PAKISTAN CAPITAL MARKET FUND

PCM

ANNUAL REPORT 2010

Arif Habib Investments
Pakistan Mutual Funds
An Investment Plan for Everyone

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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	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
Allied Bank Limited
Bank Al-Habib Limited
Bank Al-Falah Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
Meezan Bank Limted
Standard Chartered Bank (Pakistan) Limited
The Bank of Punjab

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

Legal Adviser
M/s. Bawaney & Partners
404, Beaumont Plaza, 6-CL-10,
Beaumont Road, Civil Lines, Karachi-75530

Registrar
M/s. Gangjees Registrar Services (Pvt.) Limited.
Room No. 516, Clifton Centre,
Kehkashan, Clifton, Karachi.

Rating
PACRA: 2-Star (Normal)
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 the Pakistan Capital Market Fund (PCM), is pleased to present its annual report together with audited Financial Statements for the Financial Year ended June 30, 2010.

Fund Objective

The objective of the Fund is to provide investors a mix of income and capital growth over medium to long term from equity and debt investments.

Fund Profile

Pakistan Capital Market Fund (PCM) is an open end balanced fund that invests in a range of asset classes such as equity and debt in Pakistani market.

The asset allocation to equities and debt is made on the basis of relative attractiveness of each asset class. The investment process is driven by fundamental research. For equities investment, fundamental outlook of sectors/companies and DCF (discounted cash flow) valuations are the primary factors in sectors' allocation and stock selection. For debt investment, interest rate outlook is the key determining factor and allocation to this segment is increased when the yields are comparatively higher compare to the total returns on equities. Investment is made in corporate bonds (investment grade) and government bonds. Cash is kept in deposits with highly rated banks. The board has approved the categorization of the Fund as " Balanced Scheme"

PCM is a long only fund and cannot undertake leveraged investments.

Funds Performance during Financial Year ended June 30, 2010

The net assets of the Fund as at June 30, 2010 stood at Rs 444.55 million as compared to Rs. 548.94 million at June 30, 2009 registering a slight decrease of 19.02%.

The Net Asset Value (NAV) per unit at the end of the year stood at Rs 9.97 per unit compared to opening Ex NAV of Rs 8.28 per unit.

Income Distribution

The Board in the meeting held on July 05, 2010 has declared final distribution of Rs 2.90 per unit (35.02% on the opening Ex - NAV and 29% of face value of Rs 10 for Financial Year 2010) in the form of bonus units amounting to Rs 129.27 million.

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 provisions for WWF should be made in the financial statements. The management has not made any provisions 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 Karachi, Lahore & Islamabad stock exchanges.

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, provisions 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 seven 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 meetings is as under:

Attendance of Board Meetings
From July 01, 2009 to June 30, 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. The trades in the Units of the Fund carried out by the Directors, CE, CFO, Company Secretary of the Management Company and their spouses and minor children, are as under:

S. No.	Trades By	Designation	(No. of Units) Investment	Redemption	Bonus
1	Mr. Nasim Beg	Chief Executive	-	3,700	-

External Auditors

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. The firm was also the external auditor of the fund for the last year ended June 30, 2010.

Future Outlook

Given the severity of economic damage due to these massive floods, the equity market has responded by retreating almost 10% in early August. On the basis of earnings multiple and dividend yields, Pakistan remains one of the cheapest emerging market and which has been the major reason for continuous inflows of foreign investment. However, equity risk premium will continue to be high for the country given the broader weak macroeconomic picture especially after the recent floods. Not surprisingly, overall, domestic demand is expected to shrink in the coming year, which is likely to impact the top line growth and earnings across various sectors.

The market has started the year with low volumes as capital gain tax has been finally introduced on short term gains (less than one year holding period) on stocks and mutual funds. However, efforts are in place for the introduction of leverage product, which should enable the market to attract some domestic inflows, which have largely shrunk during the past year. Overall, the market is expected to witness lower trading volumes during the year.

What the market will be hoping for is effective earlier response of the government to the rehabilitation and rebuilding of country's infrastructure. Delays in international support and weak response of the government to the crises will have far reaching negative consequences on the economy.

Interest rates are 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 is thankful to its valued investors, the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, the Trustees of the Fund - Central Depository Company of Pakistan Limited and the management of the Karachi, Lahore and Islamabad Stock Exchange for their continued cooperation and support. The Directors of the Management Company also acknowledge the efforts put in by the team of the Management Company and for the meticulous management of the Fund.

For and on behalf of the Board

August 03, 2010
Karachi

Nasim Beg
Chief Executive

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

Objective

The objective of the Fund is to provide investors a mix of income and capital growth over medium to long term from equity and debt investments.

Fund Profile

Pakistan Capital Market Fund (PCM) is an open end balanced fund (as per the new proposed fund classifications) that invests in a range of asset classes such as equity and debt in Pakistani market.

The asset allocation to equities and debt is made on the basis of relative attractiveness of each asset class. The investment process is driven by fundamental research. For equities investment, fundamental outlook of sectors/companies and DCF (discounted cash flow) valuations are the primary factors in sectors' allocation and stock selection. For debt investment, interest rate outlook is the key determining factor and allocation to this segment is increased when the yields are comparatively higher compare to the total returns on equities. Investment is made in corporate bonds (investment grade) and government bonds. Cash is kept in deposits with highly rated banks.

PCM is a long only fund. Under the NBFC Rules, it is only allowed to borrow up to 15% of net assets for up to 90 days to meet redemption needs.

Fund Performance

PCM NAV increased 20.41% during the financial year 2010, compared to a rise of 24.35% in the Fund's benchmark (50% KSE-100 Index and 50% 1 year T-Bill). The fund has a diversified allocation across various asset classes, in line with its stated objectives.

The deviation in returns is mostly explained by the lower return on the Fund's equity portfolio relative to KSE-100 Index. It is pertinent to mention that about half of the KSE-100 Index return was from the rise in OGDC price, which PCM had offloaded early in the year, since it had risen above AHI estimates (and broker consensus estimates) of fair value. Of the top holdings, PPL, Packages, Kapco, PSMC underperformed, while Nestle, Engro, POL, FFC, ABL and Hubco outperformed the KSE-100 Index.

NAV Change Analysis and Total Return

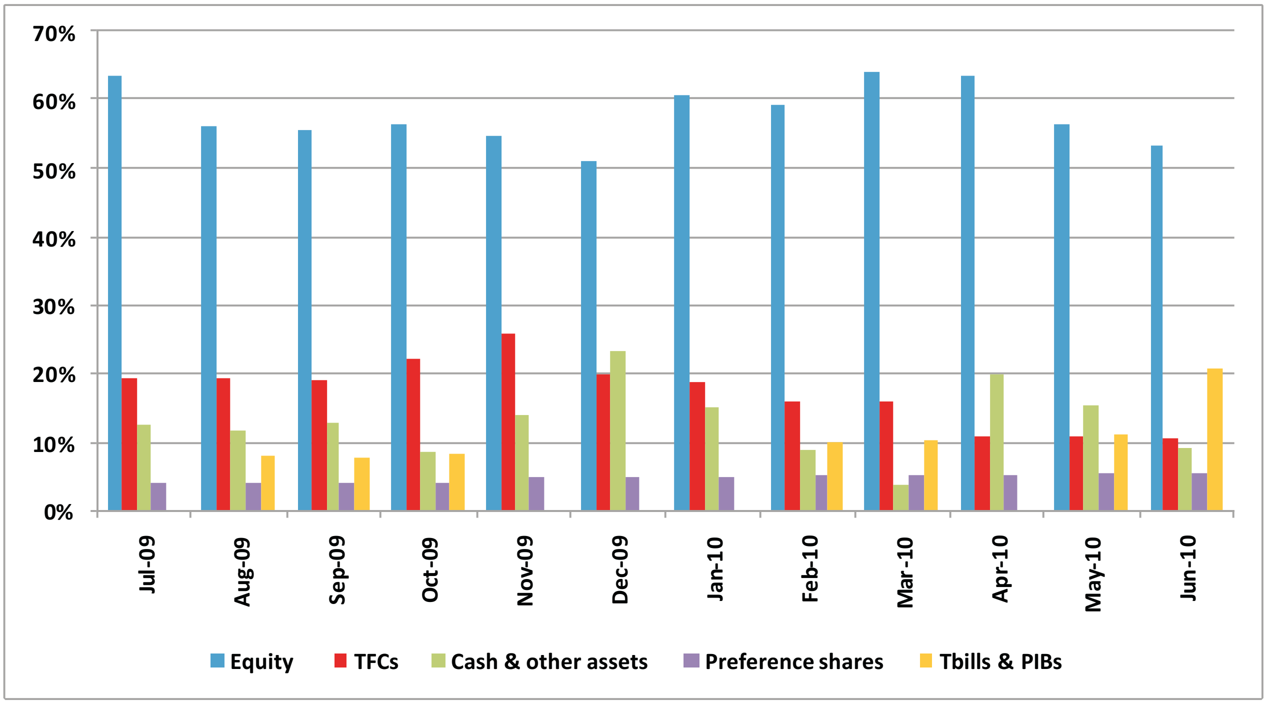
	FY2008-2009	*FY2009-2010*
Beginning net assets (Rs. 000)	834,535	548,937
No. of Units	79,122,352	66,335,795
Beginning NAV (Rs.) (Ex Div)	10.55	8.28
Ending Net Assets (Rs. 000)	548,937	444,548
No. of Units	66,335,795	44,576,814
Ending NAV (Rs.)	8.28	9.97
Bonus Distribution (Rs.)	-	2.90
Ending NAV (Ex-Dividend)	8.28	7.07
Income Distribution	0.00%	35.02%
Capital Growth	-21.52%	-14.61%
Total Return	-21.52%	20.41%

	Total Return	Annualised Return (CAGR)
1 year	20.41%	20.41%
2 year	-5.50%	-2.79%
3 year	-11.53%	-4.00%

Asset Allocation and investment activities during FY10

Equity portfolio

PCM, being a balanced fund has to maintain equity allocation between 30-70%. On average, the Fund remained 63.25% invested in equities, 29% fixed income, while remaining were in cash and near cash assets. As of end June 2010, PCM had 53.41% exposure in equities (62.56% in June 2009) and 37.32% exposure in fixed income instruments (25.54% in June 2010).



During the second quarter, the PCM Fund size reduced by about 22%, primarily because of redemptions. These redemptions were met by liquidating the Fund's relatively liquid holdings. As a result, the Fund's proportion in relatively illiquid stocks increased significantly. During the period in review, major portfolio activity was focused towards realigning the portfolio allocations towards high growth stocks and rebalancing the liquid portfolio proportions.

Major portfolio activity during the year is as follows

- Electricity: overall sector exposure was reduced from 13.43% to 7.36%, with major reduction in Kapco (from 10.32% to 5.08%), while exposure in Hubco was also reduced from 3.12% to 2.28%. This sector contributed about 2% return to the overall Fund return.

- Food Producers: This sector comprises of Nestle. Allocation in this scrip had increased from 5.97% at the beginning to above 8% in April 2010 due to reduction in Fund size and substantial price appreciation. Subsequently, exposure was gradually brought down at higher price levels to 2.25% at the end of the year. Nestle was the biggest return contributor for the Fund, with contribution of about 4% to the overall return.

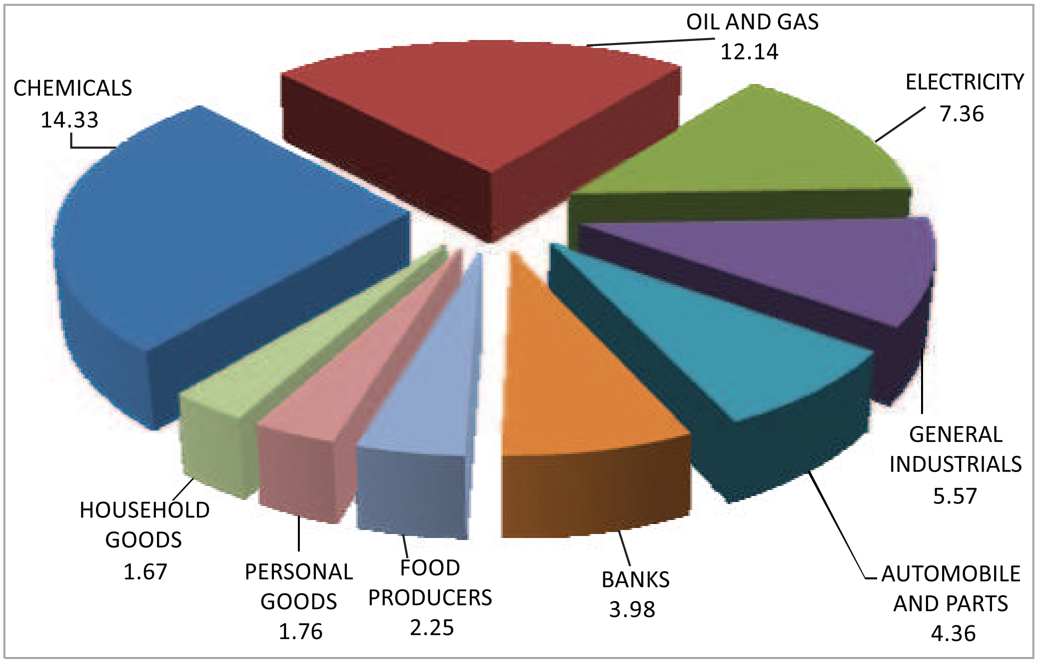
- Oil & Gas: The Fund was on average 9.68% invested in this sector, with beginning and ending exposure at 9.67% and 12.14% respectively. During the year, the Fund offloaded exposure in OGDC as it became overvalued and added POL and PPL in the portfolio on the basis relative valuations. However, during the second half of the fiscal year, OGDC stock price rose 31%, whereas POL and PPL prices reduced 3% and 1% respectively. Exit from OGDC and subsequent outperformance of the stock led to the major underperformance of the Fund.

- Chemicals: exposure in the Chemicals sector was gradually increased over the year, from 7.30% to 14.33%. Engro allocation was increased from 1.17% to 7.66% considering long term growth and business diversification. The scrip has risen 56% during the year. FFBL was also added in the portfolio, while FFC was reduced slightly.

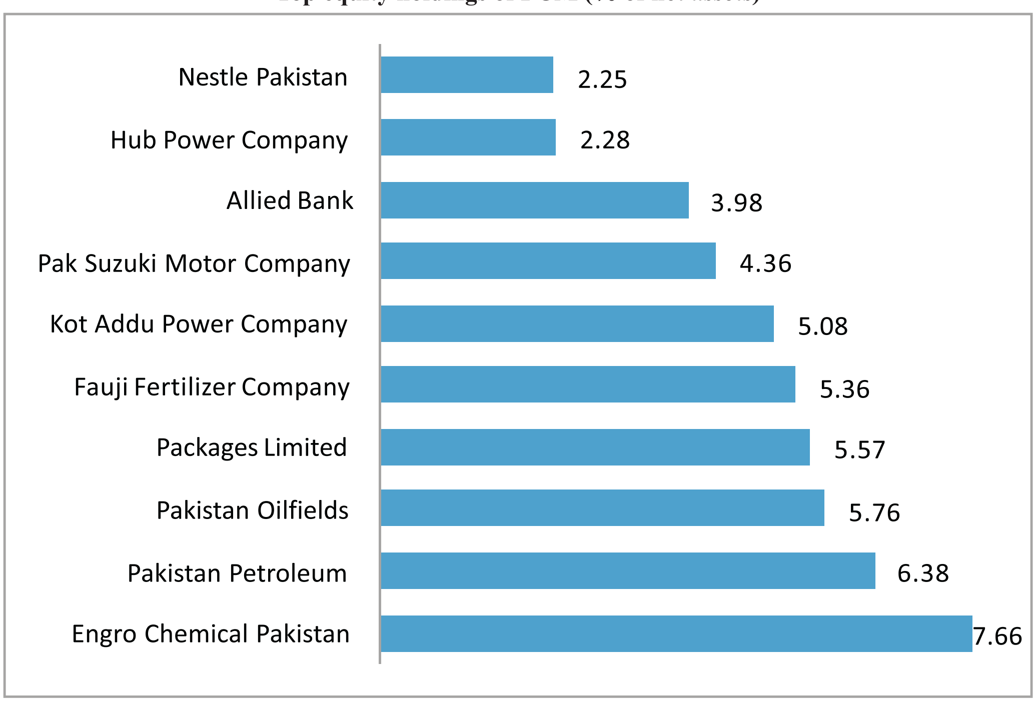
- General Industries: This sector comprises of Packages, which continue to be one of the top holdings in the portfolio. However, the scrip has been a major underperformer during the financial year, with the share price falling 23%. Despite this underperformance, high allocation has been maintained considering long term growth as the company starts reaping benefits of the expansion last year.

- Other major activities included offloading Pak Tobacco, Lucky Cements and adding Pak Suzuki in the portfolio.

Equity allocation (% of net assets)



Top equity holdings of PCM (% of net assets)



Fixed income portfolio

PCM's fixed income exposure consists of corporate bonds and preference shares.

During the year in review, overall TFC portfolio allocation was lowered from 20.99% to 10.69%, considering reduced Fund size and relatively illiquid nature of the TFC portfolio. As of end June 2010, the portfolio had exposure in TFCs of UBL (7.69%), World Call (1.64%) and Maple Leaf (1.91%), earning coupon ranging 1.0-2.75% above KIBOR. PCM also has 5.62% exposure in preference share, which has dividend linked to 6 month KIBOR + 2%. Majority of the remaining net assets is kept in T-Bills of maturity less than 3 months.

Stock market review

The KSE 100 Index gained 35.74% in FY10 and closed at 9721.91. Most of the gains in equities occurred in the 1st quarter (July-September 2009 : 30.53%). The index further increased during the second half, making a high of 10,669.88 on April 19 before closing the year with clipped gains. Economic indicators have started to stabilize during the year after the turbulent 2009 leading to improving investors' confidence.

Foreign portfolio investment shot up to $ 569 mn in FY10. Foreign participation was mainly driven by attractive valuations of the market as compared to the regional players. On the flip side it was largely tilted towards index heavy weights. Out of the major sector listed on KSE, oil & gas, chemical sector (particularly fertilizer stocks) and auto stocks outperformed the market while cement, refineries and insurance sector were the underperformer. OGDC (largest oil and gas exploration company) and MCB (largest private sector bank) contributed 52 % of index gain (OGDC 45%, MCB 7.0%).

During FY10, KSE100 performance was one of the best among regional indices with MSCI frontier market index (which includes Pakistan) in this time period declining by 3.59%. Average daily volume during the year was 161mn shares (Rs6.97bn) versus 105.6mn (Rs4.43bn) a year earlier. During the year eight equity offerings worth Rs4.3bn were made at local bourses as compared to 4 equity offerings a year earlier.

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 1, 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 with one of the worst ever floods, which have resulted in unprecedented human suffering and vast scale damages to housing/properties, roads/electricity infrastructure, crops and livestock in Pakistan's economic and agriculture heartland along the 3200 kilometer long Indus River. The scale of damage appears quite large with initial estimates of around Rs 500 billion. 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 Rs 250 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 head of livestock. In addition, floods have made it difficult to achieve wheat cultivation target for the year 2011, which may lead to lower wheat output during the year. Against the earlier growth target of 3.8% for FY2011, agriculture sector growth is 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 payments 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 being revised 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.

Market Outlook

Given the severity of economic damage due to these massive floods, the equity market has responded by retreating almost 10% in early August. On the basis of earnings multiple and dividend yields, Pakistan remains one of the cheapest emerging market and which has been the major reason for continuous inflows of foreign investment. However, equity risk premium will continue to be high for the country given the broader weak macroeconomic picture especially after the recent floods. Not surprisingly, overall, domestic demand is expected to shrink in the coming year, which is likely to impact the top line growth and earnings across various sectors.

The market has started the year with low volumes as capital gain tax has been finally introduced on short term gains (less than one year holding period) on stocks and mutual funds. However, efforts are in place for the introduction of leverage product, which should enable the market to attract some domestic inflows, which have largely shrunk during the past year. Overall, the market is expected to witness lower trading volumes during the year.

What the market will be hoping for is effective earlier response of the government to the rehabilitation and rebuilding of country's infrastructure. Delays in international support and weak response of the government to the crises will have far reaching negative consequences on the economy.

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 & 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

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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

PAKISTAN CAPITAL MARKET 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 Pakistan Capital Market Fund (the Fund), an open-end fund was established under a trust deed dated October 27, 2003, executed between Arif Habib Investments Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended 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

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 Pakistan Capital Market Fund ("The Fund") to comply with the Code of Corporate Governance contained in Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges 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

August 03, 2010
Karachi:

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
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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 **Pakistan Capital Market Fund** to comply with the Listing Regulations (Chapter XI) of the Karachi, Lahore and Islamabad Stock Exchanges 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 Regulations 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.

AFFerguson & Co

Chartered Accountants

Karachi

Dated: August 3, 2010

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INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **Pakistan Capital Market 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 13 to the financial statements. Had the management recognised this provision the liability towards WWF at June 30, 2010 would have amounted to Rs 2.819 million (2009: Nil). Accordingly, the accumulated loss of the Fund at June 30, 2010 would have been higher and net assets of the Fund would have been lower by the same amount.

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.

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Other matters

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

The financial statements of the Fund for the year ended June 30, 2009 were audited by another firm of Chartered Accountants who had expressed an unqualified opinion thereon vide their report dated July 28, 2009.

A.F. 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 in '000)---------	
ASSETS			
Balances with banks	3	36,930	52,404
Receivable against sale of investments		-	14,467
Investments	4	403,321	483,660
Dividend and profit receivable	5	5,453	7,458
Advances and deposits	6	3,267	3,142
Conversion cost	7	575	2,043
TOTAL ASSETS		449,546	563,174
LIABILITIES			
Payable against purchase of investments		-	8,068
Payable on redemption of units		141	865
Payable to the Management Company	8	727	892
Payable to Central Depository Company of Pakistan Limited - Trustee	9	73	93
Payable to Securities and Exchange Commission of Pakistan	10	463	583
Accrued expenses and other liabilities	11	789	823
Dividend payable		2,805	2,913
TOTAL LIABILITIES		4,998	14,237
NET ASSETS		444,548	548,937
UNIT HOLDER'S FUND (AS PER STATEMENT ATTACHED)		444,548	548,937
Contingencies and Commitments	12		
		(Number of Units)	
Number of units in issue		44,576,814	66,335,795
		(Rupees)	
Net asset value per unit	2.10	9.97	8.28

The annexed notes 1 to 26 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 in '000) -----------	
INCOME			
Capital gain / (loss) on sale of investments - net		90,273	(57,496)
Income from Continuous Funding System		-	964
Income from investment in government securities		2,925	1,907
Income from term finance certificates		13,801	17,411
Income from placements with financial institutions		43	-
Income from preference shares		3,649	-
Dividend income		25,047	21,080
Profit on bank deposits		6,342	12,015
Other income		-	15
		142,080	(4,104)
Unrealised diminution in value of investments at ' fair value through profit or loss' - net	4.7	(1,127)	(51,666)
Provision against non performing exposure	4.3.1	(2,471)	-
		138,482	(55,770)
Impairment loss on investments classified as 'Available for Sale'	4.8	(1,032)	(82,982)
Reversal of income from non - performing Term Finance Certificates and Sukuk Bonds		(382)	-
Total income / (loss)		137,068	(138,752)
OPERATING EXPENSES			
Remuneration of the Management Company	8.1	10,388	15,754
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9.1	1,039	1,199
Annual fee - Securities and Exchange Commission of Pakistan	10	463	583
Securities transaction cost		1,335	984
Bank charges		64	61
Fees and subscription		507	258
Legal and professional charges		60	135
Auditors' remuneration	14	422	532
Amortisation of preliminary expenses and floatation costs		-	1,692
Amortisation of conversion cost		1,468	1,467
Printing charges		255	438
Total operating expenses		16,001	23,103
Net income / (loss) from operating activities		121,067	(161,855)
Net element of income and capital gains included in prices of units issued less those in units redeemed		19,874	8,428
Net income / (loss) for the year before taxation		140,941	(153,427)
Taxation	2.12	-	-
Net income / (loss) for the year after taxation		140,941	(153,427)
OTHER COMPREHENSIVE INCOME			
Net unrealised diminution in value of investments classified as 'available for sale'	4.8	(13,445)	(12,188)
Total comprehensive income / (loss) for the year		127,496	(165,615)
Earnings per unit	2.11		

The annexed notes 1 to 26 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

	2010	2009
	------------ (Rupees in '000) ------------	
Accumulated (losses) / undistributed income brought forward		
- Realised (loss) / gain	(91,950)	53,492
- Unrealised loss	(48,564)	(26,548)
	(140,514)	26,944
Net element of income and capital (losses) / gains included in prices of units sold less those in units redeemed - amount representing unrealised capital (losses) / gains	(14,296)	9,063
Net income / (loss) for the year	140,941	(153,427)
Final distribution for the year ended June 30, 2009: Nil (2008: Re 0.30 per unit)		
- Cash distribution	-	(494)
- Bonus units	-	(22,600)
Accumulated losses carried forward	(13,869)	(140,514)
Accumulated losses carried forward		
- Realised loss	(9,271)	(91,950)
- Unrealised loss	(4,598)	(48,564)
	(13,869)	(140,514)

The annexed notes 1 to 26 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 in '000) ------------	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss) for the year before taxation	140,941	(153,427)
Adjustments for non - cash items:		
Amortisation of preliminary and floatation costs	-	1,692
Amortisation of conversion cost	1,468	1,467
Unrealised diminution in value of investments at fair value through profit or loss - net	1,127	51,666
Net element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed	(19,874)	(8,428)
Dividend income	(25,047)	(21,080)
Impairment loss on equity investments classified as 'available for sale'	1,032	82,982
Provision against non-performing exposure	2,471	-
Reversal of income from non - performing Term Finance Certificates and Sukuk Bonds	382	-
	102,500	(45,128)
(Increase) / decrease in assets		
Receivable against Continuous Funding System	-	169,789
Receivable against sale of investments	14,467	(14,198)
Investments	62,264	(48,497)
Profit receivable	(1,241)	(2,250)
Deposits and other receivables	(125)	1,139
	75,365	105,983
Increase / (decrease) in liabilities		
Payable against purchase of investments	(8,068)	8,068
Payable on redemption of units	(724)	(9,060)
Payable to the Management Company	(165)	(1,251)
Payable to the Central Depository Company of Pakistan Limited - Trustee	(20)	(62)
Payable to Securities and Exchange Commission of Pakistan	(120)	(547)
Accrued expenses and other liabilities	(34)	(1,179)
	(9,131)	(4,031)
Dividend received	27,911	22,901
Net cash generated from operating activities	196,645	79,725
CASH FLOW FROM FINANCING ACTIVITIES		
Net payment against repurchase of units	(212,011)	(111,555)
Advance refunded relating to initial subscription in the Fund	-	(20)
Dividend paid	(108)	(494)
Net cash used in financing activities	(212,119)	(112,069)
Net decrease in cash and cash equivalents during the year	(15,474)	(32,344)
Cash and cash equivalents at the beginning of the year	52,404	84,748
Cash and cash equivalents at the end of the year	36,930	52,404

The annexed notes 1 to 26 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 in '000) ------------	
Net assets at the beginning of the year		548,937	835,029
Issue of 2,239,512 units (2009: 1,586,645 units)		19,781	14,984
Redemption of 23,998,493 units (2009: 14,373,202 units)		(231,792)	(126,539)
		(212,011)	(111,555)
		336,926	723,474
Issue of Nil bonus units for the year ended June 30, 2009 (2008 : 2,142,194 bonus units)		-	22,600
Element of (income) / loss and capital (gains) / losses included in prices of units sold less those in units redeemed			
- amount representing income and capital gains - transferred to the Income Statement		(19,874)	(8,428)
- amount representing unrealised capital (gains) / losses and capital (gains) / losses that form part of the unit holders' fund - transferred to Distribution Statement		14,296	(9,063)
		(5,578)	(17,491)
Net unrealised diminution during the year in the value of investments classified as 'available for sale'	4.8	(13,445)	(12,188)
Final distribution for the year ended June 30, 2009 : Nil (2008 : Rs 0.3 per unit)			
- Cash distribution		-	(494)
- Bonus units		-	(22,600)
Capital gain / (loss) on sale of investments		90,273	(57,496)
Net unrealised diminution in value of investments 'at fair value through profit or loss'		(1,127)	(51,666)
Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units redeemed- amount representing income / (losses) that form part of the unit holders' fund		(14,296)	9,063
Other net income for the year		51,795	(44,265)
		126,645	(167,458)
Net assets as at the end of the year		444,548	548,937

The annexed notes 1 to 26 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

1 LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Capital Market Fund (PCMF) was established under a trust deed executed between Arif Habib Investments Limited (AHIL) as Management Company and Central Depository Company of Pakistan (CDC) as Trustee on October 27, 2003. The Investment Adviser of PCMF has obtained the requisite license from the Securities and Exchange Commission of Pakistan (SECP) to undertake investment advisory services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Formation of PCMF as a closed-end scheme was authorized by SECP on November 5, 2003.

During the year 2005, the Fund was converted from a closed-end scheme to an open-end scheme. The Fund is listed on all three stock exchanges in Pakistan.

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 year, the registered office of the Management Company has been shifted to Arif Habib Centre, 23 M. T. Khan Road, Karachi, Pakistan.

The units of the Fund are offered for public subscription on a continuous basis. Units are transferable and can also be redeemed by surrendering to the Fund.

The Fund primarily invests in a mix of listed equity and debt securities, unlisted government securities and secured debt securities, money market transactions and reverse repurchase transactions.

Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of 'AM2 (positive outlook)' and '2-Star normal' rating to the Management Company and the Fund respectively.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements 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, Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, 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 Changes 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 choose 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 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) with effect from July 1, 2009 and has chosen to present all non-owner changes in equity in one performance statement - Statement of comprehensive income (income statement). Accordingly, items of income and expenses representing other comprehensive income have been presented in the 'Income Statement'. Comparative information has been represented to reflect these changes. As the change in accounting policy only impacts presentation aspects, there is no impact on 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 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 01, 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 (2.2 and 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, 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, other receivables, 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:

a) Basis of valuation of Term Finance Certificates

Investment in term finance certificates are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no. 1 of 2009 dated January 06, 2009. Under the said directive, investment in term finance certificates are valued on the basis of traded, thinly traded and non traded securities. Accordingly, investment in term finance certificates have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular.

b) Basis of valuation of Equity Securities

The investment of the Fund in equity securities is valued on the basis of quoted market prices available at the stock exchange.

c) 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, of Pakistan.

Net gains and losses arising from the difference between the carrying amount and the value determined in accordance with the criteria mentioned above in respect of financial assets at fair value through profit or loss are taken to the income statement.

Net gains and losses arising from the difference in value determined in accordance with the above mentioned criteria compared to the carrying amount in respect of available for sale financial assets are recognised in other comprehensive income until the available for sale financial assets are derecognised. At this time, the cumulative gain or loss previously recognised directly in other comprehensive income is reclassified from other comprehensive income to income statement as a reclassification adjustment.

Loans and receivables are carried at amortised cost.

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. In case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such 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 equity financial assets recognised in the income statement are not reversed through the income statement. For loans and receivables, a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Provision for non-performing debt securities is made in accordance with the criteria for provision of non-performing debt securities specified in Circular No. 1 of 2009 dated January 06, 2009 and Circular No. 13 of 2009 dated May 04, 2009 issued by the SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of the Management Company.

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 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.

2.2.8 Reclassification

The Fund may choose to reclassify a non-derivative trading financial asset in equity securities out of the 'held for trading' category to the 'available for sale' category if the financial asset is no longer held for the purpose of selling it in the near term. Such reclassifications are made only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. Reclassifications are made at fair value as of the reclassification date which then becomes the new cost and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made.

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 Management Company, payable to the Trustee, payable to SECP, payable on redemption of units, unclaimed dividend 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 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.

2.7 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 requests 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.

2.8 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 estimate.

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 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 unit holders.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of part IV of the Second Schedule to the Income Tax Ordinance, 2001.

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 unit holders 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.

Dividend income is recognised when the right to receive the payment is established.

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 balances with banks.

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 the 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.

2.16 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates. The financial statements are presented in Pakistani Rupees, which is the Fund's functional and presentation currency.

	Note	2010	2009
		(Rupees in '000)	
3 BANK BALANCES			
In current accounts		3,176	3,000
In deposit accounts	3.1	33,754	49,404
		36,930	52,404

3.1 These deposits carry mark-up rate ranging from 5% to 11.25% (2009: 5% to 12%)

	Note	2010	2009
		(Rupees in '000)	
4 INVESTMENTS			
At fair value through profit or loss			
Listed equity securities	4.1	191,078	249,758
Listed preference shares	4.2	25,000	25,000
Term finance certificates and sukuk bonds-listed	4.3	47,513	115,224
Government securities	4.4	93,381	-
		356,972	389,982
Available for sale			
Listed equity securities	4.5	46,349	93,678
		403,321	483,660

4.1 Listed equity securities- 'at fair value through profit or loss'

Name of the Investee company	Number of shares					Balance as at June 30, 2010			Market value as percentage of investments	Market value as percentage of net assets	Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 1, 2009	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at June 30, 2010	Cost	Market value	Appreciation / (Diminution)			
						---------(Rupees in '000)---------					
SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs 10 each unless stated otherwise											
OIL AND GAS											
Oil & Gas Development Company Limited	612,700	-	-	612,700	-	-	-	-	-	-	-
Pakistan Oilfields Limited	-	148,569	-	30,000	118,569	25,428	25,599	171	6.35	5.76	0.05
Pakistan Petroleum Limited	-	178,000	-	24,000	154,000	29,586	28,355	(1,231)	7.03	6.38	0.02
						55,014	**53,954**	**(1,060)**			
CHEMICALS											
Engro Corporation Limited	54,400	124,000	17,840	-	196,240	30,447	34,063	3,616	8.45	7.66	0.06
Fauji Fertilizer Bin Qasim Limited	-	223,451	-	-	223,451	6,704	5,819	(885)	1.44	1.31	0.02
Fauji Fertilizer Company Limited	387,124	-	-	155,900	231,224	18,149	23,832	5,683	5.91	5.36	0.03
						55,300	**63,714**	**8,414**			
CONSTRUCTION AND MATERIALS											
Lucky Cement Limited	450,300	100,000	-	550,300	-	-	-	-	-	-	-
						-	-	-			
GENERAL INDUSTRIALS											
Packages Limited	75,124	-	-	500	74,624	8,791	8,843	52	2.19	1.99	0.09
						8,791	**8,843**	**52**			
AUTOMOBILE AND PARTS											
Pak Suzuki Motor Company Limited	-	85,000	-	-	85,000	7,756	6,738	(1,018)	1.67	1.52	0.10
						7,756	**6,738**	**(1,018)**			
FOOD PRODUCERS											
Nestle Pakistan Limited	100	-	-	100	-	-	-	-	-	-	-
						-	-	-			
HOUSEHOLD GOODS											
Pak Elektron Limited	700,175	-	115,110	187,715	627,570	12,593	7,437	(5,156)	1.84	1.67	0.53
						12,593	**7,437**	**(5,156)**			
PERSONAL GOODS											
Nishat Mills limited	194,400	-	-	194,400	-	-	-	-	-	-	-
						-	-	-			
TOBACCO											
Pakistan Tobacco Company Limited	186,700	-	-	186,700	-	-	-	-	-	-	-
						-	-	-			
FIXED LINE TELECOMMUNICATION											
Pakistan Telecommunication Company Limited 'A'	46,500	-	-	46,500	-	-	-	-	-	-	-
						-	-	-			
ELECTRICTY											
The Hub Power Company Limited	631,500	-	-	315,000	316,500	10,106	10,115	9	2.51	2.28	0.03
Kot Addu Power Company Limited	1,339,900	-	-	798,430	541,470	25,991	22,601	(3,390)	5.60	5.08	0.06
						36,097	**32,716**	**(3,381)**			
BANKS											
Allied Bank Limited	266,400	310,384	-	266,400	310,384	18,332	17,676	(656)	4.38	3.98	0.04
						18,332	**17,676**	**(656)**			
NON LIFE INSURANCE											
Adamjee Insurance Company Limited.	-	75,000	-	75,000	-	-	-	-	-	-	-
						-	-	-			
Total as at June 30, 2010						**193,883**	**191,078**	**(2,805)**			
Total as at June 30, 2009						290,934	249,758	(41,176)			

4.2 Listed preference shares- 'at fair value through profit or loss'

Name of the investee company	Number of shares: As at July 1, 2009	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at June 30, 2010	Balance as at June 30, 2010: Cost	Market value	Appreciation / (diminution)	Market Value: As a percentage of total investments	As a percentage of net assets	Paid up value of shares held as a percentage of total paid up capital of the investee company
	Number of certificates					(Rupees in '000)					
PERSONAL GOODS											
Masood Textile Mills Limited	2,500,000	-	-	-	2,500,000	25,000	25,000	-	6.20	5.62	4.17
Total as at June 30, 2010						**25,000**	**25,000**	**-**			
Total as at June 30, 2009						25,000	25,000	-			

4.3 Term Finance Certificates - 'At fair value through profit or loss'

Name of the investee company	Issue date	As at July 1, 2009	Purchases during the year	Sales / matured during the year	As at June 30, 2010	Balance as at June 30, 2010: Cost	Market value	Appreciation / (diminution)	Market Value: As a percentage of total investments	As a percentage of net assets	Percentage in relation to the size of issue
	Number of certificates					(Rupees in '000)					
Al Zamin Leasing Modaraba II	31-May-2005	1,000	-	1,000	-	-	-	-	-	-	-
Worldcall Telecom Limited I	28-Nov-2006	3,000	-	-	3,000	7,569	7,301	(268)	1.81	1.64	4.29
United Bank Limited III	8-Sep-2006	10,020	-	3,000	7,020	34,707	34,186	(521)	8.48	7.69	1.76
Pakistan Mobile Communication Limited I	1-Oct-2007	6,850	-	6,850	-	-	-	-	-	-	-
Pakistan Mobile Communication Limited II	28-Oct-2008	5,000	-	5,000	-	-	-	-	-	-	0.00
Maple Leaf Cement Factory									-	-	-
Limited (Refer Note 4.3.1)	3-Dec-2007	-	2,000	-	2,000	6,997	8,497	1,500	2.11	1.91	0.13
						49,273	**49,984**	**711**			
Provision against non-performing exposure (note 4.3.1)						-	(2,471)	(2,471)			
Total as at June 30, 2010						**49,273**	**47,513**	**(1,760)**			
Total as at June 30, 2009						**122,612**	**115,224**	**(7,388)**			

4.3.1 During the current year, Maple Leaf Cement Factory Limited has defaulted in the payment of the fourth coupon of mark-up due on December 3, 2009. In accordance with the requirements of Circular 1 of 2009, issued by the Securities and Exchange Commission of Pakistan, no further mark-up is being accrued from the date the coupon was due and mark-up already accrued amounting to Rs 382,369 has been reversed. Further, provision amounting to Rs 2.471 million has been made in accordance with the provisioning policy approved by the Board of Directors of the Management Company. The said exposure has been restructured on March 30, 2010

4.4 Government securities - 'at fair value through profit or loss'

Issue Date	Tenor	Face value in denomination of Rs '000				Balance as at June 30, 2010			---------- 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)	Market value as a percentage of total investments	Market value as a percentage of net assets
						---------- (Rupees in '000) ----------				
Pakistan Investment Bond										
30-Aug-08	10 Years	-	50,000	50,000	-	-	-	-	-	-
						-	-	-		
Treasury Bills										
25-Feb-10	3 Months	-	100,000	100,000	-	-	-	-	-	-
20-May-10	3 Months	-	50,000	-	50,000	49,335	49,313	(22)	12.23	11.09
3-Jun-10	3 Months	-	20,000	-	20,000	19,641	19,636	(5)	4.87	4.42
17-Jun-10	3 Months	-	25,000	-	25,000	24,438	24,432	(6)	6.06	5.50
Total as at June 30, 2010						**93,414**	**93,381**	**(33)**		
Total as at June 30, 2009						-	-	-		

4.5 Listed equity securities -'available for sale'

Name of the Investee company	-------------------- Number of shares --------------------					Balance as at June 30, 2010			Market value as percentage of investments	Market value as percentage of net assets	Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 1, 2009	Purchases during the year	Bonus / Right issue during the year	Sales during the year	As at June 30, 2010	Cost less impairment	Market value	Appreciation / (Diminution)			
						-------(Rupees in '000) ------					
Shares of listed companies - Fully paid ordinary shares of Rs 10 each unless stated otherwise											
OIL AND GAS											
Oil & Gas Development Company Limited	62,540	-	-	62,540	-	-	-	-	-	-	-
						-	-	-			
FORESTRY AND PAPER											
Century Paper and Board Mills Limited	707,290	-	-	707,290	-	-	-	-	-	-	-
						-	-	-			
GENERAL INDUSTRIALS											
Packages Limited	134,307	-	-	-	134,307	18,351	15,915	(2,436)	3.95	3.58	0.16
Siemens Pakistan Engineering Company Limited	5,000	-	-	5,000	-	-	-	-	-	-	-
						18,351	**15,915**	**(2,436)**			
AUTOMOBILE AND PARTS											
Pak Suzuki Motors Company Limited	159,305	-	-	-	159,305	8,688	12,628	3,940	3.13	2.84	0.19
						8,688	**12,628**	**3,940**			
FOOD PRODUCERS											
Nestle Pakistan Limited	29,900	-	-	23,965	5,935	2,830	10,001	7,171	2.48	2.25	0.01
						2,830	**10,001**	**7,171**			

Name of the Investee company	Number of shares					Balance as at June 30, 2010			Market value as percentage of investments	Market value as percentage of net assets	Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 1, 2009	Purchases during the year	Bonus / Right issue during the year	Sales during the year	As at June 30, 2010	Cost	Market value	Appreciation / (Diminution)			
						(Rupees in '000)					
PERSONAL GOODS											
Chenab Limited	992,500	-	-	992,500	-	-	-	-	-	-	-
Kohinoor Mills Limited	482,790	-	-	121,306	361,484	1,757	1,142	(615)	0.28	0.26	0.71
Suraj Cotton Mills Limited	367,500	-	-	156,054	211,446	2,685	6,663	3,978	1.65	1.50	1.17
						4,442	**7,805**	**3,363**			
Total as at June 30, 2010						**34,311**	**46,349**	**12,038**			
Total as at June 30, 2009						**67,580**	**93,678**	**26,098**			

4.6 Investments include quoted equity securities with market value of Rs 28,584,340 (2009: Rs 55,381,488) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular No. 11 dated October 23, 2007 issued by the Securities and Exchange Commission of Pakistan.

4.7 Net unrealised diminution in value of investments at 'fair value through profit or loss' - net

	June 30 2010	June 30 2009
	(Rupees in '000)	
Market value of investments	356,972	389,982
Cost of investments	(361,570)	(438,546)
	(4,598)	(48,564)
Net unrealised diminution in value of investments at the beginning of the year	48,564	26,548
Provision against non performing exposure	2,471	-
Realised on disposal during the year	(47,564)	(29,650)
	3,471	(3,102)
	(1,127)	(51,666)

4.8 Net unrealised appreciation / (diminution) in value of investments classified as 'available-for-sale'

	2010	2009
	(Rupees in '000)	
Market value of investments	46,349	93,678
Cost less impairment	(34,311)	(150,562)
	12,038	(56,884)
Impairment loss on financial assets classified as 'available for sale' - transferred to income statement	615	82,982
	12,653	26,098
Less: Net unrealised appreciation in fair value of investments at the beginning of the year	(26,098)	(38,286)
	(13,445)	(12,188)

4.9 As at June 30, 2010, the management has carried out a scrip wise analysis of impairment in respect of equity securities classified as available for sale and has determined that an impairment loss amounting to Rs. 1.032 million (2009: 82,982 million) for the year ended June 30, 2010 be charged to the income statement.

	Note	2010	2009
		----------- (Rupees in '000) -----------	
4.10 Movement in provision against debt securities			
Opening balance		-	-
Charge for the year	4.3.1	2,471	-
Reversals during the year		-	-
Write off during the year		-	-
Closing balance		2,471	-
5 DIVIDEND AND PROFIT RECEIVABLE			
Dividend receivable		-	2,864
Profit accrued on bank deposits		155	307
Profit accrued on Term Finance Certificates		1,649	4,287
Profit accrued preference shares		3,649	-
		5,453	7,458
6 ADVANCES AND DEPOSITS			
Advance Tax		342	342
Deposit with National Clearing Company of Pakistan Limited		2,625	2,500
Deposit with Central Depository Company of Pakistan Limited		300	300
		3,267	3,142
7 CONVERSION COST			
Conversion Cost at the beginning of the year		2,043	3,510
Less: Amortisation during the year		1,468	1,467
		575	2,043
8 PAYABLE TO THE MANAGEMENT COMPANY			
Management fee		727	892

8.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 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. The management company has charged remuneration at two percent per annum.

	Note	2010	2009
9 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		----------- (Rupees in '000) -----------	
Trustee fee	9.1	73	89
CDS charges		-	4
		73	93

9.1 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 June 30, 2010 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs. 1,000 million	Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher
On an amount exceeding Rs 1,000 million	Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million

The remuneration is paid to the trustee monthly in arrears.

10 FEE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the NBFC Regulations, a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the Fund.

11 ACCRUED EXPENSES AND OTHER LIABILITIES

	2010	2009
	(Rupees in '000)	
Brokerage payable	24	146
CVT Payable	-	5
FED Payable	4	-
Auditor's remuneration payable	280	260
Credit rating fee	100	-
Legal and professional charges payable	60	60
Printing and related expenditure payable	300	352
Others	21	-
	789	823

12 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments as at June 30, 2010 and June 30, 2009.

13 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.

14 AUDITOR'S REMUNERATION

	2010	2009
	--------- (Rupees in '000) ---------	
Annual audit fee	225	225
Half yearly review	100	100
Other certifications and services	60	140
Out of pocket expenses	37	67
	422	532

15 DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. Board has approved the category of the fund as 'Balanced Fund'.

In accordance with clause (iv) of the investment criteria laid down for 'Balanced scheme', the Fund is required to invest in debt security having rating not lower than A- (A Minus). Further, clause (v) of the said categorization criteria requires that the ratings of any banks and DFIs with which funds are placed should not be lower than AA- (Double A Minus). However, as at June 30, 2010, the Fund is in non-compliance with the above-mentioned requirement in respect of the following:

Name of non-compliant investment	Name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
Investment in debt securities*	Maple Leaf Cement Factory Limited - Term Finance Certificate	8,497	(2,471)	6,026	1.36%	1.34%
Balances with the banks**	Arif Habib Bank Limited	1,344	-	1,344	0.30%	0.30%

* At the time of purchase, the said Sukkuk was in compliance of the said circular (i.e. investment grade) and was subsequently downgraded to D due to default in payments of due principal and markup.

** The fund Maintained balances with Arif Habib Bank Limited on account of being the settlement bank of the fund. In order to be in compliance with circular 7 of 2009, the fund has changed its settlement bank from Arif Habib Bank Limited to Habib Metropolitan Bank. For some outstanding cheques the fund holds a small amount of funds with the Arif Habib Bank which shall be closed once the outstanding cheques are cleared.

16 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited (AHI) being the Management Company (AMC), Arif Habib Securities Limited being the holding company of AHI, Arif Habib Limited being company under common control and Arif Habib Bank Limited being company under common directorship, Central Depository Company of Pakistan Limited being the trustee, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.

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

Performance fee payable to the Management Company is determined in accordance with the provisions of the Non - Banking Finance Companies and Notified Entities Regulations, 2008.

16.1 Details of the transactions with connected persons are as follows:

	2010	2009
	(Rupees in '000)	
Management Company		
Units redeemed 1,318,754 units (2009: Nil units)	11,961	-
Issue of Nil bonus units (2009:36,463 units)	-	385
Remuneration for the year	10,388	15,754
Sales load for the year	18	15
Associated Companies		
Pakistan Income Fund		
Purchase of Term Finance Certificates		
Pakistan Mobile Communications Limited (October 1, 2007) Nil certificates (2009: 15,050)	-	50,031
United Bank Limited (February 14, 2008) Nil certificates (2009: 10,020)	-	50,407
Pakistan Strategic Allocation Fund		
Sale of Term Finance Certificates		
Pakistan Mobile Communications Limited (October 1, 2007) Nil certificates (2009: 3,200)	-	14,467
Arif Habib Bank Limited		
Profit on bank deposits	5,669	9,810
Other related parties		
Central Depository Company of Pakistan Limited - Trustee		
Remuneration for the year	1,039	1,199
CDS charges for the year	19	36
CDS Induction Charges	68	68
Directors and executives of the management company		
Issue of 67,129 units (2009: 2,681 units)	670	22
Units redeemed 232,674 units (2009: 45,333 units)	2,356	371
Issue of Nil bonus units (2009: 14,069 units)	-	148
Arif Habib Limited - Brokerage house		
Brokerage paid*	263	138

* The amount disclosed represents the amount of brokerage paid to connected persons and not the purchase or sale value of securities transacted through them. The purchase or sale value has not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.

16.2 Amounts outstanding as at the year end

	June 30, 2010	June 30, 2009
	(Rupees in '000)	
Management company		
Units held Nil (2009:1,318,754)	-	10,919
Payable to the Management Company	727	892
Directors and executives of the management company		
Units held 402,183 (2009: 466,183)	4,010	3,860
Arif Habib Bank Limited		
Profit Receivable	131	306
Central Depository Company of Pakistan Limited - Trustee		
Security deposit	300	300
Payable to Central Depository Company of Pakistan Limited - Trustee	73	93

17 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

	2010		
	Designation	Qualification	Experience in years
Mr. Basharat Ullah	Chief Investment Officer	MBA	17
Mr. Zeeshan	Chief Financial Officer	ACA	7
Ms. Nazia Nauman	Head of Equity & Fund Manager	MBA / CFA	10
Mr. Tariq Hashmi	Head of Marketing	MBA	18
Mr. Zafar Rehman	Head of Debt and Money Market Funds	B.COM	18
Mr. Imran Khan	Head of Research	MBA	7

17.1 Ms. Nazia Nauman is the manager of the Fund. Other Funds being managed by the fund manager are as follows:

a) Pakistan Stock Market Fund

b) Pakistan Capital Protected Fund - I

18 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

		2010
1	Arif Habib Limited	23.00%
2	First Capital Equities Limited	13.66%
3	Invest Capital Investment Bank Limited	8.42%
4	JS Global Capital Limited	6.23%
5	H. H. Misbah Securities (Private) Limited	6.21%
6	Pearl Securities Limited	5.17%
7	Alfalah Securities (Private) Limited	4.64%
8	KASB Securities Limited	3.21%
9	Ample Securities (Private) Limited	2.98%
10	BMA Capital Management Limited	2.93%

		2009
1	KASB Securities Limited	21.02%
2	Arif Habib Limited	15.01%
3	H. H. Misbah Securities (Private) Limited	12.07%
4	Atlas Investment Bank Limited	10.87%
5	Pearl Securities Limited	8.23%
6	JS Global Capital Limited	7.82%
7	Invest Capital Investment Bank Limited	6.34%
8	DJM Securities (Private) Limited	4.88%
9	Ample Securities (Private) Limited	3.23%
10	AKD Securities Limited	2.71%

19 PATTERN OF UNITHOLDING

	June 30, 2010		
	Number of unit holders	Investment amount	Percentage of total investment
	(Rupees in '000)		
Individuals	3,804	291,046	65.47
Directors	1	0	0.00
Bank / DFIs	7	80,791	18.17
Insurance companies	4	897	0.20
Non Banking Finance Companies	2	81	0.02
Retirement funds	15	50,922	11.45
Others	45	20,810	4.68
	3,878	444,548	100.00

	June 30, 2009		
	Number of unit holders	Investment amount	Percentage of total investment
	(Rupees in '000)		
Individuals	4,286	311,632	56.77
Directors	2	38	0.01
Bank / DFIs	11	132,744	24.18
Insurance companies	5	2,094	0.38
Non Banking Finance Companies	6	25,778	4.70
Retirement funds	20	54,280	9.89
Others	45	22,371	4.08
	4,375	548,937	100.00

20 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS 2009-10

The 63rd, 64th, 65th, 66th, 67th, 68th, 69th, 70th, 71st, 72nd, 73rd Board meetings were held on July 6, 2009, July 28, 2009, July 29, 2009, October 22, 2009, November 10, 2009, February 22, 2010, March 22, 2010, April 22, 2010, April 24, 2010, June 16, 2010 and June 17, 2010 respectively. Information in respect of attendance by Directors in the meetings is given below:

For the year ended June 30, 2010

	Name of Director	Number of meetings			Meetings not attended
		Held	Attended	Leave granted	
1	Mr. Shafi Malik	11	11	-	-
2	Mr. Salim Chamdia *	3	1	2	64th and 65th meeting
3	Mr. Nasim Beg	11	11	-	-
4	Mr. Sirajuddin Cassim	11	1	10	63rd to 67th and 69th to 73rd meeting
5	Mr. S. Gulrez Yazdani **	7	7	-	-
6	Mr. Muhammad Akmal Jameel	11	10	1	64th meeting
7	Syed Ajaz Ahmed	11	11	-	-
8	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 6, 2009 and approved by SECP on November 5, 2009.

21 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

21.1 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 of Directors of the Management Company 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.

21.1.1 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.

21.1.2 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.

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2010, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 0.116 million (2009: Rs 1.218 million).

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2010, the Fund holds Government securities which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Markets Association of Pakistan on June 30, 2010 with all other variables held constant, the net income for the year and net assets would be lower by Rs 0.131 million (2009: Rs 0.012 million). In case of 100 basis points decrease in rates announced by the Financial Markets Association of Pakistan on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be higher by Rs 0.131 million (2009:Rs 0.015 million).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by the Financial Market Association of Pakistan 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 Fund'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		
On-balance sheet financial instruments	---------(Rupees in '000)---------				
Financial assets					
Balances with banks	33,754	-	-	3,176	36,930
Investments	93,381	-	72,513	237,427	403,321
Dividend and profit receivable	-	-	-	5,453	5,453
Deposits	-	-	-	2,925	2,925
Sub Total	127,135	-	72,513	248,981	448,629
Financial liabilities					
Payable on redemption of units	-	-	-	141	141
Payable to the Management Company	-	-	-	727	727
Payable to Central Depository Company of Pakistan Limited -Trustee	-	-	-	73	73
Accrued expenses and other liabilities	-	-	-	789	789
Dividend payable	-	-	-	2,805	2,805
Sub Total	-	-	-	4,535	4,535
On-balance sheet gap	**127,135**	**-**	**72,513**	**244,446**	**444,094**
Off-balance sheet financial instruments					
Off-balance sheet gap	-	-	-	-	-

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		
On-balance sheet financial instruments	---------(Rupees in '000)---------				
Financial assets					
Balances with banks	49,404	-	-	3,000	52,404
Receivable against sale of investments	-	-	-	14,467	14,467
Investments	-	-	115,224	368,436	483,660
Dividend and profit receivable	-	-	-	7,458	7,458
Deposits	-	-	-	2,800	2,800
Sub Total	49,404	-	115,224	396,161	560,789
Financial liabilities					
Payable on against purchase of investments	-	-	-	8,068	8,068
Payable on redemption of units				865	865
Payable to the Management Company	-	-	-	892	892
Payable to Central Depository Company of Pakistan Limited -Trustee	-	-	-	93	93
Accrued expenses and other liabilities	-	-	-	823	823
Dividend payable	-	-	-	2,913	2,913
Sub Total	-	-	-	13,654	10,741
On-balance sheet gap	**49,404**	**-**	**115,224**	**382,507**	**550,048**
Off-balance sheet financial instruments					
Off-balance sheet gap	-	-	-	-	-

21.1.3 Price Risk

The Fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities as available for sale and at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks in accordance with the risk management guidelines adopted by the Management Company. The Fund's constitutive document / NBFC Regulations also limit individual equity securities to no more than 10% of net assets, or issued capital of the investee company and sector exposure limit to 25% of net assets.

In case of 5% increase in KSE 100 index on June 30, 2010, net income and net assets of the Fund would increase by Rs 10.964 million (2009: Rs 13.107 million) as a result of gains/losses on equity securities at fair value through profit or loss.

In case of 5% decrease in KSE 100 index on June 30, 2010, net income and net assets of the Fund would decrease by Rs 10.918 million (2009: Rs 13.107 million) as a result of gains/losses on equity securities at fair value through profit or loss.

The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index, having regard to the historical volatility of the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 100 index.

21.2 Credit risk

Credit risk represents the risk of loss if the counter parties fail to perform as contracted. Credit risk arises from deposits with banks and financial institutions, and credit exposure arising as a result of dividends receivable on equity securities. For banks and financial institutions, credit ratings and other factors are evaluated . Credit risk on dividend receivable is minimal due to statutory protection. All transactions in listed securities are settled / paid for upon delivery using the National Clearing Company of Pakistan Limited. The risk of default is considered minimal due to inherent systematic measures taken therein. In addition, the internal risk management policies and investment guidelines (approved by the Board of Directors) require the Fund to invest in debt securities that have been rated as investment grade by a well known rating agency.

The analysis below summarises the credit rating quality of the Fund's financial assets as at June 30, 2010:

Bank Balances by rating category	**2010**
Bank Al Habib Limited	AA+
Standard Chartered Bank (Pakistan) Limited	AAA
MCB Bank Limited	AA+
Allied Bank Limited	AA
Bank Alfalah Limited	AA
KASB Bank Limited	A
Bank of Punjab	AA-
Royal Bank of Scotland	AA
Arif Habib Bank Limited	A
Habib Metropolitan Bank Limited	AA+
Deutsche Bank AG	AA+
Askari Bank Limited	AA
Meezan Bank Limited	AA-
United Bank Limited	AA+
Habib Bank Limited	AA+
	2009
Bank Al Habib Limited	AA+
Standard Chartered Bank (Pakistan) Limited	AAA
MCB Bank Limited	AA+
Allied Bank Limited	AA
Bank Alfalah Limited	AA
KASB Bank Limited	A
Bank of Punjab	AA-
Royal Bank of Scotland	AA
Arif Habib Bank Limited	A
Habib Metropolitan Bank Limited	AA+
Deutsche Bank AG	AA+
Askari Bank Limited	AA
Meezan Bank Limited	A+
United Bank Limited	AA+
Habib Bank Limited	AA+

The analysis below summarises the credit quality of the Fund's investment in Term Finance Certificates as at June 30, 2010 and June 30, 2009:

Term Finance Certificates by rating category	June 30, 2010	June 30, 2009
AA	71.95%	37.70%
AA-	-	51.82%
A	15.37%	10.48%
D	12.68%	-

21.2.1 The maximum exposure to credit risk before any credit enhancement as at June 30, 2010 is the carrying amount of the financial assets.

21.2.2 A reconciliation of provision made during the year in respect of outstanding debt securities is given in note 4.10 to these financial statements.

21.2.3 An analysis of the financial assets that are individually impaired as per the requirements of Circular No. 1 dated January 6, 2009 and Circular No. 13 dated May 4, 2009 issued by the Securities and Exchange Commission of Pakistan are as under:

	2010		2009	
	Payment over due (in days)	Amount	Payment over due (in days)	Amount
		(Rupees in 000)		(Rupees in 000)
Term Finance Certificates	1 to 89	-	1 to 89	-
Term Finance Certificates	90 to 179	-	90 to 179	-
Term Finance Certificates	180 to 270	382	180 to 270	-

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund’s total credit exposure. The Fund’s portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

21.3 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, at the option of unit holders. 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 also 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 withold any redemptions during the year.

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			
	Total	Upto three months	More than three months and upto one year	More than one year
Liabilities	---------------------Rupees '000---------------------			
Payable to the Management Company	727	727	-	-
	73	73		
Dividend payable	2,805	2,805	-	-
Accrued expenses and other liabilities	789	789		
Payable on redemption of units	141	141	-	-
	4,535	4,535	-	-

	As at June 30, 2009			
	Total	Upto three months	More than three months and upto one year	More than one year
Liabilities	---------------------Rupees '000---------------------			
Payable to the Management Company	892	892	-	-
Payable to Central Depository Company of Pakistan	93	93	-	-
Payable against purchase of investments	8,068	8,068	-	-
Dividend payable	2,913	2,913	-	-
Accrued expenses and other liabilities	823	823	-	-
Payable on redemption of units	865	865	-	-
	13,654	13,654	-	-

21.4 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 in '000--------------			
Assets				
Balances with banks	36,930	-	-	36,930
Investments	-	356,972	46,349	403,321
Dividend and profit receivable	5,453	-	-	5,453
Deposits	2,925	-	-	2,925
	45,308	356,972	46,349	448,629

	----------As at June 30, 2010----------		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	---------------Rupees in '000---------------		
Liabilities			
Payable to the Management Company	-	727	727
Payable to Central Depository Company of Pakistan	-	73	73
Dividend payable	-	2,805	2,805
Accrued expenses and other liabilities	-	789	789
Payable on redemption of units	-	141	141
	-		
	-	4,535	4,535

	As at June 30, 2009			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
	Rupees in '000			
Assets				
Balances with banks	52,404	-	-	52,404
Receivable against sale of investments	14,467	-	-	14,467
Investments	-	389,982	93,678	483,660
Dividend and profit receivable	7,458	-	-	7,458
Deposits	2,800	-	-	2,800
	77,129	389,982	93,678	560,789

	As at June 30, 2009		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities	Rupees in '000		
Remuneration payable to Management Company	-	892	892
Remuneration payable to Trustee		93	93
Payable against purchase of investments	-	8,068	8,068
Dividend payable	-	2,913	2,913
Accrued expenses and other liabilities	-	823	823
Payable on redemption of units	-	865	865
	-	13,654	13,654

21.5 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 Fund 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 securities - at fair value through profit or loss	355,808	41,487	6,026	403,321

22 CAPITAL RISK MANAGEMENT

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 capital gain as reduced by such expenses as are chargeable to the Fund.

The Fund manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Fund may adjust the amount of dividend paid to shareholders or issue new shares.

In accordance with the risk management policies stated in note 21, 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.

The Fund is not subject to externally imposed capital requirements.

23 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in its meeting held on July 5, 2010 has proposed a final bonus distribution in respect of the year ended June 30, 2010 of Rs 2.9 per unit (2009: Rs. Nil per unit) amounting to Rs. 129.27 million (2009: Rs Nil). 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.

24 CORRESPONDING FIGURES

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

25 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.

26 GENERAL

26.1 Figures have been rounded off to the nearest thousand rupees.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

DETAIL OF PATTERN OF HOLDING (UNITS)
AS AT JUNE 30, 2010

Type of Investor	No. of Investor	Number of Units Held	Percentage
Directors and CEO			
- Nasim Beg	1	43	0.00
Public Limited Companies	4	17,963	0.04
Banks and Financial Institution	9	8,150,186	18.28
Insurance Companies	4	89,909	0.20
Indiviiduals	3,804	29,184,539	65.47
Retirement Funds	15	5,106,206	11.45
Modarabas & Mutual Funds	-	-	-
Othes Corporate Sector Entities	26	542,832	1.22
Non Profit Organizations	15	1,485,137	3.33
Total	**3,878**	**44,576,814**	**100.00**

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

No. of Unit Holders	Units From	Units To	Total Units Held	Percentage	No. of Unit Holders	Units From	Units To	Total Units Held	Percentage
2,870	1	5000	4,602,158	10.3241	2	155001	160000	318,099	0.7136
432	5001	10000	3,310,623	7.4268	4	160001	165000	650,293	1.4588
90	10001	15000	1,086,724	2.4379	2	175001	180000	354,825	0.7960
205	15001	20000	3,397,594	7.6219	3	185001	190000	559,387	1.2549
51	20001	25000	1,152,701	2.5859	1	195001	200000	199,441	0.4474
17	25001	30000	464,418	1.0418	3	200001	205000	604,763	1.3567
36	30001	35000	1,172,879	2.6311	1	210001	215000	212,094	0.4758
18	35001	40000	665,292	1.4925	1	235001	240000	239,830	0.5380
26	40001	45000	1,080,388	2.4237	1	255001	260000	256,960	0.5764
14	45001	50000	680,641	1.5269	1	270001	275000	272,459	0.6112
7	50001	55000	363,731	0.8160	1	280001	285000	283,540	0.6361
10	55001	60000	572,208	1.2836	1	285001	290000	285,511	0.6405
6	60001	65000	368,187	0.8260	1	320001	325000	324,138	0.7271
2	65001	70000	130,520	0.2928	1	325001	330000	326,299	0.7320
7	70001	75000	514,702	1.1546	1	380001	385000	382,585	0.8583
3	75001	80000	229,718	0.5153	1	385001	390000	388,990	0.8726
12	80001	85000	985,302	2.2103	1	395001	400000	398,907	0.8949
3	85001	90000	258,939	0.5809	1	415001	420000	416,031	0.9333
2	90001	95000	188,054	0.4219	1	440001	445000	440,424	0.9880
5	95001	100000	492,539	1.1049	1	465001	470000	465,966	1.0453
3	100001	105000	303,736	0.6814	1	490001	495000	490,264	1.0998
2	105001	110000	218,307	0.4897	1	505001	510000	507,395	1.1382
5	110001	115000	567,115	1.2722	1	510001	515000	511,205	1.1468
2	120001	125000	243,135	0.5454	1	570001	575000	574,661	1.2891
2	125001	130000	255,373	0.5729	1	600001	605000	602,837	1.3524
5	130001	135000	658,008	1.4761	1	610001	615000	612,453	1.3739
1	135001	140000	137,861	0.3093	1	825001	830000	825,237	1.8513
2	140001	145000	282,009	0.6326	1	1545001	1550000	1,548,108	3.4729
2	145001	150000	291,622	0.6542	1	6845001	6850000	6,849,626	15.3659
				Total	**3,878**			**44,576,814**	**100.0000**

PERFORMANCE TABLE

	2010	2009	2008	2007	2006	2005	2004
	--(Rupees in '000)--						
Net assets	**444,548**	548,937	835,029	1,084,197	1,435,651	1,698,167	1,618,903
Net income for the year	**140,941**	(153,427)	86,943	108,929	392,053	525,758	126,354
	--(Rupees)--						
Net assets value per unit	**9.97**	8.28	10.85	14.59	14.53	13.08	9.97
	---(Percentage)---						
Dividend distribution - Interim (%)	**-**	-	**-**	-	-	12.50	-
Dividend distribution - Final (%)	**29.00**	-	3.00	30.00	30.00	17.50	8.25
	---------------------------- (Rupees) ----------------------------						
Closing selling price per unit	**10.17**	8.45	11.30	14.96	14.90		
Highest selling price per unit	**10.80**	10.81	13.35	14.98	16.92		
Lowest selling price per unit	**8.69**	7.14	10.78	11.31	12.44		
Closing repurchase price per unit	**9.97**	8.28	10.85	14.59	14.53		
Highest repurchase price per unit	**10.58**	10.38	13.02	14.61	16.50		
Lowest repurchase price per unit	**8.52**	7.00	10.35	11.03	12.13		
Dividend distribution - Final	**2.90**	-	0.30	3.00	3.00		
	-------------(Announcement Date of Distribution)-------------						
Final	**July 5, 2010**	-	July 3, 2008	July 4, 2007	July 4, 2006		
	---------------------------(Percentage)----------------------------						
Total return	**20.41**	(21.52)	(6.38)	26.54	28.24		
Income distribution	**35.02**	-	2.59	26.02	26.48		
Capital growth	**(14.61)**	(21.52)	(8.97)	0.52	1.77		
Average annualized return of the Fund (CAGR)							
One year	**20.41**	(21.52)	(6.38)	26.54	28.24		
Two year	**(2.79)**	(14.27)	8.84	26.84	34.64		
Three year	**(4.00)**	(2.40)	14.63	31.88	-		

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

Asset Manager Rating
'AM2' Positive Outlook (by PACRA)

Arif Habib Investments
Pakistan Mutual Funds
An Investment Plan for Everyone

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