

# Atlas funds

*Nurturing your investments*

Atlas Income Fund

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ANNUAL REPORT

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June 30, 2007



Managed By

Atlas Asset Management

Rated AM3+ by PACRA



# A Sweet Tale of Success..

Success is a story worth telling only when those who are inspired to make a difference achieve it. When they are committed and determined to accomplish objectives that once seemed impossible. Only then, their success becomes a sweet tale worth sharing.



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# Vision

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To be a market leader in providing quality fund management services with customer satisfaction as our premier goal.

# Mission Statement

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We are committed to offering our investors the best possible returns on a diverse range of products; to meeting not only the customers' current and future requirements, but also exceeding their expectations. We aim to be the company with which people prefer to do business. We are committed to providing a stimulating and challenging environment in which all our people can be valuable contributors to the achievement of our vision, while achieving career progression and job satisfaction. We recognize that our success comes from our people. We are committed to the highest ethical and fiduciary standards and firmly believe that by placing the best interests of our clients first, we will also serve the best interest of our employees, our shareholders, and the communities in which we operate.



Aim for your dreams,  
aspirations and  
ambitions!

**"We are what we repeatedly do. Excellence, then, is not an act, but a habit." Aristotle**

Atlas Asset Management Limited (AAML), sponsored by the Atlas Group of Companies was incorporated on August 20, 2002 and is registered with the Securities and Exchange Commission of Pakistan (Commission) as an investment adviser for managing closed-end funds, as an asset management company for managing open-end funds and as a pension fund manager for managing voluntary pension funds. The mutual funds are regulated under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and the voluntary pension fund is regulated under the Voluntary Pension System Rules, 2005.

AAML has entered into a technical collaboration agreement with ING, a company incorporated in Netherlands to provide technical support and assistance to AAML in improving their capabilities in fund management, product development and other related business management operations, including training to its staff.

AAML manages assets on behalf of retirement funds, welfare organizations, insurance companies, multinationals, banks, NBFCs and individuals. The total assets under the management of AAML are over Rs. 6.6 billion (as on June 30, 2007).

## FY 2006-2007 AT A GLANCE

- AAML implemented a structured investment process for the funds under management with the support and guidance from ING from July 2006 onwards.
- AAML received registration to operate as a pension fund manager from the Commission to manage voluntary pension funds on January 8, 2007.
- Atlas Islamic Fund, AAML's third open-end and first Shariah Compliant Fund was launched on January 15, 2007.
- AAML established three more sales offices in Karachi and one in Rawalpindi bringing its own sales offices to eight.
- Atlas Income Fund, Atlas Stock Market Fund and Atlas Fund of Funds each were assigned "5 Star" Rating from The Pakistan Credit Rating Agency Limited (PACRA).
- AAML signed agreement with Standard Chartered Bank to act as distributor for Atlas Income Fund and Atlas Stock Market Fund on March 14, 2007.
- Mr. Tim Julien, Regional Director, ING was inducted as a member of AAML's Investment Committee.
- And Most Importantly!  
Atlas Pension Fund, a voluntary pension fund under the Voluntary Pension System Rules, 2005 was launched on June 28, 2007.

Atlas Pension Fund (APF) is launched to serve as a primary saving vehicle for retirement savings (pension) of individuals, having an umbrella structure comprising of numerous Sub-Funds in the form of unit trust schemes under its wing, in which Contributions received from Participants shall be allocated Units proportionate to their respective preferences, (based on the Allocation Scheme selected by them) on a continuing basis. Under the APF, individually capitalized pension savings accounts will be established that are funded (based on defined contribution) and portable. The Participants not only have power over how much to invest in their pensions, and how to invest it, but their savings stay with them even if they change jobs.

AAML's strength and success lies in the confidence placed in its management by our esteemed investors and its wealth of experience in terms of high quality staff.

**There is no point at which you can say, 'Well, I'm successful now. I might as well take a nap.'** *Carrie Fisher*

## Management Company

Atlas Asset Management Limited

### Board of Directors of the Management Company

Chairman	Mr. Yusuf H. Shirazi
Vice Chairman & Chief Executive Officer	Mr. M. Habib-ur-Rahman
Directors	Mr. Peter A. Smyth (Alternate Mr. Michael Ferrer)
	Mr. Tariq Amin
	Mr. M. P. Bhandara (w.e.f. October 30, 2006)
	Mr. Frahim Ali Khan (w.e.f. October 10, 2007)
	Mr. Jawaid Iqbal Ahmed (uptil October 9, 2007)
	Mr. Sherali Mundrawala (uptil October 29, 2006)
Executive Director	Mr. Ali H. Shirazi
Company Secretary	Ms. Lilly R. Dossabhoy

### Board Committees

#### Audit Committee

Chairman	Mr. Tariq Amin
	Mr. Sherali Mundrawala (uptil October 29, 2006)
Members	Mr. Peter A. Smyth (w.e.f. November 10, 2006)
	Mr. Frahim Ali Khan (w.e.f. October 10, 2007)
	Mr. Jawaid Iqbal Ahmed (uptil October 9, 2007)

#### Human Resource Committee

(Constituted w.e.f. January 1, 2007)

Chairman	Mr. Frahim Ali Khan (w.e.f. October 10, 2007)
	Mr. Tariq Amin (uptil October 9, 2007)
Members	Mr. M. Habib-ur-Rahman
	Mr. Ali H. Shirazi

### Investment Committee

Chairman	Mr. M. Habib-ur-Rahman
Members	Mr. Frahim Ali Khan
	Mr. Ather H. Medina
	Mr. Tim Julien (w.e.f. May 25, 2007)

## Management Committee

Chairman	Mr. M. Habib-ur-Rahman
Members	Mr. Ali H. Shirazi
	Mr. Ather H. Medina
	Ms. Lilly R. Dossabhoy
	Ms. Mashmooma Z. Majeed
	Mr. Hassan Khan
	Syed Zeeshan Ali

### Group Executive Committee

President	Mr. Aamir H. Shirazi
Members	Mr. Frahim Ali Khan
	Mr. Jawaid Iqbal Ahmed
	Mr. Iftikhar H. Shirazi
	Mr. Saquib H. Shirazi
	Mr. Bashir Makki

### Group Systems & Technology Committee

Chairman	Mr. Iftikhar H. Shirazi
Members	Mr. Zia Ullah Begg
	Syed Zeeshan Ali

### Trustee

Central Depository Company of Pakistan Limited  
99-B, Block 'B', S.M.C.H.S., Main Shahrah-e-Faisal, Karachi - 74400

### Internal Auditor

Mr. Saood Hassan

### Auditors

Ford Rhodes Sidat Hyder & Co.  
Chartered Accountants

### Legal Advisers

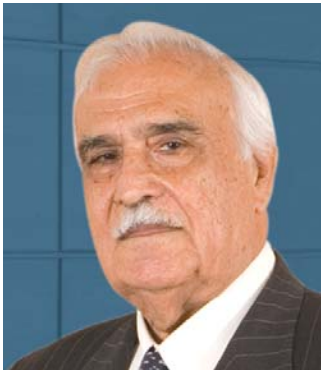
Mohsin Tayebaly & Co.

### Bankers

Atlas Bank Limited  
Bank Alfalah Limited  
KASB Bank Limited  
MCB Bank Limited  
Saudi Pak Commercial Bank Limited  
Soneri Bank Limited

### Registered Office

Ground Floor, Federation House, Sharae Firdousi,  
Clifton, Karachi - 75600  
Tel: (92-21) 111-MUTUAL (111-6-888-25)  
(92-21) 5379501-04  
Fax: (92-21) 5379280  
Email: info@atlasfunds.com.pk  
Website: www.atlasfunds.com.pk



**Yusuf H. Shirazi**



**M. Habib-ur-Rahman**



**Frahim Ali Khan**



**Peter A. Smyth**

**Mr. Yusuf H. Shirazi**  
Chairman

Mr. Shirazi is the founder and Chairman of Atlas Group of Companies. He is the founder member of the Karachi and Lahore Stock Exchanges, International Chamber of Commerce & Industry, Management Association of Pakistan, Lahore University of Management Sciences, GIK Institute of Science and Technology and Al-Shifa Trust. He has been President of Karachi Chamber of Commerce twice. Mr. Shirazi was on the Board of Harvard Business School Alumni Association, Boston, USA. He is the Founder President of Harvard Club of Pakistan and Harvard Business School Club of Pakistan. He has attended the Advanced Management Program (AMP) from the Harvard Business School, USA.

**Mr. M. Habib-ur-Rahman**  
Vice Chairman & Chief Executive Officer

Mr. Rahman is a FCA from the Institute of Chartered Accountants in England & Wales and has attended management level program PMD from Harvard Business School, USA. He was a founding member and Vice Chairman of the Mutual Funds Association of Pakistan. He played an instrumental role in setting up the first open-end mutual fund in the private sector in Pakistan.

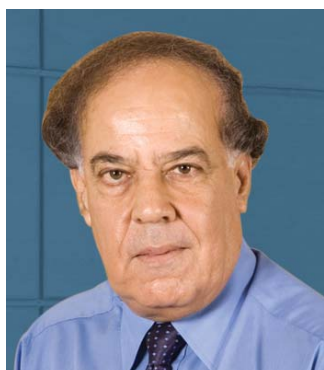
He has been SECP's nominee on the board of Karachi Stock Exchange in 2000, 2001 and 2003 and has also been a member of the Commission's Advisory Group on Capital Markets, and the Commission's Enquiry Committee on management of Exposure Rules by KSE/ LSE.

**Mr. Frahim Ali Khan**  
Director

Mr. Khan has been associated with Atlas Group since 1967 and has 40 years experience in General Management, Financial Management, Investment Banking, Taxation and legal matters. He was the Chief Executive Officer of Atlas Investment Bank Limited, till the merger with Atlas Bank Limited. He has attended the Senior Managers' Program from Harvard University, USA and Financial Management program from Stanford University, USA.

**Mr. Peter A. Smyth**  
Director

Mr. Smyth is currently the Regional General Manager for ING Insurance Asia/Pacific, based in Hong Kong, with specific responsibilities for the insurance, funds management and pension activities in Australia, India, Malaysia, New Zealand and Thailand. He has extensive senior level experience



**Tariq Amin**



**M.P. Bhandara**



**Ali H. Shirazi**



**Michael Ferrer**

in the areas of Investments, Insurance, Financial Planning, Banking, Corporate Governance, M & A, and Strategic Development. Mr. Smyth is a Fellow of the Institute of Actuaries (London) and holds a Bachelor of Arts in Actuarial Studies (Sydney).

**Mr. Tariq Amin**  
Director

Mr. Amin is the chairman of Orkila Pakistan (Pvt.) Ltd., a leading multinational company dealing in chemicals. He is also the Deputy Chairman of Barrett Hodgson Pakistan (Pvt.) Ltd. and has a vast experience in the financial and industrial sectors of Pakistan. He is a law graduate from the University of Karachi, and also holds a Masters degree in English from the University of Karachi, and a Postgraduate Diploma in Development Administration from the University of Leeds.

**Mr. M.P. Bhandara**  
Director

Mr. Bhandara has been working as a Chief Executive of Murree Brewery Group since 1961. Under his leadership, the Murree Brewery Company Limited branched in the manufacture of food products, fruit juices and glass containers. Its traditional activities extend to brewing of beers and distilling

of fine liquors. He has graduated in Commerce from the Punjab University and read PPE (Philosophy, Politics & Economics) at Brasenose College, Oxford. He has attended the Advanced Management Program (AMP) from the Harvard Business School, USA.

**Mr. Ali H. Shirazi**  
Executive Director

Mr. Ali Shirazi has graduated in Political Science from Yale University, and completed Masters in Law from Bristol University, UK. He has previously worked with the Bank of Tokyo-Mitsubishi in New York as well as American Honda in Torrance, California.

**Mr. Michael Ferrer**  
Alternate Director appointed by Mr. Peter A. Smyth

Mr. Michael Ferrer is currently ING Investment Management (IIM) Asia Pacific's Regional General Manager for South Asia, as part of IIM Regional Office in Hong Kong. He is responsible for the over-all management of the investment management operations in Thailand, Malaysia, Singapore, India and the Philippines. Mr. Ferrer has over fifteen years experience in the financial field and has worked with the ING Group for over ten years. Mr. Ferrer holds a Bachelor of Economics degree for the University of Philippines.





Strive for the best  
with **determination**  
and commitment!



**Mashmooma Zehra Majeed**  
Head of Business Development

**Ali H. Shirazi**  
Executive Director

**Hassan Khan**  
Head of Marketing & Sales

**M. Habib-ur-Rahman**  
Vice Chairman &  
Chief Executive Officer

**Lilly R. Dossabhoy**  
Chief Financial Officer &  
Company Secretary

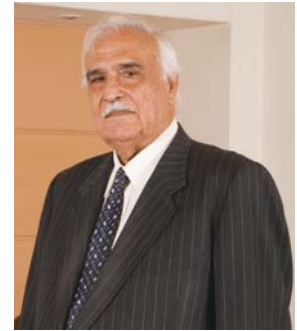
**Ather H. Medina**  
Chief Investment Officer

**Syed Zeeshan Ali**  
Head of Information Technology

it's all about  
rewards!



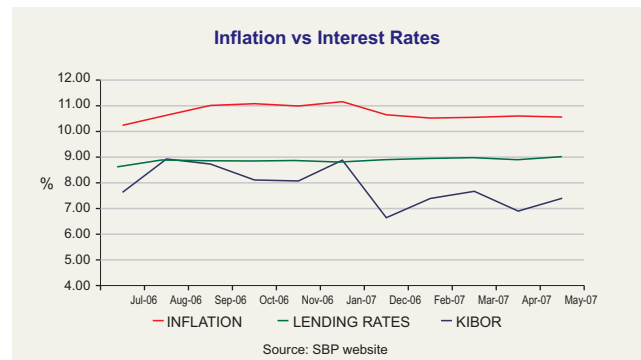
It is my pleasure to present to you the fourth Annual Report of Atlas Income Fund for the year ended June 30, 2007.



## THE ECONOMY

GDP growth for the year at 7.0% has been an improvement over the previous year's performance. The major contribution to this growth has been an improved performance from the Agriculture sector, especially the 7.6% growth in major crops - Cotton, Rice, Sugarcane, and Wheat, as compared to a negative growth of 4.1% in the previous year. In contrast, both the Manufacturing, and Service sectors witnessed lower growth than in the previous year, due in part to the growing base.

The fiscal deficit remained unchanged at 4.2% of GDP, as the rising trade deficit was deftly funded through non-budgetary measures. The trade deficit at US\$ 12.2 billion, further increased by 15.5% in Jul-May 2006-07 as compared to the same period in the previous year. Globally commodity prices have been the cause of the high deficit, as oil prices climbed back to average US\$ 63.89 in the last quarter FY 2007. Import of food products during Jul-Apr 2007 was up by US\$ 811.7 million, at US\$ 2.36 billion. Petroleum imports were also up by US\$ 642 million at US\$ 5.88 billion.



As a result, inflation at 7.4% as at May 2007 remained above target levels of 6.5% for the year, despite a tight monetary policy throughout the year. Money supply growth, which had been capped at 11.53% in the Jul-Apr 2006-07 period, shot up during the last two months of the fiscal year. The M2 growth was up 4.47% at 16.7% for the year, against 12.23% in the previous year. An unprecedented increase in Net Foreign Assets of the banking system, in large part due to a heavy inflow of foreign portfolio investment was witnessed, with total inflows into the Special Convertible Rupee Accounts (SCRAs) of US\$ 978 million during the year.

The resultant liquidity in the system, both from domestic sources as well as foreign investment, has been a boom for the capital market with a year forward multiples at record high levels. Additionally, there have been a record number of GDR issues by domestic entities, each generating extensive interest, with appreciable oversubscription.

## THE MONEY MARKET

State Bank of Pakistan's announced monetary policy for financial year 2006-07 was mainly aimed at reducing the current account deficit and controlling inflation. The key feature of this policy was the upward revision of the discount rate by 50 basis points to 9.5%. Increase in Statutory Liquidity Requirement (SLR) and Cash Reserve Requirement (CRR) which were raised by 300 basis points and 200 basis points respectively, was also a part of this effort. These actions initially resulted in a significant decline in the liquidity available in the banking sector.

During the year, the Government announced opening of NSS counter for institutional investors. This move was not good news for the financial sectors as it results in various adverse impacts including deposit outflow from the banking sector, as institutional investors will be more inclined to place funds in the NSS and above all, slowdown in the development of the corporate bond market. SBP also issued 30-year PIBs in December, 2006 for the first time at a cut-off yield of 11.70%. The increase in yield of longer term instruments is likely to result in a minor overall interest rate increase.

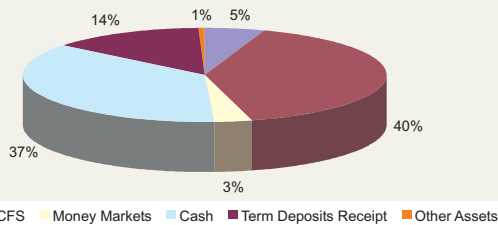
Overall, the secondary market yield on 6-month T-bill remained stable with an average of 8.88%. 6-Month KIBOR on the other hand, remained at an average rate of 10.35% during the year. The interest rates, which had risen during the initial part of the year, showed a declining trend in the later part of the year. This is mainly because of excess liquidity in the form of foreign direct investment. Despite SBP's continuing effort to mop up excess liquidity from the market, liquidity in the market remains to be on the higher side resulting in declining interest rates.

## FUND OPERATIONS

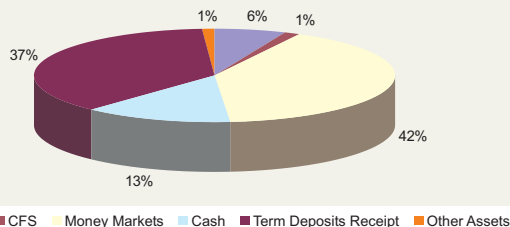
The Net Assets of the Fund increased by Rs. 1.18 billion during the period under review to Rs. 3.85 billion, up 44%. The per unit Net Asset Value of the Fund increased 10.23% to Rs. 551.47 as at June 30, 2007, with an Earning per Unit of Rs. 51.21 for the year, starting from an ex-bonus NAV of Rs. 500.29 per unit.

With a slowdown in private sector credit offtake, the liquidity in the money market increased substantially, leading to reduced rates in both the interbank money market, as well as on equity leveraging products such as Continuous Funding System, and Ready-Futures Spread Transactions, as the higher liquidity has also headed towards the equity markets. Consequently, with interest rates continuing to remain under pressure, the Fund has maintained a short duration for its portfolio, in the interest of the Fund.

Classification of Assets - 2007



Classification of Assets - 2006



The Board of Directors of the Management Company has decided to distribute bonus units at 10% on the face value of the units of Rs. 500 each. This works out to a bonus of 9.9707 units for every 100 units, of the value of Rs. 501.47 each, held as at June 30, 2007. The unit holders are allowed to exercise the option to en-cash the bonus units on the ex-bonus net asset value of Rs. 501.47 per unit. Alternatively the unit holders may redeem the bonus units at the ruling redemption price.

## RATINGS UPDATE

The Pakistan Credit Rating Agency Limited (PACRA), has assigned an asset manager rating of "AM3+" to the Company. The rating reflects the Company's strong capacity to manage the risks inherent in asset management and the asset manager meets high investment management industry standards and benchmarks.

PACRA has assigned a "5 Star" rating to the Fund. This reflects a superior performance. The "5 Star" rating is a composite measure of returns and risk associated with the returns and credit quality of assets.

## AAML AS A PENSION FUND MANAGER

AAML has been registered as a Pension Fund Manager by the Securities and Exchange Commission of Pakistan (the Commission) on January 8, 2007, under the Voluntary Pension System Rules, 2005 (VPS). Under the VPS, Pakistani nationals of over eighteen years of age, whether salaried or self-employed, holding a valid National Tax Number or a valid National Identity Card will be eligible to participate in the pension schemes. AAML launched Atlas Pension Fund on June 28, 2007 with the approval of the Commission. A Shariah Compliant Pension Fund will be launched shortly.

## FUTURE OUTLOOK

High liquidity resulting from increased FDI entails that the interest rates will remain under pressure in the foreseeable future. The market appears to be in dire need of new fixed income instruments which are currently in short supply. SBP may further try to control liquidity through increasing the discount rate. However, it seems unlikely that such an effort would be able to provide support to the declining interest rates.

The issuance of longer-term government paper has helped in establishing a longer-term interest rate benchmark. The difference between the three month and the 30 year government paper, however, remains low at 299 basis points.

The Fund has decided to adopt a strategy to shift from a shorter-term to a medium-term duration portfolio comprising of high-quality TFCs in combination with the shorter-term deposit placement and CFS transactions. The fund will also build a portfolio of T-bills with a maturity profile of six months to one year. This strategy will help maintain a balanced portfolio for the Fund while ensuring liquidity and healthy returns in the coming years while maintaining a low risk profile.

عک کریں گے اہل نظر تازہ بستیاں آباد

(Those with vision foresight will continue to build sounder & stronger)

## ACKNOWLEDGEMENT

I would like to thank the Securities and Exchange Commission of Pakistan, the Board of Directors, the Group President - Mr. Aamir H. Shirazi and the Group Executive Committee for their help, support and guidance. I thank the ING for their continuing support. I also thank the financial institutions and the unit holders for their help, support and the confidence reposed in the Fund and the Chief Executive Mr. M. Habib-ur-Rahman and his management team for their hard work, dedication and sincerity of purpose.

Yusuf H. Shirazi  
Chairman

Karachi: September 25, 2007.

The Board of Directors of Atlas Asset Management Limited, the Management Company of Atlas Income Fund (the Fund), take pleasure in presenting the Fourth Annual Report of the Fund along with the audited financial statements and Auditors' Report thereon for the year ended June 30, 2007.

### EARNINGS PER UNIT

Earnings per unit for the year ended June 30, 2007 work out to Rs. 51.21 per unit (2006: Rs. 57.71 per unit).

### FUND SIZE AND INCOME DISTRIBUTION

As at June 30, 2007, the Net Assets of the Fund stood at Rs. 3.85 billion as compared Net Assets of Rs. 2.67 billion as at June 30, 2006. The Board of Directors of the Management Company of the Fund have approved a bonus of 10% (2006: 11.50%) on the face value of Rs. 500 per unit, which works out to Rs. 50 per unit (2006: Rs. 57.50 per unit).

### SALE AND REDEMPTION OF UNITS

During the year, 11,282,996 units of the value of Rs. 5.92 billion were issued, while 9,642,618 units of the value of Rs. 5.04 billion were redeemed. As at June 30, 2007, the total number of units outstanding was 6,988,480 valued at Rs. 3.85 billion (2006: 4,796,790 units valued at Rs. 2.67 billion), reflecting a growth of 45.69% in terms of number of units and 44.19% in value.

A comparison of the Unit Holders register of June 2007 compared with June 2006 presents a diversified investors' base as follows:

Category	Year ended June 30, 2007			Year ended June 30, 2006		
	No. of Accounts %	Units Held	Units Held %	No. of Accounts %	Units Held	Units Held %
Directors	0.92	24,217	0.35	1.89	58,558	1.22
Individuals	59.95	532,958	7.63	51.88	581,645	12.12
Corporates	4.66	1,231,862	17.63	4.25	826,162	17.22
Banks and Financial						
Institutions	29.19	2,834,318	40.55	36.32	2,272,033	47.37
Associated Companies	1.55	1,964,944	28.11	3.30	956,441	19.94
Trusts	2.80	353,383	5.06	2.36	101,951	2.13
Others	0.93	46,798	0.67	-	-	-
<b>Total</b>	<b>100.00</b>	<b>6,988,480</b>	<b>100.00</b>	<b>100.00</b>	<b>4,796,790</b>	<b>100.00</b>

### CHAIRMAN'S REVIEW

The review included in the Annual Report deals inter alia with the performance of the Fund for the year and future prospects. The directors endorse the contents of the review.

### COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The Board of Directors states that:

- The financial statements, prepared by the Management Company of the Fund, present fairly its state of affairs, the results of its operations, cash flows and movement in Unit Holders' Funds.

A new tale is  
set to begin!



- b) Proper books of account of the Fund have been maintained.
- c) Appropriate accounting policies have been consistently applied in the preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of the financial statements and any departure therefrom has been adequately disclosed.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There is no doubt about the Fund's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) Key Financial data/ performance table is summarized in note 22 of the financial statements.
- i) 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.

## BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

The Board comprises of two executive and five non-executive directors. In October 2006, the Board completed its term and a new Board of Directors was elected in the Annual General Meeting of the Management Company's shareholders on October 30, 2006, wherein Mr. M.P. Bhandara was elected in place of the retiring Director Mr. Sherali Mundrawala, and the remaining Directors were re-elected for a fresh term of three years, with the approval of the Securities and Exchange Commission of Pakistan.

During the year, four Board Meetings were held and attended as follows:

Name	Meetings Attended
Mr. Yusuf H. Shirazi	4
Mr. M. Habib-ur- Rahman	4
Mr. Jawaid Iqbal Ahmed	3
Mr. Peter A. Smyth	2*
Mr. Sherali Mundrawala	1**
Mr. Tariq Amin	4
Mr. M.P. Bhandara	2***
Mr. Ali H. Shirazi	4

\* 1 through telephonic conference

\*\* Term of office completed on October 29, 2006

\*\*\* Elected in AGM held on October 30, 2006

The Directors, CEO, and CFO/Company Secretary and their spouses and minor children have made no transactions in the Fund's units during the year except as disclosed in note 17 to the financial statements - "Transactions with Connected Persons/ Related Parties."

## AUDITORS

The Audit Committee of the Board of Directors in its meeting held on September 25, 2007, recommended the appointment of M/s. Ford Rhodes Sidat Hyder & Co., Chartered Accountants, as auditors of Atlas Income Fund for the Financial Year 2007-08, in place of the retiring auditors M/s. Hameed Chaudhri & Co., Chartered Accountants. The Board approved the appointment.

## ACKNOWLEDGEMENT

The Board of Directors of the Management Company thanks the Securities and Exchange Commission of Pakistan for their valuable support, assistance and guidance. The Board also thanks the employees of the Management Company and the Trustee, for their dedication and hard work, and the Unit Holders, for their confidence in the Management Company.

For and on behalf of the Board

Karachi: September 25, 2007.

**M. Habib-ur-Rahman**  
Vice Chairman &  
Chief Executive Officer



# Financial Statements

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2007

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 43 of Listing Regulations of the Lahore Stock Exchange for the purpose of establishing a framework of good Governance, whereby a listed Company is managed in compliance with the best practice of corporate governance.

Atlas Asset Management Limited (AAML), the Management Company, is not listed and hence, the Code is not applicable to it. However, Atlas Income Fund being listed at the Lahore Stock Exchange, comes under the ambit of the Code. The Fund, being a unit trust scheme, does not have its own Board. The Board of Directors of the Management Company manages the affairs of the Fund and has appointed the Chief Executive Officer (CEO), and Chief Financial Officer (CFO)/Company Secretary and other necessary personnel to manage the affairs of the Fund.

The Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors. At present the Board consists of seven directors including three independent non-executive directors. The Management Company is not listed on any stock exchange and therefore does not have minority interest.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Election of directors was held during the year, to elect seven directors on the Board of the Management Company, following the completion of the term of office of the previous Board. No casual vacancy occurred during the year.
5. The Management Company has adopted a "Statement of Ethics and Business Practices" which has been distributed to and acknowledged by the directors and employees of the Management Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies for the Fund. A complete record of the particulars along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of the remuneration and terms and conditions of employment of the CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter during the period. Written notes of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
9. The Board has approved the appointment of the CFO/Company Secretary, remuneration and terms and conditions of employment as determined by the CEO.
10. The Directors' Report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The role and responsibilities of the Chairman and the CEO have been approved by the Board.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before the approval of the Board.
13. The Directors, CEO and Executives do not hold units other than those disclosed in note 17 to the financial statements "Transactions with Connected Persons/ Related Parties".
14. The Management Company has complied with the corporate and financial reporting requirements of the Code.
15. The Board arranged an orientation course for its directors during the year to apprise them of their duties and responsibilities.
16. The Board has formed an Audit Committee comprising of three members, all of whom are non-executive directors, including the Chairman of the Committee. Meetings of the Committee were held every quarter, prior to approval of the interim and annual results of the Fund, as required by the Code. The Board has approved the terms of reference of the Audit Committee.
17. The Board has set up an effective internal audit function headed by a full time Chief Internal Auditor who is considered suitably qualified and experienced, and is conversant with the policies and procedures of the Fund. The appointment, remuneration and terms of reference of the Chief Internal Auditor have been approved by the Board.



18. The Statutory Auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouse and minor children do not hold units of the Fund, and that the Firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on the Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

Karachi: September 25, 2007

**M. Habib-ur-Rahman**  
Vice-Chairman &  
Chief Executive Officer

**Report of the Trustee pursuant to Rule 76(h) of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003**

The Atlas Income Fund, an Open-ended Scheme established under a trust deed executed between Atlas Asset Management Limited as the Asset Management Company and Muslim Commercial Financial Services (Pvt.) Limited as Trustee on February 20, 2003. The Scheme was authorized by the Securities and Exchange Commission of Pakistan (SECP) on March 21, 2003.

As per the Deed of Change of Trustee and First Supplemental Trust Deed dated June 11, 2005, Muslim Commercial Financial Services (Pvt.) Limited retired as the Trustee and Central Depository Company of Pakistan Limited was appointed as the Trustee of Atlas Income Fund.

In our opinion, Atlas Asset Management Limited, the Asset Management Company of Atlas Income Fund has in all material respects managed Atlas Income Fund during the year ended June 30, 2007 in accordance with the provisions of the Trust Deed (and the modifications authorized by the SECP from time to time) and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

Karachi: October 11, 2007

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

We have reviewed the Statement of Compliance with best practices contained in the Code of Corporate Governance prepared in respect of Atlas Income Fund (the Fund), by the Board of Directors of Atlas Asset Management Limited, the Management Company of the Fund, to comply with the Listing Regulation No. 43 of the Lahore Stock Exchange, where the Fund is listed.

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2007.

Karachi: September 25, 2007

**Hameed Chaudhri & Co.**  
Chartered Accountants

We have audited the accompanying financial statements of Atlas Income Fund which comprise the statement of asset and liabilities as at June 30, 2007 and the income statement, distribution statement, statement of movement in unit holders' fund, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the approved accounting standards as applicable in Pakistan. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error: selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditors' responsibility**

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

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

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2007, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

#### **Other matters**

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed and NBFC Rules.

Karachi: September 25, 2007

**Hameed Chaudhri & Co.**  
Chartered Accountants

AS AT JUNE 30, 2007

	Note	2007 Rupees	2006 Rupees
<b>ASSETS</b>			
Cash at banks	4	1,941,692,397	1,359,462,906
Receivable against continuous funding system	5	1,574,121,985	36,816,265
Placements		-	325,000,000
Investments	6	328,586,558	956,484,307
Advances and prepayments	7	15,000	3,942,215
Interest accrued	8	21,633,049	15,539,633
Security deposits		1,100,000	1,100,000
<b>Total assets</b>		<b>3,867,148,989</b>	<b>2,698,345,326</b>
<b>LIABILITIES</b>			
Payable to unit holders		2,165	-
Accrued and other liabilities	9	4,529,769	3,813,381
Payable to Atlas Asset Management Limited -Management Company	10	5,236,223	16,928,796
Payable to Trustee	11	436,321	333,330
Payable to Securities and Exchange Commission of Pakistan	12	3,004,677	1,665,390
<b>Total liabilities</b>		<b>13,209,155</b>	<b>22,740,897</b>
<b>Commitments</b>	14	-	-
<b>NET ASSETS</b>		<b>3,853,939,834</b>	<b>2,675,604,429</b>
<b>Unit holders' funds (as per statement attached)</b>		<b>3,853,939,834</b>	<b>2,675,604,429</b>
		(No. of units)	
<b>Number of units in issue</b>		<b>6,988,480</b>	<b>4,796,790</b>
		(Rupees per unit)	
<b>Net asset value per unit</b>		<b>551.47</b>	<b>557.79</b>

The annexed notes 1 to 23 form an integral part of these financial statements.

For Atlas Asset Management Limited  
(Management Company)

**M. Habib-ur-Rahman**  
Vice Chairman &  
Chief Executive Officer

**Yusuf H. Shirazi**  
Chairman

**Tariq Amin**  
Director

## INCOME STATEMENT

### FOR THE YEAR ENDED JUNE 30, 2007

	Note	2007 Rupees	2006 Rupees
<b>INCOME</b>			
Interest income	15	345,466,226	165,607,988
Income on future transactions		14,124,749	67,924,182
Unrealized Gain/(Loss) on:			
Held for trading Investments		(162,450)	(85,321)
Loss on sale of investments		-	(1,297,346)
Underwriting commission		112,500	40,000
Element of income and capital gains included in prices of units sold less those in units repurchased		58,499,034	92,105,303
		<b>418,040,059</b>	<b>324,294,806</b>
<b>EXPENDITURE</b>			
Remuneration - Management Company		5,236,223	16,653,899
Remuneration - Trustee		4,004,677	2,665,195
Annual fee - SECP		3,004,677	1,665,390
Settlement charges		2,743,176	1,404,664
Auditors' remuneration	16	511,500	355,000
Brokerage		21,662,047	24,432,655
Legal and professional charges		59,500	72,500
Annual listing fee		30,000	30,000
Annual rating fee		100,000	115,000
Fair value adjustment on discounting of term finance facility		22,741,619	-
Bank charges		80,450	80,903
		<b>60,173,869</b>	<b>47,475,206</b>
<b>Net income for the year</b>		<b>357,866,190</b>	<b>276,819,600</b>
<b>Earnings per unit</b>		<b>51.21</b>	<b>57.71</b>

The annexed notes 1 to 23 form an integral part of these financial statements.

For Atlas Asset Management Limited  
(Management Company)

**M. Habib-ur-Rahman**  
Vice Chairman &  
Chief Executive Officer

**Yusuf H. Shirazi**  
Chairman

**Tariq Amin**  
Director

DISTRIBUTION STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2007

	2007 Rupees	2006 Rupees
Undistributed Income brought forward as previously reported	277,783,962	665,741
Change in accounting policy	-	298,621
Change in accounting policy	-	102,449,477
<b>Balance at June 30, 2006</b>	<b>277,783,962</b>	<b>103,413,839</b>
Issue of bonus units for the year @ Rs. 57.50 per unit (2005: Rs. 48.75 per unit) distributed on July 19, 2006 (July 15, 2005)	(275,815,430)	(102,449,477)
Net Income for the year	357,866,190	276,819,600
<b>Undistributed Income carried forward</b>	<b>359,834,722</b>	<b>277,783,962</b>

The annexed notes 1 to 23 form an integral part of these financial statements.

For Atlas Asset Management Limited  
(Management Company)

**M. Habib-ur-Rahman**  
Vice Chairman &  
Chief Executive Officer

**Yusuf H. Shirazi**  
Chairman

**Tariq Amin**  
Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007

	2007		2006	
	Units	Rupees	Units	Rupees
Net assets as at June 30, 2006	4,796,790	2,675,604,429	2,101,528	1,154,154,526
Amount received on issue of units	11,282,996	5,920,486,617	5,157,592	2,789,000,424
Amount paid on redemption of units	(9,642,618)	(5,041,518,368)	(2,667,102)	(1,452,264,818)
	1,640,378	878,968,249	2,490,490	1,336,735,606
Element of income and capital gains included in prices of units sold less those in units repurchased	-	(58,499,034)	-	(92,105,303)
Issue of bonus units for the year 2006 (year: 2005)	551,311	-	204,772	-
Net income for the year less distribution	-	357,866,190	-	276,819,600
<b>Net assets at the end of the year</b>	<b>6,988,480</b>	<b>3,853,939,834</b>	<b>4,796,790</b>	<b>2,675,604,429</b>
<b>Net assets at the end of the year consist of:</b>				
Capital account		3,494,105,112		2,397,820,467
Undistributed income carried forward		359,834,722		277,783,962
		<b>3,853,939,834</b>		<b>2,675,604,429</b>

The annexed notes 1 to 23 form an integral part of these financial statements.

For Atlas Asset Management Limited  
(Management Company)

**M. Habib-ur-Rahman**  
Vice Chairman &  
Chief Executive Officer

**Yusuf H. Shirazi**  
Chairman

**Tariq Amin**  
Director



CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2007

	2007 Rupees	2006 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income for the year	357,866,190	276,819,600
<b>Adjustments for:</b>		
Net unrealized loss on held for trading investments	162,450	85,321
Net realized loss on investments	-	1,297,346
Fair value adjustment on discounting of term finance facility	22,741,619	-
Element of income and capital gains included in prices of units sold less those in units repurchased	(58,499,034)	(92,105,303)
Remuneration to Management Company	5,236,223	16,653,899
Remuneration to Trustee	4,004,677	2,665,195
Cash generated from operations before working capital changes	331,512,125	205,416,058
<b>Changes in operating assets</b>		
Receivable against continuous funding system	(1,537,305,720)	(36,816,265)
Receivable against carry over transactions	-	594,864,360
Advances and prepayments	3,493,650	3,028,470
Interest accrued	2,934,782	(19,744,176)
	(1,530,877,288)	541,332,389
<b>Changes in operating liabilities</b>		
Accrued and other liabilities	716,388	2,585,248
Payable to Management Company against sales load & others	(274,897)	19,009
Payable to unit holders	2,165	(5,888)
Payable to Securities and Exchange Commission of Pakistan	1,339,287	1,048,455
	1,782,943	3,646,824
Remuneration paid to Management Company	(16,653,899)	(2,435,157)
Remuneration paid to Trustee	(3,901,686)	(2,516,679)
Taxes deducted at source	433,565	-
	(20,122,020)	(4,951,836)
Cash (used in)/ generated from operating activities	(1,217,704,240)	745,443,435
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Placements	-	(325,000,000)
Placements matured	325,000,000	-
Purchase of held for trading investments	(1,243,737,818)	(227,494,937)
Sale of held for trading investments	1,243,471,157	376,938,797
Purchase of held to maturity investments	(41,425,000)	(775,000,000)
Sale of held to maturity investments	637,657,143	155,062,857
Cash generated from/ (used in) investing activities	920,965,482	(795,493,283)
Cash flow before financing activities	(296,738,758)	(50,049,848)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts in respect of sale of units	5,920,486,617	2,789,000,424
Paid on redemption of units	(5,041,518,368)	(1,452,264,818)
Cash generated from financing activities	878,968,249	1,336,735,606
Net increase in cash and cash equivalents	582,229,491	1,286,685,758
Cash and cash equivalents at the beginning of the year	1,359,462,906	72,777,148
Cash and cash equivalents at the end of the year	4 <u>1,941,692,397</u>	<u>1,359,462,906</u>

The annexed notes 1 to 23 form an integral part of these financial statements.

For Atlas Asset Management Limited  
(Management Company)

M. Habib-ur-Rahman  
Vice Chairman &  
Chief Executive Officer

Yusuf H. Shirazi  
Chairman

Tariq Amin  
Director

## 1. LEGAL STATUS AND NATURE OF BUSINESS

The Atlas Income Fund (the Fund) is an open ended Fund constituted by a trust deed entered into on February 20, 2003 between Atlas Asset Management Limited (AAML) as the establisher and the management company and Muslim Commercial Financial Services (Pvt.) Limited (MCFSL) as trustee. AAML is licensed by the Securities and Exchange Commission of Pakistan (SECP) to act as investment adviser and asset management company under the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules, 2003). MCFSL resigned on June 11, 2005 as trustee and Central Depository Company of Pakistan Limited (CDC) was appointed as the trustee with effect from that date. The Trust Deed was revised through the Deed of Change of Trustee and First Supplemental Trust Deed dated June 11, 2005 with the approval of the SECP.

Units of the Fund have been offered for public subscription on a continuous basis from March 22, 2004 and are transferable and redeemable by surrendering them to the Fund. The Fund is listed on Lahore Stock Exchange (Guarantee) Limited.

The objective of the Fund is to provide investors one window facility to invest in diversified portfolio offering good returns and consistent growth. The Fund aims to deliver this objective mainly by investing in debt securities, Government securities, money market instruments, repurchase transactions (REPO), reverse repurchase transactions including continuous funding system and future transactions. The investment objectives and policy are more fully defined in the Fund's offering document. The offering document was revised on June 21, 2005 with the approval of the SECP

The investment activities and administration are managed by Atlas Asset Management Limited situated at Ground Floor, Federation House, Sharae Firdousi, Clifton, Karachi.

## 2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Trust Deed, the NBFC Rules, 2003 and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Trust Deed, NBFC Rules, 2003 or directives issued by the SECP differ with the requirements of these standards, the requirements of Trust Deed, the NBFC rules, 2003 and the said directives take precedence.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

These financial statements are presented in rupees rounded to the nearest rupee. The financial statements have been prepared under the historical cost convention, except that certain financial assets have been included at fair values in accordance with the recognition criteria specified in the relevant International Financial Reporting Standards applicable to these assets and the requirements of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

The accounting policies have been applied consistently by the Fund and are consistent with those used in previous year.

The preparation of financial statements in conformity with the approved accounting standards require the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Fund's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgements are exercised in application of the accounting policies are as follows:

- Classification and valuation of investments
- Assessing the realisability of assets.

### 3.2 Investments

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+3' purchases are recognised at the trade date. Trade date is the date on which the scheme commits to purchase or sell the assets.

The management determines the appropriate classification of its investments in accordance with the requirements of International Financial Reporting Standards (IAS- 39); 'Financial Instruments: Recognition and Measurement', at the time of purchases and re-evaluates this classification on a regular basis.

- Financial instruments held for trading i.e. any financial asset or liability held to generate short term profits or that is part of a portfolio of financial instruments that are managed together for that purpose.
- All derivatives other than hedging instruments.
- Any financial assets or liabilities that are designated by the entity at the time of initial recognition as measured at fair value through profit or loss.

#### **Held for trading**

Investments that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as 'held for trading'. These investments are marked to market and are carried on the Statement of Assets and Liabilities at fair value, except un-quoted investments are recognised at their respective purchase price. Net gains and losses arising on changes in fair value of these investments are taken to the Income Statement.

#### **Held to maturity**

Investments that are intended to be held till maturity are subsequently measured at amortized cost using the effective rate method. Amortized cost is calculated by taking into account any premium or discount on acquisition, over the period to maturity.

#### **Loans and receivables**

Financial assets that are created by the Fund by providing money directly to a debtor are classified as loans and receivables originated by the Fund. Loans and receivables originated with the intent to be sold immediately or in the short term are classified as held for trading.

Subsequent to initial measurement loans and receivables originated by the Fund which are not held for trading are measured at amortized cost using the effective interest rate method while loans and receivables originated by the Fund that are classified as held for trading are remeasured at their fair values. Gains/ (losses) arising on remeasurement of loans and receivables originated by the Fund that are held for trading are taken to the Income Statement.

### **3.3 Derivatives**

Derivatives are marked to market in accordance with the requirements of IAS 39 and gains / (losses) arising on revaluation are taken to the Income Statement.

#### **Transactions involving outright purchase of securities in the ready market and sale of the same security in the futures market**

The Fund enters into certain transactions involving purchase of a security in the ready market and sale of the same security in the futures market, which are recorded in accordance with the requirement of IAS 39. The securities purchased by the Fund in the ready market are carried on the statement of Assets and Liabilities in accordance with the accounting policy of the investments specified in note 3.2 above, till their eventual disposal, and the forward sale of securities in the future market is accounted for separately as a 'derivative'.

### **3.4 Securities under repurchase / resale agreements**

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and are measured in accordance with their original measurement principles. The proceeds of the sale are reported as liabilities and are carried at cost.

Securities purchased under agreements to resell (Reverse repurchase agreements) are reported not as purchases of the securities, but as receivables and are carried in the balance sheet at cost.

### **3.5 Financial Assets and Financial Liabilities**

Financial assets carried on the Statement of Assets and Liabilities include bank balances, receivable against continuous funding system, investments, advances and prepayments, income accrued and deposits.

Financial liabilities carried on the Statement of Assets and Liabilities include payable to unit holders, accrued and other liabilities, payable to Atlas Asset Management Limited (Management Company), payable to Central Depository Company of Pakistan Limited (Trustee) and payable to Securities and Exchange Commission of Pakistan (annual fee).

**Recognition**

- The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

**Derecognition**

- The Fund derecognises the financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments.

**Measurement**

- Financial instruments are measured initially at fair value i.e. transaction price that are directly attributable to the acquisition or issue of financial assets or liabilities.

The particular recognition method adopted for measurement of financial asset and liability after initial recognition is disclosed in the policy statement associated with each item.

**3.6 Offsetting Financial Instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of assets and liabilities when there is a legally enforceable right to off set the recognized amounts and there is an intention to settle on net basis, or to realize the asset and settle the liability simultaneously.

**3.7 Cash and Cash Equivalents**

Cash and cash equivalents comprise of cash at bank on current and short term deposit accounts.

**3.8 Provisions**

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

**3.9 Impairment**

Financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the Income Statement.

**3.10 Revenue Recognition**

- Interest income and profit on bank deposits is recognized in the income statement as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date.
- Interest earned on reverse repurchase agreements is recognized as interest income, over the life of each agreement using the effective interest method.
- Income on debt securities is recognized on an accrual basis using the effective interest rate method.
- Capital gains / (losses) arising on sale of securities are included in the Income Statement in the period in which they arise.

**3.11 Element of income and capital gains included in prices of units sold less those in units repurchased**

The daily sale and repurchase price of the Fund units is determined on the basis of Net Asset Value which includes elements of capital gains and revenue income (or losses as the case may be) that have accrued upto that date. To prevent the dilution of per unit income and distribution of income already paid out on redemption, as dividend, an equalization account called "element of income and capital gains included in prices of units sold less those in units repurchased" is created. In respect of sale and repurchase of units of the Fund, the element of capital gains and revenue income (or losses) included in the sale / repurchase price of such units respectively is credited / charged to the income statement.

### 3.12 Taxation

The income of the scheme is exempt from income tax under Clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income of that year, as reduced by capital gains, whether realized or unrealized, is distributed amongst its unit holders. Accordingly, no tax liability has been provided for the current year.

### 3.13 Expenses

All expenses including remuneration of the Management Company, trustee and annual fee of the SECP are recognised in the income statement on accrual basis.

### 3.14 Issue and redemption of units

Units issued are recorded at the offer price, determined by the management company for the application received by the Distribution Company / Management Company during business hours on that day. The offer price represents the Net Asset Value (NAV) per unit as of the close of the previous business day plus the allowable sales load and provision of any duties and charges if applicable. The sales load is payable to the Distribution Company and the Management Company.

Units redeemed are recorded at the redemption price applicable to units for which the Distribution Company / Management Company receives redemption application during business hours of that day. The redemption price shall be equal to the NAV as of the close of the business day immediately preceding the day of the announcement, less an amount as the Management Company may consider to be an appropriate provision of duties and charges.

### 3.15 Net Asset Value per Unit

The Net Asset Value per unit is disclosed in the Statement of Assets and Liabilities and is calculated by dividing the net assets of the Fund by the number of units in issue at the end of the year.

### 3.16 Earnings per Unit

Earnings per unit is calculated by dividing the net income of the Fund for the year by the number of units in issue at the end of the year.

	Note	2007 Rupees	2006 Rupees
<b>4. CASH AT BANKS</b>			
In PLS deposit accounts	4.1	1,411,692,397	359,462,906
In Term Deposit accounts	4.2	530,000,000	1,000,000,000
		<u>1,941,692,397</u>	<u>1,359,462,906</u>

4.1. The rate of return on PLS deposits account ranges from 1.30% to 10% (2006: 1.30% to 9.50%) per annum and includes Rs.1,206,334,754 (2006: Rs. 565,146) maintained with Atlas Bank Limited, a connected person.

4.2. The rate of return on Term deposit accounts ranges from 10.20% to 10.55% (2006: 11% to 11.50%) per annum and includes deposit of Rs.nil (2006: Rs. 200,000,000) held with Atlas Bank Limited, a connected person.

### 5. RECEIVABLE FROM CONTINUOUS FUNDING SYSTEM

Receivable against continuous funding system	<u>1,574,121,985</u>	<u>36,816,265</u>
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The market value of securities held in respect of continuous funding system is Rs. 1,549.073 million (2006: Rs. 34.685 million). The rates of return range from 9.68% to 12.13% (2006: 13.39% to 15.95%) per annum with maturities ranging from over night to twenty two days.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

	Note	2007 Rupees	2006 Rupees
<b>6. INVESTMENTS</b>			
Financial assets at fair value through profit or loss			
Held for trading	6.1	159,088,064	153,983,853
Held to maturity	6.2	6,500,387	797,500,454
Term finance facility	6.3	77,258,381	-
Loans and receivables originated by the Fund	6.4	50,739,726	-
Pre IPO subscription in TFCs - Engro Chemical Pakistan Limited (2006 : IGI Investment Bank Limited - Formerly First International Investment Bank Limited )		35,000,000	5,000,000
		<b>328,586,558</b>	<b>956,484,307</b>
<b>6.1 Held for trading</b>			
Future transactions	6.1.1	-	-
Term Finance Certificates	6.1.2	159,088,064	153,983,853
		<b>159,088,064</b>	<b>153,983,853</b>

**6.1.1 Future transactions**

Name of investee company	Number of Shares				Market Value as at June 30, 2007	Percentage of investment in relation to net assets of the Fund
	As at July 01, 2006	Acquired during the year	Sold during the year	As at June 30, 2007		
					Rupees	%
<b>COMMERCIAL BANKS</b>						
Askari Commercial Bank Ltd.	-	140,000	140,000	-	-	-
Bank Alfalah Ltd.	-	62,500	62,500	-	-	-
The Bank of Punjab	-	513,500	513,500	-	-	-
Faysal Bank Ltd.	-	200,000	200,000	-	-	-
MCB Bank Ltd.	-	326,000	326,000	-	-	-
PICIC Commercial Bank Ltd.	-	12,000	12,000	-	-	-
National Bank of Pakistan	-	2,767,500	2,767,500	-	-	-
<b>CEMENT</b>						
D G Khan Cement Co. Ltd.	-	575,000	575,000	-	-	-
Lucky Cement Ltd.	-	11,000	11,000	-	-	-
Maple Leaf Cement Factory Ltd.	-	5,000	5,000	-	-	-
<b>POWER GENERATION &amp; DISTRIBUTION</b>						
The Hub Power Company Ltd.	-	20,000	20,000	-	-	-
<b>OIL &amp; GAS MARKETING COMPANIES</b>						
Pakistan State Oil Company Ltd.	-	333,000	333,000	-	-	-
<b>OIL &amp; GAS EXPLORATION COMPANIES</b>						
Oil & Gas Development Company Ltd.	-	610,500	610,500	-	-	-
Pakistan Oilfields Ltd.	-	200,500	200,500	-	-	-
Pakistan Petroleum Ltd.	-	124,000	124,000	-	-	-
<b>FERTILIZER</b>						
Engro Chemical Pakistan Ltd.	-	5,500	5,500	-	-	-
Fauji Fertilizer Bin Qasim Ltd.	-	896,000	896,000	-	-	-
					-	-

6.1.2 Term Finance Certificates - Held for trading

Term Finance Certificates	Status	Number of Certificates				Market Value as at June 30, 2007	Percentage of investment in relation to net assets of the Fund	
		As at July 01, 2006	Acquired during the year	Sold/ Matured during the year	As at June 30, 2007			
						Rupees	%	
<b>MODARABAS</b>								
Al-Zamin Leasing Modaraba	Listed	2,000	-	-	2,000	6,800,000	0.18	
Al-Zamin Leasing Modaraba-II	Listed	2,000	-	-	2,000	10,000,000	0.26	
<b>LEASING COMPANIES</b>								
Grays Leasing Ltd.	Unlisted	3,000	-	-	3,000	3,750,000	0.10	
Trust Investment Bank Ltd.-II	Listed	629	-	-	629	1,572,500	0.04	
<b>INVESTMENT BANKS/COMPANIES</b>								
Escort Investment Bank Ltd.	Listed	-	5,000	-	5,000	25,000,000	0.65	
IGI Investment Bank Ltd.	Listed	-	1,000	-	1,000	4,999,000	0.13	
Jahangir Siddiqui & Company Ltd.-II	Listed	2,000	-	-	2,000	9,990,000	0.26	
Jahangir Siddiqui & Company Ltd.-III	Listed	2,000	-	-	2,000	9,994,000	0.26	
<b>COMMERCIAL BANKS</b>								
Bank Al Habib Ltd.-II	Listed	-	2,000	-	2,000	10,138,000	0.26	
Crescent Commercial Bank Ltd.	Unlisted	3,000	-	3,000	-	-	-	
Prime Commercial Bank Ltd.	Listed	658	-	-	658	3,287,368	0.09	
United Bank Ltd.-II	Listed	2,000	-	-	2,000	8,799,224	0.23	
<b>TEXTILE COMPOSITE</b>								
Azgard Nine Ltd.	Listed	5,000	-	-	5,000	26,284,847	0.68	
<b>OIL &amp; GAS EXPLORATION COMPANIES</b>								
Chanda Oil & Gas Securitization Co. Ltd.	Listed	1,000	-	-	1,000	3,970,000	0.10	
Naimat Basal Oil & Gas Securitization Co. Ltd.	Listed	1,000	-	-	1,000	3,053,800	0.08	
Orient Petroleum Incorporated.	Unlisted	5,000	-	5,000	-	-	-	
<b>TECHNOLOGY &amp; COMMUNICATION</b>								
Pakistan Mobile Communications (Pvt.) Ltd.	Unlisted	5,000	-	-	5,000	15,000,000	0.39	
Telecard Ltd.	Listed	4,000	-	-	4,000	13,121,843	0.34	
<b>MISCELLANEOUS</b>								
Pakistan Services Ltd.	Listed	1,494	-	-	1,494	3,327,482	0.09	
						<b>159,088,064</b>	<b>4.14</b>	

(i) Cost of Term Finance Certificates as at June 30, 2007: Rs.159,250,514 (2006: Rs.153,770,552).

	Note	2007 Rupees	2006 Rupees
<b>6.2 Investments - Held to maturity</b>			
Term finance certificates	6.2.1	6,425,000	12,657,143
Income accrued on term finance certificates		75,387	217,523
		<b>6,500,387</b>	<b>12,874,666</b>
Certificate of deposits		-	100,000,000
Income accrued on certificate of deposits		-	1,764,384
		-	<b>101,764,384</b>
Certificate of investments		-	600,000,000
Income accrued on certificate of investments		-	6,762,055
		-	<b>606,762,055</b>
Musharika Agreements		-	75,000,000
Income accrued on musharika agreements		-	1,099,349
		-	<b>76,099,349</b>
		<b>6,500,387</b>	<b>97,500,454</b>

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6.2.1 Term Finance Certificates - Held to maturity

Term Finance Certificates	Status	Number of Certificates				Amortised cost as at June 30, 2007	Percentage of investment in relation to net assets of the Fund
		As at July 01, 2006	Acquired during the year	Sold/ Matured during the year	As at June 30, 2007		
						Rupees	%
<b>LEASING COMPANIES</b>							
Orix Leasing Pakistan Ltd.	Listed	-	1,285	-	1,285	6,425,000	0.17
<b>PHARMACEUTICAL</b>							
Pharmagen Ltd.	Listed	3,544	-	3,544	-	-	-
						<u>6,425,000</u>	<u>0.17</u>

Terms and conditions of Term Finance Certificates - Held for trading (Note no. 6.1.2)

Name of investee company	Tenor	Profit payments/ Principal redemptions	Repayment Period	Current Rate	Base Rate	Floor & Cap
<b>MODARABAS</b>						
Al-Zamin Leasing Modaraba	5 years	Annually	Dec 2006 - Dec-2008	8.00%	8.00%	-
Al-Zamin Leasing Modaraba-II	5 years	Annually	May 2008 - May-2010	9.50%	9.50%	-
<b>LEASING COMPANIES</b>						
Grays Leasing Ltd.	4 years	Semi annually	Jul 2004 - Jan 2008	9.00%	3.75% + 12mth T-Bills	5% - 9%
Trust Investment Bank Ltd.-II	5 years	Semi annually	Jan 2005 - Jul 2009	10.00%	3.00% + 6 mth KIBOR	6% - 10%
<b>INVESTMENT BANKS/COMPANIES</b>						
Escort Investment Bank Ltd.	5 years	Semi annually	Sep 2009 - Mar 2012	13.10%	2.50% + 6 mth KIBOR	8% - 17%
IGI Investment Bank Ltd.	5 years	Semi annually	Jan 2008 - Jul 2011	12.79%	2.25% + 6 mth KIBOR	-
Jahangir Siddiqui & Company Ltd.-II	5 years	Semi annually	Jun 2009 - Dec 2009	8.29%	8.29%	-
Jahangir Siddiqui & Company Ltd.-III	5 years	Semi annually	Mar 2006 - Sep 2010	12.15%	1.75% + 6 mth KIBOR	6% - 16%
<b>COMMERCIAL BANKS</b>						
Bank Al Habib Ltd.-II	8 years	Semi annually	Aug 2014 - Feb 2015	12.60%	1.90% + 6 mth KIBOR	-
Prime Commercial Bank Ltd.	8 years	Annually	Feb 2010 - Feb 2013	12.39%	1.90% + 6 mth KIBOR	-
United Bank Ltd.-II	8 years	Semi annually	Mar 2013 (at maturity)	9.49%	9.49%	-
<b>TEXTILE COMPOSITE</b>						
Azgard Nine Ltd.	7 years	Semi annually	March 2008 - Sep 2012	12.82%	2.40% + 6 mth KIBOR	-
<b>OIL &amp; GAS EXPLORATION COMPANIES</b>						
Chanda Oil & Gas Securitization Co. Ltd.	7 years	Quarterly	Aug 2005 - Feb 2012	13.00%	3.25% + 3mth KIBOR	8.95% - 13%
Naimat Basal Oil & Gas Securitization Co. Ltd.	5 years	Monthly	Apr 2005 - Apr 2009	12.55%	2.50% + 6mth KIBOR	7.5% - 13%
Orient Petroleum Incorporated.	3 years	Semi annually	Jun 2004 - Dec 2006	10.00%	1% + SBP	8% - 13%
<b>TECHNOLOGY &amp; COMMUNICATION</b>						
Pakistan Mobile Communications (Pvt.) Ltd.	5 years	Semi annually	Sep 2006 - Sep 2008	11.06%	2.25% + 6mth T-Bills	6.5% - 12%
Telecard Ltd.	6 years	Semi annually	Nov 2006 - May 2011	13.91%	3.75% + 6mth KIBOR	-
<b>MISCELLANEOUS</b>						
Pakistan Services Ltd.	5 years	Semi annually	Nov 2005 -Nov 2008	11.25%	2.25% + SBP	9.75% - 13.75%



**Terms and conditions of Term Finance Certificates - Held to maturity (Note no. 6.2.1)**

Name of investee company	Tenor	Profit payments/ Principal redemptions	Repayment Period	Current Rate	Base Rate	Floor & Cap
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**LEASING COMPANIES**

Orix Leasing Pakistan Ltd. 5 years Semi annually Nov 2009 - May 2012 11.67% 1.50% + 6 mth KIBOR -

	Note	2007 Rupees	2006 Rupees
Term finance facility	6.3.1	100,000,000	-
Fair value adjustment on discounting of term finance facility		(22,741,619)	-
		<u>77,258,381</u>	<u>-</u>

**6.3 Term Finance Facility - Unsecured**

6.3.1 This represents the restructuring of the overdue Certificates of Investments of Rs. 100 million placed with a Non Banking Finance Company (NBFC), which have been converted to a Term Finance Facility under a restructuring arrangement approved by the Securities and Exchange Commission of Pakistan. Under the revised terms of the Term Finance Facility, the principal shall be recoverable in twenty equal installments commencing September 2008, with a markup rate of 1.5% per annum payable on quarterly basis, with markup recovery commencing from March 2007. The mark-up rate being lower than prevalent in the market, the cost of the facility has been discounted to its present value using the market rate of interest of 9.1021% for similar loans, in accordance with the requirements of IAS 39 - "Financial Instruments: Recognition and Measurement." The effect of the same, amounting to Rs. 24,313,430 has been charged to the profit and loss account. The impact will reverse each year and be taken to the profit and loss account, also in accordance with IAS 39.

**6.4 Loans and receivables originated by the Fund**

Loans and receivables	6.4.1	50,000,000	-
Income accrued on loans and receivables		739,726	-
		<u>50,739,726</u>	<u>-</u>

6.4.1 These Loans and receivables represent certificate of investments placed with an Investment Bank and carry mark-up rate 10.80% per annum payable at maturity, and are due to mature on August 13, 2007.

**7. ADVANCES AND PREPAYMENTS**

Tax deducted at source		-	433,565
Prepaid annual listing fee		15,000	15,000
Dividend receivable from continuous funding system		-	3,493,650
		<u>15,000</u>	<u>3,942,215</u>

**8. INTEREST ACCRUED**

Interest accrued on:			
Cash at banks	8.1	10,661,952	9,529,021
Continuous funding system		5,858,203	310,781
Placements		-	2,426,282
Held for trading investments		4,564,449	3,273,549
Held to maturity investments		110,945	-
Term finance facility		437,500	-
		<u>21,633,049</u>	<u>15,539,633</u>

8.1 This includes mark-up receivable amounting to Rs.7,620,969 (2006 : Rs. 41,470) on PLS deposits accounts and Rs nil (2006: Rs.1,265,753) on term deposits held with Atlas Bank Limited, a connected person.

NOTES TO THE FINANCIAL STATEMENTS  
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	Note	2007 Rupees	2006 Rupees
<b>9. ACCRUED AND OTHER LIABILITIES</b>			
Charges payable to National Clearing Company of Pakistan Limited		132,328	106,145
Brokerage Payable			
-Atlas Capital Markets (Pvt.) Limited - connected person		200,188	177,328
-Others		2,087,256	3,064,096
Payable to brokers against dividend on continuous funding system			
-Atlas Capital Markets (Pvt.) Limited - connected person		69,515	-
-Others		688,501	-
Auditors' remuneration payable		511,500	355,000
Withholding tax payable		218,084	-
Sales load payable to distributors and sales agents		-	110,812
Other payable		622,397	-
		<b>4,529,769</b>	<b>3,813,381</b>
<b>10. PAYABLE TO ATLAS ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY</b>			
Management fee payable to Atlas Asset Management Limited	10.1	5,236,223	16,653,899
Sales load payable		-	274,897
		<b>5,236,223</b>	<b>16,928,796</b>
<p>10.1 In accordance with the provisions of the NBFC Rules 2003, the Management Company of the fund is entitled to receive a remuneration during the first five years of the Fund, of an amount not exceeding 3% of the average annual net assets of the Fund and thereafter of an amount equal to 2% of such assets of the Fund. The Management Company has charged its remuneration at the rate of 0.17% (2006: 1%) per annum of the average annual net assets for the reported year.</p>			
<b>11. PAYABLE TO TRUSTEE</b>			
Trustee fee payable	11.1	368,276	302,562
Settlement charges payable		68,045	30,768
		<b>436,321</b>	<b>333,330</b>
<p>11.1 The Trustee is entitled to monthly remuneration for services rendered to the Fund under the provisions of the First Supplemental Trust Deed as per the tariff specified therein, based on the average annual net assets of the Fund.</p>			
<b>12. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>			
Annual fee	12.1	<b>3,004,677</b>	<b>1,665,390</b>
<p>12.1 Under the provisions of the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, a Unit Trust scheme is required to pay as annual fee to SECP, an amount equal to one tenth of one percent of the average annual net assets of the Fund.</p>			
<b>13. DISTRIBUTION</b>			
<p>The Board of Directors of Management Company, in their meeting held on July 20, 2007, approved a bonus distribution for the year ended June 30, 2007 of Rs. 50 per unit (2006: Rs. 57.50 per unit) on the face value of Rs. 500 each, i.e. 10% (2006: 11.50%), amounting to Rs. 349,423,976 (2006: Rs. 275,815,430). The distribution will be recognized in the financial statement subsequent to the year end. Unit Holders who have opted for cash payment will receive cash payment accordingly.</p>			
<b>14. COMMITMENTS</b>			
14.1 Reverse repurchase agreements (including contracts to be rolled over) entered into by the Fund in respect of which the purchase transactions have not been settled as at June 30, 2007.		<b>280,705,095</b>	<b>24,596,550</b>
<p>These transactions have been settled subsequent to the year end.</p>			
<b>15. INTEREST INCOME</b>			
<b>Interest income arises from:</b>			
Cash at banks		137,341,699	21,697,392
Continuous funding system		127,552,071	74,832,787
Carry over transactions		-	10,193,305
Placements		3,803,245	26,331,755
Held for trading investments		18,510,233	16,600,624
Held to maturity investments	15.1	57,081,752	15,952,125
Loans and receivables		739,726	-
Term finance facility		437,500	-
		<b>345,466,226</b>	<b>165,607,988</b>
<p>15.1 It includes write off of interest receivable on held to maturity investment amounting to Rs.4,528,904 (2006: NIL).</p>			

	Note	2007 Rupees	2006 Rupees
<b>16. AUDITORS' REMUNERATION</b>			
Annual audit fee		300,000	200,000
Half yearly review fee		150,000	100,000
Certification charges		45,000	40,000
Out of pocket expenses		16,500	15,000
		<b>511,500</b>	<b>355,000</b>
<b>17. TRANSACTIONS WITH CONNECTED PERSONS/RELATED PARTIES</b>			
<b>Atlas Asset Management Limited - Management Company</b>			
Remuneration		5,236,223	16,653,899
Remuneration paid		16,653,899	2,435,157
Sales load and certificate charges		64,053	4,210,140
<b>Atlas Asset Management Company Limited - Staff Provident Fund</b>			
Bonus 55 (2006: 43) units		27,702	21,401
<b>Allwin Engineering Industries Limited - Employees Provident Fund</b>			
Sale of 7,333 (2006: 20,501) units		4,000,000	11,000,000
Bonus 2,356 (2006: nil) units		1,178,819	-
<b>Atlas Bank Limited</b>			
Sale of 365,982 (2006: 53,818) units		200,000,000	30,000,000
Redemption of 60,003 (2006: 65,846) units		32,755,878	36,507,206
Bonus of 6,185 (2006: 5,846) units		3,094,533	2,925,000
Term deposit receipt placed		950,000,000	200,000,000
Term deposit receipt matured		1,150,000,000	-
Interest income on cash at banks		36,023,705	851,054
Certificate of deposits matured		-	100,000,000
Profit on certificate of deposits		-	328,767
Brokerage		-	46,660
Bank charges		2,030	1,050
<b>Atlas Battery Limited</b>			
Sale of nil (2006: 49,061) units		-	25,241,245
Redemption of nil (2006: 48,605) units		-	25,018,709
Bonus of 52 (2006: nil) units		26,255	-
<b>Atlas Capital Markets (Pvt.) Limited</b>			
Brokerage		1,639,560	177,083
<b>Atlas Foundation</b>			
Sale of 53,118 (2006: 20,773) units		28,550,000	11,500,000
Bonus 2,515 (2006: 99) units		1,258,434	49,434
<b>Atlas Group of Companies - Management Staff Gratuity Fund</b>			
Sale 29,802 (2006: 9,021) units		16,000,000	5,000,000
Redemption of 1,851 (2006: nil) units		1,000,000	-
Bonus of 2,703 (2006: 1,287) units		1,352,048	643,805
<b>Atlas Honda Limited</b>			
Sale of 1,364,206 (2006: 374,208) units		701,059,662	202,902,714
Redemption of nil (2006: 513,514) units		-	279,850,706
Bonus of 7,096 (2006: 17,851) units		3,550,104	8,930,805
<b>Atlas Insurance Limited</b>			
Sale of 19,069 (2006: nil) units		10,000,000	-
<b>Honda Atlas Cars (Pakistan) Limited</b>			
Sale of 793,874 (2006: nil) units		421,917,848	-
Bonus of 81,837 (2005: 63,220) units		40,942,154	31,629,829

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	Note	2007 Rupees	2006 Rupees
<b>Shirazi Investments (Private) Limited</b>			
Sale of 146,341 (2006: 97,718) units		80,000,000	50,000,000
Redemption of 101,371 (2006: 97,718) units		51,574,765	50,086,593
Bonus of 10,450 (2006: 8,073) units		5,227,990	4,038,879
<b>Key management personnel</b>			
<b>Chief Executive Officer</b>			
Sale of nil (2006: 4,599) units		-	2,500,000
Redemption of 5,127 (2006: nil) units		2,740,010	-
Bonus of 529 (2006: nil) units		264,434	-
<b>Directors</b>			
Sale of 3,332 (2006: 27,455) units		1,800,000	15,046,680
Redemption of 27,065 (2006: nil) units		13,905,672	-
Bonus of 4,943 (2006: 2,762) units		2,472,891	1,381,648
<b>Executives</b>			
Sale of 396 (2006: 1,704) units		200,000	909,996
Redemption of 1,410 (2006: 1,667) units		729,588	860,210
Bonus of 105 (2006: 77) units		52,289	38,756

17.1 Atlas Investment Bank Limited amalgamated into Atlas Bank Limited with effect from July 29, 2006.

17.2 The transactions with connected persons are in the normal course of business at contracted rates and terms determined in accordance with market rates.

17.3 The outstanding balance of connected persons are included in the respective notes to the financial statements.

**18. MARKET RATE OF RETURN (MROR) SENSITIVITY POSITION**

18.1 The Fund's MROR sensitivity related to financial assets and financial liabilities as at June 30, 2006 can be determined from the following:

	Exposed to MROR risk			More than five years	Not exposed to MROR risk	Total 2007	Total 2006
	Upto three months	More than three months and up to one year	More than one year and up to five years				
<b>Amount in Rupees</b>							
<b>On-balance sheet financial instruments</b>							
<b>Financial Assets</b>							
Cash at banks	1,941,692,397	-	-	-	-	1,941,692,397	1,359,462,906
Receivable against continuous funding system	1,574,121,985	-	-	-	-	1,574,121,985	36,816,265
Placements	-	-	-	-	-	-	325,000,000
Investments	65,009,015	18,770,002	149,128,549	95,678,993	-	328,586,558	956,484,307
Advances and prepayments	-	-	-	-	-	-	3,927,215
Interest accrued	-	-	-	-	21,633,049	21,633,049	15,539,633
Security deposits	-	-	-	-	1,100,000	1,100,000	1,100,000
	<u>3,580,823,397</u>	<u>18,770,002</u>	<u>149,128,549</u>	<u>95,678,993</u>	<u>22,733,049</u>	<u>3,867,133,989</u>	<u>2,698,330,326</u>
<b>Financial Liabilities</b>							
Payable to unit holders	-	-	-	-	2,165	2,165	-
Accrued and other liabilities	-	-	-	-	4,529,769	4,529,769	3,813,381
Payable to Atlas Asset Management Limited -Management Company	-	-	-	-	5,236,223	5,236,223	16,928,796
Payable to Trustee	-	-	-	-	436,321	436,321	333,330
Payable to Securities and Exchange Commission of Pakistan	-	-	-	-	3,004,677	3,004,677	1,665,390
	-	-	-	-	13,209,155	13,209,155	22,740,897
<b>On-balance sheet gap - June, 2007</b>	<u>3,580,823,397</u>	<u>18,770,002</u>	<u>149,128,549</u>	<u>95,678,993</u>	<u>9,523,894</u>	<u>3,853,924,834</u>	<u>2,675,589,429</u>
<b>On-balance sheet gap - June, 2006</b>	<u>2,518,699,271</u>	<u>29,300,765</u>	<u>107,047,950</u>	<u>22,715,492</u>	<u>(2,174,049)</u>	<u>2,675,589,429</u>	
<b>Off-balance sheet financial instruments</b>							
<b>Commitment - June, 2007</b>	<u>280,705,095</u>	-	-	-	-	<u>280,705,095</u>	
<b>Commitment - June, 2006</b>	<u>24,596,550</u>	-	-	-	-	<u>24,596,550</u>	

18.2 Effective interest rates

	2007 Percentage range	2006 Percentage range
Cash at banks	1.30 - 12.25	1.30 - 11.50
Receivable from continuous funding system	11.25 - 14.27	13.39 - 15.95
Placements	10.20 - 12.10	10.75 - 11.80
Held for trading investments	8.00 - 14.19	7.00 - 13.44
Held to maturity investments	1.50 - 17.00	8.50 - 14.90

19. MATURITIES OF ASSETS AND LIABILITIES

	Upto three months	More than three months and upto one year	More than one year and upto five years	More than five years	Total 2007	Total 2006
<b>Amount in Rupees</b>						
<b>Assets</b>						
Cash at banks	1,941,692,397	-	-	-	1,941,692,397	1,359,462,906
Receivable against continuous funding system	1,574,121,985	-	-	-	1,574,121,985	36,816,265
Placements	-	-	-	-	-	325,000,000
Investments	65,009,015	18,770,002	149,128,549	95,678,993	328,586,558	956,484,307
Advances and prepayments	7,500	7,500	-	-	15,000	3,942,215
Interest accrued	21,633,049	-	-	-	21,633,049	15,539,633
Security deposits	-	-	-	1,100,000	1,100,000	1,100,000
	<u>3,602,463,946</u>	<u>18,777,502</u>	<u>149,128,549</u>	<u>96,778,993</u>	<u>3,867,148,989</u>	<u>2,698,345,326</u>
<b>Liabilities</b>						
Payable to unit holders	2,165	-	-	-	2,165	-
Accrued and other liabilities	4,529,769	-	-	-	4,529,769	3,813,381
Payable to Atlas Asset Management Limited - Management Company	5,236,223	-	-	-	5,236,223	16,928,796
Payable to Trustee	436,321	-	-	-	436,321	333,330
Payable to Securities and Exchange Commission of Pakistan - annual fee	3,004,677	-	-	-	3,004,677	1,665,390
	<u>13,209,155</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,209,155</u>	<u>22,740,897</u>
Net Assets - June, 2007	<u>3,589,254,791</u>	<u>18,777,502</u>	<u>149,128,549</u>	<u>96,778,993</u>	<u>3,853,939,834</u>	<u>2,675,604,429</u>
Net Assets - June, 2006	<u>2,515,432,722</u>	<u>29,308,265</u>	<u>107,047,950</u>	<u>23,815,492</u>	<u>2,675,604,429</u>	

20. FINANCIAL RISK MANAGEMENT POLICIES

20.1 Market Risk

Market risk is the risk that the value of a financial instrument may fluctuate as a result of changes in market interest rates or market price of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, supply and demand of securities and liquidity in the market. There is a possibility of default of participants and of failure of the financial markets/ stock exchanges, the depositories, the settlement or the clearing system etc.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and regulations laid down by the Securities and Exchange Commission of Pakistan.

20.2 Credit Risk

Credit risk arising from the inability of the counterparties to fulfill their obligations in respect of financial instrument contracts, is generally limited to the principal amount and accrued income thereon. The Fund's policy is to enter into financial instrument contracts by following internal guidelines such as approving counterparties, approving credit, obtaining adequate collateral and transacting through approved brokers.

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Financial assets subject to credit risk amount to Rs.3,861.262 (2006: 2,697.897) million. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse creditworthy counterparties thereby mitigating any significant concentrations of credit risk.

### 20.3 Liquidity Risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Management Company manages liquidity risk by following internal guidelines such as monitoring maturities of financial assets and financial liabilities and investing in highly liquid financial assets.

### 20.4 Market Rate of Return (MROR) Risk

MROR risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities and off-balance sheet financial instruments that mature or reprice in a given period. The Management Company manages these mismatches through risk management strategies where significant changes in gap positions can be adjusted.

The Fund is not materially exposed to MROR risk as there are no interest bearing financial liabilities giving rise to mismatches of financial assets and financial liabilities.

## 21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value as the items are short term in nature.

## 22. PERFORMANCE TABLE

	Note	2007	2006	2005	2004*
Net assets (Rs. '000)		3,853,940	2,675,604	1,154,155	371,324
Net income (Rs. '000)		357,866	276,820	103,392	13,940
Number of units in issue		6,988,480	4,796,790	2,101,528	742,343
Net asset value (Rs.)		551.47	557.79	549.20	500.21
Net income (Rs.)		51.21	57.71	49.20	18.78
Dividend (Rs.) **	13	-	57.50	48.75	18.75
Dividend as % of par value of units	13	-	11.50	9.75	3.75
Highest issue price during the year (Rs.)		557.60	566.79	556.84	529.24
Lowest redemption price during the year (Rs.)		503.26	500.45	500.88	510.70

22.1 Figures for the year 2005 are restated.

\* For the period from September 15, 2003 to June 30, 2004

\*\* Bonus distribution in 2005

## 23. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 25, 2007.

For Atlas Asset Management Limited  
(Management Company)

M. Habib-ur-Rahman  
Vice Chairman &  
Chief Executive Officer

Yusuf H. Shirazi  
Chairman

Tariq Amin  
Director

## Main Office

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