accrued expenses and other liabilities		-	-	601,609	601,609	-	-
Payable against purchase of investments	11	-	-	32,759,230	32,759,230	-	-
Dividend payable		-	-	39,333,439	39,333,439	-	-
		-	-			-	-
		June 30, 2017				Fair Value	
		Carrying amount					
	Note	Held for trading investments	Loans and receivables	Other financial liabilities	Total	Level 1	Total
		(Rupees)					
<b>On-balance sheet financial instruments</b>							
<b>Financial assets measured at fair value</b>							
Listed equity securities	5	3,928,175,055	-	-	3,928,175,055	3,928,175,055	3,928,175,055
<b>Financial assets not measured at fair value</b>							
Bank balances	4	-	211,565,577	-	211,565,577	-	-
Return receivable on bank balances		-	665,843	-	665,843	-	-
Dividend receivable		-	11,142,981	-	11,142,981	-	-
Security deposits		-	2,650,000	-	2,650,000	-	-
Receivable against sale of investments		-	184,290,034	-	184,290,034	-	-
		-	410,314,435	-	410,314,435	-	-
<b>Financial liabilities not measured at fair value</b>							
Payable to the Management Company	8	-	-	7,297,000	7,297,000	-	-
Remuneration payable to the Trustee	9	-	-	504,769	504,769	-	-
Accrued expenses and other liabilities	11	-	-	2,252,622	2,252,622	-	-
Dividend payable		-	-	116,524	116,524	-	-
Payable against purchase of investments		-	-	7,192,750	7,192,750	-	-
		-	-	17,363,665	17,363,665	-	-

**19.6.1** The Fund has not disclosed the fair values for these financial assets and financial liabilities, as these are either short term in nature or repriced periodically. Therefore, their carrying amounts are reasonable approximation of their fair values.



**20. RECONCILIATION OF LIABILITIES ARISING OUT OF FINANCING ACTIVITIES**

	Receivable against issuance of units	Payable against redemption of units	Dividend payable	Total
----- (Rupees in '000) -----				
Opening balance as at 1 July 2017	-	-	116,524	116,524
Receivable against issuance of units	985,336,608	-	-	985,336,608
Payable against redemption of units	-	1,444,830,131	-	1,444,830,131
	985,336,608	1,444,830,131	-	2,430,166,739
Amount received on issuance of units	(985,336,608)	-	-	(985,336,608)
Amount paid on redemption of units	-	(1,444,830,131)	-	(1,444,830,131)
Dividend paid	-	-	(116,524)	(116,524)
	(985,336,608)	(1,444,830,131)	(116,524)	(2,430,283,263)
Closing balance as at 30 June 2018	-	-	-	-

**21. SUPPLEMENTARY NON FINANCIAL INFORMATION**

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

**21.1 Unit holding pattern of the Fund**

Category	June 30, 2018		
	Number of Investors	Investment Amount	% of Total net assets
----- (Rupees) -----			
Individual investor	44	25,669,600	0.79
Associated Companies and Directors	22	2,113,635,157	65.35
Banks and DFIs	0	-	-
NBFC's (Management Company)	1	135,435,134	4.19
Retirement Funds	6	763,062,969	23.59
Other Corporate investors	5	196,699,035	6.08
Total	78	3,234,501,896	100.00
Category	June 30, 2017		
	Number of Investors	Investment Amount	% of Total net assets
----- (Rupees) -----			
Individual investor	55	184,467,892	4.37
Associated Companies and Directors	13	2,584,929,331	61.30
Banks and DFIs	1	361,318,683	8.57
NBFC's (Management Company)	1	155,210,810	3.68
Retirement Funds	5	781,157,360	18.52
Other Corporate investors	3	149,706,154	3.55
Total	78	4,216,790,230	100.00



**21.2 List of Top 10 Brokers by Percentage of Commission paid**

Name of Broker	Commission paid (Percentage %)
	2018
Inter Market Securities Limited	10.50%
Arif Habib Limited	10.46%
BMA Capital Management Limited	8.95%
Ismail Iqbal Securities (Private) Limited	8.15%
Topline Securities Limited	7.81%
Foundation Securities	7.43%
Alfalsh Securities (Private) Limited	7.10%
Insight Securities (Private) Limited	6.39%
Taurus Securities	5.87%
Elixir Securities Pakistan (Private) Limited	5.74%
	2017
Inter Market Securities Limited	13.23%
Alfalsh Securities (Private) Limited	11.15%
Next Capital Limited	10.85%
Ismail Iqbal Securities (Private) Limited	10.53%
AKD Securities Limited	10.00%
BMA Capital Management Limited	9.42%
Insight Securities (Private) Limited	9.40%
Elixir Securities Pakistan (Private) Limited	7.06%
JS Global Securities Limited	3.48%
Arif Habib Securities Limited	3.12%

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

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

- Mr. Babar Ali Lakhani (Chairman Investment Committee)
- Mr. Kashif Mustafa
- Mr. Mustafa O. Pasha
- Mr. Shahbaz Ashraf
- Mr. Syed Saifullah Kazmi (Fund Manager)
- Mr. Hassan Bin Nasir
- Mr. Junaid Arshad
- M.Fakhir Musharaf

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

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

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

Mr. Lakhani is a member of the Global Association of Risk Professionals (GARP), the Society of Financial Service Professionals and the Young Presidents' Organization (YPO). Mr. Lakhani is a member of the Alumni Trustee Committee of Brandeis University and is the school's representative.

**Mr. Kashif Mustafa – Executive Director and COO**

Mr. Mustafa has more than ten years of experience working in the financial markets of Pakistan with local & international brokerage houses, and leading Asset Management Companies. Mr. Mustafa's experience includes; Financial Analysis, Equity Research, Investment Advisory and Business Development.

Before Lakson Investments, Mr. Mustafa worked for Askari Investments and Crosby Securities Pakistan Limited as Vice President and Head of Sales & Business Development respectively. He frequently appears on the media and has been featured on Express, Business Plus, CNBC, GEO, PTV, Aaj TV, Sindh TV & KTN. Mr. Mustafa did his graduation in Mathematics and Masters in Economics.

**Mr. Mustafa O. Pasha, CFA – Head of Fixed Income**

Mr. Pasha has over ten years of experience in the asset management and investment advisory industry. He did his Bachelors in Economics from McGill University (Montreal, Canada) in 2006 and obtained his CFA charter in 2012.

At Lakson Investments he is responsible for driving out performance of all fixed income portfolios against their respective benchmarks by formulating the investment outlook and implementing strategy through asset allocation. As a member of the Investment Committee he is a key member of the team that develops and executes the investment strategy for both fixed income and equity portfolios.

He was previously associated with BMA where he initially served as a fixed income analyst and later became the in house economist for the entire BMA group. Between 2009 - 2012 he supervised fixed income/money market investments across all mutual funds and institutional/HNW accounts advised by BMA.

**Mr. Muhammad Shahbaz Ashraf**

Mr. Ashraf has approximately 10 years of experience, primarily in Research. Prior to joining Lakson Investments, he was associated with Askari Investment Management, Foundation Securities Ltd and Taurus Securities. Mr. Ashraf's last assignment was at Arif Habib Limited as Head of Research. He holds a Master's degree in Business Management and is a Chartered Financial Analyst.

**Mr. Syed Saifullah Kazmi - Head of Equities**

Mr. Saifullah has over ten years of experience and currently holds positions of Head of Equities Investments in Lakson Investments Limited. He is a qualified Finance major from Kingston University. He has experience in Emerging and Frontier Financial Markets, with focus in Pakistan, Strong Fixed Income background, with investment strategy and trading experience in instruments including, Government Securities, Corporate Bonds, Banking Products and Islamic Sukkuks. He is also managing the following funds:

- Lakson Tactical Fund
- Lakson Islamic Tactical Fund

**Mr. Hassan Bin Nasir**

Mr. Hassan Bin Nasir has over nine years of experience and currently holds positions of Vice President – Fixed Income in Lakson Investments Limited. He completed his Masters in Business Administration in Finance major from Bahria University, Pakistan. He has immense experience in managing portfolios across Collective Investment Schemes, Separate



Managed Accounts with Strong Fixed Income background, investment strategy and trading experience in instruments including, Government Securities, Corporate Debt Securities, Banking Products and Shariah Compliant Corporate Debt Securities. He is managing the following funds:

- Lakson Income Fund
- Lakson Money Market Fund
- Lakson Asset Allocation Developed Markets Fund

**Mr. Junaid Arshad**

Mr. Arshad an ACCA member, having over ten years of experience in the asset management industry and currently holds the position of Manager Compliance. He possess sound Knowledge of financial management, tax regulations, financial procedures, and NBFC Rules & Regulations. He was actively involved in system development and implementation during his stay at different organizations. He was previously associated with JS Investments and Alfalah Investments as a finance professional.

**Mr. Muhammad Fakhir Musharraf**

Mr. Fakhir Musharraf has over 20 years of experience in the field of Capital Markets, Trade Finance & Academics. Prior to his current assignment he has served as 1st HoD of Actuarial Science & Risk Management at Institute of Business Management , Karachi. Mr. Musharraf has done his MBA from University of Leicester, UK, and submitted his PhD thesis with Edinburgh Napier University UK.

**21.4 Directors meeting attendance**

2018

Name of directors	Meeting Attended	August 25, 2017	October 16, 2017	February 27, 2018	March 30, 2018	April 16, 2018
- Mr. Babar Ali Lakhani	5	✓	✓	✓	✓	✓
- Mr. A. Aziz H. Ebrahim	2	✓	✓	N/A	N/A	N/A
- Mr. Mahomed J. Jaffer	5	✓	✓	✓	✓	✓
- Mr. Amin Mohammed Lakhani	4	✓	✓	X	✓	✓
- Mr. Daniel Scott Smaller	4	✓	✓	X	✓	✓
- Mr. Jacques John Visser	4	✓	✓	X	✓	✓
- Mr. Zahid Zakiuddin	4	✓	✓	✓	X	✓
- Mr. Iqbal Ali Lakhani	4	✓	X	✓	✓	✓
- Mr. Jamil Ahmed Mughal	2	N/A	N/A	N/A	✓	✓
		8	7	4	7	8

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

Details of the ratings of the Fund and the management company are given in note 1.4.

**22. GENERAL**

These financial statements were authorized for issue by the Board of Directors of the Management Company on August 15, 2018.

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

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

\_\_\_\_\_  
Chief Financial Officer

\_\_\_\_\_  
Director



**Performance Table**

Performance Table	FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10
Net Assets - Beginning (PKR Mil.)	4,217	2,838	3,178	960	121	146	134	128	136
Net Assets - Ending (PKR Mil.)	3,235	4,217	2,838	3,178	960	121	146	134	128
Net Asset value per share	114.2367	130.9153	114.3295	104.3209	105.4434	141.4609	112.1531	119.6452	99.3374
Selling Price for units	117.6638	134.8428	117.7594	107.4506	108.6067	145.7048	115.5177	123.2346	102.3176
Repurchase Price for units	114.2367	130.9153	114.3295	104.3209	105.4434	141.4609	112.1531	119.6452	99.3374
Highest Offer Price (PKR)	135.3738	167.6648	121.8957	142.6266	157.9072	150.1842	120.9177	127.5518	115.2487
Lowest Offer Price (PKR)	107.8971	117.7529	99.1471	103.3220	107.1618	106.4191	95.1812	102.1798	99.7229
Highest Redemption Price (PKR)	131.4308	162.7813	118.3453	138.4724	153.3079	145.8099	117.3958	123.8367	111.8919
Lowest Redemption Price (PKR)	104.7544	114.3232	96.2593	100.3126	104.0405	103.3195	92.4089	99.2036	96.8183
Beginning NAV - Ex-Div. (PKR)	130.9153	114.3295	108.3722	105.9924	115.1534	101.0316	102.1999	99.3374	100.0000
Interim Distributions (PKR)	Nil	13.3237	1.0348	26.2618	46.2157	-	-	-	-
Final Distribution (PKR)	Nil	-	-	-	-	26.3075	11.1215	17.4453	-
Ending NAV - Ex-Div. (PKR)	114.2367	128.2755	112.3955	103.9399	104.2886	115.1534	101.0316	102.1999	99.3374
Return	-12.70%	26.40%	10.60%	23.93%	32.15%	40.02%	9.74%	20.44%	-0.66%
Net Income / (loss) (PKR Mil.)	(523)	1,031	250	591	312	34	13	23	(1)
Income Distribution	Nil	391	25	509	298	15	19	-	-
Accumulated Capital Growth	473	996	356	131	49	35	16	22	-
Average Annual return of the Fund									
One Year	-12.74%	26.40%	10.57%	23.93%	32.15%	40.02%	9.71%	20.44%	-0.66%
Two year	10.30%	19.87%	48.84%	31.89%	42.51%	26.79%	16.06%	12.07%	-
Three year	21.99%	24.40%	27.02%	43.10%	34.32%	28.33%	11.90%	-	-
Since inception (November 13,2009)	267.29%	42.04%	35.13%	35.71%	30.87%	23.09%	11.90%	12.07%	-0.66%

Performance Table	FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10
Interim Distribution	Nil	13.3237	1.0348	26.2618	46.2157	-	-	-	-
Final Distribution	Nil	-	-	-	-	26.3075	11.1215	17.4453	-
NAV before Distribution	Nil	141.5992	113.4303	130.2017	150.5043	141.4609	112.1531	119.6452	-
NAV after Distribution	Nil	128.2755	112.3955	103.9399	104.2886	115.1534	101.0316	102.1999	-
Distribution Date	Nil	22-Jun-17	27-Jun-16	25-Jun-15	24-Jun-14	08-Jul-13	05-Jul-12	04-Jul-11	-

112.3955 103.9399 104.2886 115.1534 101.0316 102.1999

**Disclaimer**

Past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.

**Summary of Actual Proxy voted by CIS:**

	Resolutions	For	Against	Abstain*
Number	4	4	-	-
(%ages)		100%	-	-

Note: The proxy voting policy of the Lakson Equity Fund (LEF) is available on the website of Lakson Investments Limited, the Management Company. A detailed information regarding actual proxies voted by the Management Company in respect of the Lakson Equity Fund (LEF) is also available without charge upon request to all unit holders.



A Lakson Group Company

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