METROBANK - PAKISTAN SOVEREIGN FUND

MSF

ANNUAL REPORT 2010

Arif Habib Investments
Pakistan Mutual Funds
An Investment Plan for Everyone

BRANCHES:

Lahore:
Contact Person: Mr. Tanweer Ahmad Haral
16, Block-A, Hali Road, Gulberg II, Lahore.
Tel: (+92-42) 35714958, (+92-21) 35714959
Fax: (+92-42) 35714957
E-mail: lhr.mkt@arifhabib.com.pk

Rawalpindi:
Contact Person: Mr. Zahiruddin Khan
60-A, Canning Road, Rawalpindi-46000.
Tel: (+92-51) 111-468-378 (111-INVEST), 5564093
E-mail: rwp.mkt@arifhabib.com.pk

Islamabad:
Contact Person: Mr. Nadeem Ishtiaq
15 Beverly Centre, 2nd Floor,
Blue Area, Jinnah Avenue, Islamabad.
Tel: (+92-51) 2875939-2814189
Fax: (+92-51) 2814199
E-mail: isl.mkt@arifhabib.com.pk

Multan:
Contact Person: Syed Nawazish Ali Zaidi
143-144, Mall Plaza, Multan Cantt., Multan.
Tel: (+92-61) 111-468-378 (111-INVEST), 4546235, 6014125
Fax: (+92-61) 4546235
E-mail: mul.mkt@arifhabib.com.pk

Peshawar:
Contact Person: Mr. Iltifatullah Khan
1st Floor, State Life Building, 34 The Mall, Peshawar.
Tel: (+92-91) 111-468-378 (111-INVEST), 5287696
Fax: (+92-91) 5287697
E-mail: psw.mkt@arifhabib.com.pk

CONTENTS

FUND'S INFORMATION

Management Company
Arif Habib Investments Limited
Arif Habib Centre, 23 M. T. Khan Road,
Karachi -74000.

Board of Directors of the Management Company

Mr. Muhammad Shafi Malik	Chairman
Mr. Nasim Beg	Chief Executive
Mr. Sirajuddin Cassim	Director
Mr. S. Gulrez Yazdani	Director
Mr. Muhammad Akmal Jameel	Director
Syed Ajaz Ahmed	Director
Mr. Muhammad Kashif Habib	Director

Company Secretary & CFO of the Management Company
Mr. Zeeshan

Audit Committee

Mr. Muhammad Shafi Malik	Chairman
Mr. Muhammad Akmal Jameel	Member
Mr. Muhammad Kashif Habib	Member
Syed Ajaz Ahmed	Member

Trustee
Central Depository Company of Pakistan Limited (CDC)
CDC House, 99-B, S.M.C.H.S
Main Shahrah-e-faisal, Karachi.

Bankers
Habib Metropolitan Bank Limited
Bank Alfalah Limited

Auditors
A. F. Ferguson & Co. - Chartered Accountants
State Life Building No. 1-C,
I. I. Chundrigar Road, Karachi-74000

Legal Adviser
Bawaney & Partners
404, 4th Floor, Beaumont Plaza,
Beaumont Road, Civil Lines, Karachi-75530

Registrar
Gangjees Registrar Services (Pvt.) Limited.
Room No. 516, 5th Floor, Clifton Centre,
Kehkashan, Clifton, Karachi.

Distributor
Habib Metropolitan Bank Limited

Rating
PACRA: AA(f) Stability Rating
PACRA: AM2 (Positive Outlook) - Management Quality Rating assigned to Management Company

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2010

The Board of Directors of Arif Habib Investments Limited, the Management Company of MetroBank - Pakistan Sovereign Fund (MSF), is pleased to present its annual Report together with Audited Financial Statements for the year ended June 30, 2010.

Fund Objective

MSF Perpetual

The objective of the fund is to maximize returns through investment in government securities while limiting exposure to excessive price volatility by maintaining a maximum duration of 3 years.

Fund Profile

MSF Perpetual

Metro-Bank Pakistan Sovereign Fund-Perpetual (MSF) is an open end fund, which invests in bonds and debt securities issued by the Government of Pakistan as well as Reverse Repurchase transactions (Reverse-REPOs) against government securities. MSF is a long only fund and does not undertake leveraged investments. The Board has approved the categorisation of Fund as "Income Scheme".

Fund Objective

MSF December 2012

The objective of the fund is to deliver returns equivalent to government bonds maturing in 2012.

Fund Profile

MSF December 2012

Metro-Bank Pakistan Sovereign Fund-12/12 (MSF-12/12) is an open end fund, which invests in bonds and debt securities issued by the Government of Pakistan as well as Reverse Repurchase transactions (Reverse-REPOs) against government securities. MSF-12/12 is a long only fund and does not undertake leveraged investments. The Board has approved the categorisation of Fund as "Income Scheme".

Fund's Performance during the year ended June 30, 2010

MSF Perpetual

The Net Asset Value (NAV) per unit at the end of the period stood at Rs. 54.02 as compared to opening Ex NAV of Rs 49.05 per unit, registering an increase of Rs 4.97 for the year.

MSF 12-12

The Net Asset Value (NAV) per unit at the end of the period stood at Rs. 60.24 as compared to opening Ex NAV Rs 54.79 per unit registering an increase of Rs 5.45.

The combined Net Assets of the Fund as at June 30, 2010 stood at Rs 1,506.59 million as compared to Rs 1,954.11 million at 30th June 2009, registering a decrease of 22.90%.

Income Distribution

The Board in the meeting held on 5th July 2010 has declared final distribution in the form of bonus units for the year ended June 30, 2010 at Rs 5 per unit for MSF Perpetual (10.20% on the opening Ex-NAV and 10% of face value of Rs 50 for Financial Year 2010) and Rs.13 for MSF 12-12 (23.73% on the opening Ex-NAV and 13% of face value of Rs 50 for Financial Year 2010) amounting to rupees 139.38 million and 21.97 million respectively.

Explanation With Regards To Auditor's Qualified Opinion

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971(the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honorable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with the SHC by some of Mutual Funds through their Trustees along with few investors. However, subsequent to filing of the petition, the Ministry of Labour and Manpower issued a letter which states that mutual funds are not liable for WWF.

The MUFAP, on behalf of its member AMCs, obtained legal opinions from couple of renowned law firms to assess the implications of the letter issued by the Ministry of Labour and Manpower. The legal opinions, among other things, stated that mutual funds are not required to provide for contribution to WWF and earlier provisioning, if any, can be reversed and the terms of the letters suggest that provisioning was neither required nor necessary. Further, the opinions suggest that the petition filed with the High Court of Sindh be withdrawn.

External Auditors' based on a different legal advice are of the view that provision for WWF should be made in the financial statements. The management has not made any provision in respect of WWF and maintains that based on letter issued by Ministry of Labour and Manpower, mutual funds are not establishments and as a result are not liable to pay contribution to WWF.

Corporate Governance

The Fund is committed to high standards of corporate governance and the Board of Directors of the Management Company is accountable to the unit holders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Islamabad Stock Exchange.

The following specific statements are being given to comply with the requirements of the Code of Corporate Governance:

a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.

b. Proper books of accounts of the Fund have been maintained during the year.

c. Appropriate accounting policies have been consistently applied in preparation of financial statements except as disclosed in Note 2.1.3 to the financial statements to reflect changes introduced by revised "IAS 1".

   Accounting estimates are based on reasonable prudent judgment.

d. Relevant International Accounting Standards, as applicable in Pakistan, provision of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.

e. The system of internal control is sound in design and has been effectively implemented and monitored.

f. There are no significant doubts upon the Fund's ability to continue as 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 of last eight years has been summarized in the financial statements.

i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.

j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company, hence the disclosure has been made in the Directors' Report of the Management Company.

k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance is enclosed.

l. Statement showing attendance of Board meeting is as under:

Attendance of Board Meetings
From 1st July 2009 to 30th June 2010

S. No.	Name	Designation	Meetings		
			Total	Attended	Leave Granted
1	Mr. Shafi Malik	Chairman	11	11	-
2	Mr. Salim Chamdia *	Former Director	3	1	2
3	Mr. Nasim Beg	Chief Executive	11	11	-
4	Mr. Sirajuddin Cassim	Director	11	1	10
5	Mr. S. Gulrez Yazdani **	Director	7	7	-
6	Mr. Muhammad Akmal Jameel	Director	11	10	1
7	Syed Ajaz Ahmed	Director	11	11	-
8	Mr. Muhammad Kashif Habib	Director	11	8	3

* Mr. Salim Chamdia resigned from the office on September 07, 2009.

** Mr. S. Gulrez Yazdani was appointed as director on October 06, 2009 and approved by SECP on November 05, 2009.

m. There have not been any trades in units of the Fund carried out by Directors, CE, CFO and Company Secretary of the Management Company and their spouses and minor children.

External Auditor

As recommended by the Audit Committee the Board of Directors of the Management Company has reappointed A. F. Fergusons & Co., Chartered Accountants as the Fund's auditors for the year ending June 30, 2011.

Future Outlook

Interest rates are also expected to remain sticky upwards as expectations of continuing double digit inflation (around 12%) and higher government borrowings may not allow SBP to ease its monetary policy in the near term especially in the aftermath of the worst flood in the history of Pakistan, which has resulted in high level damages to the infrastructure, properties, livestock and crop.

Acknowledgment

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in Arif Habib Investments Limited. The Board also likes to thank the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee of the Fund) and the management of the Islamabad Stock Exchange for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Management Company for the growth and meticulous management of the Fund.

For and on behalf of the Board

Karachi
August 03, 2010

Nasim Beg
Chief Executive

REPORT OF THE FUND MANAGER
FOR THE YEAR ENDED JUNE 30, 2010

Fund Objective

MSF Perpetual

The objective of the fund is to maximize returns through investment in government securities while limiting exposure to excessive price volatility by maintaining a maximum duration of 3 years.

Fund Profile

MSF Perpetual

Metro-Bank Pakistan Sovereign Fund-Perpetual (MSF) is an open end fund, which invests in bonds and debt securities issued by the Government of Pakistan as well as Reverse Repurchase transactions (Reverse-REPOs) against government securities. MSF is a long only fund and does not undertake leveraged investments. The Board has approved the categorisation of Fund as "Income Scheme".

Fund Objective

MSF December 2012

The objective of the fund is to deliver returns equivalent to government bonds maturing in 2012.

Fund Profile

MSF December 2012

Metro-Bank Pakistan Sovereign Fund-12/12 (MSF-12/12) is an open end fund, which invests in bonds and debt securities issued by the Government of Pakistan as well as Reverse Repurchase transactions (Reverse-REPOs) against government securities. MSF-12/12 is a long only fund and does not undertake leveraged investments. The Board has approved the categorisation of Fund as "Income Scheme".

Fund Performance

MSF earned an annualized return of 10.13% during the year ended 30th June 2010, compared to its benchmark (6-month T-bill) return of 12.93% for FY10. ***Industry average return of Income Fund category was 10.30% during 2010***. During last quarter of financial year 2010, MSF earned an annualized return of 9.71%. The return of the fund decreased in the last couple of months due to falling prices of government securities amid rising interest rates whereby secondary market yields of 3, 5 and 10-year PIBs were increased by 8, 10 and 19 bps respectively at the end of last quarter. Net assets of the Fund were Rs. 1.5 billion. Average portfolio duration of the Fund was 1.73 years at the end of June 2010.

MSF declared a dividend of Rs. 5.0 per unit in June 2010 with cumulative dividend yield of 10.19% for the full year FY 2010.

Jul,09	Aug,09	Sep,09	Oct,09	Nov,09	Dec,09	Jan,10	Feb,10	Mar,10	Apr,10	May,10	Jun,10
11.52%	3.09%	9.55%	6.12%	18.38%	6.69%	14.21%	7.27%	10.59%	12.23%	9.28%	7.41%

Asset allocation

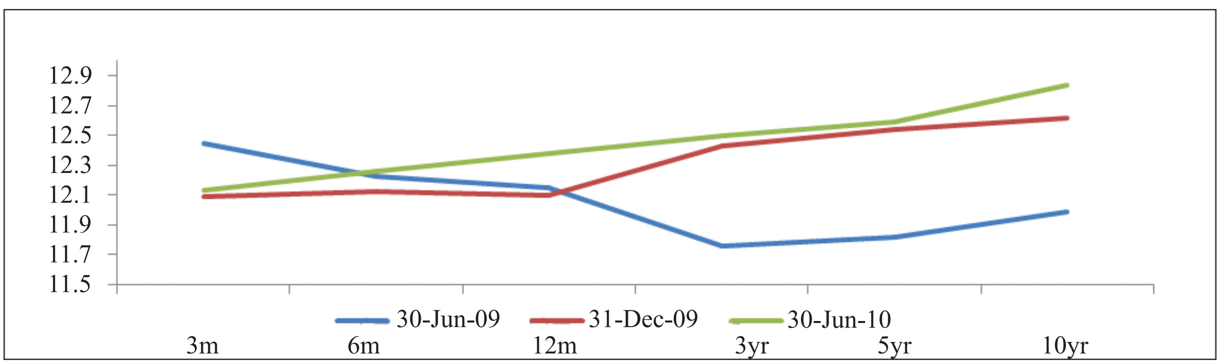
During last quarter of financial year 2010, in anticipation of rise in the market yields, duration of the Fund was reduced to 1.73 years compared to 1.88 years on March 31, 2010. Investment in PIB was 50.5% of net assets at year end, while T-bill was 40.8%. Investment in sub-scheme (12/12) was 6.7% of net assets.

Market Review

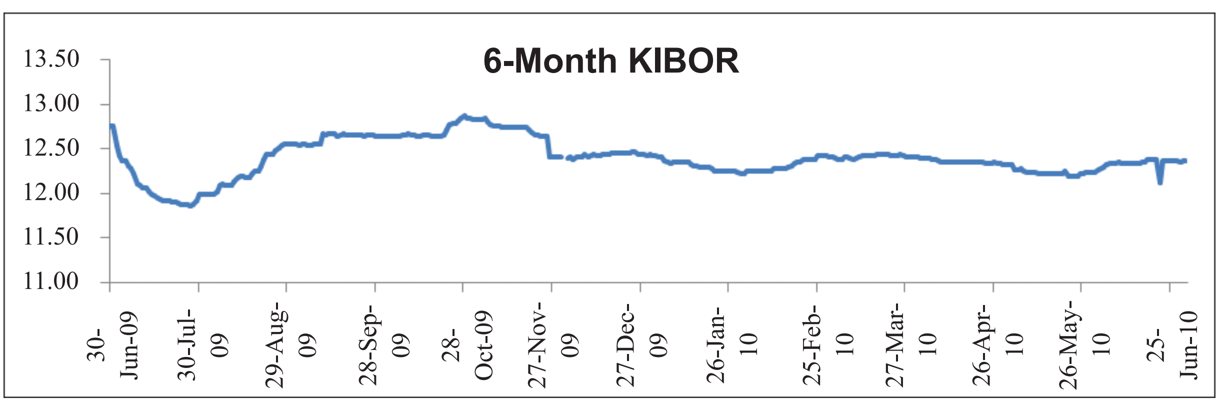
Interest rates have edged upward during FY2010 and most prominently later in the year, when expectations of further easing in monetary policy diminished amid concerns over inflation and higher government borrowings. Earlier during the year, declining CPI enabled the Central Bank to cut the discount rate ones on November 24, 2009 by 50 bps to 12.5%, which led to decline in interest rates across all tenors till March 2010. However, interest rates started moving up again in June with an upward shift in the entire yield curve, except for very short maturities. And in July 2010 monetary policy, the discount rates were revised upwards by 50 bps to stand at 13.0% due to fears of high inflation going forward, and rising twin deficits.

The leading concern among market participants at this time seems to be the huge government borrowing outstanding from the central bank and consequently non compliance with a major IMF quantitative target. As of the latest Net Domestic Assets (NDA) figures available up to June 25th, the government's total borrowing during the fiscal year stands at Rs.461.86bn. Of this amount, Rs.200.22bn is from the Central Bank.

Yields in longer tenures moved higher except for papers up to 6-month where yields declined and remained in the band of 11.95% to 12.20%. The benchmark 10-year PIB moved up to 13.00% (12.70% - avg PKRV) and the 1-year treasury-bill crossed the yield level of 12.40% in June, 10.



On the other hand, 6-month KIBOR displayed a declining trend during the financial year FY10 in the wake of sufficient liquidity maintained by banks, and on 30 June, 10 closed at 12.37%, 39 bps low from 12.76% (as on 30 June,09).



An automated trading system for corporate bonds was introduced during the 1st half of FY10 and trading started on KSE BATS (Bond Automated Trading System) from November, 09. However, lack of retail interest and reluctances of major participants due to very thin volumes mainly contributed to the ineffectiveness of this facility to create corporate debt instrument demand among the investors. During the financial year FY10, TFCs of Banking, Fertilizer, Real Estate, Textile and Telecommunication Sectors were in demand and traded at spreads ranging from 2.0% to 7.50% above benchmark 6-month KIBOR. In addition, spreads were comparatively wide in unlisted TFCs due to lack of buyers' interest.

Repayments of principal and interest on few TFCs were rescheduled and as a result, prices of such TFCs were adjusted downward.

Financial Year 2010 in Review

A moderate recovery in the economy has been witnessed despite one of the most serious economic crises in the country's history. GDP growth has begun to seep back into the country; however the biggest concern remains whether this recovery is sustainable. An energy and water shortage, along with the internal security situation and inability to deal with structural issues especially circular debt, poses a considerable hurdle for a more broad based revival of the economy. On the other hand, shortfall in the inflow of external assistance, including from the FoDP combined with the delays in the Coalition Support Fund, has led to high borrowings by the government in the domestic credit market which has resulted in the 'crowding out' of credit to the private sector. An increase in global commodity prices, mainly food has exerted an upward pressure on the domestic inflation where commodities have witnessed a decent increase. Consequently, the State Bank has been unable to use expansionary monetary policy which could potentially add to already significant inflation.

The Real Sector

According to initial estimates, GDP grew by 4.1% during FY10 as against a revised figure of 1.2% a year earlier. The positive outturn for economic growth came in spite of massive costs such as internal security situation and the severe energy shortfall. Large Scale Manufacturing (LSM) posted a growth of 4.71% during Jul-May FY10 against a -8.2% in the same period in FY09. Some major contributors towards this positive LSM growth were pharmaceuticals, automobiles and the fertilizer sector.

However, the growth overall is not broad based and is largely biased towards consumer durable goods and major index constituents namely Textile and food processing continue to display negative growth. Similarly, services sector displayed a decent rebound of 4.6% as against previous year's growth of 1.6%. However, agriculture sector growth slows down to 2% as water shortages led to reduced wheat output in the preceding year.

The Monetary Sector

Money supply (M2) has grown as compared to the previous year, but the increase continues to be explained by government borrowing from the banking system which has further increased. Improvement in external balance of payment position has increased the net foreign assets of the banking system during July-Jun FY10 which rose by Rs.89.07bn after witnessing a decline of Rs. 188.4bn during the same period of FY09. Net domestic assets on the other hand witnessed a rise of Rs.530.7bn, however lower as compared to the previous years Rs.590.2bn. While government borrowing for budgetary support has increased, borrowing for commodity operations till now has been significantly lower. The Discount rate, after peaking in November 2008 has eased to 13.0% (as of end July) in response to a gradual fall in both headline as well as core inflation. Nevertheless, based on the inflationary environment and continued government borrowing, a further easing in the discount rate for at least FY11 does not seem likely. Treasury yields at this point also reflect heightened concerns regarding inflation and government debt situation.

Prices

CPI Inflation, after dipping to a low of 8.9% YoY in October 2009 mainly due to the base effect, has rebounded to 12.3% YoY as of July 2010, with food inflation at 12.5% and non-food inflation at 12.0%. Core inflation (Non Food Non Energy), on the other hand has been tame at 10.3%. This increase in inflation is mainly due to structural adjustments i.e. electricity and gas subsidy elimination. It would thus not be incorrect to say that this latest round of inflation is due to short term factors; however, it still has raised inflation future expectations which could keep inflation at elevated levels for some time.

The Fiscal Sector

Pakistan is witnessing a low Tax/GDP ratio amidst mounting public debt and significant expenditure requirements. The total tax collection stood at Rs.1136.6bn in July-May 2009-10 against a collection of Rs.900.9bn in the same period last year. Hopefully, the implementation of Value Added Tax (VAT) from October 1st, 2010 would further strengthen the tax base and tax/GDP ratio under a flat tax rate. However, at the same time, evidence from other countries has shown that VAT implementation is not without significant costs especially in the first year of imposition. At the same time the government continues to face significant expenditure requirements due to continued war on terror and development needs.

The External Sector

The external sector witnessed an overall improvement during 2010, mainly due to narrowing of the current account deficit. This decline in CAD to US$3.06 billion was contributed by the improvement in all its components; trade in goods, services, and income and current transfers during FY10. The goods trade deficit declined by 11% while remittances have posted a growth of 14%. Foreign Direct Investment (FDI) in the country declined by 41% during the FY10 due to unstable domestic security situation. On the positive side, Foreign Portfolio Investment (FPI) has rebounded considerably, but these investments are short term and volatile in nature. Pakistan's foreign exchange reserves increased significantly from US$12.4bn to over US$ 16.0bn from July 2009 -Jun 2010. Improvements in the SBP's reserves during the period were mainly due to inflows from International financial Institutions (IFIs) and lower current account deficit. Due to improvements in the overall external account and stable reserve position, Pakistan's currency against the US dollar depreciated by 5% during FY10 compared to a decline of 18.8% in the corresponding period last year.

The year ahead

The fiscal year 2011 has started on a disastrous note for the country as historic high floods due to severe monsoon have resulted in unprecedented loss of human life and vast scale damages to housing/properties, roads/electricity infrastructure, crops and livestock in Pakistan's economic and agriculture heartland along the 3200 kilometre long Indus River. The scale of damages looks quite large with initial estimates of around US$5-6 bn. As a result, most of the economic targets are set to be revised for FY 2011 with possible contraction in GDP growth, higher inflation and increase in budget deficit. Most notably, government borrowing will increase in the wake of urgency for relief and rehabilitation needed for 20 million (almost 10% of the population) affectees across the country.

Agriculture sector is severely impacted with approximate losses of nearly US$3 billion on account of severe damages to standing crops of cotton, rice and sugar cane; loss of 500,000 metric tonnes of wheat stock; and loss of two hundred thousand livestock. In addition, floods have made it difficult to achieve wheat cultivation target for the year 2011, which will lead to lower wheat output during the year. Against the earlier growth target of 3.8% for FY2011, agriculture sector growth is most likely to be in red for the year. Similarly, manufacturing and services growth, which were earlier projected at 4.9% and 4.7%, are expected to be scaled down due to weak demand conditions in the economy along with the supply side problem due to the heavy destruction of infrastructure (roads, bridges) in the flood affected areas.

With commodity prices on the rise once again in international markets (partly due to flood damages in Pakistan) and Pakistan facing domestic shortages, inflation is expected to rise even further in coming months. As a result, monetary policy will continue to have a tightening stance in the remaining months of the year.

One other major negative consequence will be the deterioration in balance of trade as the country will become net importer of sugar, cotton and wheat and will be left with little rice to export (Pakistan is the third largest exporter of rice in the world-US$2 bn export in 2010). This additional burden will have its impact on balance of payment and current account deficit, leading to additional downward pressure on the Rupee.

Economic and budgetary targets set for FY11 by the government are in the process of revision in the wake of extraordinary circumstances. While, Pakistan needs higher donors' support at this crucial juncture, it also will require additional long term funding for rebuilding its basic infrastructure (roads, bridges, irrigation canals and electricity distribution) lost in the floods. Given the weak external position, in our view, Pakistan will enter into another multiyear arrangement with the IMF after the expiry of present IMF program by the end of FY11.

Future Outlook

Interest rates are also expected to remain sticky upwards as expectations of continuing double digit inflation (around 12%) and higher government borrowings may not allow SBP to ease its monetary policy in the near term especially in the aftermath of the worst flood in the history of Pakistan, which has resulted in high level damages to the infrastructure, properties, livestock and crop.

Other disclosures under NBFC regulations 2008

The Fund Manager hereby makes the following disclosures as required under the NBFC regulations 2008.

a. The management company or any of its delegates did not receive any soft commission (goods and services) from any of its broker/dealer by virtue of transactions conducted by the Fund.

b. There was no unit split undertaken during the year.

c. The Fund Manager is not aware of any circumstances that can materially affect any interests of the unit holders other than those already disclosed in this report.

CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED

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

TRUSTEE REPORT TO THE UNIT HOLDERS

METROBANK - PAKISTAN SOVEREIGN FUND

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

The MetroBank - Pakistan Sovereign Fund (the Fund), an open-end Fund was established under a trust deed dated December 24, 2002, executed between Arif Habib Investments Limited, as the Management Company and Habib Metropolitan Bank Limited (HMB), as the Trustee.

As per amendatory trust deed of change of trustee dated November 11, 2009, HMB retired as the Trustee and Central Depository Company of Pakistan Limited was appointed as the Trustee of the Fund.

In our opinion, the Management Company has in all material respects managed the Fund during the period from November 23, 2009 to June 30, 2010 in accordance with the provisions of the following:

(i) Limitations imposed on the investment powers of the management company under the constitutive documents of the Fund;

(ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and

(iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

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

Karachi: September 29, 2010

CENTRAL
DEPOSITORY
COMPANY

Habib Metropolitan Bank Ltd.
(Subsidiary of Habib Bank AG Zurich)
HEAD OFFICE : SPENCER'S BUILDING I.I. CHUNDRIGAR ROAD KARACHI – 74200 , PAKISTAN.

TRUSTEE REPORT TO THE UNIT HOLDERS

METROBANK-PAKISTAN SOVEREIGN 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

MetroBank-Pakistan Sovereign Fund (the Fund), an open-end fund was established under a trust deed executed between Arif Habib Investments Limited, as the Management Company and Habib Metropolitan Bank Limited as Trustee on 24th December 2002.

As per the Deed of change of Trustee and amendment in the Trust Deed dated November 11, 2009 Habib Metropolitan Bank Limited retired as the Trustee and Central Depository Company of Pakistan Limited was appointed as the new Trustee of the Fund. However, the title to the assets of the Fund was transferred to Central Depository Company of Pakistan Limited on November 23, 2009.

In our opinion, the Management Company has in all material respects managed the Fund during the period from 01 July 2009 to 22 November 2009 in accordance with the provisions of the following:

(i) Limitations imposed on the Management Company under the Constitutive Documents;

(ii) Valuation and pricing of Units are carried out in accordance with the requirements of the Trust Deed and Offering Document;

(iii) Creation and cancellation of units are carried out in accordance with the requirements of the Trust Deed and Offering Document;

(iv) 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.

Azam Zaidi
Senior Executive Vice President
Habib Metropolitan Bank Limited

Karachi
September 23, 2010

PHONE: (92-21) 227 1935-49 FAX: (92-21) 227 1950 www.hmb.com.pk

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2010

This statement is being presented by the Board of Directors of Arif Habib Investments Limited, the Management Company of Metrobank - Pakistan Sovereign Fund ("the Fund"), to comply with the Code of Corporate Governance contained in Listing Regulations of Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The 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 and directors representing minority interests on its Board of Directors. At present the Board includes six non-executive directors, however, none of the directors on the Board represent minority shareholders.

2. The directors of the Management Company have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company..

3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. During the year Mr. Salim Chamdia had resigned on September 7, 2009 and was replaced by Mr. S. Gulrez Yazdani on October 6, 2009.

5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.

6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies 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 remuneration and terms and conditions of employment of the Chief Executive (CE) has been taken by the Board. As on June 30, 2010, there is no other executive director of the Management Company besides the CE.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated and signed by the Chairman of the Board of Directors.

9. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.

10. The Board arranged orientation for the directors of the Management Company during the year to apprise them of their duties and responsibilities.

11. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive.

12. The Directors' Report of the Fund for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

13. The Directors, CE and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.

14. The financial statements of the Fund were duly endorsed by CE and CFO of the Management Company before approval of the Board.

15. The Management Company has complied with all the corporate and financial reporting requirements of the Code.

16. The Board has formed an audit committee for the Fund. It comprises of four members, all of whom are non-executive directors including the Chairman of the committee. During the year Mr. Salim Chamdia has resigned as Chairman. Mr. Muhammad Shafi Malik has been appointed as Chairman in his place.

17. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.

18. The Board has set-up an effective internal audit function headed by the Head of Internal Audit and Compliance. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund and is involved in the internal audit function on a full time basis.

19. 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 spouses and minor children do not hold any units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

20. 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.

21. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board

Karachi: August 03, 2010

Nasim Beg
Chief Executive

A.F. FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

REVIEW REPORT TO THE UNITHOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Arif Habib Investments Limited**, the Management Company of **Metrobank Pakistan Sovereign Fund** to comply with the Regulation No. 35 (Chapter XI) of the Islamabad 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 part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub-Regulation (xiii a) of the above mentioned Listing Regulation No. 35 requires the Management Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. All such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of the requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2010.

AFF & Co

Chartered Accountants

Karachi

Dated: August 3, 2010

Lahore Office: 23-C Aziz Avenue, Canal Bank, Gulberg V, P. O. Box 39, Lahore, Pakistan Tel: (92-42) 35715864-71 Fax: (92-42) 35715872
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan. Tel: +93-779-315320, +93-799-315320

A.F. FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 3242671
Facsimile: (021) 32415007 / 32427938

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **MetroBank Pakistan Sovereign Fund (here in after referred to as "the Fund"),** which comprise the statement of assets and liabilities as at June 30, 2010, and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's responsibility

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

Basis for Qualified Opinion

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 applies. On the basis of an independent legal advice, in our opinion this levy has now become applicable on the Fund as well. However, no provision in respect of Workers Welfare Fund (WWF) has been made by the management for the reasons explained in note 11 to the financial statements. Had the management recognised this provision the liability towards WWF at June 30, 2010 would have amounted to Rs 3,233,489 (including Rs 301,802 for the year ended June 30, 2009) and accordingly the undistributed income and net asset value of the Fund at June 30, 2010 would have been lower by Rs 3,233,489.

Qualified Opinion

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2010 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Lahore Office: 23-C Aziz Avenue, Canal Bank, Gulberg V, P. O. Box 39, Lahore, Pakistan Tel: (92-42) 35715864-71 Fax: (92-42) 35715872
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office : House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel : (93-799) 315320-203424

A.F. FERGUSON & CO. | A member firm of PRICEWATERHOUSECOOPERS

Other matters

In our opinion, the financial statements have been prepared in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Chartered Accountants

Engagement Partner: Rashid A. Jafer

Dated: August 3, 2010

Karachi

STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2010

	Note	2010	2009
		----------------(Rupees)----------------	
ASSETS			
Balances with banks - in deposit account	3	6,805,114	462,846,617
Investments	4	1,473,021,184	1,580,953,726
Income receivable	5	30,147,580	12,914,481
Advances and prepayments		-	124,932
Total Assets		1,509,973,878	2,056,839,756
LIABILITIES			
Payable to Arif Habib Investments Limited - Management Company	6	1,420,774	1,424,860
Payable to Trustee	7	155,810	712,429
Payable to Securities and Exchange Commission of Pakistan	8	1,260,228	527,853
Payable against purchase of investments		-	98,559,700
Redemption payable		-	781,008
Accrued expenses and other liabilities	9	545,690	724,074
Total liabilities		3,382,502	102,729,924
Net Assets		1,506,591,376	1,954,109,832
Unit holders' funds (as per statement attached)		1,506,591,376	1,954,109,832
		(Number of Units)	
Number of units in issue		27,889,305	39,778,241
		(Rupees)	
Net Asset Value per unit		54.02	49.13
CONTINGENCIES AND COMMITMENTS	10		

The annexed notes 1 to 39 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		----------------(Rupees)----------------	
INCOME			
Income from investment		195,346,711	60,907,482
Capital (loss) / gain on sale of government securities		(4,494,252)	2,820,880
Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'	4.4	(14,101,758)	12,045,728
Income from reverse repurchase transactions of government securities		923,237	10,629,527
Profit on bank deposits		3,015,174	5,136,433
Total income		180,689,112	91,540,050
OPERATING EXPENSES			
Remuneration of Arif Habib Investments Limited - Management Company	18	14,075,947	4,477,167
Remuneration of Trustee	19	2,913,036	2,238,584
Annual Fee - Securities and Exchange Commission of Pakistan	20	1,260,228	527,853
Brokerage	21	298,151	333,615
Bank charges	22	82,344	17,195
Printing and publication charges	23	145,608	42,030
Fees and subscription	24	59,769	335,342
Legal and professional charges	25	155,088	149,970
Auditors' remuneration	26	425,912	590,698
Total operating expenses		19,416,083	8,712,454
Net income from operating activities		161,273,029	82,827,596
Element of loss and realised capital losses included in prices of units issued less those in units redeemed - net		(14,688,687)	(67,737,479)
Net income for the year before taxation		146,584,342	15,090,117
Taxation	2.12	-	-
Net income for the year after taxation		146,584,342	15,090,117
Other comprehensive income / (loss) for the year			
Unrealised appreciation in value of investments classified as 'available for sale' - net	4.3	1,886,126	13,772,711
Total comprehensive income for the year		148,470,468	28,862,828

The annexed notes 1 to 39 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		----------------(Rupees)----------------	
Accumulated (losses) / undistributed income brought forward			
- Realised (loss) / gain		(41,695,868)	18,291,394
- Unrealised loss		12,045,728	-
		(29,650,140)	18,291,394
Net income for the year		146,584,342	15,090,117
Final distribution of Re 0.07 per unit in terms of bonus units for the year ended June 30, 2009 (Date of distribution July 6, 2009) (2008 : Rs 6.85 per unit)		(2,820,019)	(50,002,159)
Element of income / (loss) and unrealised capital gains / (losses) included in prices of units issued less those in units redeemed amount representing unrealised (gains) / losses - net		1,275,084	(13,029,492)
Undistributed income / (accumulated loss) carried forward		115,389,267	(29,650,140)
Undistributed income carried forward comprising of			
- Realised gain		121,311,366	(41,695,868)
- Unrealised loss	4.4	(5,922,099)	12,045,728
		115,389,267	(29,650,140)

The annexed notes 1 to 39 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	----------------(Rupees)----------------	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	146,584,342	15,090,117
Adjustments for:		
Element of loss and capital losses included in prices of units issued less those in units redeemed	14,688,687	67,737,479
Unrealised diminution / (appreciation) on government securities at fair value through profit and loss - net	14,101,758	(12,045,728)
	175,374,787	70,781,868
Decrease / (increase) in assets		
Receivable against reverse repurchase transaction in government securities	-	79,000,000
Investments	95,716,910	(1,273,576,949)
Income receivable	(17,233,099)	(9,573,196)
Advances and prepayments	124,932	88,364
	78,608,743	(1,204,061,781)
Increase / (decrease) in liabilities		
Payable to Arif Habib Investments Limited – Management Company	(4,086)	1,279,228
Payable to Trustee	(556,619)	639,614
Payable to Securities and Exchange Commission of Pakistan - Annual fee	732,375	(542,836)
Payable against purchase of investments	(98,559,700)	98,559,700
Redemption payable	(781,008)	781,008
Accrued expenses and other liabilities	(178,384)	173,958
	(99,347,422)	100,890,672
Net cash generated from / (used in) operating activities	154,636,108	(1,032,389,241)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from issue of units	1,612,614,061	2,061,605,689
Payment on redemption of units	(2,223,291,672)	(568,830,786)
Net cash (used in) / generated from financing activities	(610,677,611)	1,492,774,903
Net (decrease) / increase in cash and cash equivalents	(456,041,503)	460,385,662
Cash and cash equivalents at beginning of the year	462,846,617	2,460,955
Cash and cash equivalents at end of the year	6,805,114	462,846,617

The annexed notes 1 to 39 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		--------------------(Rupees)--------------------	
Net assets at the beginning of the year		1,954,109,832	365,134,622
Issue of units 30,425,971 (2009: 43,798,800)		1,612,614,061	2,061,605,689
Redemption of units 42,372,321 (2009: 12,487,665 units)		(2,223,291,672)	(568,830,786)
		(610,677,611)	1,492,774,903
Element of (income) / loss and capital (gains) / losses included in the prices of units issued less those in units redeemed:			
- amount representing realised (gains) / losses transferred to Income Statement - net		14,688,687	67,737,479
- amount representing unrealised (gains) / losses transferred to other distribution statement		(1,275,084)	13,029,492
		13,413,603	80,766,971
Unrealised gain on revaluation of investments classified as 'available for sale' - net	4.3	1,886,126	13,372,711
Final Distribution:			
Issue of 57,414 bonus units for the year ended June 30, 2009 (2008 : 1,159,103 bonus units)		2,820,019	50,002,159
Final distribution of Re 0.07 per unit in terms of bonus units for the year ended June 30, 2009 in terms of bonus units : (Date of distribution July 6, 2009) (2008 : Rs 6.85 per unit)		(2,820,019)	(50,002,159)
Net income for the year		146,584,342	15,090,117
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised gains / (losses) - net		1,275,084	(13,029,492)
		145,039,407	(47,941,534)
Net assets at the end of the year		1,506,591,376	1,954,109,832

The annexed notes 1 to 39 form an integral part of these condensed interim financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

1 LEGAL STATUS AND NATURE OF BUSINESS

MetroBank - Pakistan Sovereign Fund was established under a Trust Deed executed between Arif Habib Investments Limited (AHIL), as Management Company and Habib Metropolitan Bank Limited as Trustee. The Trust Deed was executed on December 24, 2002 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on January 7, 2003 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules), [repealed by Non - Banking Finance Companies (Establishment and Regulations) Rules, 2003 (NBFC Rules)].

During the period, Habib Metropolitan Bank Limited retired as the Trustee of the Fund and Central Depository Company of Pakistan Limited (CDC) was appointed as the new Trustee with effect from 23rd November 2009. The SECP approved the appointment of CDC as the Trustee in place of Habib Metropolitan Bank Limited and further approved the amendments to the Trust Deed vide its letter number SCD/NBFC-11/MF-RS/MSPF/981/2009 dated 3rd November 2009. Accordingly, the Trust Deed of the Fund was revised through a supplemental Deed executed between the Management Company, Habib Metropolitan Bank Limited and CDC.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. During the current period, the registered office of the Management Company has been shifted to Arif Habib Centre, 23 M.T Khan Road, Karachi, Pakistan.

The Metro Bank - Pakistan Sovereign Fund is an open-ended mutual fund and got listed on the Islamabad Stock Exchange on May 27, 2009. 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 Pakistan Credit Rating Agency (PACRA) Limited has assigned management quality rating of AM2 (positive outlook) to the Management Company and AA (f) as stability rating to the Fund.

The Fund consists of a 'Perpetual' (the Scheme) and one Sub-Scheme as at June 30, 2010 with pre-determined maturity date as follows:

Name of sub-scheme	Maturity date of sub-scheme
MetroBank - Pakistan Sovereign Fund - (December 2012) [MSF 12/12]	December 31, 2012

In addition to the above sub-scheme, the Fund had also issued other sub-schemes which were matured as follows:

Name of sub-scheme	Matured on
MetroBank - Pakistan Sovereign Fund - (December 2003) [MSF 12/03]	December 31, 2003
MetroBank - Pakistan Sovereign Fund - (December 2005) [MSF 12/05]	December 31, 2005
MetroBank - Pakistan Sovereign Fund - (December 2007) [MSF 12/07]	December 31, 2007

The Scheme and Sub-Scheme of MSF are open-end schemes which offer units for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the scheme.

The Fund can directly invest in Pakistan rupee denominated bonds and debt securities issued by Government of Pakistan, reverse repurchase transactions in government securities and any otherwise un-invested funds in deposits with banks and financial institutions.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements as are set out below. These policies have been consistently applied to all the years presented except as explained in note 2.1.3 to these financial statements.

2.1 Basis of preparation

2.1.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.1.2 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been marked to market and carried at fair value in accordance with the requirements of International Accounting Standards (IAS)39 -'Financial Instruments' : Recognition and Measurement'.

2.1.3 Change in accounting policy and disclosures arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

International Accounting Standards 1 (IAS 1) Revised, ' Presentation of Financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can chose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of other comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position (referred to as the statement os assets and liablities in the statement) as at the beginning of the comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and the comparative period.

The Fund has applied IAS 1 (revised) from July 1, 2009, and has elected to present one performance statement. As a result non-owner changes in equity which were previously credited directly in the statement of movement in unit holders' fund and the distribution statement are now shown as other comprehensive income in the performance statement (referred to as income statement in these financial statements). The change in presentation has not affected the values of the net assets of the Fund for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented.

2.1.4 Other standards, interpretations and amendments to published approved accounting standards that are effective in the current year

The following new standards and amendments to existing standards that are mandatory for the first time for the financial year beginning July 1, 2009:

(a) IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of this amendment did not have a significant impact on the Fund's financial statements.

(b) IFRS 7 (Amendment), ' Financial Instruments: Disclosure'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements, by level of fair value measurement hierarchy. The adoption of the amendment has resulted in additional disclosures but did not have an impact on the Fund's financial position or performance.

(c) IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements - Puttable financial instruments and obligations arising on liquidation'. The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. One of the particular features is that apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity. In this connection, Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 mandate the payment of 90% of the scheme's profits for the year as dividends, therefore the amendment has not changed the classification of units.

(d) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access of goods or receipt of services. The adoption of this amendment did not have any effect on the Fund's financial statements.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2009 but were considered not to be relevant or did not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.1.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Fund's accounting periods beginning on or after July 1, 2010:

(a) IAS 7(Amendment), 'Statement of Cash Flows' (effective from January 1, 2010).The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Fund's financial statements.

(b) IAS 24 related party Disclosures (revised) (effective from January 1, 2011). The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

There are certain other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or to have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.1.6 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments 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 judgment was exercised in application of accounting policies principally relate to classification and valuation of investments (note 2.2 and note 4).

2.2 Financial assets

2.2.1 The management of the Fund classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in market prices, interest rate movements or are financial assets included in a portfolio in which a pattern of short-term profit taking exists.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund's loans and receivables comprise of cash and bank balances, receivable against sale of investments, deposits and dividend and profit receivable.

c) Available for sale

These are non-derivatives that are either designated in this category or not classified in any of the other categories.

2.2.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

2.2.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

2.2.4 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss and available for sale are valued as follows:

Basis of valuation of Government Securities

The investment of the Fund in Government Securities is valued on the basis of rates announced by the Financial Market Association.

2.2.5 Impairment

The carrying amounts of the Fund's assets are revalued at each balance sheet date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement. If any impairment evidence exists for available for sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income is reclassified from other comprehensive income and recognised in the income statement. Impairment losses recognised on available for sale financial assets recognised in the income statement are not reversed through the income statement.

2.2.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired, have been realised or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

2.2.7 Offsetting of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired, have been realised or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

2.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include payable to mangement company,payable to trustee and other liabilities.

2.4 Derivatives

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

2.5 Securities under repurchase / resale agreements

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

All reverse repo transactions are accounted for on the settlement date.

2.6 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 during business hours on that date. The offer price represents the net asset 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 units for which the distributors receive redemption request during business hours of that day. The redemption price represents the net asset 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.

2.7 Proposed distribution

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

2.8 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created, in order to prevent the dilution of income per unit and distribution of income already paid out on redemption.

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the Unit Holder's Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

2.9 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 amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimates.

2.10 Net asset value per unit

The net asset value (NAV) per unit, as disclosed on the Statement of Assets and Liabilities, is calculated by dividing the net assets of the Fund by the number of units in circulation at the year end.

2.11 Earnings per unit

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.

2.12 Taxation

No provision for taxation has been made as the Fund 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 percent of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unitholders.

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unitholders every year.

2.13 Revenue recognition

Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.

Unrealised capital gains / (losses) arising on marking to market of investments classified as ' Financial assets at fair value through profit or loss ' are included in the income statement in the period in which they arise.

Profit on bank deposits is recognised on an accrual basis.

Profit on investment is recognised on an accrual basis.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances.

2.15 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the Income Statement within the fair value net gain or loss.

		Note	June 30, 2010			June 30, 2009
			MSF Perpetual	MSF 12/12	Total	Total
			(Rupees)			
3	**BALANCE WITH BANKS - IN DEPOSIT ACCOUNT**		6,683,309	121,805	6,805,114	462,846,617

3.1 These carry a rate of return ranging from 5 % to 9 % (2009 5% to 13.25%) per annum.

4 INVESTMENTS IN GOVERNMENT SECURITIES

	Note	MSF Perpetual	MSF 12/12	Total (2010)	Total (2009)
Investments 'Available for sale'	4.1	146,217,993	505,859	146,723,852	147,025,663
Investments 'at fair value through profit or loss'	4.2	1,228,625,984	97,671,348	1,326,297,332	1,433,928,063
		1,374,843,977	98,177,207	1,473,021,184	1,580,953,726

4.1 Investments - 'available for sale'

Issue date	Tenor	Face value				Balance as at 30 June 2010			Market value as a percentage of net assets	Market value as a percentage of total investments
		Balance as at July 1, 2009	Purchases during the year	Sales / matured during the year	Balance as at June 30, 2010	Cost	Market Value	Appreciation / (diminution)		
		----------------------- Rupees in '000 -----------------------				--------------------------- Rupees ---------------------------				
MSF PERPETUAL										
Pakistan Investment Bond										
May 19, 2006	5 Years	150,000	-	-	150,000	149,458,534	146,217,993	(3,240,541)	9.71%	9.93%
November 12, 2004										
November 12,2004	5 Years	2,700	-	2,700	-					
Total						149,458,534	146,217,993	(3,240,541)		
MSF December 2012										
Pakistan Investment Bond										
April 18, 2001	10 Years	500	-	-	500	531,045	505,859	(25,186)	0.03%	0.03%
						531,045	505,859	(25,186)		
Total of investment in Government Securities - ' avaialable for sale'						149,989,579	146,723,852	(3,265,727)		

4.1.1 These carry a rate of return ranging from 12.34 % to 12.36% (2009: 5.9% to 9.75%) per annum.

4.2 Investments in government securities - 'at fair value through profit or loss'

Issue date	Tenor	Face value				Balance as at 30 June 2010			Market value as a percentage of net assets	Market value as a percentage of total investments
		Balance as at July 1, 2009	Purchases during the year	Sales / matured during the year	Balance as at June 30, 2010	Cost	Market Value	Appreciation / (diminution)		
		----------------------- Rupees in '000 -----------------------				--------------------------- Rupees ---------------------------				
PAKISTAN INVESTMENT BONDS										
MSF PERPETUAL										
August 30, 2008	10 Years	25,000	150,000	25,000	150,000	148,540,155	144,026,555	(4,513,600)	9.56%	9.78%
August 30, 2008	7 Years	160,000	-	-	160,000	154,794,141	154,873,470	79,329	10.28%	10.51%
August 30, 2008	5 Years	75,000	150,000	-	225,000	218,361,377	219,125,999	764,622	14.54%	14.88%
September 3, 2009	10 Years	-	200,000	150,000	50,000	48,675,311	47,836,010	(839,301)	3.18%	3.25%
September 3, 2009	5 Years	-	25,000	-	25,000	24,358,115	24,150,878	(207,237)	1.60%	1.64%
September 3, 2009	3 Years	-	96,300	71,300	25,000	24,461,630	24,417,837	(43,793)	1.62%	1.66%
						619,190,729	614,430,749	(4,759,980)		
MSF December 2012										
September 3, 2009	3 Years	-	100,000	-	100,000	98,120,722	97,671,348	(449,374)		
Total of Pakistan Investment Bond						717,311,451	712,102,097	(5,209,354)		
TREASURY BILLS										
MSF PERPETUAL										
March 26, 2009	1 Year	470,000	75,000	545,000	-	-	-	-	-	-
May 21, 2009	1 Year	200,000	-	200,000	-	-	-	-	-	-
June 18, 2009	1 Year		150,000	150,000	-	-	-	-	-	-
February 12, 2009	1 Year	500,000	-	500,000	-	-	-	-	-	-
February 12, 2009	6 Months	100,000	-	100,000	-	-	-	-	-	-
August 13, 2009	1 Year	-	50,000	-	50,000	49,370,618	49,313,400	(57,218)	3.27%	3.35%
August 27, 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
September 10, 2009	1 Year	-	175,000	175,000	-	-	-	-	-	-
November 19, 2009	1 Year	-	30,000	-	30,000	28,749,231	28,652,610	(96,621)	1.90%	1.95%
December 3, 2009	1 Year	-	25,000	-	25,000	23,861,923	23,770,425	(91,498)	1.58%	1.61%
January 29, 2009	6 Months	-	110,000	110,000	-	-	-	-	-	-
February 26, 2009	6 Months	-	50,000	50,000	-	-	-	-	-	-
May 7, 2009	6 Months	-	60,000	60,000	-	-	-	-	-	-
March 11, 2010	3 Months	-	125,000	125,000	-	-	-	-	-	-
March 11, 2010	1 Year	-	125,000	100,000	25,000	23,101,346	23,037,300	(64,046)	1.53%	1.56%
February 25, 2010	3 Months	-	110,000	110,000	-	-	-	-	-	-
January 14, 2010	3 Months	-	10,000	10,000	-	-	-	-	-	-
March 25, 2010	1 Year	-	75,000	75,000	-	-	-	-	-	-
March 25, 2010	3 Months	-	14,000	14,000	-	-	-	-	-	-
September 10, 2009	6 Months	-	50,000	50,000	-	-	-	-	-	-
April 8, 2010	3 Months	-	10,000	-	10,000	9,996,776	9,996,780	4	0.66%	0.68%
April 22, 2010	3 Months	-	50,000	-	50,000	49,773,333	49,773,000	(333)	3.30%	3.38%
May 20, 2010	3 Months	-	150,000	-	150,000	148,005,000	147,940,200	(64,800)	9.82%	10.04%
May 20, 2010	1 Year	-	100,000	-	100,000	90,428,462	90,153,800	(274,662)	5.98%	6.12%
May 20, 2010	3 Months	-	65,000	-	65,000	64,135,500	64,107,420	(28,080)	4.26%	4.35%
June 3, 2010	3 Months	-	75,000	-	75,000	73,655,000	73,633,050	(21,950)	4.89%	5.00%
June 3, 2010	3 Months	-	15,000	-	15,000	14,730,791	14,726,610	(4,181)	0.98%	1.00%
June 17, 2010	3 Months	-	40,000	-	40,000	39,100,000	39,090,640	(9,360)	2.59%	2.65%
						614,907,980	614,195,235	(712,745)		
Total of Treasury Bills						614,907,980	614,195,235	(712,745)		
Total of investment in government securities - 'at fair value through profit or loss'						1,332,219,431	1,326,297,332	(5,922,099)		

4.2.1 These carry a rate of return ranging from 11.76% to 12.81% (2009: 11.75% to 14.31%) per annum.

		2010			2009
		MSF Perpetual	MSF 12/12	Total	Total
		(Rupees)			
4.3	**Net unrealised appreciation / (diminution) in fair value of investments classified as 'Available for Sale'**				
	Market value of investments	146,217,993	505,859	146,723,852	147,025,663
	Cost of investments	(149,458,534)	(531,045)	(149,989,579)	(152,177,516)
		(3,240,541)	(25,186)	(3,265,727)	(5,151,853)
	Less: Net unrealised diminution / (appreciation) in the fair value of investments at the beginning of the year	5,100,760	51,093	5,151,853	18,524,564
		1,860,219	25,907	1,886,126	13,372,711
4.4	**Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'**				
	Market value of investments	1,228,625,984	97,671,348	1,326,297,332	1,433,928,063
	Cost of investments	(1,234,098,709)	(98,120,722)	(1,332,219,431)	(1,421,882,335)
		(5,472,725)	(449,374)	(5,922,099)	12,045,728
	Realised on disposal of investments during the year	3,866,069	-	3,866,069	-
	Net unrealised (appreciation) / diminution in value of investments at fair value through profit or loss at the beginning of the year	(12,045,728)	-	(12,045,728)	-
		(13,652,384)	(449,374)	(14,101,758)	12,045,728
5	**INCOME RECEIVABLE**				
	Profit on bank deposits	-	-	-	1,061,558
	Income receivable on government securities	26,434,795	3,712,785	30,147,580	11,852,923
		26,434,795	3,712,785	30,147,580	12,914,481
6	**PAYABLE TO MANAGEMENT COMPANY**				
	Remuneration - note 6.1	1,327,206	93,568	1,420,774	1,424,860

6.1 Under the provisions of the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non Banking Finance Companies and Notified Entities Regulation, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund.

Up to March 2, 2010 the management fees was being calculated at the rate of 5% of the Funds operating revenue. From March 3, 2010 to May 23, 2010 management fees was calculated at the rate of 1.5% of (one and half percent) of the average annual net assets of the fund. With effect from May 24 ,2010 management fees is being calculated on the lower of 10% of Funds operating Revenue or 1.5 % of average daily net assets subject to minimum fee of 0.5% of average daily net assets.

7	**PAYABLE TO TRUSTEES**	2010			2009
		MSF Perpetual	MSF 12/12	Total	Total
		(Rupees)			
	Habib Metropolitan Bank Limited	-	-	-	712,429
	Central Depository Company	145,450	10,360	155,810	-
		145,450	10,360	155,810	712,429

7.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein based on the daily net assets of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund as at 30 June 2010 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs. 1,000 million	1.5 million per annum
On an amount exceeding Rs 1,000 million	0.075% of net assets

7.2 Habib Metropolitan Bank Limited ceased to be the trustee with effect from November 23 , 2009.

8 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE

	2010			2009
	MSF Perpetual	MSF 12/12	Total	Total
	(Rupees)			
	1,196,616	63,612	1,260,228	527,853

Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the scheme.

9 ACCRUED EXPENSES AND OTHER LIABILITIES

	2010			2009
	MSF Perpetual	MSF 12/12	Total	Total
	(Rupees)			
Auditors' remuneration	271,200	20,223	291,423	274,909
Legal fee	92,730	-	92,730	-
Brokerage	36,694	-	36,694	14,011
Printing and publication charges payable	93,709	6,291	100,000	85,154
Others	17,424	7,419	24,843	350,000
	511,757	33,933	545,690	724,074

10 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2010

11 CONTRIBUTION TO WORKERS WELFARE FUND

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971(the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honorable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with the SHC by some of Mutual Funds through their Trustees along with few investors. However, subsequent to filing of the petition, the Ministry of Labour and Manpower issued a letter which states that mutual funds are not liable for WWF.

The MUFAP, on behalf of its member AMCs, obtained a legal opinion to assess the implications of the letter issued by the Ministry of Labour and Manpower. The legal opinion, among other things, stated that mutual funds are not required to provide for contribution to WWF and earlier provisioning, if any, can be reversed and the terms of the letter suggests that provisioning was neither required nor necessary. Further, the opinion suggests that the petition filed with the High Court of Sindh be withdrawn.

The management has not made any provision inrespect of WWF and still maintains that mutual funds are not establishments and as a result are not liable to pay contribution to WWF.

12 FINANCIAL INSTRUMENTS BY CATEGORY

	As at June 30, 2010			
	Loans and receivables	Assets at fair value through profit or loss	Available for Sale	Total
	Rupees			
Assets				
Balances with banks - in deposit account	6,805,114	-	-	6,805,114
Investments	-	1,326,297,332	146,723,852	1,473,021,184
Income receivable	30,147,580	-	-	30,147,580
	36,952,694	1,326,297,332	146,723,852	1,509,973,878

	As at June 30, 2010		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	Rupees		
Liabilities			
Payable to Management Company	-	1,420,774	1,420,774
Payable to Trustee	-	155,810	155,810
Accrued expenses and other liabilities	-	545,690	545,690
	-	2,122,274	2,122,274

	As at June 30, 2009			
	Loans and receivables	Assets at fair value through profit or loss	Available for Sale	Total
	Rupees			
Assets				
Balances with banks - in deposit account	462,846,617	-	-	462,846,617
Investment in government securities	-	1,433,928,063	147,025,663	1,580,953,726
Income receivable	12,914,481	-	-	12,914,481
	475,761,098	1,433,928,063	147,025,663	2,056,714,824

	As at June 30, 2009		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	Rupees		
Liabilities			
Payable to Management Company	-	1,424,860	1,424,860
Payable to Trustee	-	712,429	712,429
Payable against purchase of investment	-	98,559,700	98,559,700
Redemption payable	-	781,008	781,008
Accrued expenses and other liabilities	-	724,074	724,074
	-	102,202,071	102,202,071

	2010			2009
	MSF Perpetual	MSF 12/12	Total	Total
	(Rupees)			
13. INCOME FROM INVESTMENT IN GOVERNMENT SECURITIES - NET OF AMORTISATION OF PREMIUM / DISCOUNT	185,438,489	9,908,222	195,346,711	60,907,482
14. INCOME FROM REVERSE REPURCHASE TRANSACTIONS IN GOVERNMENT SECURITIES	891,737	31,500	923,237	10,629,527
15. PROFIT ON BANK DEPOSITS	2,870,822	144,352	3,015,174	5,136,433
16. GAIN / (LOSS) ON SALE OF INVESTMENTS	(4,494,252)	-	(4,494,252)	2,820,880
17. UNREALISED APPRECIATION IN FAIR VALUE OF INVESTMENTS CLASSIFIED AS 'AT FAIR VALUE THROUGH PROFIT AND LOSS'	(13,652,384)	(449,374)	(14,101,758)	12,045,728
18. REMUNERATION OF ARIF HABIB INVESTMENTS LIMITED - MANAGEMENT COMPANY	13,330,424	745,523	14,075,947	4,477,167
19. REMUNERATION OF TRUSTEE				
Central Depository Company	1,154,390	73,715	1,228,105	-
Habib Metropolitan Bank Limited	1,618,963	65,968	1,684,931	2,238,584
	2,773,353	139,683	2,913,036	2,238,584
20. ANNUAL FEE - SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	1,196,616	63,612	1,260,228	527,853
21. BROKERAGE	292,176	5,975	298,151	333,615
22. BANK CHARGES	82,344	-	82,344	17,195
23. PRINTING AND PUBLICATION	137,053	8,555	145,608	42,030
24. FEES AND SUBSCRIPTION	51,759	8,010	59,769	335,342
25. LEGAL AND PROFESSIONAL CHARGES	145,869	9,219	155,088	149,970

* This amount represents remuneration of Habib Metropolitan Bank Limited for acting as the trustee of the Fund till November 22, 2009.Habib Metropolitan Bank Limited ceased to be trustee with effect from November 23 , 2009.

26. AUDITORS' REMUNERATION

	2010			2009
	MSF Perpetual	MSF 12/12	Total	Total
	(Rupees)			
Annual audit fee	213,132	11,569	224,701	255,000
Half yearly review fee	118,841	6,159	125,000	144,962
Other certifications and services	38,176	1,914	40,090	127,976
Out of pocket expenses	35,031	1,090	36,121	62,760
	405,180	20,732	425,912	590,698

27. NET ASSET VALUE AND NET ASSET VALUE PER UNIT OF ALL SUB-SCHEMES

	2010		
	MSF Perpetual	MSF 12/12	MSF
	(Rupees)		
Net Asset Value	1,505,748,195	101,818,821	1,506,591,376
Number of units in issue and outstanding at the year end	27,875,377	1,690,150	27,889,305
Net Asset Value per unit	54.02	60.24	54.02

The Net Asset Value per unit of the Fund is Rs. 54.02 (2009: Rs. 49.13).

28. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited being the Management Company, Arif Habib Limited, Arif Habib Securities Limited Thatta cement Limited being companies under common Management, Arif Habib Bank Limited and Pak arab Fertilizer being companies under common directorship, CDC being the trustee of the Fund and Habib Metropolitan Bank Limited being the major unitholder of the Fund.

The transactions with connected persons are in the normal course of business and are carried out on agreed terms.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the Non Banking Finance Companies Rules, 2003, Non Banking Finance Companies and Notified Entities Regulation, 2008 and the Trust Deed respectively.

Details of transactions with connected persons and balances with them at year end are as follows:

Transactions and balances with connected persons	2010	2009
	(Rupees)	
Arif Habib Investments Limited - Management Company		
Balance at the beginning of the year	1,424,860	145,632
Remuneration for the year	14,075,947	4,477,167
Amounts paid during the year	(14,080,033)	(3,197,939)
Balance at the end of the year	1,420,774	1,424,860
Issue of 609 bonus units (2009: 586 units)	33,354	30,357
Units held 12,738 units (2009: 12,129 units)	767,313	697,894
Directors and Executives		
Issue of 1,508 Units (2009: nil units)	79,583	-
Redemption of 1,508 Units (2009: nil units)	81,847	-
Units held nil (30th June 2009: Nil)	-	-
Habib Metropolitan Bank Limited		
Units issued 4,846,133 units (2009: 27,105,500 units)	250,000,000	1,250,465,979
Units redeemed 4,659,836 units (2009: 8,425,173 units)	250,000,000	370,454,849
Bonus units 38,683 units (2009: 1,155,173 units)	1,897,385	49,799,500
Units held 27,330,480 (2009: 27,105,500)	1,476,392,522	1,331,422,160
Trustee Fee		
Balance at the beginning of the year	712,429	72,815
Remuneration for the year	1,154,390	2,238,584
Amounts paid during the year	(1,866,819)	(1,598,970)
Balance at end of the year	-	712,429

	2010	2009
	-------------(Rupees)-------------	
Deposits		
Deposits at the end of the year	6,738,683	210,996,202
Profit Receivable	-	74,163
Profit on bank deposits	1,077,001	636,211
Central Depository Company of Pakistan Limited - Trustee		
Balance at the beginning of the year	-	-
Remuneration for the year	1,227,705	-
	1,227,705	-
Amounts paid during the year	(1,071,895)	-
Balance at end of the year	155,810	-

29. PARTICULARS OF INVESTMENT COMMITTEE

Details of members of the investment committee of the Fund are as follow:

		Designation	Qualification	Experience in years
A	Basharat Ullah Khan	Chief Investment Officer	MBA	16
B	Zafar Rehman	Head of Money Market Fund & Fund Manager	B.COM	17
C	Zeeshan	Chief Financial Officer	ACA	6
D	Muhammad Imran Khan	Head of Research	MBA	7
E	Tariq Hashmi	Head of Marketing	MBA	18

29.1 Other Funds managed by the Fund Manager

A Pakistan Income Fund
B Pakistan Income Enhancement Fund

30. PERCENTAGE OF BROKERAGE PAID

	2010
Invest Capital and Securities (Private) Limited	51.88%
Elixir Securities Pakistan (Private) Limited	11.55%
JS Global Capital Limited	7.47%
First Capital Securities Corporation Limited	6.93%
Atlas Capital Markets (Private) Limited	5.29%
Alfalah Securities (Private) Limited	3.89%
Invisor Securities (Private) Limited	3.78%
BMA Capital Management Limited	3.69%
Global Securities Pakistan Limited	2.59%
KASB Securities Limited	2.44%

	2009
Invest Capital and Securities (Private) Limited	33.25%
Elixir Securities Pakistan (Private) Limited	22.81%
BMA Capital Management Limited	15.93%
JS Global Capital Limited	9.94%
Alfalah Securities (Private) Limited	6.40%
KASB Securities Limited	5.00%
Global Securities Pakistan Limited	2.66%
First Capital Securities Corporation Limited	1.94%
Atlas Capital Markets (Private) Limited	0.48%
Live Securites (Private) Limited	0.48%

31. DETAILS OF PATTERN OF UNIT HOLDING

	As at June 30, 2010		
	Number of Investors	**Amount of investment**	**% of Total**
Individuals	97	29,359,888	1.950
Associated companies	1	1,476,392,501	98.00
Directors	-	-	0.00
Insurance companies	-	-	0.00
Bank / DFIs	-	-	0.00
NBFCs	1	767,313	0.05
Retirement funds	1	71,674	0.00
Public Limited companies	-	-	0.00
Others	-	-	0.00
	100	**1,506,591,376**	**100**

	As at June 30, 2009		
	Number of Investors	**Amount of investment**	**% of Total**
Associated Companies / Directors	1	595,838	0.03
Insurance Companies	2	45,136,136	2.31
Banks/DFI's	4	1,533,775,483	78.49
Retirement Funds	3	60,743,179	3.11
Other Corporate	2	180,185,932	9.22
Others	114	133,673,263	6.84
	125	**1,954,109,832**	**100**

32 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

During the year; the 63rd, 64th, 65th, 66th, 67th, 68th, 69th, 70th, 71st, 82nd & 73rd Board meetings were held on 06 July 2009, 28 July 2009, 29 july 2009, 22 October 2009, 10 November 2009, 22 February 2010, 22 March 2010, 22 April 2010, 24 April 2010 16 June 2010 & 17 June 2010 respectively.

For the year ended June 30, 2010

Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
Mr. Shafi Malik	11	11	-	-
Mr. Salim Chamdia *	3	1	2	64th and 65th meeting
Mr. Nasim Beg	11	11	-	-
Mr. Sirajuddin Cassim	11	1	10	63rd to 67th and 69th to 73rd meeting
Mr. S. Gulrez Yazdani **	7	7	-	-
Mr. Muhammad Akmal Jameel	11	10	1	64th meeting
Mr. Syed Ajaz Ahmed	11	11	-	-
Mr. Muhammad Kashif Habib	11	8	3	67th, 69th and 70th meeting

* Mr. Salim Chamdia resigned from the office on September 07, 2009.
** Mr. S. Gulrez Yazdani was appointed as director on October 06, 2009 and approved by SECP on November 05,2009.

33 FINANCIAL RISK MANAGEMENT

The Fund primarily invests in a portfolio of money market investments such as government securities and reverse repurchase transactions. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

33.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

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

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

33.1.1 Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present, is not exposed to currency risk as all transactions are carried out in Pak Rupees.

33.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates.

Fair value sensitivity analysis for fixed rate instruments

Investments in Treasury Bills and Pakistan Investment Bonds are not subject to cash flow interest rate risk.

As at June 30, 2010, the Fund holds Treasury Bills and Pakistan Investment Bonds which are classified as fair value through profit or loss and available for sale, exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by Financial Market Association on June 30, 2010, the net income for the year and net assets would be lower by Rs 26,550,918 (2009: Rs 19,826,959) . In case of 100 basis points decrease in rates announced by Financial Market Association on June 30, 2010, the net income for the year and net assets would be higher by Rs. 27,835,370 (2009: Rs 20,561,686).

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on the settlement date.

	As at June 30, 2010				
	Exposed to Yield / Interest risk				
	Upto three months	More than three months and upto one year	More than one year	Not exposed to Yield / Interest rate risk	Total
	--------------------	--------------------(Rupees in '000)	--------------------		
On-balance sheet financial instruments					
Financial assets					
Balances with banks - in deposit account	6,805,114	-	-	-	6,805,114
Receivable against reverse repurchase					-
transactions in government securities	-	-	-	-	-
Investment in government securities	1,326,297,332	146,723,852	-	-	1,473,021,184
Income receivable	-	-	-	30,147,580	30,147,580
Sub Total	**1,333,102,446**	**146,723,852**	**-**	**30,147,580**	**1,509,973,878**
Financial liabilities					
Payable to Arif Habib Investments Limited					-
- Management Company	-	-	-	1,420,774	1,420,774
Payable to Trustees	-	-	-	155,810	155,810
Redemption payable	-	-	-	-	-
Accrued expenses and other liabilities	-	-	-	545,690	545,690
Sub Total	**-**	**-**	**-**	**2,122,274**	**2,122,274**
On-balance sheet gap	**1,333,102,446**	**146,723,852**	**-**	**28,025,306**	**1,507,851,604**

	As at June 30, 2009				
	Exposed to Yield / Interest risk			Not exposed to Yield / Interest rate risk	Total
	Upto three months	More than three months and upto one year	More than one year		
	(Rupees in '000)				
On-balance sheet financial instruments					
Financial assets					
Balances with banks - in deposit account	462,846,617	-	-	-	462,846,617
Receivable against reverse repurchase					-
transactions in government securities	-	-	-	-	-
Investment in government securities	98,583,200	1,079,533,141	402,837,385	-	1,580,953,726
Income receivable	-	-	-	12,914,481	12,914,481
Sub Total	**561,429,817**	**1,079,533,141**	**402,837,385**	**12,914,481**	**2,056,714,824**
Financial liabilities					
Payable to Arif Habib Investments Limited					-
- Management Company	-	-	-	1,424,860	1,424,860
Payable to Habib Metropolitan Bank Limited - Trustee	-	-	-	712,429	712,429
Payable against purchase of investments	-	-	-	98,559,700	98,559,700
Redemption payable	-	-	-	781,008	781,008
Accrued expenses and other liabilities	-	-	-	724,074	724,074
Sub Total	**-**	**-**	**-**	**102,202,071**	**102,202,071**
On-balance sheet gap	**561,429,817**	**1,079,533,141**	**402,837,385**	**(89,287,590)**	**1,954,512,753**

33.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Since the Fund is not allowed to invest in equities, hence it is not exposed to equity price risk.

33.1.4 Credit Risk

Credit risk represents the risk of loss if counter parties fail to perform as contracted. The Fund's credit risk is attributable to its balances with banks. The credit risk on these funds is low because the counter parties are financial institutions with high credit ratings.

Bank Balances by rating category	**2010**
Habib Metropolitan Bank Limited	AA+
Bank Alfalah Limited	AA
	2009
Habib Metropolitan Bank Limited	AA+
Bank Alfalah Limited	AA
Allied Bank Limited	AA
Soneri Bank Limited	AA-

33.1.5 Investment in government securities

Since these securities are issued by Government of Pakistan they are considered free from credit risk.

33.1.6 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligation in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions, if any. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

For the purpose of making redemptions the Fund has the ability to borrow in the short term, however such need did not arise during the year. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

In order to manage the Fund's overall liquidity, the Fund may withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold any redemptions during the year.

For effective Fund management, the Fund Manager monitor the fund's liquidity position on a daily basis, and on a regular basis the "Investment Committee" also reviews the same.

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

	As at June 30, 2010			
	Upto three months	More than three months and upto one year	More than one year	Total
Liabilities	---Rupees---			
Remuneration payable to Management Company	1,420,774	-	-	1,420,774
Remuneration payable to Trustee	155,810	-	-	155,810
Auditors' remuneration	284,701	-	-	284,701
Brokerage payable	36,694	-	-	36,694
Printing and publication charges payable	-	100,000	-	100,000
Other accrued expenses	-	124,295	-	124,295
	1,897,979	**224,295**	**-**	**2,122,274**

	As at June 30, 2009			
	Upto three months	More than three months and upto one	More than one year	Total
Liabilities	---Rupees---			
Remuneration payable to Management Company	1,424,860	-	-	1,424,860
Remuneration payable to Trustee	712,429	-	-	712,429
Payable against purchase of investments	98,559,700	-	-	98,559,700
Redemption payable	781,008	-	-	781,008
Auditors' remuneration	274,909	-	-	274,909
Brokerage payable	14,011	-	-	14,011
Printing and publication charges payable	-	85,154	-	85,154
Other accrued expenses	350,000	-	-	350,000
	102,116,917	**85,154**	**-**	**102,202,071**

34 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

Effective January 1, 2009, the Scheme adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	As at June 30, 2010			
	Level 1	Level 2	Level 3	Total
ASSETS	Rupees in '000			
Investment in government securities - at fair value through profit or loss	1,326,297,332	-	-	1,326,297,332
Investment in government securities - available for sale	146,723,852	-	-	146,723,852
	1,473,021,184	-	-	1,473,021,184

35 CAPITAL RISK MANAGEMENT

The Fund's capital is represented by redeemable units of the Scheme and the Sub-Scheme (having pre-determined maturity as diclosed in note 1) . They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per share on the redemption date. The relevant movements are shown on the statement of movement in unit holders' funds.

The Fund's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong capital base to meet unexpected losses or opportunities. In accordance with the NBFC Regulations the Fund is required to distribute at least ninety percent of its income from sources other than unrealised capital gain as reduced by such expenses as are chargeable to the Fund.

In accordance with the risk management policies stated in note 19, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments.

36 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the management company have approved bonus units of Rs 5 per unit (2009: Rs. 0.071 per unit) for the year ended June 30 2010, amounting to Rs. 139,557,949 (2009: Rs. 2,820,019) in total in their meeting held on July 5, 2010. The financial statements for the year ended June 30, 2010 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2011.

37 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 03, 2010 by the Board of Directors of the Management Company.

38 CORRESPONDING FIGURES

No significant rearrangements or reclassification were made in these financial statements except as required because of the changes in accounting policies as more fully explained in notes 2.1.3 to these financial statements.

39 GENERAL AND CORRESPONDING FIGURES

Figures have been rounded off to the nearest rupee.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

PATTERN OF UNIT HOLDING (BY SIZE)
AS AT JUNE 30, 2010

No. of Unit Holders	Units Holdings	Total Units Held
83	1 TO 5000	58,078
6	5001 TO 10000	39,539
4	10001 TO 15000	49,403
1	15001 TO 20000	15,941
1	20001 TO 25000	21,731
1	40001 TO 45000	42,160
2	60001 TO 65000	123,977
1	205001 TO 210000	207,996
1	27330001 TO 27335000	27,330,479
100		**27,889,305**

PATTERN OF UNIT HOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2010

Type of Investor	Number of Units Held
Associated companies:	-
-Habib Metropolitain Bank Limited	27,330,480
-Arif Habib Investments Limited	12,738
Directors & CEO	-
Public Limited companies	-
Banks and Financial Institution	-
Individuals	544,898
Retirement funds	1,190
Othes Corporate Sector Entities	-
Non Profit Organizations	-
Insurance companies	-
Bank / DFIs	-
NBFCs	-
Public Limited companies	-
Others	-
Total	**27,889,305**

PERFORMANCE TABLE

	2010				
	MSF Perpetual	MSF 12/12	MSF 12/07	MSF 12/05	MSF 12/03
	---(Rupees in '000)---				
Net assets	1,505,748.00	101,819	-	-	-
Net income / (loss) (Rs '000)	146,525	23,724	-	-	-
	---(Percentage)---				
Total return of the fund	10.13	9.95	-	-	-
Annual dividend distribution	10.13	23.58	-	-	-
Capital growth	-	(13.63)	-	-	-
Average annual return (CAGR)					
One Year	10.13	9.95	-	-	-
Second Year	12.02	10.53	-	-	-
Third Year	9.93	7.62	-	-	-
	---(Rupees)---				
Final dividend distribution declared on 6th July 2009	0.0700	2.7500	-	-	-
Net asset value per unit	54.02	60.24	-	-	-
Selling price per unit at end of the year	49.17	60.30	-	-	-
Reperchase price per unit at end of the year	49.12	60.24	-	-	-
Highest offer price per unit	54.09	60.31	-	-	-
Lowest offer price per unit	49.42	55.19	-	-	-
Highest repurchase price per unit	54.04	60.25	-	-	-
Lowest repurchase price per unit	49.37	55.13	-	-	-

	2009				
	MSF Perpetual	MSF 12/12	MSF 12/07	MSF 12/05	MSF 12/03
	---(Rupees in '000)---				
Net assets	1,953,347	763	-	-	-
Net income / (loss) (Rs '000)	15,050	40	-	-	-
	---(Percentage)---				
Total return of the fund	13.94	11.12	-	-	-
Annual dividend distribution	0.14	5.50	-	-	-
Capital growth	13.80	5.62	-	-	-
Average annual return (CAGR)					
One Year	13.94	11.12	-	-	-
Second Year	9.83	6.48	-	-	-
Third Year	9.57	7.18	-	-	-
	---(Rupees)---				
Final dividend distribution declared on 6th July 2009	0.0700	2.7500	-	-	-
Net asset value per unit	49.12	57.54	-	-	-
Selling price per unit at end of the year	49.17	57.60	-	-	-
Reperchase price per unit at end of the year	49.12	54.54	-	-	-
Highest offer price per unit	49.17	57.60	-	-	-
Lowest offer price per unit	42.72	51.23	-	-	-
Highest repurchase price per unit	49.12	57.54	-	-	-
Lowest repurchase price per unit	42.68	51.18	-	-	-

PERFORMANCE TABLE

	2008				
	MSF Perpetual	MSF 12/12	MSF 12/07	MSF 12/05	MSF 12/03
	---------------------------(Rupees in '000)---------------------------				
Net assets	364,448	687	-	-	-
Net income / (loss) (Rs '000)	56,852	37	(5,571)	-	-
	------------------------------(Percentage)------------------------------				
Total return of the fund	5.89	2.04	-	-	-
Annual dividend distribution	14.52	4.93	-	-	-
Capital growth	(8.63)	(2.89)	-	-	-
Average annual return (CAGR)					
One Year	5.89	2.04	-	-	-
Second Year	7.48	5.28	-	-	-
Third Year	7.47	5.57	-	-	-
	---------------------------------(Rupees)---------------------------------				
Final dividend distribution declared on 7th July 2008	6.8500	2.6300	-	-	-
Net asset value per unit	49.96	54.41	-	-	-
Selling price per unit at end of the year	50.00	54.42	-	-	-
Reperchase price per unit at end of the year	49.95	54.37	-	-	-
Highest offer price per unit	50.29	55.84	52.46	-	-
Lowest offer price per unit	47.28	53.42	50.52	-	-
Highest repurchase price per unit	50.24	55.78	52.41	-	-
Lowest repurchase price per unit	47.23	53.37	50.47	-	-

	2007				
	---------------------------(Rupees in '000)---------------------------				
Net assets	792,218	673	592,762	-	-
Net income	31,680	35	47,441	-	-
	------------------------------(Percentage)------------------------------				
Total return of the fund	9.06	8.61	8.68	-	-
Annual dividend distribution	3.99	5.11	7.93	-	-
Capital growth	5.08	3.50	0.74	-	-
Average annual return (CAGR)					
One Year	9.06	8.61	8.68	-	-
Second Year	8.24	7.37	7.53	-	-
Third Year	5.60	10.73	4.24	-	-
	---------------------------------(Rupees)---------------------------------				
Final dividend distribution declared on 4th July 2007	1.7900	2.6300	3.9700	-	-
Net asset value per unit	48.97	55.95	54.40	-	-
Selling price per unit at end of the year	49.02	56.02	54.45	-	-
Reperchase price per unit at end of the year	48.97	55.96	54.40	-	-
Highest offer price per unit	49.02	56.02	54.45	-	-
Lowest offer price per unit	44.90	51.57	50.11	-	-
Highest repurchase price per unit	48.97	55.96	54.40	-	-
Lowest repurchase price per unit	44.86	51.52	50.06	-	-

PERFORMANCE TABLE

	2006				
	---------------------------(Rupees in '000)---------------------------				
Net assets	479,103	635	545,298	-	-
Net income / (loss)	34,375	59	27,908	(3,785)	-
	------------------------------(Percentage)------------------------------				
Total return of the fund	7.43	6.12	6.40	-	-
Annual dividend distribution	6.96	8.85	1.76	-	-
Capital growth	0.47	(2.73)	4.63	-	-
Average annual return (CAGR)					
One Year	7.43	6.12	6.40	-	-
Second Year	3.92	11.81	2.09	-	-
Third Year	(0.21)	4.69	1.27	-	-
	---------------------------------(Rupees)---------------------------------				
Final dividend distribution declared on 4th July 2006	3.1093	4.6847	0.8431	-	-
Net asset value per unit	48.01	56.20	50.90	-	-
Selling price per unit at end of the year	48.03	56.33	50.92	-	-
Reperchase price per unit at end of the year	47.98	56.27	50.87	-	-
Highest offer price per unit	48.03	56.60	50.92	52.51	-
Lowest offer price per unit	44.73	51.98	47.34	50.53	-
Highest repurchase price per unit	47.98	56.54	50.87	52.46	-
Lowest repurchase price per unit	44.69	51.93	47.29	50.48	-

	2005				
	---------------------------(Rupees in '000)---------------------------				
Net assets	464,406	598	11,457	411,117	-
Net income / (loss)	(51,093)	(600)	181	8,931	-
	------------------------------(Percentage)------------------------------				
Total annual return	0.52	17.77	(2.05)	0.48	-
Annual dividend distribution	-	-	-	-	-
Capital growth	0.52	17.77	(2.05)	0.46	-
Average annual return (CAGR)					
One Year	0.52	17.77	(2.05)	0.48	-
Second Year	(3.82)	3.98	(1.20)	(0.34)	-
	---------------------------------(Rupees)---------------------------------				
Net asset value per unit	44.70	52.96	47.84	50.45	-
Selling price per unit at end of the year	44.73	52.91	47.86	50.48	-
Reperchase price per unit at end of the year	44.69	52.86	47.81	50.43	-
Highest offer price per unit	44.74	69.70	49.46	50.50	-
Lowest offer price per unit	42.33	42.76	46.71	49.65	-
Highest repurchase price per unit	44.70	69.56	49.36	50.45	-
Lowest repurchase price per unit	42.25	42.67	46.62	49.55	-

PERFORMANCE TABLE

	2004				
	----------(Rupees in '000)----------				
Net assets	462,230	444,933	11,696	10,853	-
Net income / (loss)	9,471	1,242	721	168	(294)
	----------(Percentage)----------				
Total annual return	(7.98)	(8.18)	(0.35)	(1.15)	-
Annual dividend distribution	3.46	2.55	3.01	0.90	-
Capital growth	(11.44)	(10.73)	(3.36)	(2.56)	-
Average annual return (CAGR)					
One Year	(7.98)	(8.18)	(0.35)	(1.15)	-
	----------(Rupees)----------				
Interim dividend distribution per unit					
1st distribution declared on 24 September 2003	1.5938	1.2942	1.2301	0.2021	-
2nd distribution declared on 24 December 2003	0.1433	-	0.2898	0.2600	-
Total Distribution	1.7371	1.2942	1.5199	0.4621	-
Net asset value per unit	44.46	44.97	48.84	50.22	-
Selling price per unit at end of the year	44.68	45.19	49.01	50.35	-
Reperchase price per unit at end of the year	44.59	45.10	48.91	50.25	-
Highest offer price per unit	51.18	52.02	51.74	52.07	51.54
Lowest offer price per unit	44.57	45.08	48.76	50.13	46.75
Highest repurchase price per unit	51.08	51.92	51.64	51.97	51.44
Lowest repurchase price per unit	44.48	44.99	48.66	50.03	46.66

	2003*				
	----------(Rupees in '000)----------				
Net assets	271,473	154,763	12,232	11,451	350,713
Net income/(loss)	(153)	(604)	70	69	1,219
	----------(Percentage)----------				
Total annual return	0.32	1.10	1.52	3.06	0.42
Annual dividend distribution	-	0.42	0.44	0.52	0.36
Capital growth	0.32	0.68	1.08	2.54	0.06
Average annual return (CAGR)					
One Year	0.96	3.30	4.62	9.52	-
	----------(Rupees)----------				
Final dividend distribution declared on 4 July 2003	-	0.2100	0.2200	0.2600	0.1800
Net asset value per unit	50.16	50.55	50.54	51.27	50.04
Selling price per unit at end of the year	49.98	50.37	50.96	51.56	50.31
Reperchase price per unit at end of the year	49.88	50.27	50.86	51.46	50.21
Highest offer price per unit	52.60	55.00	51.83	51.65	50.28
Lowest offer price per unit	48.85	48.66	49.40	50.10	50.07
Highest repurchase price per unit	52.49	54.89	51.73	51.55	50.18
Lowest repurchase price per unit	48.75	48.56	49.30	50.00	49.97

Fund keeps the average duration of its portfolio of 1.73 years in MSF Perpetual and 1.91 years in MSF 12/12.

* First year of operations from 7 January 2003 to 30 June 2003.

Disclaimer :-
The past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.

CONTENTS

A.F. FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **MetroBank Pakistan Sovereign Fund – Perpetual (here in after referred to as "the scheme"),** which comprise the statement of assets and liabilities as at June 30, 2010, and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's responsibility

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

Basis for Qualified Opinion

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 applies. On the basis of an independent legal advice, in our opinion this levy has now become applicable on the Scheme as well. However, no provision in respect of Workers Welfare Fund (WWF)has been made by the management for the reasons explained in note 11 to the financial statements. Had the management recognised this provision the liability towards WWF at June 30, 2010 would have amounted to Rs 3,231,485 (including Rs 300,994 for the year ended June 30, 2009) and accordingly the undistributed income and net asset value of the Scheme at June 30, 2010 would have been lower by Rs 3,231,485.

Qualified Opinion

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the state of the Scheme's affairs as at June 30, 2010 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Lahore Office: 23-C Aziz Avenue, Canal Bank, Gulberg V, P. O. Box 39, Lahore, Pakistan Tel: (92-42) 35715864-71 Fax: (92-42) 35715872
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office : House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel : (93-799) 315320-203424

A.F. FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

Other matters

In our opinion, the financial statements have been prepared in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

AF Ferguson & Co

Chartered Accountants

Engagement Partner: Rashid A. Jafer

Dated: August 3, 2010

Karachi

STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2010

	Note	2010	2009
		--------------------(Rupees)--------------------	
Assets			
Balances with banks - in deposit account	3	6,683,309	462,613,832
Investments	4	1,475,819,617	1,580,436,627
Income receivable	5	26,434,795	12,899,370
Prepayments		-	124,869
Total Assets		1,508,937,721	2,056,074,698
Liabilities			
Payable to Arif Habib Investments Limited - Management Company	6	1,327,206	1,424,675
Payable to Trustee	7	145,450	712,336
Payable to Securities and Exchange Commission of Pakistan	8	1,196,616	527,251
Accrued expenses and other liabilities	9	520,254	723,020
Redemption payable		-	781,008
Payable against purchase of investment		-	98,559,700
Total Liabilities		3,189,526	102,727,990
Net Assets		1,505,748,195	1,953,346,708
Unit holders' funds (as per statement attached)		1,505,748,195	1,953,346,708
		-------------(Number of Units)-------------	
Number of units in issue		27,875,377	39,764,979
		--------------------(Rupees)--------------------	
Net asset value per unit		54.02	49.12
Contingencies and Commitments	10		

The annexed notes from 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		--------------------(Rupees)--------------------	
INCOME			
Income from investments		185,438,489	60,872,405
Capital (loss) / gain on sale of government securities		(4,494,252)	2,820,880
Gain on redemption of units of Sub-Scheme		412,352	-
Unrealized (diminution) / appreciation on government securities at fair value through profit and loss	4.5	(5,485,864)	12,045,728
Income from reverse repurchase transaction of government securities		891,737	10,629,527
Profit on bank deposits		2,870,822	5,126,883
Total income		179,633,284	91,495,423
OPERATING EXPENSES			
Remuneration of Arif Habib Investments Limited - Management Company	6	13,330,424	4,475,045
Remuneration of Trustees	7	2,773,353	2,237,523
Annual Fee - Securities and Exchange Commission of Pakistan	8	1,196,616	527,251
Brokerage		292,176	333,616
Bank charges		82,344	17,195
Printing and publication charges		137,053	41,951
Fees and subscriptions		51,759	334,982
Legal and professional charges		145,869	149,776
Auditors' remuneration	13	405,180	589,742
Total operating expenses		18,414,774	8,707,081
Net income from operating activities		161,218,510	82,788,342
Element of loss and realised capital (losses) included in prices of units issued less those in units redeemed - net		(14,693,948)	(67,738,620)
Net income for the year before taxation		146,524,562	15,049,722
Taxation	2.12	-	-
Net income for the year after taxation		146,524,562	15,049,722
Other comprehensive income for the year			
Unrealised appreciation in value of investments classified as 'available for sale' - net	4.4	1,860,219	13,335,593
Total comprehensive income for the year		148,384,781	28,385,315

The annexed notes from 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		--------------------(Rupees)--------------------	
(Accumulated losses) / undistributed income brought forward			
- Realised (loss) / gain		(41,847,224)	18,147,240
- Unrealised loss		12,045,728	-
		(29,801,496)	18,147,240
Net income for the year		146,524,562	15,049,722
Final distribution of Re 0.07 per unit in terms of bonus units for the year ended June 30, 2009 (Date of distribution July 6, 2009) (2008 : Rs 6.85 per unit)		(2,783,549)	(49,968,966)
Element of income / (loss) and unrealised capital gains / (losses) included in prices of units issued less those in units redeemed amount representing unrealised (gains) / losses - net		1,277,527	(13,029,492)
Undistributed income / (accumulated losses) carried forward		115,217,044	(29,801,496)
Undistributed income carried forward comprising of			
- Realised gain		112,523,249	(41,847,224)
- Unrealised loss	4.5	2,693,795	12,045,728
		115,217,044	(29,801,496)

The annexed notes from 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		--------------------(Rupees)----------------------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		146,524,562	15,049,722
Adjustments for :			
Element of loss and capital losses included in prices of units issued less those in units redeemed		14,693,948	67,738,620
Unrealised diminution / (appreciation) on government securities at fair value through profit and loss	4.5	5,485,864	(12,045,728)
		166,704,374	70,742,614
(Increase) / decrease in assets			
Income receivable		(13,535,425)	(9,572,890)
Investments		100,991,365	(1,273,611,873)
Prepayments		124,869	88,202
Receivable against reverse repurchase transactions in government securities		-	79,000,000
		87,580,809	(1,204,096,561)
Increase / (decrease) in liabilities			
Payable to Arif Habib Investments Limited – Management Company		(97,469)	1,279,209
Payable to Trustee		(566,886)	639,603
Payable to Securities and Exchange Commission of Pakistan - Annual fee		669,365	(244,702)
Redemption payable		(781,008)	781,008
Payable against purchase of investment		(98,559,700)	98,559,700
Accrued expenses and other liabilities		(202,766)	202,957
		(99,538,464)	101,217,775
Net cash generated from / (used in) operating activities		154,746,719	(1,032,136,172)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from issue of units		1,612,585,744	2,061,605,689
Payment on redemption of units		(2,223,262,986)	(568,830,786)
Net cash (used in) / generated from financing activities		(610,677,242)	1,492,774,903
Net (decrease) / increase in cash and cash equivalents		(455,930,523)	460,638,731
Cash and cash equivalents at beginning of the year		462,613,832	1,975,101
Cash and cash equivalents at end of the year		6,683,309	462,613,832

The annexed notes from 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive | **Director**

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		--------------------(Rupees)--------------------	
Net assets at the beginning of the year		1,953,346,708	364,447,870
Issue of 30,425,471 units (2009: 43,798,800)		1,612,585,744	2,061,605,689
Redemption of 42,371,821 units (2009: 12,487,663 units)		(2,223,262,986)	(568,830,786)
		(610,677,242)	1,492,774,903
Element of loss / (income) and capital losses / (gains) included in the prices of units issued less those in units redeemed:			
- amount representing realised losses transferred to Income Statement - net		14,693,948	67,738,620
- amount representing unrealised (gains) / losses transferred to Distribution Statement - net		(1,277,527)	13,029,492
		13,416,421	80,768,112
Unrealised gain on revaluation of investments classified as 'available for sale' - net	4.4	1,860,219	13,335,593
Final Distribution: Issue of 56,749 bonus units for the year ended June 30, 2009 (2008 : 1,159,103 bonus units)		2,783,549	49,968,966
Final distribution of Re 0.07 per unit in terms of bonus units for the year ended June 30, 2009 (Date of distribution July 6, 2009) (2008 : Rs 6.85 per unit)		(2,783,549)	(49,968,966)
Net income for the year		146,524,562	15,049,722
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised gains / (losses) - net		1,277,527	(13,029,492)
		145,018,540	(47,948,736)
Net assets at the end of the year		1,505,748,195	1,953,346,708

The annexed notes from 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (PERPETUAL) FOR THE YEAR ENDED JUNE 30, 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

MetroBank - Pakistan Sovereign Fund was established under a Trust Deed executed between Arif Habib Investments Limited (AHIL), as Management Company and Habib Metropolitan Bank Limited as Trustee. The Trust Deed was executed on December 24, 2002 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on January 7, 2003 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules), [repealed by Non - Banking Finance Companies (Establishment and Regulations) Rules, 2003 (NBFC Rules)].

During the year, Habib Metropolitan Bank Limited retired as the Trustee of the Fund and Central Depository Company of Pakistan Limited (CDC) was appointed as the new Trustee with effect from November 23, 2009. The SECP approved the appointment of CDC as the Trustee in place of Habib Metropolitan Bank Limited and further approved the amendments to the Trust Deed vide its letter number SCD/NBFC-11/MF-RS/MSPF/981/2009 dated November 31, 2009. Accordingly, the Trust Deed of the Fund was revised through a supplemental Deed executed between the Management Company, Habib Metropolitan Bank Limited and CDC.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. During the current period, the registered office of the Management Company has been shifted to Arif Habib Centre, 23 M.T Khan Road, Karachi, Pakistan.

The Metro Bank - Pakistan Sovereign Fund is an open-ended mutual fund and obtained listing on the Islamabad Stock Exchange on May 27, 2009. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

Pakistan Credit Rating Agency (PACRA) has asset management quality rating of 'AM2' (positive outlook) to the Management Company and AA (f) as stability rating to the Fund.

The Fund consists of a 'Perpetual' (the Scheme) and one sub-scheme as at June 30, 2010 with pre-determined maturity date as follows:

Name of sub-scheme	**Maturity date of sub-scheme**
MetroBank - Pakistan Sovereign Fund - (December 2012) [MSF 12/12]	December 31, 2012

In addition to the above sub-scheme, the Fund had also issued other sub-schemes which were matured as follows:

Name of sub-scheme	**Matured on**
MetroBank - Pakistan Sovereign Fund - (December 2003) [MSF 12/03]	December 31, 2003
MetroBank - Pakistan Sovereign Fund - (December 2005) [MSF 12/05]	December 31, 2005
MetroBank - Pakistan Sovereign Fund - (December 2007) [MSF 12/07]	December 31, 2007

The scheme and sub-scheme of MSF are open-end schemes which offer units for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the scheme.

These financial statements are the financial statements of the 'Perpetual' scheme.The Scheme can directly invest in Pakistan rupee denominated bonds and debt securities issued by Government of Pakistan, reverse repurchase transactions in Government Securities and any otherwise un-invested funds in deposits with banks and financial institutions. In addition, the Scheme can also invest in sub-schemes of the Fund.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements as are set out below. These policies have been consistently applied to all the years presented except as explained in note 2.1.3 to these financial statements.

2.1 Basis of preparation

2.1.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.1.2 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been marked to market and carried at fair value in accordance with the requirements of International Accounting Standards (IAS)39 -'Financial Instruments' : Recognition and Measurement'.

2.1.3 Change in accounting policy and disclosures arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

International Accounting Standards 1 (IAS 1) Revised, ' Presentation of Financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can chose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of other comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position (referred to as the statement os assets and liablities in the statement) as at the beginning of the comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and the comparative period.

The scheme has applied IAS 1 (revised) from July 1, 2009, and has elected to present one performance statement. As a result non-owner changes in equity which were previously credited directly in the statement of movement in unit holders' fund and the distribution statement are now shown as other comprehensive income in the performance statement (referred to as income statement in these financial statements). The change in presentation has not affected the values of the net assets of the scheme for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented.

2.1.4 Other standards, interpretations and amendments to published approved accounting standards that are effective in the current year

The following new standards and amendments to existing standards that are mandatory for the first time for the financial year beginning July 1, 2009:

(a) IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of this amendment did not have a significant impact on the Scheme's financial statements.

(b) IFRS 7 (Amendment), ' Financial Instruments: Disclosure'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements, by level of fair value measurement hierarchy. The adoption of the amendment has resulted in additional disclosures but did not have an impact on the Scheme's financial position or performance.

(c) IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements - Puttable financial instruments and obligations arising on liquidation'. The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. One of the particular features is that apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity. In this connection, Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 mandate the payment of 90% of the scheme's profits for the year as dividends, therefore the amendment has not changed the classification of units.

(d) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access of goods or receipt of services. The adoption of this amendment did not have any effect on the Scheme's financial statements.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2009 but were considered not to be relevant or did not have any significant effect on the Scheme's operations and are therefore not detailed in these financial statements.

2.1.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Scheme's accounting periods beginning on or after July 1, 2010:

(a) IAS 7(Amendment), 'Statement of Cash Flows' (effective from January 1, 2010). The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Scheme's financial statements.

(b) IAS 24 related party Disclosures (revised) (effective from January 1, 2011). The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

There are certain other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or to have any significant effect on the Scheme's operations and are therefore not detailed in these financial statements.

2.1.6 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Scheme's accounting policies. Estimates and judgments 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 Scheme's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments (note 2.2 and note 4).

2.2 Financial assets

2.2.1 The management of the fund classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in market prices, interest rate movements or are financial assets included in a portfolio in which a pattern of short-term profit taking exists.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Scheme's loans and receivables comprise of cash and bank balances, receivable against sale of investments, deposits and dividend and profit receivable.

c) Available for sale

These are non-derivatives that are either designated in this category or not classified in any of the other categories.

2.2.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Scheme commits to purchase or sell the asset.

2.2.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

2.2.4 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss and available for sale are valued as follows:

Basis of valuation of government securities

The investment of the Scheme in government securities is valued on the basis of rates announced by the Financial Market Association.

2.2.5 Impairment

The carrying amounts of the Scheme's assets are revalued at each balance sheet date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement. If any impairment evidence exists for available for sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income is reclassified from other comprehensive income and recognised in the income statement. Impairment losses recognised on available for sale financial assets recognised in the income statement are not reversed through the income statement.

2.2.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired, have been realised or have been transferred and the Scheme has transferred substantially all risks and rewards of ownership.

2.2.7 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Assets and Liabilities only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

2.3 Financial liabilities

All financial liabilities are recognised at the time when the Scheme becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include payable to mangement company,payable to trustee and other liabilities.

2.4 Derivatives

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

2.5 Securities under repurchase / resale agreements

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

All reverse repo transactions are accounted for on the settlement date.

2.6 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 during business hours on that date. The offer price represents the net asset 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 Scheme.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption request during business hours of that day. The redemption price represents the net asset 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.

2.7 Proposed distribution

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

2.8 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created, in order to prevent the dilution of income per unit and distribution of income already paid out on redemption.

The Scheme records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the Unit Holder's Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

2.9 Provisions

Provisions are recognised when the Scheme 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 amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimates.

2.10 Net asset value per unit

The net asset value (NAV) per unit, as disclosed on the Statement of Assets and Liabilities, is calculated by dividing the net assets of the Scheme by the number of units in circulation at the year end.

2.11 Earnings per unit

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.

2.12 Taxation

No provision for taxation has been made as the scheme 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 percent of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unitholders.

The Scheme provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Scheme also records deferred tax asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Scheme has not recognised any amount in respect of deferred tax in these financial statements as the Scheme intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unitholders every year.

2.13 Revenue recognition

Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.

Unrealised capital gains / (losses) arising on marking to market of investments classified as ' Financial assets at fair value through profit or loss ' are included in the income statement in the period in which they arise.

Profit on bank deposits is recognised on an accrual basis.

Profit on investment is recognised on an accrual basis.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances.

2.15 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the Income Statement within the fair value net gain or loss.

3 BALANCES WITH BANKS	**June 30, 2010**	**June 30, 2009**
	--------------------(Rupees)--------------------	
In deposit accounts	6,683,309	462,613,832
	6,683,309	462,613,832

3.1 These carry a rate of return ranging from 5 % to 9 % (2009 5% to 13.25%) per annum.

4 INVESTMENTS	**Note**	**June 30, 2010**	**June 30, 2009**
		--------------------(Rupees)--------------------	
Investments 'Available for sale'			
Pakistan Investment Bonds	4.1	146,217,993	146,508,564
Investments 'at fair value through profit or loss'			
Pakistan Investment Bonds	4.2	614,430,749	258,461,063
Treasury Bills	4.2	614,195,235	1,175,467,000
Investment in Sub Scheme	4.3	100,975,640	-
		1,475,819,617	1,580,436,627

4.1 Investments - 'available for sale'

Issue date	Tenor	Face value: Balance as at July 1, 2009	Face value: Purchases during the year	Face value: Sales / matured during the year	Face value: Balance as at June 30, 2010	Balance as at June 30, 2010: Cost	Balance as at June 30, 2010: Market Value	Balance as at June 30, 2010: Appreciation / (diminution)	Market value as a percentage of net assets	Market value as a percentage of total investments
		---- Rupees in '000 ----				---- Rupees ----				
Pakistan Investment Bond										
May 19, 2006	5 Years	150,000	-	-	150,000	149,458,534	146,217,993	(3,240,541)	9.71%	9.91%
November 12,2004	5 Years	2,700	-	2,700	-	-	-	-	-	-
Total						149,458,534	146,217,993	(3,240,541)		

4.1.1 These carry a rate of return of 12.36% (2009: 9.49% to 9.75%) per annum.

4.2 Investments in Government Securities - 'at fair value through profit or loss'

Issue date	Tenor	Face value: Balance as at July 1, 2009	Face value: Purchases during the year	Face value: Sales / matured during the year	Face value: Balance as at June 30, 2010	Balance as at June 30, 2010: Cost	Balance as at June 30, 2010: Market Value	Balance as at June 30, 2010: Appreciation / (diminution)	Market value as a percentage of net assets	Market value as a percentage of total investments
		---- Rupees in '000 ----				---- Rupees ----				
Pakistan Investment Bond										
August 30, 2008	10 Years	25,000	150,000	25,000	150,000	148,540,155	144,026,555	(4,513,600)	9.57%	9.76%
August 30, 2008	7 Years	160,000	-	-	160,000	154,794,141	154,873,470	79,329	10.29%	10.49%
August 30, 2008	5 Years	75,000	150,000	-	225,000	218,361,377	219,125,999	764,622	14.55%	14.85%
September 3, 2009	10 Years	-	200,000	150,000	50,000	48,675,311	47,836,010	(839,301)	3.18%	3.24%
September 3, 2009	5 Years	-	25,000	-	25,000	24,358,115	24,150,878	(207,237)	1.60%	1.64%
September 3, 2009	3 Years	-	96,300	71,300	25,000	24,461,630	24,417,837	(43,793)	1.62%	1.65%
Total of Pakistan Investment Bond						**619,190,729**	**614,430,749**	**(4,759,980)**		
Treasury Bills										
March 26, 2009	1 Year	470,000	75,000	545,000	-	-	-	-	-	-
May 21, 2009	1 Year	200,000	-	200,000	-	-	-	-	-	-
June 18, 2009	1 Year	-	150,000	150,000	-	-	-	-	-	-
February 12, 2009	1 Year	500,000	-	500,000	-	-	-	-	-	-
February 12, 2009	6 Months	100,000	-	100,000	-	-	-	-	-	-
August 13, 2009	1 Year	-	50,000	-	50,000	49,370,618	49,313,400	(57,218)	3.28%	3.34%
August 27, 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
September 10, 2009	1 Year	-	175,000	175,000	-	-	-	-	-	-
November 19, 2009	1 Year	-	30,000	-	30,000	28,749,231	28,652,610	(96,621)	1.90%	1.94%
December 3, 2009	1 Year	-	25,000	-	25,000	23,861,923	23,770,425	(91,498)	1.58%	1.61%
January 29, 2009	6 Months	-	110,000	110,000	-	-	-	-	-	-
February 26, 2009	6 Months	-	50,000	50,000	-	-	-	-	-	-
May 7, 2009	6 Months	-	60,000	60,000	-	-	-	-	-	-
March 11, 2010	3 Months	-	125,000	125,000	-	-	-	-	-	-
March 11, 2010	1 Year		125,000	100,000	25,000	23,101,346	23,037,300	(64,046)	1.53%	1.56%
February 25, 2010	3 Months	-	110,000	110,000	-	-	-	-	-	-
January 14, 2010	3 Months		10,000	10,000	-	-	-	-	-	-
March 25, 2010	1 Year	-	75,000	75,000	-	-	-	-	-	-
March 25, 2010	3 Months		14,000	14,000	-	-	-	-	-	-
September 10, 2009	6 Months	-	50,000	50,000	-	-	-	-	-	-
April 8, 2010	3 Months	-	10,000	-	10,000	9,996,776	9,996,780	4	0.66%	0.68%
April 22, 2010	3 Months	-	50,000	-	50,000	49,773,333	49,773,000	(333)	3.31%	3.37%
May 20, 2010	3 Months	-	150,000	-	150,000	148,005,000	147,940,200	(64,800)	9.83%	10.02%
May 20, 2010	1 Year	-	100,000	-	100,000	90,428,462	90,153,800	(274,662)	5.99%	6.11%
May 20, 2010	3 Months	-	65,000	-	65,000	64,135,500	64,107,420	(28,080)	4.26%	4.34%
June 3, 2010	3 Months	-	75,000	-	75,000	73,655,000	73,633,050	(21,950)	4.89%	4.99%
June 3, 2010	3 Months	-	15,000	-	15,000	14,730,791	14,726,610	(4,181)	0.98%	1.00%
June 17, 2010	3 Months	-	40,000	-	40,000	39,100,000	39,090,640	(9,360)	2.60%	2.65%
Total of Treasury Bills						**614,907,980**	**614,195,235**	**(712,745)**		
Total of investment in Government Securities - 'at fair value through profit or loss'						**1,234,098,709**	**1,228,625,984**	**(5,472,725)**		

4.2.1 These carry a rate of return ranging from 11.76% to 12.81% (2009: 11.75% to 14.31%) per annum.

4.3 Investment in Sub Scheme - 'at fair value through profit or loss'

Name	Units: Balance as at July 1, 2009	Units: Purchases during the year	Units: Sales during the year	Units: Balance as at June 30, 2010	Balance as at June 30, 2010: Carrying value	Balance as at June 30, 2010: Market Value	Balance as at June 30, 2010: Appreciation / (diminution)	Market value as a percentage of net assets	Market value as a percentage of total investments
					---- Rupees ----				
MSF December 2012	-	1,809,670	133,447	1,676,223	92,809,120	100,975,640	8,166,520	6.71%	6.84%

		June 30, 2010	June 30, 2009
		-------------------(Rupees)-------------------	
4.4	**Net unrealised appreciation / (diminution) in fair value of investments classified as 'Available for Sale'**		
	Market value of investments	146,217,993	146,508,564
	Cost of investments	(149,458,534)	(151,609,324)
		(3,240,541)	(5,100,760)
	Less: Net unrealised diminution / (appreciation) in the fair value of investments at the beginning of the year	5,100,760	18,436,353
		1,860,219	13,335,593
4.5	**Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'**		
	Market value of investments	1,329,601,624	1,433,928,063
	Cost of investments	(1,326,907,829)	(1,421,882,335)
		2,693,795	12,045,728
	Realised on disposal of investments during the year	3,866,069	-
	Net unrealised (appreciation) / diminution in value of investments at fair value through profit or loss at the beginning of the year	(12,045,728)	-
		(5,485,864)	12,045,728
5	**INCOME RECEIVABLE**		
	Accrued profit on bank deposits	-	1,060,602
	Income accrued on government securities	26,434,795	11,838,768
		26,434,795	12,899,370

6 PAYABLE TO ARIF HABIB INVESTMENTS LIMITED - MANAGEMENT COMPANY

Under the provisions of the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non Banking Finance Companies and Notified Entities Regulation, 2008, the Management Company of the Scheme is entitled to a remuneration during the first five years of the Scheme, of an amount not exceeding three percent of the average annual net assets of the Scheme and thereafter of an amount equal to two percent of such assets of the Scheme.

Up to March 2, 2010 the management fees was being calculated at the rate of 5% of the Funds operating revenue. From March 3, 2010 to May 23, 2010 management fees was calculated at the rate of 1.5% of (one and half percent) of the average annual net assets of the fund. With effect from May 24, 2010 management fees is being calculated on the lower of 10% of Funds operating revenue or 1.5 % of average daily net assets subject to minimum fee of 0.5% of average daily net assets.

7 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN - TRUSTEE

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein based on the daily net assets of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30,2010 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs. 1,000 million	1.5 million per annum
On an amount exceeding Rs 1,000 million	0.075% of net assets

Habib Metropolitan Bank Limited ceased to be the trustee with effect from November 23 , 2009.

8 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Scheme.

9 ACCRUED EXPENSES AND OTHER LIABILITIES

	June 30, 2010	June 30, 2009
	-----------------(Rupees)-----------------	
Auditors' remuneration	271,200	274,551
Brokerage payable	36,694	14,011
Printing and publication charges payable	93,709	85,025
Others	118,651	349,433
	520,254	723,020

10 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2010

11 CONTRIBUTION TO WORKERS WELFARE FUND

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971(the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honorable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with the SHC by some of Mutual Funds through their Trustees along with few investors. However, subsequent to filing of the petition, the Ministry of Labour and Manpower issued a letter which states that mutual funds are not liable for WWF.

The MUFAP, on behalf of its member AMCs, obtained a legal opinion to assess the implications of the letter issued by the Ministry of Labour and Manpower. The legal opinion, among other things, stated that mutual funds are not required to provide for contribution to WWF and earlier provisioning, if any, can be reversed and the terms of the letter suggests that provisioning was neither required nor necessary. Further, the opinion suggests that the petition filed with the High Court of Sindh be withdrawn.

The management has not made any provision inrespect of WWF and still maintains that mutual funds are not establishments and as a result are not liable to pay contribution to WWF.

12 FINANCIAL INSTRUMENTS BY CATEGORY

	---------------------------As at June 30, 2010---------------------------			
	Loans and receivables	Assets at fair value through profit or loss	Available for Sale	Total
	--------------------------Rupees--------------------------			
Assets				
Balances with banks - in deposit account	6,683,309	-	-	6,683,309
Investments	-	1,329,601,624	146,217,993	1,475,819,617
Income receivable	26,434,795	-	-	26,434,795
	33,118,104	1,329,601,624	146,217,993	1,508,937,721

	As at June 30, 2010		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	Rupees		
Liabilities			
Payable to Management Company	-	1,327,206	1,327,206
Payable to Central Depository Company- Trustee	-	145,450	145,450
Accrued expenses and other liabilities	-	520,254	502,835
	-	1,992,910	1,992,910

	As at June 30, 2009			
	Loans and receivables	Assets at fair value through profit or loss	Available for Sale	Total
	Rupees			
Assets				
Balances with banks - in deposit account	462,613,832	-	-	462,613,832
Investment in Government Securities	-	1,433,928,063	146,508,564	1,580,436,627
Income receivable	12,899,370	-	-	12,899,370
	475,513,202	1,433,928,063	146,508,564	2,055,949,829

	As at June 30, 2009		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	Rupees		
Liabilities			
Payable to Management Company	-	1,424,675	1,424,675
Payable to Habib Metropolitan Bank Limited - Trustee	-	712,336	712,336
Payable against purchase of investment	-	98,559,700	98,559,700
Redemption Payable	-	781,008	781,008
Accrued expenses and other liabilities	-	723,020	723,020
	-	102,200,739	102,200,739

13 AUDITORS' REMUNERATION

	June 30, 2010	June 30, 2009
	(Rupees)	
Annual audit fee	213,132	254,632
Half yearly review fee	118,841	144,763
Other certifications and services	38,176	127,693
Out of pocket expenses	35,031	62,654
	405,180	589,742

14 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited being the Management Company, Arif Habib Limited, Arif Habib Securities Limited Thatta cement Limited being companies under common Management, Arif Habib Bank Limited and Pak arab Fertilizer being companies under common directorship, CDC being the trustee of the Fund and Habib Metropolitan Bank Limited being the major unitholder of the Fund and MSF December 2012 being the Sub-Scheme of the Scheme.

The transactions with connected persons are in the normal course of business and are carried out on agreed terms.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulation, 2008 and the Trust Deed respectively.

Details of transactions with connected persons / related parties and balances with them at year end are as follows:

	2010	2009
Details of the transactions and balances with connected persons are as follows	(Rupees)	
Arif Habib Investment Limited - Management Company		
Balance at the beginning of the year	1,424,675	145,466
Remuneration for the year	13,330,424	4,475,045
	14,755,099	4,620,511
Amounts paid during the year	(13,427,893)	(3,195,836)
Balance at the end of the year	1,327,206	1,424,675
Habib Metropolitan Bank Limited		
Units issued 4,846,133 units (2009: 27,105,500 units)	250,000,000	1,250,465,979
Units redeemed 4,659,836 units (2009: 8,425,173 units)	250,000,000	370,454,849
Bonus units 38,683 units (2009: 1,155,173 units)	1,897,385	49,799,500
Units held 27,330,480 (2009: 27,105,500)	1,476,392,530	1,331,422,160
Trustee fee		
Balance at the beginning of the year	712,336	72,733
Remuneration for the year *	1,618,963	2,237,523
	2,331,299	2,310,256
Amounts paid during the year	(2,331,299)	(1,597,920)
Balance at end of the year	-	712,336

* This amount represents remuneration of Habib Metropolitan Bank Limited for acting as the trustee of the Fund till November 22, 2009.Habib Metropolitan Bank Limited ceased to be trustee with effect from November 23 , 2009.

	2010	2009
	(Rupees)	
Deposits		
- Balance at the end of the year	6,616,878	210,763,417
Profit receivable	-	73,207
Profit on bank deposits	934,649	626,661
Central Depository Company of Pakistan Limited - Trustee		
Balance at the beginning of the year	-	-
Remuneration for the year	1,154,390	-
	1,154,390	-
Amounts paid during the year	(1,008,940)	-
Balance at end of the year	145,450	-
Transactions and balances with connected persons - Scheme and Sub Schemes		
Investment in Sub-Schemes - MSF Dec 2012		
Investement : 1,809,670 units	100,196,768	-
Redemption during the year : 133,447 units	7,800,000	-
Investment held 1,676,222 units	100,975,640	-
Other Payable	8,497	-

15 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

Details of members of the investment committee of the Scheme are as follow:

		2010		
		Designation	**Qualification**	**Experience in years**
A	Basharat Ullah Khan	Chief Investment Officer	MBA	19
B	Zafar Rehman	Head of Money Market Fund & Fund Manager	B.COM	16
C	Zeeshan	Chief Financial Officer	ACA	17
D	Muhammad Imran Khan	Head of Research	MBA	7
D	Tariq Hashmi	Head of Markeking	MBA	18

15.1 Other Funds managed by the Fund Manager

Pakistan Income Fund
Pakistan Income Enhancement Fund

16 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

	2010
Invest Capital and Securities (Private) Limited	53.03%
Elixir Securities Pakistan (Private) Limited	11.80%
JS Global Capital Limited	7.64%
First Capital Securities Corporation Limited	6.83%
Atlas Capital Markets (Private) Limited	5.41%
Alfalah Securities (Private) Limited	3.97%
Invisor Securities (Private) Limited	3.87%
BMA Capital Management Limited	3.77%
Global Securities Pakistan Limited	2.65%
KASB Securities Limited	0.64%

	2009
Invest Capital and Securities (Private) Limited	33.25%
Elixir Securities Pakistan (Private) Limited	22.81%
BMA Capital Management Limited	15.93%
JS Global Capital Limited	9.94%
Alfalah Securities (Private) Limited	6.40%
KASB Securities Limited	5.00%
Global Securities Pakistan Limited	2.66%
First Capital Securities Corporation Limited	1.94%
Atlas Capital Markets (Private) Limited	0.48%
Live Securites (Private) Limted	0.48%

17 DETAILS OF PATTERN OF UNIT HOLDING

	As at June 30, 2010		
	Number of unit holders	Investment amount (Rupees)	Percentage investment
Individuals	97	29,435,386	1.95
Associated companies	1	1,476,312,810	98.05
Directors	-	-	-
Insurance companies	-	-	-
Bank / DFIs	-	-	-
NBFCs	-	-	-
Retirement funds	-	-	-
Public Limited companies	-	-	-
Others	-	-	-
Total	98	1,505,748,195	100.00

	As at June 30, 2009		
	Number of unit holders	Investment amount (Rupees)	Percentage investment
Insurance Companies	2	45,133,557	2.31
Banks/DFI's	3	1,533,632,174	78.51
Retirement Funds	3	60,739,707	3.11
Other Corporate	2	180,175,635	9.22
Others	114	133,665,634	6.84
Total	124	1,953,346,707	100.00

18 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

During the year; the 63rd, 64th, 65th, 66th, 67th, 68th, 69th, 70th, 71st, 72nd & 73rd Board meetings were held on 06 July 2009, 28 July 2009, 29 july 2009, 22 October 2009, 10 November 2009, 22 February 2010, 22 March 2010, 22 April 2010, 24 April 2010 16 June 2010 & 17 June 2010 respectively. Information in respect of attenedance by Directors in the meeting s is given below:

For the year ended June 30, 2010

Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
Mr. Shafi Malik	11	11	-	-
Mr. Salim Chamdia *	3	1	2	64th and 65th meeting
Mr. Nasim Beg	11	11	-	-
Mr. Sirajuddin Cassim	11	1	10	63rd to 67th and 69th to 73rd meeting
Mr. S. Gulrez Yazdani **	7	7	-	-
Mr. Muhammad Akmal Jameel	11	10	1	64th meeting
Mr. Syed Ajaz Ahmed	11	11	-	-
Mr. Muhammad Kashif Habib	11	8	3	67th, 69th and 70th meeting

* Mr. Salim Chamdia resigned from the office on September 7, 2009.
** Mr. S. Gulrez Yazdani was appointed as director on October 06, 2009 and approved by SECP on November 05,2009.

19 FINANCIAL RISK MANAGEMENT

The Scheme primarily invests in a portfolio of money market investments such as government securities and Reverse repurchase transactions. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

19.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

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

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

19.1.1 Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Scheme, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

19.1.2 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 market interest rates.

Sensitivity analysis for fixed rate instruments

Investments in Treasury Bills and Pakistan Investment Bonds are not subject to cash flow interest rate risk.

As at June 30, 2010, the Scheme holds Treasury Bills and Pakistan Investment Bonds which are classified as fair value through profit or loss and available for sale, exposing the Scheme to fair value interest rate risk. In case of 100 basis points increase in rates announced by Financial Market Association on June 30, 2010, the net comrehensive income for the year and net assets would be lower by Rs 24,738,059 (2009: Rs 19,818,937). In case of 100 basis points decrease in rates announced by Financial Market Association on June 30, 2010, the net comprehensive income for the year and net assets would be higher by Rs. 25,977,804 (2009: Rs 20,553,494).

The composition of the scheme's investment portfolio and rates announced by Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the impact on the scheme's net assets of future movements in interest rates.

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on the settlement date.

	As at June 30, 2010				
	Exposed to Yield / Interest risk			Not exposed to Yield / Interest rate risk	Total
	Upto three months	More than three months and upto one year	More than one year		
	(Rupees)				
On-balance sheet financial instruments					
Financial assets					
Balances with banks - in deposit account	6,683,309	-	-	-	6,683,309
Investment in government securities	1,228,625,984	146,217,993	-	-	1,374,843,977
Investment in Sub-Scheme	-	-	-	100,975,640	100,975,640
Income receivable	-		-	26,434,795	26,434,795
Sub Total	1,235,309,293	146,217,993	-	127,410,435	1,508,937,721
Financial liabilities					
Payable to Arif Habib Investments Limited - Management Company	-	-	-	1,327,206	1,327,206
Payable to Trustee				145,450	145,450
Accrued expenses and other liabilities	-	-	-	520,254	520,254
Sub Total	-	-	-	1,992,910	1,992,910
On-balance sheet gap	1,235,309,293	146,217,993	-	125,417,525	1,506,944,811

	As at June 30, 2009				
	Exposed to Yield / Interest risk			Not exposed to Yield / Interest rate risk	Total
	Upto three months	More than three months and upto one year	More than one year		
	(Rupees)				
On-balance sheet financial instruments					
Financial assets					
Balances with banks - in deposit account	462,613,832	-	-	-	462,613,832
Investment in government securities	98,583,200	1,079,533,141	402,320,286	-	1,580,436,627
Income receivable	-	-	-	12,899,370	12,899,370
Sub Total	561,197,032	1,079,533,141	402,320,286	12,899,370	2,055,949,829
Financial liabilities					
Payable to Arif Habib Investments Limited - Management Company	-	-	-	1,424,675	1,424,675
Payable to Trustee	-	-	-	712,336	712,336
Payable against purchase of investments	-	-	-	98,559,700	98,559,700
Redemption payable	-	-	-	781,008	781,008
Accrued expenses and other liabilities	-	-	-	723,020	723,020
Sub Total	-	-	-	102,200,739	102,200,739
On-balance sheet gap	561,197,032	1,079,533,141	402,320,286	(89,301,369)	1,953,749,090

19.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Since the Fund is not allowed to invest in equities, hence it is not exposed to equity price risk.

19.2 Credit Risk

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. The Scheme's credit risk is attributable to its balances with banks. The credit risk on these funds is limited because the counter parties are financial institutions with reasonably high credit ratings.

Bank Balances by rating category	**2010**
Habib Metropolitan Bank Limited	AA+
Bank Alfalah Limited	AA
	2009
Habib Metropolitan Bank Limited	AA+
Bank Alfalah Limited	AA
Allied Bank Limited	AA
Soneri Bank Limited	AA-

19.2.1 Investment in government securities

Since these securities are issued by Government of Pakistan they are considered free from credit risk.

19.3 Liquidity risk

Liquidity risk is the risk that the Scheme may not be able to generate sufficient cash resources to settle its obligation in full as they fall due or can only do so on terms that are materially disadvantageous.

The Scheme is exposed to daily cash redemptions, if any. The Scheme's approach to managing liquidity is to ensure, as far as possible, that the Scheme will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

For the purpose of making redemptions the Fund has the ability to borrow in the short term, however such need did not arise during the year. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

In order to manage the Scheme's overall liquidity, the Scheme also has the ability to 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. The Scheme did not withhold any significant redemptions during the year.

For effective Fund management, the Fund Manager monitor the fund's liquidity position on a daily basis, and on a regular basis the "Investment Committee" also reviews the same.

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

Liabilities	As at June 30, 2010			
	Upto three months	More than three months and upto one year	More than one year	Total
	(Rupees)			
Remuneration payable to Management Company	1,327,206	-	-	1,327,206
Remuneration payable to Trustee	145,450	-	-	145,450
Payable against purchase of investments	-	-	-	-
Redemption payable	-	-	-	-
Auditors' remuneration	271,200	-	-	271,200
Brokerage payable	36,694	-	-	36,694
Printing and publication charges payable	-	93,709	-	93,709
Other accrued expenses	8,502	110,149	-	118,651
	1,789,052	203,858	-	1,992,910

Liabilities	As at June 30, 2009			
	Upto three months	More than three months and upto one year	More than one year	Total
	(Rupees)			
Remuneration payable to Management Company	1,424,675	-	-	1,424,675
Remuneration payable to Trustee	712,336	-	-	712,336
Payable against purchase of investments	98,559,700	-	-	98,559,700
Redemption payable	781,008	-	-	781,008
Auditors' remuneration	274,551	-	-	274,551
Brokerage payable	14,011	-	-	14,011
Printing and publication charges payable	-	85,025	-	85,025
Other accrued expenses	349,433	-	-	349,433
	102,115,714	85,025	-	102,200,739

20 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

Effective July 1, 2009, the Scheme adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

ASSETS	As at June 30, 2010			
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
Investment in government securities - at fair value through profit or loss	1,228,625,984	-	-	1,228,625,984
Investment in sub scheme - at fair value through profit or loss	100,975,640	-	-	100,975,640
Investment in government securities - available for sale	146,217,993	-	-	146,217,993
	1,475,819,617	-	-	1,475,819,617

21 CAPITAL RISK MANAGEMENT

The Fund's capital is represented by redeemable units of the Scheme and the Sub-Scheme (having pre-determined maturity as diclosed in note 1) . They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per share on the redemption date. The relevant movements are shown on the statement of movement in unit holders' funds.

The Scheme's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong capital base to meet unexpected losses or opportunities. In accordance with the NBFC Regulations the Scheme is required to distribute at least ninety percent of its income from sources other than unrealised capital gains as reduced by such expenses as are chargeable to the Scheme.

In accordance with the risk management policies stated in note 19, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments.

22 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the management company have approved bonus units of Rs. 5 per unit (2009: Re. 0.071 per unit) for the year ended June 30 2010, amounting to Rs. 139,376,887 (2009: Rs. 2,783,549) in total in their meeting held on July 5, 2010. The financial statements for the year ended June 30, 2010 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2010.

23 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 03, 2010 by the Board of Directors of the Management Company.

24 CORRESPONDING FIGURES

During the current year, there were no major reclassifications except as required due to the change in accounting policy as more fully explained in note 2.1.3 to these financial statements

25 GENERAL

25.1 Figures have been rounded off to the nearest rupee.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

PATTERN OF UNIT HOLDING (BY SIZE)
AS AT JUNE 30, 2010

No. of Unit Holders	Units Holdings	Total Units Held
82	1 TO 5000	56,888
6	5001 TO 10000	39,539
3	10001 TO 15000	36,665
1	15001 TO 20000	15,941
1	20001 TO 25000	21,731
1	40001 TO 45000	42,160
2	60001 TO 65000	123,977
1	205001 TO 210000	207,996
1	27330001 TO 27335000	27,330,479
98		**27,875,377**

PATTERN OF UNIT HOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2010

Type of Investor	Number of Units Held
Associated companies:	-
-Habib Metropolitain Bank Limited	27,330,479
-Arif Habib Investments Limited	-
Directors & CEO	-
Public Limited companies	-
Banks and Financial Institution	-
Individuals	544,898
Retirement funds	-
Othes Corporate Sector Entities	-
Non Profit Organizations	-
Insurance companies	-
Bank / DFIs	-
NBFCs	-
Public Limited companies	-
Others	-
Total	**27,875,377**

PERFORMANCE TABLE

	2010	2009	2008	2007	2006	2005	2004	2003*
	(Rupees in '000)							
Net assets	1,505,748	1,953,347	364,448	792,218	479,103	464,406	462,230	271,473
Net income / (loss) after taxation	146,525	15,050	56,852	31,680	34,375	(51,093)	9,471	(153)
	(Rupees)							
Net assets value per unit	54.02	49.12	49.96	48.97	48.01	44.70	44.46	50.16
Dividend distribution per unit - 1st Interim	-	-	-	-	-	-	1.5938	-
Dividend distribution per unit - 2nd Interim	-	-	-	-	-	-	0.1433	-
Dividend distribution per unit - Final	5.0000	0.0700	6.8500	1.7900	3.1093	-	-	-
Total distribution per unit	5.0000	0.0700	6.8500	1.7900	3.1093	-	1.7371	-
Selling price per unit at end of the year	54.07	49.17	50.00	49.02	48.03	44.73	44.68	49.98
Reperchase price per unit at end of the year	54.02	49.12	49.95	48.97	47.98	44.69	44.59	49.88
Highest offer price per unit	54.09	49.17	50.29	49.02	48.03	44.74	51.18	52.60
Lowest offer price per unit	49.42	42.72	47.28	44.90	44.73	42.33	44.57	48.85
Highest repurchase price per unit	54.04	49.12	50.24	48.97	47.98	44.70	51.08	52.49
Lowest repurchase price per unit	49.37	42.68	47.23	44.86	44.69	42.25	44.48	48.75
	(Anouncement date of distribution)							
Dividend distribution per unit - Final	5-Jul-2010	6-Jul-2009	4-Jul-2008	4-Jul-2007	4-Jul-2006	-	-	-
Dividend distribution per unit - 1st Interim	-	-	-	-	-	-	24-Sep-2003	-
Dividend distribution per unit - 2nd Interim	-	-	-	-	-	-	24-Dec-2003	-
	(Percentage)							
Total return of the fund	10.13	13.94	5.89	9.06	7.43	0.52	(7.98)	0.32
Annual dividend distribution	10.13	0.14	14.52	3.99	6.96	-	3.46	-
Capital growth	-	13.8	(8.63)	5.08	0.47	0.52	(11.44)	0.32
Average annual return (CAGR):								
One Year	10.13	13.94	5.89	9.06	7.43	0.52	(7.98)	0.96
Second Year	12.02	9.83	7.48	8.24	3.92	(3.82)	-	-
Third Year	9.93	9.57	7.47	5.60	(0.21)	-	-	-

Fund keeps the average duration of its portfolio 1.73 years.

* First year of operations from 7 January 2003 to 30 June 2003.

Disclaimer :-
The past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.

CONTENTS

A.F. FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711
Facsimile: (021) 32415007 / 32427938

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **MetroBank Pakistan Sovereign Fund – December 2012 (here in after referred to as "the Sub-scheme"),** which comprise the statement of assets and liabilities as at June 30, 2010, and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's responsibility

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

Basis for Qualified Opinion

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 applies. On the basis of an independent legal advice, in our opinion this levy has now become applicable on the Sub-Scheme as well. However, no provision in respect of Workers Welfare Fund (WWF) has been made by the management for the reasons explained in note 11 to the financial statements. Had the management recognised this provision the liability towards WWF at June 30, 2010 would have amounted to Rs.475,295 (including Rs. 808 for the year ended June 30, 2009) and accordingly the undistributed income and net asset value of the Sub-Scheme at June 30, 2010 would have been lower by Rs 475,295.

Qualified Opinion

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the state of the Sub-Scheme's affairs as at June 30, 2010 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Lahore Office: 23-C Aziz Avenue, Canal Bank, Gulberg V, P. O. Box 39, Lahore, Pakistan Tel: (92-42) 35715864-71 Fax: (92-42) 35715872
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92
Kabul Office : House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel : (93-799) 315320-203424

Other matters

In our opinion, the financial statements have been prepared in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Chartered Accountants

Engagement Partner: Rashid A. Jafer

Dated: August 3, 2010

Karachi

STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2010

	Note	2010	2009
		--------- Rupees---------	
Assets			
Balances with banks - in deposit account	3	121,805	232,785
Investments in government securities	4	98,177,207	517,099
Income receivable	5	3,712,785	15,111
Advances and Prepayments		-	63
Receivable from MSF Perpetual		8,497	-
Total assets		102,020,294	765,058
Liabilities			
Payable to Arif Habib Investments Limited - Management Company	6	93,568	185
Payable to Trustee	7	10,360	93
Payable to Securities and Exchange Commission of Pakistan	8	63,612	602
Accrued expenses and other liabilities	9	33,933	1,054
Total liabilities		201,473	1,934
Net Assets		101,818,821	763,124
Unit holders' funds (as per statement attached)		101,818,821	763,124
		-----------(Number of Units)-----------	
Number of units in issue		1,690,150	13,262
		(Rupees)	
Net asset value per unit		60.24	57.54
CONTINGENCIES AND COMMITMENTS	10		

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		--------- Rupees---------	
INCOME			
Income from investments in government securities		9,908,222	35,077
Income from reverse repurchase transactions		31,500	
Profit on bank deposits		144,352	9,550
Unrealised diminution in value of investments classified as 'at fair value through profit or loss'	4.3	(449,374)	-
Total Income		9,634,700	44,627
OPERATING EXPENSES			
Remuneration of Arif Habib Investments Limited - Management Company	6	745,523	2,122
Remuneration of Trustee	7	139,683	1,061
Annual Fee - Securities and Exchange Commission of Pakistan	8	63,612	602
Brokerage		5,975	-
Printing and publications		8,555	78
Fees and subscriptions		8,010	360
Legal and professional charges		9,219	194
Auditors' remuneration	13	20,732	956
Total expenses		1,001,309	5,373
Net income from operating activities		8,633,391	39,254
Element of income and realised capital gains during the year included in prices of units issued less those in units redeemed-net		15,090,985	1,141
Net income for the year before taxation		23,724,376	40,395
Taxation	2.12	-	-
Net income for the year after taxation		23,724,376	40,395
Other comprehensive income for the year			
Unrealised appreciation in value of investments classified as 'available for sale' - net	4.4	25,907	37,118
Total comprehensive income for the year		23,750,283	77,513

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		--------- Rupees---------	
Undistributed income brought forward			
- Realised gain		151,125	143,923
- Unrealised loss		-	-
		151,125	143,923
Net income for the year		23,724,376	40,395
Final distribution of Rs 2.75 per unit in terms of bonus units for the year ended June 30, 2009 (Date of distribution July 6, 2009) (2008 : Rs 2.63 per unit)		(36,470)	(33,193)
Element of loss and capital losses included in the prices of units issued less those in units redeemed - amount representing unrealised losses - net		(6,502,521)	-
Undistributed income carried forward		17,336,510	151,125
Undistributed income carried forward comprising of			
- Realised gain		17,785,884	151,125
- Unrealised loss	4.3	(449,374)	-
		17,336,510	151,125

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		--------- Rupees---------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year before taxation		23,724,376	40,395
Adjustments for :			
Element of (income) and realised capital (gains) included in prices of units issued less those in units redeemed		(15,090,985)	(1,141)
Unrealised diminution in value of investments classified as 'at fair value through profit or loss'	4.3	449,374	
		9,082,765	39,254
(Increase) / decrease in assets			
Investments		(98,083,575)	34,924
Income receivable		(3,697,674)	(306)
Receivable from MSF Perpetual		(8,497)	-
Advances and prepayments		63	162
		(101,789,683)	34,780
Increase / (decrease) in liabilities			
Payable to Arif Habib Investments Limited – Management Company		93,383	19
Payable to Trustee		10,267	11
Payable to Securities and Exchange Commission of Pakistan - Annual fee		63,010	(90)
Accrued expense and other liabilities		32,879	389
		199,539	329
Net cash (used in) / generated from operating activities		(92,507,379)	74,363
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from issue of units		100,225,084	-
Payment against redemption of units		(7,828,685)	-
Net cash generated from financing activities		92,396,399	-
Net (decrease) / increase in cash and cash equivalents		(110,980)	74,363
Cash and cash equivalents at beginning of the year		232,785	158,422
Cash and cash equivalents at end of the year		121,805	232,785

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		(Rupees)	
Net assets at the beginning of the year		763,124	686,752
Issue of 1,810,169 units (2009: Nil units)		100,225,084	-
Redemption of 133,946 units (2009 : Nil units)		(7,828,685)	-
		92,396,399	-
Element of (income) / loss and capital (gains) / losses included in the prices of units issued less those in units redeemed:			
- amount representing realised gains transferred to Income Statement - net		(15,090,985)	(1,141)
- amount representing unrealised losses / (gain) transferred to distribution statement - net		6,502,521	-
		(8,588,464)	(1,141)
Unrealised appreciation in value of investments classified as 'available for sale' - net	4.4	25,907	37,118
Final Distribution:			
Issue of 665 bonus units for the year ended June 30, 2009 (2008:9641 bonus units)		36,470	33,193
Final distribution of Rs 2.75 per unit in terms of bonus units for the year ended June 30, 2009 (Date of distribution July 6, 2009) (2008 : Rs 2.63 per unit)		(36,470)	(33,193)
Net income for the year		23,724,376	40,395
Element of loss and capital losses included in prices of units issued less those in units redeemed - amount representing unrealised losses - net		(6,502,521)	-
		17,185,385	7,202
Net assets at the end of the year		101,818,821	763,124

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (DECEMBER - 2012) FOR THE YEAR ENDED JUNE 30, 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

MetroBank - Pakistan Sovereign Fund was established under a Trust Deed executed between Arif Habib Investments Limited (AHIL), as Management Company and Habib Metropolitan Bank Limited as Trustee. The Trust Deed was executed on 24th December 2002 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 7th January 2003 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules), [repealed by Non - Banking Finance Companies (Establishment and Regulations) Rules, 2003 (NBFC Rules)].

During the period, Habib Metropolitan Bank Limited retired as the Trustee of the Fund and Central Depository Company of Pakistan Limited (CDC) was appointed as the new Trustee with effect from 23rd November 2009. The SECP approved the appointment of CDC as the Trustee in place of Habib Metropolitan Bank Limited and further approved the amendments to the Trust Deed vide its letter number SCD/NBFC-11/MF-RS/MSPF/981/2009 dated 3rd November 2009. Accordingly, the Trust Deed of the Fund was revised through a supplemental Deed executed between the Management Company, Habib Metropolitan Bank Limited and CDC.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. During the current period, the registered office of the Management Company has been shifted to Arif Habib Centre, 23 M.T Khan Road, Karachi, Pakistan.

The Metro Bank - Pakistan Sovereign Fund is an open-ended mutual fund and obtained listing on the Islamabad Stock Exchange on May 27, 2009. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

Pakistan Credit Rating Agency (PACRA) has assigned management quality rating of 'AM2' (positive outlook) to the Management Company and AA (f) as stability rating to the Fund.

The Fund consists of a 'perpetual' (the Scheme) and one Sub-Scheme as at June 30, 2010 with pre-determined maturity date as follows:

Name of sub-scheme	Maturity date of sub-scheme
MetroBank - Pakistan Sovereign Fund - (December 2012) [MSF 12/12]	December 31, 2012

In addition to the above sub-scheme, the Fund had also issued other sub-schemes which were matured as follows:

Name of sub-scheme	Matured on
MetroBank - Pakistan Sovereign Fund - (December 2003) [MSF 12/03]	December 31, 2003
MetroBank - Pakistan Sovereign Fund - (December 2005) [MSF 12/05]	December 31, 2005
MetroBank - Pakistan Sovereign Fund - (December 2007) [MSF 12/07]	December 31, 2007

The Scheme and Sub-Scheme of MSF are open-end schemes which offer units for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the scheme.

These financial statements are the financial statements of the Sub-Scheme. MSF 12/12 can directly invest in Pakistan rupee denominated bonds and debt securities issued by Government of Pakistan, reverse repurchase transactions in Government Securities and any otherwise un-invested funds in deposits with banks and financial institutions.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements as are set out below. These policies have been consistently applied to all the years presented except as explained in note 2.1.3 to these financial statements.

2.1 Basis of preparation

2.1.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.1.2 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been marked to market and carried at fair value in accordance with the requirements of International Accounting Standards (IAS)39 -'Financial Instruments' : Recognition and Measurement'.

2.1.3 Change in accounting policy and disclosures arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

International Accounting Standards 1 (IAS 1) Revised, ' Presentation of Financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statment of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performnace statement, but entities can chose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of other comprehensive income. Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position (referred to as the statement of financial position of assets and liablitiesin the statement) as at the beginning comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and the comparative period.

The Sub-Scheme has applied IAS 1 (revised) from July 1, 2009, and has elected to present one performance statement. As a result non-owner changes in equity which were previously credited directly in the statement of movement in unit holders' fund and the distribution statement are now shown as other comprehensive income in the performance statement (referred to as income statement in these financial statements). The change in presentation has not affected the values of the net assets of the scheme for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented.

2.1.4 Other standards, interpretations and amendments to published approved accounting standards that are effective in the current year

The following new standards and amendments to existing standards that are mandatory for the first time for the financial year beginning July 1, 2009:

(a) IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of this amendment did not have a significant impact on the Sub-Scheme's financial statements.

(b) IFRS 7 (Amendment), ' Financial Instruments: Disclosure'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements, by level of fair value measurement hierarchy. The adoption of the amendment has resulted in additional disclosures but did not have an impact on the Sub-Scheme's financial position or performance.

(c) IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements - Puttable financial instruments and obligations arising on liquidation'. The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. One of the particular features is that apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another this connection, Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 mandate the payment of 90% of the scheme's profits for the year as dividends, therefore the amendment has not changed the classification of units.

(d) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access of goods or receipt of services. The adoption of this amendment did not have any effect on the Sub-Scheme's financial statements.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2009 but were considered not to be relevant or did not have any significant effect on the fund's operations and are therefore not detailed in these financial statements.

2.1.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

The following standards, amendments are interpretations to existing standards have been published and are mandatory for the Sub-Scheme's accounting periods beginning on or after July 01, 2010:

(a) IAS 7(Amendment), 'Statement of Cash Flows' (effective from January 1, 2010). Amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Sub-Scheme's financial statements.

(b) IAS 24 related party Disclosures (revised) (effective from January 1, 2011). The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

There are certain other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or to have any significant effect on the Sub-Scheme's operations and are therefore not detailed in these financial statements.

2.1.6 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Sub-Scheme's accounting policies. Estimates and judgments 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 Sub-Scheme's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments (note 2.2 and note 4).

2.2 Financial assets

2.2.1 The management of the Sub-Scheme classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in market prices, interest rate movements or are financial assets included in a portfolio in which a pattern of short-term profit taking exists.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Sub-Schemes loans and receivables comprise of cash and bank balances, receivable against sale of investments, deposits and dividend and profit receivable.

c) Available for sale

These are non-derivatives that are either designated in this category or not classified in any of the other categories.

2.2.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Sub-Scheme commits to purchase or sell the asset.

2.2.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

2.2.4 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss and available for sale are valued as follows:

Basis of valuation of Government Securities

The investment of the Sub-Scheme in government securities is valued on the basis of rates announced by the Financial Market Association.

2.2.5 Impairment

The carrying amounts of the Sub-Scheme's assets are revalued at each balance sheet date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the Income Statement. If any impairment evidence exists for available for sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income is reclassified from other comprehensive income and recognised in the income statement. Impairment losses recognised on available for sale financial assets recognised in the income statement are not reversed through the income statement.

2.2.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired, have been realised or have been transferred and the Sub-Scheme has transferred substantially all risks and rewards of ownership.

2.2.7 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Assets and Liabilities only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

2.3 Financial liabilities

All financial liabilities are recognised at the time when the Sub-Scheme becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include payable to mangement company, unclaimed dividend,payable to trustee and other liabilities.

2.4 Derivatives

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

2.5 Securities under repurchase / resale agreements

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

All reverse repo transactions are accounted for on the settlement date.

2.6 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 during business hours on that date. The offer price represents the net asset 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 Sub-Scheme.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption request during business hours of that day. The redemption price represents the net asset 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.

2.7 Proposed distributions

Distribution declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

2.8 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created, in order to prevent the dilution of income per unit and distribution of income already paid out on redemption.

The Sub-Scheme records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the Unit Holder's Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

2.9 Provisions

Provisions are recognised when the Sub-Scheme 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 amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimates.

2.10 Net asset value per unit

The net asset value (NAV) per unit, as disclosed on the Statement of Assets and Liabilities, is calculated by dividing the net assets of the Sub-Scheme by the number of units in circulation at the year end.

2.11 Earnings per unit

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.

2.12 Taxation

No provision for taxation has been made as the Sub-Scheme 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 percent of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unitholders.

The Sub-Scheme provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Sub-Scheme also records deferred tax asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Sub-Scheme has not recognised any amount in respect of deferred tax in these financial statements as the fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unitholders every year.

2.13 Revenue recognition

Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.

Unrealised capital gains / (losses) arising on marking to market of investments classified as ' Financial assets at fair value through profit or loss ' are included in the Income Statement in the period in which they arise.

Profit on bank deposits is recognised on an accrual basis.

Profit on investment is recognised on an accrual basis.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances.

2.15 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the Income Statement within the fair value net gain or loss.

		June 30, 2010	June 30, 2009
3	**BALANCES WITH BANKS**	--------(Rupees)--------	
	In deposit accounts	121,805	232,785
		121,805	232,785

3.1 These carry a rate of return ranging from 9% (2009 5%) per annum.

		Note	June 30, 2010	June 30, 2009
4	**INVESTMENTS**		--------(Rupees)--------	
	Investments 'Available for sale'			
	Pakistan Investment Bonds	4.1	505,859	517,099
	Investments 'at fair value through profit or loss'			
	Pakistan Investment Bonds	4.2	97,671,348	-
			98,177,207	517,099

4.1 Investment in government securities - 'available for sale'

Issue date	Tenor	Face value Rs. In Thousands				June 30, 2010 (Rupees)			Percentage of net assets	Percentage of total investment
		As at July 1, 2009	Purchases during the year	Sales / Matured during the year	As at June 30, 2010	Cost	Market Value	Appreciation / (Diminution)		
Pakistan Investment Bond										
18 April 2001	10 Years	500	-	-	500	531,045	505,859	(25,186)	0.50%	0.52
						531,045	505,859	(25,186)	0.50%	0.52

4.2 Investment in government securities - at fair value through profit or loss'

Issue date	Tenor	Face value Rs. In Thousands				June 30, 2010 (Rupees)			Percentage of net assets	Percentage of total investment
		As at July 1, 2009	Purchases during the year	Sales / Matured during the year	As at June 30, 2010	Cost	Market Value	Appreciation / (Diminution)		
Pakistan Investment Bond										
3 September 2009	3 Years	-	100,000	-	100,000	98,120,722	97,671,348	(449,374)	95.93%	99.48
						98,120,722	97,671,348	(449,374)	95.93%	99.48

	June 30, 2010	June 30, 2009
	--------- Rupees---------	
4.3 Net unrealised diminution in value of investments classified as - 'at fair value through profit or loss'		
Market value of investments	97,671,348	-
Cost of investments	(98,120,722)	-
	(449,374)	-
4.4 Net unrealised (loss) / gain on revaluation of investments classified as 'Available for Sale'		
Market value of investments	505,859	517,099
Cost of investments	(531,045)	(568,192)
	(25,186)	(51,093)
Net unrealised diminution in the value of securities at beginning of the year	51,093	88,211
	25,907	37,118
5 INCOME RECEIVABLE		
Profit on bank deposits	-	956
Income receivable on government securities	3,712,785	14,155
	3,712,785	15,111

6 PAYABLE TO ARIF HABIB INVESTMENTS LIMITED - MANAGEMENT COMPANY

Under the provisions of the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non Banking Finance Companies and Notified Entities Regulation, 2008, the Management Company of the Sub-Sub-Scheme is entitled to a remuneration during the first five years of the Sub-Sub-Scheme, of an amount not exceeding three percent of the average annual net assets of the Sub-Sub-Scheme and thereafter of an amount equal to two percent of such assets of the Sub-Sub-Scheme.

Up to March 2, 2010 the management fees was being calculated at the rate of 5% of the Sub-Scheme operating revenue. From March 3, 2010 to May 23, 2010 management fees was calculated at the rate of 1.5% of (one and half percent) of the average annual net assets of the Sub-Scheme. With effect from May 24, 2010 management fees is being calculated on the lower of 10% of Sub-Scheme operating Revenue or 1.5 % of average daily net assets subject to minimum fee of 0.5% of average daily net assets.

7 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN - TRUSTEE

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein based on the daily net assets of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund as at 30 June 2010 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs. 1,000 million	1.5 million per annum
On an amount exceeding Rs 1,000 million	0.075% of net assets

Habib Metropolitan Bank Limited ceased to be the trustee with effect from November 23 , 2009.

8 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE

Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Sub-Scheme.

9 ACCRUED EXPENSES AND OTHER LIABILITIES	June 30, 2010	June 30, 2009
	--------- Rupees---------	
Auditors' remuneration	20,223	358
Printing and publication charges payable	6,291	129
Others	7,419	567
	33,933	1,054

10 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2010.

11 CONTRIBUTION TO WORKERS WELFARE FUND

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971(the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honorable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with the SHC by some of Mutual Funds through their Trustees along with few investors. However, subsequent to filing of the petition, the Ministry of Labour and Manpower issued a letter which states that mutual funds are not liable for WWF.

The MUFAP, on behalf of its member AMCs, obtained a legal opinion to assess the implications of the letter issued by the Ministry of Labour and Manpower. The legal opinion, among other things, stated that mutual funds are not required to provide for contribution to WWF and earlier provisioning, if any, can be reversed and the terms of the letter suggests that provisioning was neither required nor necessary. Further, the opinion suggests that the petition filed with the High Court of Sindh be withdrawn.

The management has not made any provision inrespect of WWF and still maintains that mutual funds are not establishments and as a result are not liable to pay contribution to WWF.

12 FINANCIAL INSTRUMENTS BY CATEGORY

	------------As at June 30, 2010----------			
	Loans and receivables	Assets at fair value through profit or loss	Available for Sale	Total
	------------------------------ Rupees ------------------------------			
Assets				
Balances with banks - in deposit account	121,805	-	-	121,805
Investment in Government Securities	-	97,671,348	505,859	98,177,207
Income receivable	3,712,785	-	-	3,712,785
	3,834,590	**97,671,348**	**505,859**	**102,011,797**

	------------As at June 30, 2010----------		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------------------------------ Rupees ------------------------------		
Financial liabilities			
Payable to Management Company	-	93,568	93,568
Payable to Trustee		10,360	10,360
Accrued expenses and other liabilities	-	33,933	33,933
	-	**137,861**	**137,861**

	------------As at June 30, 2009----------			
	Loans and receivables	Assets at fair value through profit or loss	Available for Sale	Total
	------------------------------ Rupees ------------------------------			
Assets				
Balances with banks - in deposit account	232,785	-	-	232,785
Investment in Government Securities	-	-	517,099	517,099
Income receivable	15,111	-	-	15,111
	247,896	**247,896**	**517,099**	**764,995**

	------------As at June 30, 2009----------		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------------------------------ Rupees ------------------------------		
Financial liabilities			
Payable to Management Company	-	185	185
Payable to Habib Metropolitan Bank Limited - Trustee	-	93	93
Accrued expenses and other liabilities	-	1,054	1,054
	-	**1,332**	**1,332**

13 AUDITORS' REMUNERATION

	2010	2009
	--------- Rupees---------	
Annual audit fee	11,569	368
Half yearly review fee	6,159	199
Other certifications and services	1,915	283
Out of pocket expenses	1,089	106
	20,732	956

14 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited being the Management Company, Arif Habib Limited, Arif Habib Securities Limited Thatta cement Limited being companies under common Management, Arif Habib Bank Limited and Pak arab Fertilizer being companies under common directorship,CDC being the trustee of the Fund and Habib Metropolitan Bank Limited being the major unitholder of the Fund and MSF Perpetual being the Scheme of the Sub-Scheme.

The transactions with connected persons are in the normal course of business and are carried out on agreed terms.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulation, 2008 and the Trust Deed respectively.

Details of transactions with connected persons and balances with them at year end are as follows:

	2010	2009
	--------- Rupees---------	
Transactions and balances with connected persons		
Arif Habib Investments Limited - Management Company		
Balance at beginning of the year	185	166
Remuneration for the year	745,523	2,122
	745,708	2,288
Amounts paid during the year	839,276	(2,103)
Balance at the end of the year	93,568	185
Issue of 609 bonus units (2009: 586 units)	33,354	30,357
Units held 12,738 units (2009: 12,129 units)	767,313	697,894
Central Depository Company of Pakistan - Trustee		
Balance at beginning of the year	-	-
Remuneration for the year	73,715	-
	73,715	-
Amounts paid during the year	63,355	-
Balance at the end of the year	10,360	-
Habib Metropolitan Bank Limited - Trustee fee		
Balance at the beginning of the year	93	82
Remuneration for the year *	65,968	1,061
	66,061	1,143
Amounts paid during the year	66,061	(1,050)
Balance at the end of the year	-	93

* This amount represents remuneration of Habib Metropolitan Bank Limited for acting as the trustee of the Fund till November 22, 2009. Habib Metropolitan Bank Limited ceased to be trustee with effect from November 23 , 2009.

	2010	2009
	--------- Rupees---------	
Deposits		
Balance at end of the year	121,805	232,785
Profit Receivable	-	956
Profit on bank deposits	144,352	9,550

	2010	2009
	--------- Rupees---------	
Transactions and balances with connected persons		
- Scheme and Sub-schemes		
Receivable from MSF Perpetual	8,497	-
MSF Perpetual		
Units issued 1,809,670 units (2009: Nil units)	100,196,768	-
Units redemmed 133,447 units (2009: Nil units)	7,800,000	-
Units held 1,672,853 (2009: Nil units)	100,975,640	-
Directors and Executives		
Units issued 500 units (2009: Nil units)	28,315	-
Units redemmed 500 units (2009: Nil units)	28,685	-
Investment held: Nil	-	-

15 PARTICULARS OF INVESTMENT COMMITTEE

Details of members of investment committee of the Sub-scheme are as follow:

		Designation	Qualification	Experience in years
A	Basharat Ullah Khan	Chief Investment Officer	MBA	16
B	Zafar Rehman	Head of Money Market Fund & Fund Manager	B.COM	17
C	Zeeshan	Chief Financial Officer	ACA	6
D	Muhammad Imran Khan	Haed of Research	MBA	7
E	Tariq Hashmi	Head of Marketing	MBA	18

15.1 Other Funds managed by the Fund Manager

Pakistan Income Fund
Pakistan Income Enhancement Fund

16 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

	2010
KASB Securities Limited	83.68%
First Capital Securities Corporation Limited	10.88%
Finex Securities	5.44%

17 DETAILS OF PATTERN OF UNIT HOLDING

	2010		
	Number of Investors	Amount of investment	% of Total
Individuals	-	-	-
Associated companies	-	-	-
Directors	-	-	-
Insurance companies	-	-	-
Bank / DFIs	-	-	-
NBFCs	2	101,742,954	99.93
Retirement funds	1	75,867	0.07
Public Limited companies	-	-	-
Others	-	-	-
Total	3	101,818,821	100

	2009		
	Number of Investors	Amount of investment	% of Total
Associated Companies / Directors	1	697,929	91.46
Banks / DFIs	1	65,195	8.54
Total	2	763,124	100

18 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

During the year; the 63rd, 64th, 65th, 66th, 67th, 68th, 69th, 70th, 71st, 82nd & 73rd Board meetings were held on 06 July 2009, 28 July 2009, 29 july 2009, 22 October 2009, 10 November 2009, 22 February 2010, 22 March 2010, 22 April 2010, 24 April 2010 16 June 2010 & 17 June 2010 respectively. Information in respect of attenedance by Directors in the meeting s is given below:

For the year ended June 30, 2010

Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
Mr. Shafi Malik	11	11	-	-
Mr. Salim Chamdia *	3	1	2	64th and 65th meeting
Mr. Nasim Beg	11	11	-	-
Mr. Sirajuddin Cassim	11	1	10	63rd to 67th and 69th to 73rd meeting
Mr. S. Gulrez Yazdani **	7	7	-	-
Mr. Muhammad Akmal Jameel	11	10	1	64th meeting
Mr. Syed Ajaz Ahmed	11	11	-	-
Mr. Muhammad Kashif Habib	11	8	3	67th, 69th and 70th meeting

* Mr. Salim Chamdia resigned from the office on September 07, 2009.

** Mr. S. Gulrez Yazdani was appointed as director on October 06, 2009 and approved by SECP on November 05,2009.

19 FINANCIAL RISK MANAGEMENT

The Sub-Scheme primarily invests in a portfolio of money market investments such as government securities and Reverse repurchase transactions. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

19.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

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

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

19.1.1 Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Sub-scheme, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

19.1.2 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 market interest rates.

Sensitivity analysis for fixed rate instruments

Investments in Pakistan Investment Bonds are not subject to cashflow interest rate risk.

As at June 30, 2010, the Sub-scheme holds Pakistan Investment Bonds which are classified as fair value through profit and loss and available for sale, exposing the Sub-Scheme to fair value interest rate risk. In case of 100 basis points increase in rates announced by Financial Market Association on June 30, 2010, the net income for the year and net assets would be lower by Rs 1,812,863, (2009: Rs 8,021) . In case of 100 basis points decrease in rates announced by Financial Market Association on June 30, 2010, the net comprehensive income for the year and net assets would be higher by Rs. 1,857,561 (2009: Rs 8,192).

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on the settlement date.

As at June 30, 2010

	Exposed to Yield / Interest risk				
	Upto three months	More than three months and upto one year	More than one year	Not exposed to Yield / Interest rate risk	Total
	(Rupees)				
On-balance sheet financial instruments					
Financial assets					
Balances with banks - in deposit account	121,805	-	-	-	121,805
Investment in government securities	97,671,348	505,859	-	-	98,177,207
Income receivable	-	-	-	3,712,785	3,712,785
Sub Total	97,793,153	505,859	-	3,712,785	102,011,797
Financial liabilities					
Payable to Arif Habib Investments Limited					-
- Management Company	-	-	-	93,568	93,568
Payable to CDC - Trustee	-	-	-	10,360	10,360
Accrued expenses and other liabilities	-	-	-	33,933	33,933
Sub Total	-	-	-	137,861	137,861
On-balance sheet gap	97,793,153	505,859	-	3,574,924	101,873,936

As at June 30, 2009

	Exposed to Yield / Interest risk				
	Upto three months	More than three months and upto one year	More than one year	Not exposed to Yield / Interest rate risk	Total
	(Rupees)				
On-balance sheet financial instruments					
Financial assets					
Balances with banks - in deposit account	232,785	-	-	-	232,785
Investment in government securities	-	-	517,099	-	517,099
Income receivable	-	-	-	15,111	15,111
Sub Total	232,785	-	517,099	15,111	764,995
Financial liabilities					
Payable to Arif Habib Investments Limited					-
- Management Company	-	-	-	185	185
Payable to Habib Metropolitan Bank Limited - Trustee	-	-	-	93	93
Accrued expenses and other liabilities	-	-	-	1,054	1,054
Sub Total	-	-	-	1,332	1,332
On-balance sheet gap	232,785	-	517,099	13,779	763,663

19.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Since the Fund is not allowed to invest in equities, hence it is not exposed to equity price risk.

19.2 Credit Risk

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. The Sub-Scheme's credit risk is attributable to its balances with banks. The credit risk on these funds is low because the counter parties are financial institutions with high credit ratings.

Bank Balances by rating category	**2010**
Habib Metropolitan Bank Limited	AA+
	2009
Habib Metropolitan Bank Limited	AA+

19.2.1 Investment in government securities

Since these securities are issued by the Government of Pakistan they are considered free from credit risk.

19.3 Liquidity risk

Liquidity risk is the risk that the Sub-Scheme may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Sub-scheme is exposed to daily cash redemptions, if any. The Sub-scheme's approach to managing liquidity is to ensure, as far as possible, that the Sub-scheme will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Sub-scheme's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

For the purpose of making redemptions the Fund has the ability to borrow in the short term, however such need did not arise during the year. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

In order to manage the Sub-scheme's overall liquidity, the Sub-scheme may withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Sub-scheme did not withhold any redemptions during the year.

For effective Fund management, the Fund Manager monitor the Sub-Scheme's liquidity position on a daily basis, and on a regular basis the "Investment Committee" also reviews the same.

The table below analyses the Sub-scheme's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	As at June 30, 2010			
LIABILITIES	Upto three months	More than three months and upto one year	More than one year	Total
Remuneration payable to Management Company	93,568	-	-	93,568
Remuneration payable toTrustee	10,360	-	-	10,360
Auditors' remuneration	20,223	-	-	20,223
Printing and publication charges payable	-	6,291	-	6,291
Other accrued expenses	-	7,419	-	7,419
	124,151	13,710	-	137,861

	As at June 30, 2009			
LIABILITIES	Upto three months	More than three months and upto one year	More than one year	Total
Remuneration payable to Management Company	185	-	-	185
Remuneration payable to Trustee	93	-	-	93
Auditors' remuneration	358	-	-	358
Printing and publication charges payable	-	129	-	129
Other accrued expenses	567	-	-	567
	1,203	129	-	1,332

20 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

Effective July 1, 2009, the Sub-Scheme adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)

- Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	---------------------- As at June 30, 2010 ----------------------			
	Level 1	Level 2	Level 3	Total
ASSETS	--------------------- Rupees in '000 --------------------			
Investment in government securities - at fair value through profit or loss	97,671,348	-	-	97,671,348
Investment in government securities - available for sale	505,859	-	-	505,859
	98,177,207	-	-	98,177,207

21 CAPITAL RISK MANAGEMENT

The Sub-Scheme's capital is represented by redeemable units of the Scheme and the Sub-Scheme (having pre-determined maturity as diclosed in note 1) . They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per share on the redemption date. The relevant movements are shown on the statement of movement in unit holders' funds.

The Sub-scheme's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong capital base to meet unexpected losses or opportunities. In accordance with the NBFC Regulations the Sub-scheme is required to distribute at least ninety percent of its income from sources other than unrealised capital gains as reduced by such expenses as are chargeable to the Sub-scheme.

In accordance with the risk management policies stated in note 19, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments.

22 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company have approved bonus units of Rs. 13 per unit (2009: 2.75 per units) for the year ended June 30, 2010, amounting to Rs. 21,971,948 (2009: Rs. 36,470) in total in their meeting held on July 5,2010. The financial statements for the year ended June 30, 2010 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2010.

23 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 03, 2010 by the Board of Directors of the Management Company.

24 CORRESPONDING FIGURES

During the current year, there were no major reclassifications except as required due to the change in accounting policy as more fully explained in note 2.1.3 to these financial statements

25 GENERAL

25.1 Figures have been rounded off to the nearest rupee.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

PATTERN OF UNIT HOLDING (BY SIZE)
AS AT JUNE 30, 2010

No. of Unit Holders	Units Holdings	Total Units Held
1	1 TO 5000	1,190
1	10001 TO 15000	12,738
1	1675001 TO 1680000	1,676,222
3		**1,690,150**

PATTERN OF UNIT HOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2010

Type of Investor	Number of Units Held
Associated companies:	-
-Habib Metropolitain Bank Limited	-
-Arif Habib Investments Limited	-
Directors & CEO	-
Public Limited companies	-
Banks and Financial Institution	-
Individuals	-
Retirement funds	1,190
Othes Corporate Sector Entities	-
Non Profit Organizations	-
Insurance companies	-
Bank / DFIs	-
NBFCs	1,688,960
Public Limited companies	-
Others	-
Total	**1,690,150**

PERFORMANCE TABLE

	2010	2009	2008	2007	2006	2005	2004	2003*
				--------------------------(Rupees in '000)--------------------------				
Net assets	101,819	763	687	673	635	598	444,933	154,763
Net income / (loss) after taxation	23,724	40	37	35	59	(600)	1,242	(604)
				------------------------------(Rupees)---------------------------------				
Net assets value per unit	60.24	57.54	54.41	55.95	56.20	52.96	44.97	50.55
Dividend distribution per unit - Interim	-	-	-	-	-	-	1.2942	-
Dividend distribution per unit - Final	13.0000	2.7500	2.6300	2.6300	4.6847	-	-	0.21
Selling price per unit at end of the year	60.30	57.60	54.42	56.02	56.33	52.91	45.19	50.37
Reperchase price per unit at end of the year	60.24	54.54	54.37	55.96	56.27	52.86	45.10	50.27
Highest offer price per unit	60.31	57.60	55.84	56.02	56.60	69.70	52.02	55.00
Lowest offer price per unit	55.19	51.23	53.42	51.57	51.98	42.76	45.08	48.66
Highest repurchase price per unit	60.25	57.54	55.78	55.96	56.54	69.56	51.92	54.89
Lowest repurchase price per unit	55.13	51.18	53.37	51.52	51.93	42.67	44.99	48.56
				-----------------(Anouncement date of distribution)-----------------				
Dividend distribution per unit - Final	5-Jul-2010	6-Jul-2009	3-Jul-2008	4-Jul-2007	4-Jul-2006	-	24-Sep-2003	4-Jul-2003
				-------------------------------(Percentage)-------------------------------				
Total return of the fund	9.95	13.94	2.04	8.61	6.12	17.77	(8.18)	1.10
Annual dividend distribution	23.58	0.14	4.93	5.11	8.85	-	2.55	0.42
Capital growth	(13.63)	13.8	(2.89)	3.50	(2.73)	17.77	(10.73)	0.68
Average annual return :								
One Year	9.95	13.94	2.04	8.61	6.12	17.77	8.18	3.30
Second Year	10.53	9.83	5.28	7.37	11.81	3.98	-	-
Third Year	7.62	9.57	5.57	10.73	4.69	-	-	-

Fund keeps the average duration of its portfolio 1.91 years.

* First year of operations from 7th January 2003 to 30th June 2003.

Disclaimer :-

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