PAKISTAN INCOME ENHANCEMENT FUND

PIEF

ANNUAL REPORT 2010

Arif Habib Investments

Pakistan Mutual Funds

An Investment Plan for Everyone

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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. Muhammad Akmal Jameel	Director
Mr. Sirajuddin Cassim	Director
Mr. Muhammad Kashif Habib	Director
Mr. S. Gulrez Yazdani	Director
Syed Ajaz Ahmed	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

Summit Bank Limited (formerly: Arif Habib Bank Limited)	Allied Bank Limited
Bank Al Habib Limited	Bank Alfalah Limited
Habib Metropolitan Bank Limited	Standard Chartered Bank (Pakistan) Limited

Auditors
KPMG Taseer Hadi & Co.
Chartered Accountants
1st Floor, Sheikh Sultan Trust Building No.2
Beaumont Road, Karachi-75530

Legal Adviser
Bawaney & Partners
404, 4th Floor, Beaumont Plaza,
6-cl-10, Beaumont Road,
Civil Lines, Karachi-75530

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

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

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

The Board of Directors of Arif Habib Investments Limited, the Management Company of Pakistan Income Enhancement Fund (PIEF), submits herewith its report together with the audited Financial Statements for the year ended 30 June 2010.

Fund Objective

The objective of the fund is to deliver return from aggressive investment strategy in debt and fixed income market.

Fund Profile

PIEF is an Open-end Fund, which is allowed to invest in debt and fixed income instruments and is also allowed to take limited exposure in structured products (subject to SECP approval) and spread transactions in Ready/Future markets. Board has approved the catagorisation of the Fund as "Aggressive Fixed Income Scheme".

Funds Performance during the year ended 30 June 2010

The Net Assets of the Fund as at 30 June 2010 stood at Rs 2,223.59 million compared to Rs 799.34 million at 30 June 2009 registering an increase of 178.18%.

The Net Asset Value (NAV) per unit at the end of the year was at Rs 51.38 compared to the opening ex-NAV of Rs 50.54 per unit. During the year total interim distribution amounted to Rs 5.95 per unit. NAV registered an increase of Rs 6.79 per unit for the year.

Income Distribution

The Board in the meeting held on 05 July 2010 has declared final distribution in the form of bonus units to Type A units and equivalent cash dividend of Re 0.51 per unit for Type B units amounting to Rs 22.07 million for the year ended 30 June 2010. This distribution is in addition to following interim distributions amounting to Rs 147.795 million during the year.

Date	Rate
26 July 2009	Re 0.65 per unit
26 August 2009	Re 0.53 per unit
26 September 2009	Re 0.82 per unit
26 October 2009	Re 0.43 per unit
26 November 2009	Rs 0.52 per unit
26 December 2009	Rs 0.47 per unit
26 January 2010	Rs 0.51 per unit
26 February 2010	Rs 0.51 per unit
26 March 2010	Rs 0.51 per unit
26 April 2010	Rs 0.49 per unit
26 May 2010	Rs 0.51 per unit

Hence total distribution for the Financial Year 2010 was Rs 6.46 per unit (12.78% on the opening Ex - NAV and 12.92% of face value of Rs 50 for Financial Year 2010).

Explanation With Regards To Auditor's Qualified Opinion

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

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

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

Corporate Governance

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

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

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

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

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

Accounting estimates are based on reasonable prudent judgment.

d) Relevant International Accounting Standards, as applicable in Pakistan, 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 two 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 are enclosed.

l) Statement showing attendance of Board meetings is as under:

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

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

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

m) The trades in units of the Fund purchased and redeemed by the Directors, CEO, CFO, Company Secretary of the Management Company and their spouses and minor children are as under

S. No.	Name	Designation	*Investment*	*Redemption*	*Bonus*
			(Number of Units)		
1.	Syed Ajaz Ahmed	Director	-	-	477.9994

External Auditors

As recommended by the Audit Committee, the Board of Directors of the Management Company has reappointed M/s. KPMG Taseer Hadi & Co., Chartered Accountants as the Fund's auditors for the year ending 30 June 2011.

Future Outlook

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.

Acknowledgement

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 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

Karachi
03 August 2010

Nasim Beg
Chief Executive

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

Fund Objective

The objective of the fund is to deliver return from aggressive investment strategy in debt and fixed income market.

Fund Profile

Pakistan Income Enhancement Fund (An Aggressive Fixed Income Fund) (referred to as PIEF) is an open end fund which primarily invests in debt and fixed income instruments and may also take limited exposure in structured products. The maximum duration of the fund shall not exceed 3 years.
PIEF is a long only fund and cannot allowed to undertake leveraged investments. 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

PIEF delivered a total annualized return of 14.26% during the year ended 30 June 2010, compared to its benchmark (6-month KIBOR-75% & 3-month PKRV-25%) return of 11.95%. Industry average return of Income fund category was 6.56% during 2010 and has rendered itself as the highest return generating Fixed Income Fund in the industry during FY2009-10. The weighted average credit quality of the Fund was AA+ at the end of the FY2010 while the average duration of its portfolio was 165 days.

PIEF took advantage of the opportunities in the market and actively traded TFCs and T-bills which were the primary drivers for its performance. During the first half, investments in TFCs was increased to 42.3% from 34.25% at the end of 30 June 2009, as the instruments were available at very deep discounts. The Fund started booking capital gains during the second half as the corporate bond demand resulted in higher prices and brought down its exposure to 29% at the end of the FY2009-10. Similarly, PIEF also took advantage of high rates offered by banks and DFIs at quarter ends and deployed funds in COIs/TDRs for short tenors. However, due to downward pricing of TFCs in its portfolio and higher allocation towards T-bills, PIEF delivered an annualized return of 13.11% during the second half FY2009-10.

The funds under management witnessed a robust growth of 178% to Rs. 2.22 billion compared to Rs. 0.80 billion on 30 June, 2009. The Fund declared its 12 monthly dividend of Re. 0.51 taking the tally to Rs. 6.46 for the full year 2009-10 with the cumulative dividend yield of 12.78%.

Jul,09	Aug,09	Sep,09	Oct,09	Nov,09	Dec,09	Jan,10	Feb,10	Mar,10	Apr,10	May,10	Jun,10
20.10%	12.77%	13.70%	17.07%	15.34%	5.34%	14.62%	9.76%	14.92%	9.86%	15.34%	11.71%

Asset Allocation
During the year ended 30 June 2010, PIEF was 57% invested in short maturity T-bills, followed by 29% TFCs, while allocation in PIBs was 7.14% of net assets. Cash in bank was 6.11%. Other assets were 1% of net assets.

Given the liquidity constraints in the TFC market and credit quality concerns of some TFCs, the fund reduced its exposure to TFCs gradually during the second half of the year from 34% of fund size to 29%. Profits were booked in those TFCs where relative credit spreads reduced after price appreciation.

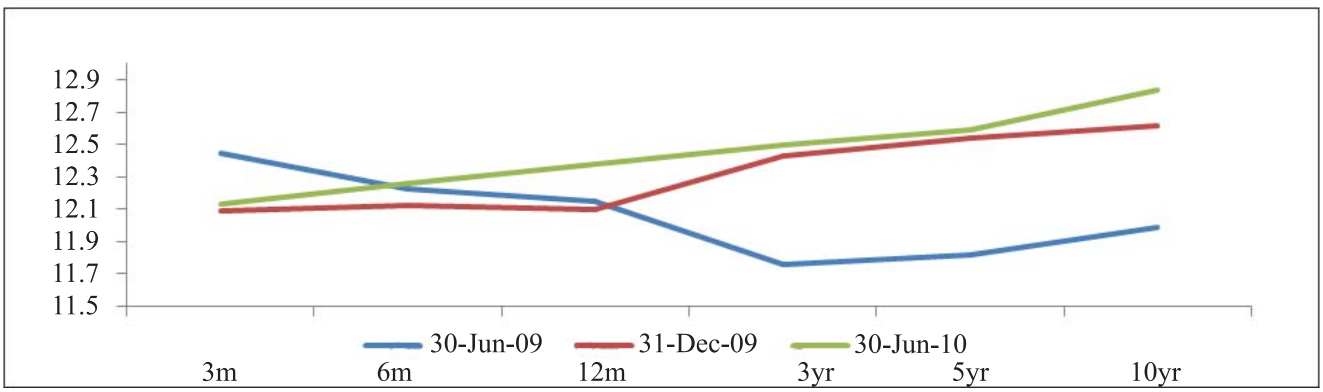
The Fund decreased exposure in Telecommunication sector debt instruments to 3.53% from 9.43%. However, exposure in fertilizer sector TFCs increased by 2.14% to 8.26% from 6.12%, banking sector increased to 6.78% from 4.98% and investment banks/companies sector debt instruments increased to 4.13% from 2.21% (as of 30 June, 2009). PIEF has TFC allocation of 4.56% in Real Estate while, 1.67% of NAV was allocated in corporate debt instruments of electronics along with sugar and allied industries during the year.

Market Review

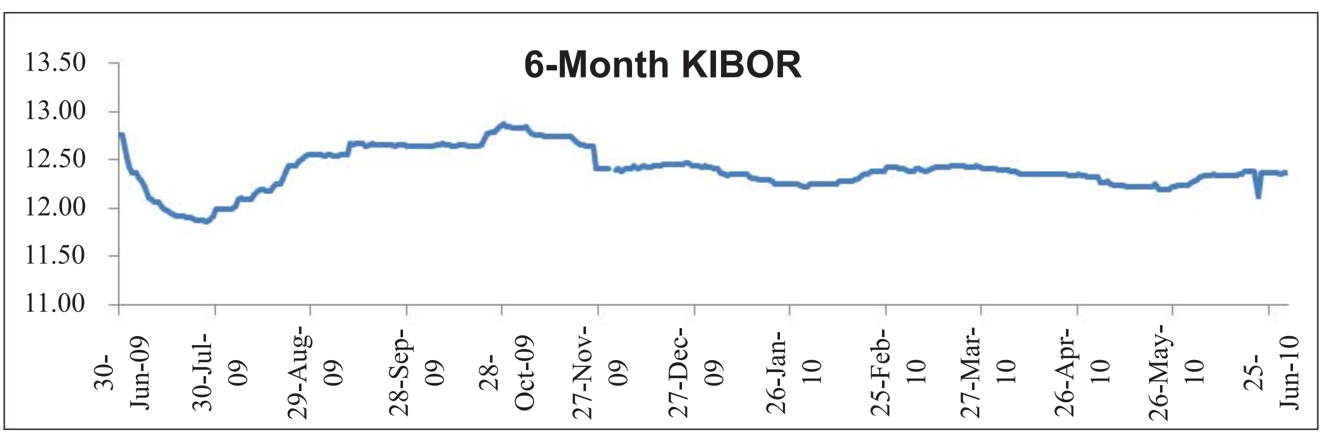
Interest rates have edged upward during FY2010 and most prominently later in the year, when expectations of further easing in monetary policy diminished amid concerns over inflation and higher government borrowings. Earlier during the year, declining CPI enabled the Central Bank to cut the discount rate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

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

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



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



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

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

Financial Year 2010 in Review

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

The Real Sector

According to initial estimates, GDP grew by 4.1% during FY10 as against a revised figure of 1.2% a year earlier. The positive outturn for economic growth came in spite of massive costs such as internal security situation and the severe energy shortfall. Large Scale Manufacturing (LSM) posted a growth of 4.71% during Jul-May FY10 against a -8.2% in the same period in FY09. Some major contributors towards this positive LSM growth were pharmaceuticals, automobiles and the fertilizer sector. However, the growth overall is not broad based and is largely biased towards consumer durable goods and major index constituents namely Textile and food processing continue to display negative growth. Similarly, services sector displayed a decent rebound of 4.6% as against previous year's growth of 1.6%. However, agriculture sector growth slows down to 2% as water shortages led to reduced wheat output in the preceding year.

The Monetary Sector

Money supply (M2) has grown as compared to the previous year, but the increase continues to be explained by government borrowing from the banking system which has further increased. Improvement in external balance of payment position has increased the net foreign assets of the banking system during July-Jun FY10 which rose by Rs.89.07 billion after witnessing a decline of Rs. 188.4 billion during the same period of FY09. Net domestic assets on the other hand witnessed a rise of Rs.530.7 billion, however lower as compared to the previous years Rs.590.2 billion. 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.1136.6 billion in July-May 2009-10 against a collection of Rs.900.9 billion in the same period last year. Hopefully, the implementation of Value Added Tax (VAT) from 01 October 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$12.4 billion to over US$ 16.0 billion from July 2009 -June 2010. Improvements in the SBP's reserves during the period were mainly due to inflows from International financial Institutions (IFIs) and lower current account deficit. Due to improvements in the overall external account and stable reserve position, Pakistan's currency against the US dollar depreciated by 5% during FY10 compared to a decline of 18.8% in the corresponding period last year.

The year ahead

The fiscal year 2011 has started on a disastrous note for the country as historic high floods due to severe monsoon have resulted in unprecedented loss of human life and vast scale damages to housing/properties, roads/electricity infrastructure, crops and livestock in Pakistan's economic and agriculture heartland along the 3200 kilometre long Indus River. The scale of damages looks quite large with initial estimates of around US$5-6 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 US$3 billion on account of severe damages to standing crops of cotton, rice and sugar cane; loss of 500,000 metric tonnes of wheat stock; and loss of two hundred thousand livestock. In addition, floods have made it difficult to achieve wheat cultivation target for the year 2011, which will lead to lower wheat output during the year. Against the earlier growth target of 3.8% for FY2011, agriculture sector growth is most likely to be in red for the year. Similarly, manufacturing and services growth, which were earlier projected at 4.9% and 4.7%, are expected to be scaled down due to weak demand conditions in the economy along with the supply side problem due to the heavy destruction of infrastructure (roads, bridges) in the flood affected areas.

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

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

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

Future Outlook

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

Other disclosures under NBFC regulations 2008

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

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

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

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

CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED

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CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shahra-e-Faisal
Karachi - 74400. Pakistan.
Tel: (92-21) 111-111-500
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TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN INCOME ENHANCEMENT 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 Income Enhancement Fund (the Fund), an open-end Fund was established under a trust deed dated July 14, 2008, 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 30 JUNE 2010

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

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

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

2. The directors of 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 06 October 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 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

Nasim Beg
Chief Executive

Karachi: 03 August 2010

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

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Review report to the Unit holders of Pakistan Income Enhancement Fund ("the Fund") on Statement of compliance with best practices of 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" in respect of **Pakistan Income Enhancement Fund** to comply with the Chapter XI of the Islamabad Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company. 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 Management Company'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 financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

Further, Listing Regulations of the Islamabad Stock Exchange require the Management Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price or not.

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

KPMG Taseer Hadi & Co.

Date: 03 August 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

KPMG Taseer Hadi & Co.
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Independent Auditors' Report to the Unit Holders

We have audited the accompanying financial statements of **Pakistan Income Enhancement Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2010, and the income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year ended 30 June 2010 and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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 which includes mutual funds. However, the Fund considers that it is not liable to contribute to the workers' welfare fund for reasons as explained in note 14 to the financial statement.

KPMG Taseer Hadi & Co.

However, we have obtained an independent legal opinion on this matter which states that the Fund is required to contribute to the workers' welfare fund. Accordingly, we consider that provision for workers' welfare fund liability amounting to Rs. 1.695 million for the period from 28 August 2008 to 30 June 2009 and Rs. 4.547 million for the year ended 30 June 2010 should have been made by the Fund. Had the said accrual been made, net assets of the Fund and income of the Fund as of and for the year ended 30 June 2010 would have been lower by Rs. 6.242 million, while the Fund's liability as of 30 June 2010 would have been higher by the same amount. Similarly net assets per unit of the Fund as of 30 June 2010 would have been lower by Rs.0.14 per unit.

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 30 June 2010 and of its financial performance, cash flows and transactions for the year ended 30 June 2010 in accordance with approved accounting standards as applicable in Pakistan.

Other matters

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

KPMG Taseer Hadi & Co.

Date: 03 August 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Taufiq

STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 JUNE 2010

	Note	30 June 2010	30 June 2009
		(Rupees in '000)	
Assets			
Bank balances	*4*	**107,319**	122,495
Receivable against sale of units		**27,631**	26,277
Investments	*5*	**2,068,284**	499,186
Placement and certificate of investment		**-**	135,000
Income and profit receivable	*6*	**26,776**	15,809
Deposits, prepayments and other receivables	*7*	**1,305**	3,807
Preliminary expenses and floatation costs	*8*	**632**	832
Total assets		**2,231,947**	803,406
Liabilities			
Payable to Management Company	*9*	**3,607**	2,086
Payable to Central Depository Company of Pakistan Limited - Trustee	*10*	**257**	128
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	*11*	**1,165**	405
Payable on redemption of units		**2,243**	675
Accrued expenses and other liabilities	*12*	**1,083**	775
Total liabilities		**8,355**	4,069
Contingencies and commitments	*13*		
Net assets		**2,223,592**	799,337
Unit holders' funds (as per statement attached)		**2,223,592**	799,337
		(Number of units)	
Number of units in issue	*15*	**43,274,506**	15,702,070
		(Rupees)	
Net asset value per unit		**51.38**	50.91

The annexed notes 1 to 28 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

	Note	30 June 2010	Period from 28 August 2008 to 30 June 2009
		(Rupees in '000)	
Income			
Income from term finance certificates and sukuk bond		**87,965**	22,856
Income from government securities		**91,306**	7,030
Income from reverse repurchase transactions		**508**	385
Income from placements, certificates of investment and term deposit receipts		**19,805**	7,241
Profit on deposit accounts with banks		**7,760**	38,159
Capital gain on sale of investments - net		**15,101**	6,585
Unrealised appreciation / (diminution) in the value of investments	*5.3*	**13,175**	(372)
Total income before provisioning for non-performing exposure		**235,620**	81,884
Provision against non-performing exposure	*5.4*	**(2,278)**	-
Total income		**233,342**	81,884
Expenses			
Remuneration of the Management Company	*9.1*	**23,291**	7,436
Remuneration of Central Depository Company of Pakistan Limited - Trustee	*10.1*	**2,538**	1,015
Annual fee - Securities and Exchange Commission of Pakistan	*11*	**1,165**	405
Securities transaction cost		**1,033**	443
Settlement and bank charges		**1,158**	217
Fees and subscription		**209**	85
Legal and professional charges		**132**	29
Auditors' remuneration	*16*	**393**	471
Printing and related costs		**153**	63
Amortisation of preliminary expenses and floatation costs	*8*	**200**	168
Total expenses		**30,272**	10,332
Net income from operating activities		**203,070**	71,552
Net element of income and capital gains included in prices of units issued less those in units redeemed		**24,294**	13,180
Net income carried forward for distribution		**227,364**	84,732
Earnings per unit	*17*	-	-

The annexed notes 1 to 28 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive	**Director**

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	30 June 2010	Period from 28 August 2008 to 30 June 2009
	(Rupees in '000)	
Net income for the year	**227,364**	84,732
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**227,364**	84,732

The annexed notes 1 to 28 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive | **Director**

DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

	Note	30 June 2010	Period from 28 August 2008 to 30 June 2009
		(Rupees in '000)	
Undistributed income brought forward			
- Unrealised gains / (losses) on remeasurement of investments		**(372)**	-
- Realised gains		**14,605**	-
Undistributed income brought forward		**14,233**	-
Final distribution for the year ended 30 June 2009: Rs. 0.37 per unit (date of distribution: 06 July 2009)			
- Issue of 100,312 bonus units		**(5,070)**	-
- Cash distribution		**(740)**	-
		(5,810)	-
Comprehensive income for the year		**227,364**	84,732
Interim distribution for the year ended 30 June 2010:			
- Issue of 2,918,025 bonus units for the period (Issue of 1,148,944 bonus units for the period from 28 August 2008 to 30 June 2009)	*18*	**(147,795)**	(57,759)
- Cash distribution for the year		**(28,123)**	(12,740)
Undistributed comprehensive income carried forward		**59,869**	14,233
Undistributed income carried forward:			
- Unrealised gains / (losses) on remeasurement of investments		**15,697**	(372)
- Realised gains		**44,172**	14,605
		59,869	14,233

The annexed notes 1 to 28 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 30 JUNE 2010

	30 June 2010	Period from 28 August 2008 to 30 June 2009
	(Rupees in '000)	
Net assets at the beginning of the year	**799,337**	-
Issue of 124,842,627 units (30 June 2009: 42,960,108 units)	**6,341,229**	2,175,143
Redemption of 100,288,528 units (30 June 2009: 28,406,982 units)	**(5,091,181)**	(1,434,618)
	1,250,048	740,525
Final distribution for the period ended 30 June 2009: Re. 0.37 per unit (date of distribution: 06 July 2009)		
- Issue of 100,312 bonus units	**(5,070)**	-
- Cash distribution	**(740)**	-
	(5,810)	-
Issue of 100,312 bonus units for the period 30 June 2009	**5,070**	-
Element of income and capital gains included in prices of units issued less those in units redeemed		
- transferred to income statement	**(24,294)**	(13,180)
Capital gain on sale of investments	**15,101**	6,585
Net unrealised appreciation / (diminution) in the value of investments	**13,175**	(372)
Other net income for the period	**199,088**	78,519
	227,364	84,732
Interim distribution for the year ended 30 June 2010: Rs 5.95 per unit (2009: Rs 6.37 per unit)		
- Issue of 2,918,025 bonus units	**(147,795)**	(57,759)
- Cash distribution	**(28,123)**	(12,740)
	(175,918)	(70,499)
Net income for the year / period less distributions	**51,446**	14,233
Issue of 2,918,025 units for the year ended 30 June 2010 (2009: Issue of 1,148,944 bonus units for the period)	**147,795**	57,759
Net assets at the end of the year / period	**2,223,592**	799,337
	(Rupees)	
Net asset value per unit at the end of the year / period	**51.38**	50.91

The annexed notes 1 to 28 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 30 JUNE 2010

	30 June 2010	Period from 28 August 2008 to 30 June 2009
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**227,364**	84,732
Adjustments for		
Unrealised appreciation / (diminution) in the value of investments	**(13,175)**	372
Amortisation of preliminary expenses and floatation costs	**200**	168
Net element of income and capital gains included in prices of units issued less those in units redeemed	**(24,294)**	(13,180)
Provision against non-performing exposure	**2,278**	-
	192,373	72,092
(Increase) / decrease in assets		
Receivable against sale of units	**(1,354)**	(26,277)
Investments	**(1,558,201)**	(499,558)
Placement and certificate of investment	**135,000**	(135,000)
Income and profit receivable	**(10,967)**	(15,809)
Deposits, prepayments and other receivables	**2,502**	(3,807)
Preliminary expenses and floatation costs	**-**	(1,000)
	(1,433,020)	(681,451)
(Decrease) / increase in liabilities		
Payable to Management Company	**1,521**	2,086
Payable to Central Depository Company of Pakistan Limited - Trustee	**129**	128
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	**760**	405
Payable on redemption of units	**1,568**	675
Accrued expenses and other liabilities	**308**	775
	4,286	4,069
Net cash used in operating activities	**(1,236,361)**	(605,290)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts against issuance of units	**1,250,048**	740,525
Dividend paid	**(28,863)**	(12,740)
Net cash from financing activities	**1,221,185**	727,785
Net increase in cash and cash equivalents during the year / period	**(15,176)**	122,495
Cash and cash equivalents at the beginning of the year	**122,495**	-
Cash and cash equivalents at the end of the year / period	**107,319**	122,495

The annexed notes 1 to 28 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive | **Director**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Income Enhancement Fund (the Fund) was established through a Trust Deed under the Trust Act 1882, executed between Arif Habib Investments Limited as the Management Company and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on 14 July 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 26 June 2008 in accordance with Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

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 the SECP. During the current year, the registered office of the company has been shifted to Arif Habib Centre, 23, M.T. Khan Road, Karachi, Pakistan.

The Fund is an open-ended mutual fund listed on the Islamabad Stock Exchange of Pakistan. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. Unit holders are divided into plan "A" and plan "B". The unitholders under plan "A" are entitled for bonus units as well as cash dividend, whereas unit holders under plan "B" are entitled for cash dividend. The Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of 'AM2' (Positive Outlook) to the Management Company and 'A+' to the Fund.

The policy of the Fund is to invest in the investment grade term finance certificates and sukuk bonds, certificate of investments, term deposit receipts, spread transactions and with SECP approval structured deposits, notes , interest rate / cross currency swap and arbitrage products, options, derivatives, index linked structures etc. both within and outside Pakistan, international mutual funds, credit linked notes, and any other investment permissible under NBFC Regulations.

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

These financial statements comprise of statement of assets and liabilities as at 30 June 2010 and the related income statement, statement of comprehensive income distribution statement, statement of movement in unit holders' funds, cash flow statement and notes thereto, for the year ended 30 June 2010.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the 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, provisions of and directives issued under the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules 2003), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations 2008) and the requirements of the Trust Deed. Wherever, the requirements of the Trust Deed, the NBFC Rules 2003, the NBFC Regulations 2008 and the said directives differ with the requirements of these Standards, the requirements of the Trust Deed, the NBFC Rules 2003, the NBFC Regulations 2008 and the said directives shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that investments held at 'fair value through profit or loss' category are measured at fair value.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund. Figures have been rounded off to the nearest thousand Rupees.

2.4 Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised in the financial statements are given in note 3.1, note 21 and note 22 to these financial statements.

2.5 Initial application of a standard or an interpretation

Change in accounting policy

The Company has applied "Revised IAS 1 Presentation of Financial Statements (2007)" which became effective from period beginning after 1 July 2009. This standard required the Company to present in the statement of changes in equity, all owner changes in equity, whereas all non-owner changes in equity are presented in statement of comprehensive income. In addition, the standard introduces the statement of comprehensive income which presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company has elected to present two statements. This presentation has been applied in these financial statements as of and for the year ended 30 June 2010.

Comparative information has been re-presented so that it is in conformity with the revised / new standards as the changes in accounting policies only affects presentation of financial statements.

2.6 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning on or after 1 July 2010. However, these are not relevant to the Fund except in few cases these may require additional disclosures:

Improvements to IFRSs 2009	**Effective date**
- Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations	1 January 2010
- Amendments to IFRS 8 - Operating Segments	1 January 2010
- Amendments to IAS 1 - Presentation of Financial Statements	1 January 2010
- Amendments to IAS 7 - Statement of Cash Flows	1 January 2010
- Amendments to IAS 17 - Leases	1 January 2010
- Amendments to IAS 36 - Impairment of Assets	1 January 2010
- Amendments to IFRS 1 - First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters	1 January 2010
- Amendments to IFRS 2 - Share-based Payment – Group Cash-settled Share-based Payment Transactions	1 January 2010
- Amendment to IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues	1 January 2010
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
- Amendment to IFRS 1 - First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010

Improvements to IFRSs 2010

- Amendments to IFRS 3 - Business Combinations	1 July 2010
- Amendments to IAS 27 - Consolidated and Separate Financial Statements	1 July 2010
- IAS 24 - Related Party Disclosures (revised 2009) These amendments will result in increase in disclosures in the Fund's financial statements.	1 January 2011
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction	1 January 2011
- Amendments to IFRS 1 - First-time Adoption of IFRSs	1 January 2011
- Amendments to IFRS 7 - Financial Instruments: Disclosures	1 January 2011
- Amendments to IAS 1 - Presentation of Financial Statements	1 January 2011
- Amendments to IAS 34 - Interim Financial Reporting	1 January 2011
- Amendments to IFRIC 13 - Customer Loyalty Programmes	1 January 2011

2.7 Other accounting development

Disclosures pertaining to fair values

The Fund has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Revised disclosures in respect of fair values of financial instruments are included in note 21.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are set out below:

3.1 Financial instruments

The Fund classifies its financial instruments and derivatives in the following categories:

a) **Financial instruments at fair value through profit or loss**

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

b) **Available-for-sale**

Available for sale financial assets are non derivatives that are either designated in this category or not classified in any other categories.

c) **Loans and receivable**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as fair value through profit or loss or available-for-sale. This includes receivable against sale of investments, receivable against placements, certificates of investment and other receivables and are carried at amortised cost using the effective yield method, less impairment losses, if any.

d) **Financial liabilities**

Financial liabilities, other than those at fair value through profit or loss, are measured at amortized cost using the effective yield method.

Recognition

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

A regular way purchase of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial instrument not at 'fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Transaction costs on financial instrument at fair value through profit or loss are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available-for-sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit holders' fund until derecognised or impaired, when the accumulated fair value adjustments recognised in Unit holders' fund are included in the Income Statement. Unquoted securities are carried at investment price or break-up value whichever is lower, except for government and debt securities which are stated at fair value.

Fair value measurement principles

Basis of valuation of Term Finance Certificates / Sukuk Bonds

TFCs and Sukuks Bonds (SBs) are revalued at rates notified by MUFAP or using limited discretion as allowed under Circular 01 of 2009 dated 6 January 2009. Thinly traded and non traded SB's are revalued by adjusting the yields within the limits as allowed by Circular 01 of 2009. The yields are so adjusted when management assesses that the sector specific risk, issuer specific risk or liquidity risk is not correctly reflected in the revalued amounts of investments.

Basis of valuation of Government Securities

A government security not listed on a stock exchange and traded in the interbank market is valued at the average rate quoted on a widely used electronic quotation system and such average rate is based on the remaining tenor of the security.

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. Amounts paid under these agreements are recognised as 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 agreement.

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

Impairment

Financial assets not carried at fair value through profit or loss are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists an impairment loss is recognised in income statement.

However, the decrease in impairment loss on debt securities classified as available for sale is recognised in income statement.

Impairment of debt securities held by the Fund is determined on the basis of repayment passed due from its contractual maturity. Such provisions are made as per criteria specified in Circular 01 of 2009 and Circular 03 of 2010. Accelerated provisions are made if circumstances warrant, as per the provisioning policy approved by the Board of the Management Company as per Circular 13 of 2009.

Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments; Recognition and Measurement.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

3.2 Unit holders' fund

Unit holders' fund representing the units issued by the Fund, is carried at the redemption amount representing the investors' right to a residual interest in the Fund assets.

3.3 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors 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 and any provision for duties and charges, and any provision of transaction cost, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption applications 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, and charges on redemption, if applicable.

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

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

The Fund records the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period in the Income Statement while the portion of the element of income / (loss) and capital gains / (losses) that relates to unrealised gains / (losses) held by the Fund in unit holders' fund is recorded 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 unit holders.

3.5 Provisions

A provision is recognised in the balance sheet when the Fund has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represents expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from 28 August 2008 as per Trust Deed of the Fund.

3.7 Net asset value per unit

The net asset value 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 issue.

3.8 Taxation

Current

The income of the Fund is exempt from income tax under clause 99 of part I of the second schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders.

Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits. However, the Fund intends to avail the tax exemption by distributing at least 90 percent of its accounting income as reduced by capital gains, whether realised or unrealised, to its unit holders every year. Accordingly, no tax liability and deferred tax has been recorded.

3.9 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Assets and Liabilities 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 to realise the assets and settle the liabilities simultaneously.

3.10 Revenue recognition

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

- Unrealised gains / (losses) arising on revaluation of investments classified as investments - 'at fair value through profit or loss' are included in the Income Statement in the period in which they arise.

- Unrealised gains / (losses) arising on the revaluation of derivatives to fair value are taken to the Income Statement in the period in which they arise.

- Income on term finance certificates, Sukuk bonds, certificates of investment, term deposits receipts, bank deposits and placements is recognized on a time proportionate basis using effective yield method.

- Element of income / (loss) and capital gains / (losses) included in price of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.11 Expenses

All expenses including management fee and trustee fee are recognised in the Income Statement on an accrual basis.

3.12 Cash and cash equivalents

Cash and cash equivalent comprises deposit accounts maintained with banks and term deposits receipts. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

3.13 Appropriation to reserves

All appropriations to reserves including cash dividend and bonus units are recognised in the period in which it is transferred.

3.14 Impairment

The carrying amount of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceed its recoverable amount. Impairment losses are recognized in the Income Statement.

3.15 Distribution of profit

As per clause 12 of Trust Deed and clause 6 of Part VI of Offering Document, the Management Company on behalf of the Fund on monthly basis (except June) distributes bonus / dividend. The Board of Directors on 22nd September 2008 have passed a resolution providing standing authorization to the Chief Executive Officer to approve and declare interim dividends out of profit earned by the Fund upto the 25th of each month. The SECP vide letter no. NBFC - II.DD / AHIL / Misc-734 / 2009 has approved the above arrangement.

4. BANK BALANCES

	Note	**30 June 2010**	30 June 2009
		(Rupees in '000)	
- In current accounts		**19**	74
- In deposit accounts	*4.1*	**107,300**	47,421
- In term deposit receipts		**-**	75,000
		107,319	122,495

4.1 These balances in saving deposit accounts maintained with various banks carrying profit rates ranging from of 5% to 11.25% per annum (2009: 5% to 13.25% per annum).

5. INVESTMENTS - AT FAIR VALUE THROUGH PROFIT OR LOSS - UPON INITIAL RECOGNITION

	Note	30 June 2010	30 June 2009
		(Rupees in '000)	
Term Finance Certificates - listed	5.1	276,275	80,687
Term Finance Certificates - unlisted	5.1	275,409	140,425
Sukuk Bonds - listed	5.1	37,487	-
Sukuk Bonds - unlisted	5.1	56,526	49,685
Government Securities	5.2	1,424,865	228,389
		2,070,562	499,186

5.1 Term Finance Certificates and Sukuk Bonds

Name of the investee company		Maturity	Profit / mark-up percentage	As at 1 July 2009	Purchases during the year	Sales during the year	Matured during the year	As at 30 June 2010	Cost as at 30 June 2010	Market Value as at 30 June 2010	Appreciation / (diminution) in the value of investments	Market value as a percentage of net assets	Market value as a percentage of total investment	Outstanding principal value as a percentage of issued debt capital
				(Number of certificates / bonds)					(Rupees in '000)					
Certificates of Rs 5,000 each unless stated otherwise														
Term Finance Certificates														
Listed														
Allied Bank Limited		-	-	400	-	400	-	-	-	-	-	-	-	-
Askari Bank Limited - I	a	February 2013	6M KIBOR+ 1.5%	-	425	-	-	425	2,094	2,056	(38)	0.09	0.10	0.14
Askari Bank Limited - II	b	October 2013	6M KIBOR+ 1.5%	-	6,000	-	-	6,000	29,235	28,644	(591)	1.29	1.38	2.00
Bank Alfalah Limited - IV	c	December 2017	6M KIBOR+ 2.5%	-	16,000	5,000	-	11,000	54,995	52,763	(2,232)	2.37	2.55	1.10
Bank AL Habib Limited - II	d	February 2015	6M KIBOR+ 1.95%	-	10,000	5,000	-	5,000	24,689	24,118	(571)	1.08	1.17	1.67
Orix Leasing Pakistan Limited		-	-	10,000	-	10,000	-	-	-	-	-	-	-	-
WorldCall Telecom	e	October 2013	6M KIBOR+ 1.60%	-	3,000	-	-	3,000	12,900	14,043	1,143	0.63	0.68	0.38
PACE Pakistan Limited	f	February 2013	6M KIBOR+ 1.5%	-	15,000	-	-	15,000	63,299	72,112	8,813	3.24	3.49	5.00
PakArab Fertilizers Company Limited	g	February 2013	6M KIBOR+ 1.5%	-	16,130	10,600	-	5,530	26,593	27,013	420	1.21	1.31	0.55
JDW Sugar Mills	h	June 2014	3M KIBOR+ 1.25%	-	3,000	-	-	3,000	12,407	12,269	(138)	0.55	0.59	3.00
United Bank Limited - III		-	-	3,000	-	3,000	-	-	-	-	-	-	-	-
United Bank Limited - IV		-	-	5,000	25,000	30,000	-	-	-	-	-	-	-	-
Askari Bank Limited - III	i	November 2019	6M KIBOR+ 2.5%	-	9,000	-	-	9,000	44,969	43,257	(1,712)	1.95	2.09	1.50
									271,181	276,275	5,094			
Unlisted														
Engro Chemicals Pakistan Limited - PRP I	j	March 2018	6M KIBOR+ 1.7%	11,000	28,170	4,070	-	35,100	149,299	156,613	7,314	7.04	7.57	4.39
KASB Securities Limited	k	June 2012	6M KIBOR+ 1.9%	4,000	6,000	2,000	-	8,000	33,959	38,474	4,515	1.73	1.86	8.00
Pakistan Mobile Communication Limited	l	October 2010	6M KIBOR+ 1.3%	17,100	28,591	30,041	-	15,650	36,424	38,526	2,102	1.73	1.86	2.24
Pakistan Mobile Communication Limited	m	October 2013	6M KIBOR+ 1.3%	-	6,000	-	-	6,000	25,950	25,950	-	1.17	1.25	0.53
JS Company Limited	n	July 2013	6M KIBOR+ 1.7%	-	3,250	-	-	3,250	14,448	15,846	1,398	0.71	0.77	1.30
									260,080	275,409	15,329			
Sukuk Bonds														
Listed														
House Building Finance Company	o	May 2014	6M KIBOR+ 1%	-	10,000	-	-	10,000	34,600	37,487	2,887	1.69	1.81	2.50
Unlisted														
Eden Housing Limited	p	March 2013	6M KIBOR+ 2.5%	10,415	-	-	-	10,415	37,103	31,570	(5,534)	1.42	1.53	7.13
Pak Elektron Limited	q	September 2012	3M KIBOR+ 1.75%	-	13,300	5,300	-	8,000	22,870	24,957	2,087	1.12	1.21	3.33
									59,973	56,526	(3,447)			
Provision against non-performing exposure (Eden Housing Limited)								5.4	-	(2,278)	(2,278)			
									625,834	643,419	17,585			

(a) These term finance certificates carry floating mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 1.50% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are unsecured.

(b) These term finance certificates carry floating mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 1.50% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are unsecured.

(c) These term finance certificates carry floating mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 2.50% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are unsecured.

(d) These term finance certificates carry floating mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 1.95% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are unsecured.

(e) These term finance certificates carry floating mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 1.60 % per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are secured.

(f) These term finance certificates carry floating mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 1.50% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are secured.

(g) These term finance certificates carry floating mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 1.50% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are secured.

(h) These privately term finance certificates carry mark-up rate equal to 3 months Karachi Interbank Offered Rate "ask side" plus 1.25% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are secured.

(i) These term finance certificates carry mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 2.50% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are unsecured.

(j) These term finance certificates carry mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 1.70% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are secured.

(k) These term finance certificates carry mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 1.90% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are secured.

(l) These term finance certificates carry mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 1.30% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are unsecured.

(m) These term finance certificates carry mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 1.30% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are unsecured.

(n) These term finance certificates carry mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 1.70% per annum, receivable semi-annually in arrears with no floor or cap. These term finance certificates are secured.

(o) These Sukuk bonds carry mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 1.00% per annum, receivable semi annually in arrears with no floor or cap. These term finance certificates are secured.

(p) These Sukuk bonds carry mark-up rate equal to 6 months Karachi Interbank Offered Rate "ask side" plus 2.50% per annum, receivable semi annually in arrears with no floor or cap. These term inance certificates are secured.

(q) These Sukuk bonds carry mark-up rate equal to 3 months Karachi Interbank Offered Rate "ask side" plus 1.75% per annum, receivable semi annually in arrears with no floor or cap. These term finance certificates are secured.

5.2 Government securities

Issue date	Tenure	As at 01 July 2009	Purchases during the year	Sales / Matured during the year	As at 30 June 2010	Cost as at 30 June 2010	Market Value as at 30 June 2010	Appreciation / (diminution) in the value of investments	Market value as a percentage of net assets	Market value as a percentage of total investment
		(Face value in denomination of Rs. 1,000)				(Rupees in '000)				
Pakistan Investment Bonds										
30th August 2008	3 years	-	50,000	50,000	-	-	-	-	-	-
03rd September 2009	3 years	-	50,000	-	41,667	40,678	40,696	18	1.83	1.97
03rd September 2009	3 years	-	25,000	-	20,833	20,456	20,348	(108)	0.92	0.98
03rd September 2009	3 years	-	50,000	-	41,667	40,737	40,697	(41)	1.83	1.97
03rd September 2009	3 years	-	25,000	-	20,833	20,372	20,348	(24)	0.92	0.98
03rd September 2009	3 years	-	25,000	25,000	-	-	-	-	-	-
22nd August 2007	5 years	-	39,000	-	39,000	36,816	36,713	(103)	1.65	1.77
03rd September 2009	10 years	-	25,000	25,000	-	-	-	-	-	-
03rd September 2009	10 years	-	10,000	10,000	-	-	-	-	-	-
06th October 2003	10 years	-	73,100	73,100	-	-	-	-	-	-
						159,059	158,802	(258)		
Treasury Bills										-
12th February 2009	6 months	100,000	-	100,000	-	-	-	-	-	-
12th February 2009	12 months	-	125,000	125,000	-	-	-	-	-	-
12th February 2009	12 months	-	50,000	50,000	-	-	-	-	-	-
12th February 2009	12 months	-	100,000	100,000	-	-	-	-	-	-
12th February 2009	12 months	-	40,000	40,000	-	-	-	-	-	-
26th February 2009	6 months	-	150,000	150,000	-	-	-	-	-	-
26th February 2009	12 months	-	100,000	100,000	-	-	-	-	-	-
26th March 2009	6 months	-	100,000	100,000	-	-	-	-	-	-
26th March 2009	12 months	-	20,000	20,000	-	-	-	-	-	-
26th March 2009	12 months	-	25,000	25,000	-	-	-	-	-	-
09th April 2009	12 months	-	225,000	225,000	-	-	-	-	-	-
23rd April 2009	3 months	50,000	-	50,000	-	-	-	-	-	-
07th May 2009	12 months	-	150,000	150,000	-	-	-	-	-	-
04th June 2009	12 months	100,000	-	100,000	-	-	-	-	-	-
18th June 2009	12 months	-	50,000	50,000	-	-	-	-	-	-
30th July 2009	12 months	-	50,000	50,000	-	-	-	-	-	-
13th August 2009	12 months	-	50,000	50,000	-	-	-	-	-	-
13th August 2009	12 months	-	150,000	150,000	-	-	-	-	-	-
27th August 2009	12 months	-	200,000	200,000	-	-	-	-	-	-
10th September 2009	6 months	-	50,000	50,000	-	-	-	-	-	-
10th September 2009	6 months	-	35,000	35,000	-	-	-	-	-	-
10th September 2009	12 months	-	25,000	-	25,000	24,439	24,432	(7)	1.10	1.18

Issue date	Tenure	As at 01 July 2009	Purchases during the year	Sales / Matured during the year	As at 30 June 2010	Cost as at 30 June 2010	Market Value as at 30 June 2010	Appreciation / (diminution) in the value of investments	Market value as a percentage of net assets	Market value as a percentage of total investment
		--------------(Face value in denomination of Rs. 1,000)--------------				---------------(Rupees in '000)---------------				
26th September 2009	12 months	-	100,000	100,000	-	-	-	-	-	-
26th September 2009	6 months	-	100,000	100,000	-	-	-	-	-	-
26th September 2009	3 months	-	50,000	50,000	-	-	-	-	-	-
08th October 2009	6 months	-	50,000	50,000	-	-	-	-	-	-
08th October 2009	3 months	-	75,000	75,000	-	-	-	-	-	-
08th October 2009	3 months	-	50,000	50,000	-	-	-	-	-	-
22nd October 2009	6 months	-	60,000	60,000	-	-	-	-	-	-
22nd October 2009	3 months	-	60,000	60,000	-	-	-	-	-	-
25th February 2010	3 months	-	400,000	300,000	100,000	92,741	92,553	(188)	4.16	4.47
11th March 2010	12 months	-	125,000	-	125,000	115,434	115,187	(247)	5.18	5.56
25th March 2010	12 months	-	265,000	-	265,000	243,705	243,135	(570)	10.93	11.74
08th April 2010	3 months	-	100,000	25,000	75,000	74,976	74,976	-	3.37	3.62
08th April 2010	6 months	-	150,000	-	150,000	145,356	145,254	(102)	6.53	7.02
22nd April 2010	3 months	-	115,000	50,000	65,000	64,707	64,705	(2)	2.91	3.12
22nd April 2010	3 months	-	50,000	-	50,000	49,769	49,773	4	2.24	2.40
06th May 2010	3 months	-	75,000	-	75,000	74,330	74,315	(15)	3.34	3.59
06th May 2010	12 months	-	100,000	-	100,000	90,819	90,541	(278)	4.07	4.37
20th May 2010	3 months	-	150,000	-	150,000	148,006	147,940	(66)	6.65	7.14
20th May 2010	12 months	-	50,000	-	50,000	45,214	45,077	(137)	2.03	2.18
17th June 2010	3 months	-	50,000	-	50,000	48,875	48,863	(12)	2.20	2.36
17th June 2010	3 months	-	50,000	-	50,000	49,325	49,313	(12)	2.22	2.38
					1,330,000	1,267,695	1,266,064	(1,631)		
						1,426,754	**1,424,865**	**(1,888)**		
						2,052,588	**2,068,284**	**15,697**		

		Note	30 June 2010	30 June 2009
			(Rupees in '000)	
5.3	**Unrealised diminution in value of investments**			
	Fair value of investments		**2,068,284**	499,186
	Less: Cost of investments		**2,052,588**	499,558
			15,697	(372)
	Net unrealised appreciation in the value of investments at the beginning of the year		**372**	-
	Realised on disposals during the year		**(2,894)**	-
			(2,522)	-
	Net unrealised appreciation / (diminution) in fair value of investments at the end of year		**13,175**	(372)
5.4	**Particular of provision**			
	Opening balance		**-**	-
	Charge for the year		**2,278**	-
	Closing balance		**2,278**	-
6.	**INCOME AND PROFIT RECEIVABLE**			
	Income receivable - Term Finance Certificates		**20,614**	10,165
	Income receivable - Term Deposit Receipts		**-**	1,559
	Income receivable - Certificates of Investment		**-**	3,401
	Income receivable - Government Securities		**5,905**	-
	Profit receivable on deposit accounts with banks		**257**	684
			26,776	15,809
7.	**DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**			
	Deposit with Central Depository Company of Pakistan Limited		**325**	200
	Receivable from Pakistan Stock Market Fund		**-**	3,539
	Receivable from Pakistan Cash Management Fund		**957**	-
	Receivable from Pakistan International Element Islamic Fund		**5**	-
	Prepayments		**18**	68
			1,305	3,807
8.	**PRELIMINARY EXPENSES AND FLOATATION COSTS**			
	Preliminary expenses and floatation costs		**832**	1,000
	Amortisation during the period		**(200)**	(168)
			632	832
9.	**PAYABLE TO THE MANAGEMENT COMPANY**			
	Management fee	*9.1*	**2,620**	957
	Preliminary expenses and floatation costs	*9.2*	**800**	1,000
	Front-end load		**187**	129
			3,607	2,086

9.1 Under the provisions of NBFC 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 its remuneration at the rate of 1.50% per annum for the current year.

9.2 This represents expenses incurred by the Management Company in respect of application for registration of the Fund. As per the NBFC Regulations 2008, these expenses are reimbursable by the Fund over a period of not less than five years.

10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

	Note	30 June 2010	30 June 2009
		(Rupees in '000)	
Trustee fee	*10.1*	**257**	128

10.1 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 asset value of the Fund. The remuneration has been paid to the trustee according to the following tariff structure:

Amount of Funds under Management (Average Net Asset Value)	Tariff per annum
Up to Rs. 1000 million	Rs 0.7 million or 0.2 % p.a of NAV whichever is higher.
On amount exceeding Rs. 1000 million	Rs. 2 million plus 0.1% p.a of NAV exceeding Rs. 1000 million

11. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE

NBFC Regulations requires that annual fee is payable at an amount equal to 0.075% of the average annual net assets of the Fund.

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	30 June 2010	30 June 2009
	(Rupees in '000)	
Auditor's remuneration	**391**	361
Withholding tax payable	**-**	5
Zakat payable	**16**	-
Brokerage payable	**39**	33
Payable to Pakistan Cash Management Fund	**-**	288
Payable to Pakistan Stock Market Fund	**482**	-
Printing payable	**114**	
Other payable	**41**	88
	1,083	775

13. CONTINGENCIES AND COMMITMENTS

There are no contingencies and commitments at the end of the period.

14. CONTRIBUTION TO WORKER 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.

15. NUMBER OF UNITS IN ISSUE

The units in issue as at 30 June 2010 in each class are as follows:

Plan	**30 June 2010**	30 June 2009
	(Number of units)	
A	**39,357,348**	13,702,070
B	**3,917,158**	2,000,000
	43,274,506	15,702,070

16. AUDITOR'S REMUNERATION

	30 June 2010	Period from 28 August 2008 to 30 June 2009
	(Rupees in '000)	
Audit fee	**210**	210
Taxation services	**-**	125
Half yearly review fee	**100**	80
Other certifications and services	**60**	50
Out of pocket expenses	**23**	6
	393	471

17. 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.

18. INTERIM DISTRIBUTIONS

The Fund has made following distributions during the period:

Dates	Rate	Bonus *		Cash Distribution **	Total
		Units	Amount		
			(Rupees in '000)		
26 July 2009	Re. 0.65 per unit	201,217	10,167	1,300	**11,467**
26 August 2009	Re. 0.53 per unit	182,870	9,273	1,060	**10,333**
26 September 2009	Re. 0.82 per unit	362,123	18,258	4,048	**22,306**
26 October 2009	Re. 0.43 per unit	232,066	11,727	2,122	**13,849**
26 November 2009	Re. 0.52 per unit	272,134	13,838	2,567	**16,405**
26 December 2009	Re. 0.47 per unit	208,338	10,544	2,320	**12,864**
26 January 2010	Re. 0.51 per unit	234,286	11,921	3,515	**15,436**
26 February 2010	Re. 0.51 per unit	270,032	13,674	3,515	**17,189**
26 March 2010	Re. 0.51 per unit	274,119	13,870	3,264	**17,134**
26 April 2010	Re. 0.49 per unit	307,557	15,559	2,413	**17,972**
26 May 2010	Re. 0.51 per unit	373,282	18,964	1,999	**20,963**
		2,918,025	**147,795**	**28,123**	**175,918**

* Bonus units have been distributed to unit holders under plan A.

** Cash dividend has been distributed to unit holders under plan B.

As per clause 12 of Trust Deed and clause 6 of Part VI of Offering Document, the Management Company on behalf of the Fund on monthly basis (except June) distributes bonus / dividend. The Board of Directors on 22nd September 2008 have passed a resolution providing standing authorization to the Chief Executive Officer to approve and declare interim dividends out of profit earned by the Fund upto the 25th of each month. The SECP vide letter no. NBFC - II.DD / AHIL / Misc-734 / 2009 has approved the above arrangement.

19. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons include Arif Habib Investments Limited (AHIL) being the Management Company (AMC), Arif Habib Securities Limited being the holding company of AHIL, 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.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of NBFC Rules 2003, NBFC Regulations 2008 and Trust Deed respectively. All other transaction with connected persons / related parties are carried on agreed terms.

Details of the transactions with connected persons / related parties for the year ended 30 June 2010 and balances with them at the year / period end other than those disclosed elsewhere in the financial statements are as follows:

19.1 Transactions during the period with connected persons / related parties

	30 June 2010	Period from 28 August 2008 to 30 June 2009
	(Rupees in '000)	
Arif Habib Investments Limited Management Company		
Remuneration for the year/period	**23,291**	7,436
Front-end load for the year/period	**-**	2,812
Arif Habib Bank Limited		
Mark-up for the year/period	**1,560**	933
Income from Term Deposit Receipts	**-**	1,390
Central Depository Company of Pakistan Limited - Trustee		
Remuneration for the period	**2,538**	1,015
CDS charges	**56**	8
Purchase of Term Finance Certificates from Pakistan Strategic Allocation Fund (Managed by Arif Habib Investments Limited)		
United Bank Limited IV (14 February 2008) 20,000 certificates	**91,897**	-
Allied Bank Limited (6 December 2006) 7,600 certificates	**-**	37,032
Purchase of Term Finance Certificates from Pakistan Income Fund (Managed by Arif Habib Investments Limited)		
Askari Bank Limited - I (4 February 2005) 2,000 certificates	**-**	9,380
Bank Al-Falah Limited (23 November 2004) 13,866 certificates	**-**	71,780
Engro Chemical Limited - I (30 November 2007) 500 certificates	**-**	2,296
Pakistan Mobile Communication Limited (1 October 2007) 7,000 certificates	**-**	34,558
Standard Chartered Bank Limited - II (20 January 2004) 1,092 certificates	**-**	4,663
Standard Chartered Bank Limited - III (1 February 2006) 1,000 certificates	**-**	5,083
United Bank Limited - III (8 September 2006) 7,000 certificates	**-**	35,215
Sale of Term Finance Certificates:		
KASB Securities Limited (27 June 2007) 6,000 certificates	**-**	28,458
Investment in Term Finance Certificates of Pak Arab Fertilizers Limited		
Purchase of Term Finance Certificates (28 February 2008) 9,000 Certificates	**19,469**	41,615
Sale of Term Finance Certificates (28 February 2008) 9,000 Certificates	**-**	42,794

19.2 Amounts outstanding as at the year / period end with connected persons / related parties

	30 June 2010	30 June 2009
	(Rupees in '000)	
Arif Habib Investments Limited - *Management* Company		
Remuneration payable	**2,620**	957
Payable in respect of preliminary expenses and floatation costs	**800**	1,000
Front-end load payable	**187**	129
Arif Habib Bank Limited		
Balance as at period end	**51,928**	6,355
Accrued mark-up as at the year end	**182**	69
Pakistan Stock Market Fund (Managed by Arif Habib Investments Limited)		
(Payable) / receivable as at the year / period end	**(482)**	3,539
Pakistan Cash Management Fund (Managed by Arif Habib Investments Limited)		
Receivable as at the year / period end	**957**	288
Pakistan International Element Islamic Fund (Managed by Arif Habib Investments Limited)		
Receivable as at the year / period end	**5**	-
Central Depository Company of Pakistan Limited - Trustee		
Security deposit	**325**	200
Remuneration payable	**257**	128

19.3 Units issued to:

	30 June 2010		30 June 2009	
	(Number of units)	**(Rupees in '000)**	(Number of units)	(Rupees in '000)
Arif Habib Investments Limited	**13,123,782**	**664,497**	1,426,941	72,666
Arif Habib Investments Limited Employee Provident Fund	**66,102**	**3,339**	99,364	5,000
Arif Habib Bank Limited	**2,976,262**	**150,957**	4,000,000	200,960
Directors and executives of the Management Company	**1,695,554**	**86,427**	781,370	39,521
Unit redeemed by:				
Arif Habib Investments Limited	**13,136,537**	**665,580**	1,463,520	74,085
Arif Habib Investments Limited Employee Provident Fund	**70,684**	**3,596**	111,529	5,621
Arif Habib Bank Limited	**4,181,984**	**212,266**	2,000,000	100,960
Directors and executives of the Management Company	**1,674,832**	**85,359**	601,873	29,457
Bonus units distributed to:				
Arif Habib Investments Limited	**12,755**	**647**	36,579	1,837
Arif Habib Investments Limited Employee Provident Fund	**4,582**	**232**	12,163	45
Arif Habib Bank Limited	**10,078**	**512**	-	-
Directors and executives of the Management Company	**22,125**	**1,120**	15,326	770
Cash dividend paid:				
Arif Habib Bank Limited	**209,598**	**10,610**	-	12,740
Units held by:				
Arif Habib Bank Limited	**1,013,953**	**52,097**	2,000,000	101,820
Directors and executives of the Management Company	**237,671**	**12,212**	194,823	9,918

20. FINANCIAL RISK MANAGEMENT

The Board of Directors of Management Company has an overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The policy of the Fund is to invest in the investment grade term finance certificates and sukuk bonds, certificate of investments, term deposit receipts, spread transactions and with SECP approval structured deposits, notes , interest rate / cross currency swap and arbitrage products, options, derivatives, index linked structures etc. both within and outside Pakistan, international mutual funds, credit linked notes, and any other investment permissible under NBFC Regulations.

- market risk
- credit risk
- liquidity risk
- operational risk

20.1 Market risk

Market risk is the risk that the value of the financial instruments may fluctuate as a result of changes in market interest rates or the market price of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand for securities and liquidity in the market.

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 and regulations laid down by the SECP.

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

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 its operations are geographically restricted to Pakistan and all transactions are carried out in Pak Rupees.

Interest rate risk

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

The Fund manages fair value risk by investing in floating rate Term Finance Certificates and Sukuk Bonds, preferably with no cap and floor which insulates the Fund from fair value interest rate risk, as coupon rates correspond with current market interest rate.

As at 30 June 2010, investments in Term Finance Certificates and Sukuk Bonds exposed to interest rate risk are detailed in Note 5.1. Cash and cash equivalents are not subject to cash flow and fair value interest rate risk.

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates and Sukuk Bonds that expose the Fund to cash flow interest rate risk. The Fund's investment in variable rate instruments amount to Rs. 643.4 million (2009: Rs. 270.8 million). In case of 100 basis points increase / decrease in KIBOR on 30 June 2010, the net assets of the Fund would have been higher / lower by Rs. 1.2 million (2009: Rs. 0.7 million).

b) Sensitivity analysis for fixed rate instruments

As at 30 June 2010, the Fund holds Treasury Bills and Pakistan Investment Bonds which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. The Fund's investment in Treasury Bills instrument amounts to Rs 1,266.1 million (2009: Rs. 228.4 million) and Pakistan Investment Bonds amounts to Rs 158.8 million (2009: Nil). In case of 100 basis points increase in rates on 30 June 2010, the profit for the year and net assets would be lower by Rs 7.7 million. In case of 100 basis points decrease in rates on 30 June 2010, the profit for the year and net assets would be higher by Rs 7.9 million.

The composition of the Fund's investment portfolio and interest rates are expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2010 is not necessarily indicative 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.

The Fund's market rate of return sensitivity related to financial assets and financial liabilities as at 30 June 2010 can be determined from the following:

On-balance sheet financial instruments	**Effective rate of mark-up / return (%)**	**30 June 2010**				
		Exposed to interest rate risk			**Not exposed to interest rate risk**	**Total**
		Upto three months	**More than three months and upto one year**	**More than one year**		
		(Rupees in '000)				
Financial assets						
Bank balances	**5 to 13.25**	**107,319**	**-**	**-**	**-**	**107,319**
Investments	**13.24 to 15.15**	**534,317**	**731,746**	**802,221**	**-**	**2,068,284**
Profit receivable		**-**	**-**	**-**	**26,776**	**26,776**
Receivable against sale of units		**-**	**-**	**-**	**27,631**	**27,631**
Deposits and other receivables		**-**	**-**	**-**	**1,305**	**1,305**
		641,636	**731,746**	**802,221**	**55,712**	**2,231,315**
Financial liabilities						
Payable to the Management Company		**-**	**-**	**-**	**3,607**	**3,607**
Payable to the Trustee		**-**	**-**	**-**	**257**	**257**
Payable to SECP		**-**	**-**	**-**	**1,165**	**1,165**
Payable on redemption of units		**-**	**-**	**-**	**2,243**	**2,243**
Accrued expenses and other liabilities		**-**	**-**	**-**	**1,083**	**1,083**
		-	**-**	**-**	**8,355**	**8,355**
On-balance sheet gap 2010		**641,636**	**731,746**	**802,221**	**47,357**	**2,222,960**

On-balance sheet financial instruments	Effective rate of mark-up / return (%)	30 June 2009				
		Exposed to interest rate risk			Not exposed to interest rate risk	Total
		Upto three months	More than three months and upto one year	More than one year		
		(Rupees in '000)				
Financial assets						
Bank balances	5 to 13.25	122,495	-	-	-	122,495
Investments	12.95 to 15.61	141,218	285,647	207,321	-	634,186
Profit receivable		-	-	-	15,809	15,809
Receivable against sale of units		-	-	-	26,277	26,277
Deposits and other receivables		-	-	-	3,739	3,739
		263,713	285,647	207,321	45,825	802,506
Financial liabilities						
Payable to the Management Company		-	-	-	2,086	2,086
Payable to the Trustee		-	-	-	128	128
Payable to SECP					405	405
Payable on redemption of units		-	-	-	675	675
Accrued expenses and other liabilities		-	-	-	775	775
		-	-	-	4,069	4,069
On-balance sheet gap 2009		263,713	285,647	207,321	41,756	798,437

20.2 Credit risk

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of placements or other arrangements to fulfil their obligations. There is a possibility of default by participants and of failure of the financial markets, the depositories, the settlements or clearing system etc.

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Board of Directors. All transactions are settled / paid for upon delivery. The Fund does not expect to incur material credit losses on its financial assets.

The maximum exposure to credit risk before any credit enhancements at 30 June is the carrying amount of the financial assets as set out below:

	30 June 2010	30 June 2009
	(Rupees in '000)	
Bank balances	**107,319**	122,495
Receivable against sale of units	**27,631**	26,277
Investments	**645,697**	270,797
Income and profit receivable	**26,776**	15,809
Deposits and other receivables	**1,305**	3,739
	808,728	439,117

Difference in the balance as per the Statement of Assets and Liabilities and maximum exposure in investments is due to the fact that investment in government securities of Rs.1,424,865 (2009: Rs.228,389) is not exposed to credit risk.

On 30 June 2010 an amount of Rs. 2,278,281 pertaining to Sukuk of Eden Housing Limited was overdue by more than 90 days against which a provision has been made as given in note 27.2. However, subsequent to the balance sheet date, the amount has been received and the security has been reclassified as performing.

The analysis below summarizes the credit quality of the Fund's investment in Term Finance Certificates and Sukuk Bonds as at 30 June 2010.

Debt Securities by rating category	**30 June 2010**	30 June 2009
	(Percentage)	
AA+	**2.46**	15.24
AA	**32.29**	31.71
AA-	**25.67**	34.70
A+	**30.93**	-
A	**4.09**	18.35
D	**4.55**	-
	100	100

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk industrial distribution. concentrations of credit risk.

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

	30 June 2010		30 June 2009	
	(Rupees)	**(Percentage)**	(Rupees)	(Percentage)
Commercial banks	**258,414**	**31.95**	134,219	30.57
Chemicals	**183,626**	**22.71**	48,400	11.02
Others	**366,688**	**45.34**	256,498	58.41
	808,728	**100**	439,117	100

20.3 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Fund is exposed to daily cash redemptions, if any. The Management Company manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

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 also has the ability to withhold daily redemption request in excess of ten percent of the units in issue or exceed ten percent of the Net Assets of the Fund and such requests would be treated as redemption request qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold 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.

The maturity profile of the Fund's liabilities based on contractual maturities is given below:

	30 June 2010		
On balance sheet financial liabilities	**Upto three months**	**More than one year**	**Total**
	-------------(Rupees in '000)-------------		
Payable to Management Company	**2,807**	**800**	**3,607**
Payable to Trustee	**257**	**-**	**257**
Payable to SECP	**1,165**	**-**	**1,165**
Accrued expenses and other liabilities	**1,083**	**-**	**1,083**
Payable on redemption of units	**2,243**	**-**	**2,243**
	7,555	**800**	**8,355**

	30 June 2009		
On balance sheet financial liabilities	Upto three months	More than one year	Total
	-------------(Rupees in '000)-------------		
Payable to Management Company	1,286	800	2,086
Payable to Trustee	128	-	128
Payable to SECP	405	-	405
Accrued expenses and other liabilities	775	-	775
Payable on redemption of units	675	-	675
	3,269	800	4,069

Units of the Fund are redeemable on demand at the holder's option. However, holders of these instruments typically retain them for the medium to long term.

20.4 Operational risk

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

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

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

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

20.5 Unit Holders' Fund risk management

Management's objective when managing unit holders' funds is to safe guard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders' and to ensure reasonable safety of unit holders' funds.

The Fund manages its investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in markets' conditions. The capital structure depends on the issuance and redemption of units and the Fund is not exposed to the externally imposed minimum Fund maintenance requirement. except for at the time of investment which is Rs. 100 million out of which Rs. 50 million is required to be invested in the scheme for at least two years.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments on the Statement of Assets and Liabilities are carried at fair value. The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

The Fund's accounting policy on fair value measurements of its investments is discussed in note 3.1 to these financial statements.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
	---------------------Rupees in '000---------------------			
Financial assets at fair value through profit or loss				
Debt securities	**313,762**	**1,424,865**	**331,935**	**2,070,562**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

	30 June 2010
Balance as at 1 July 2009	**190,110**
Total gains / (losses) recognized in profit or loss	**11,882**
Purchase during the period (at cost)	**320,053**
Redemption / sale during the period	**(190,110)**
Balance as at 30 June 2010	**331,935**

22. ACCOUNTING ESTIMATES AND JUDGMENTS

The Management Company makes estimates and assumptions that effect the reported amount of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Investment stated at fair value and derivative financial instruments

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgments (e.g. valuation, etc.) and therefore, cannot be determined with precision.

Impairment of investment

The Fund determines that investments are impaired in accordance with the provisioning guidelines prescribed by the Securities and Exchange Commission of Pakistan and the provisioning criteria approved by the Board of Directors of the Management Company. Actual results may differ and the difference could be material.

Other assets

Judgement is also involved in assessing the realisability of the asset balances.

23. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

List of the top ten brokers by percentage of the commission paid during the period are as follows:

Name of Broker	2010 Percentage
Alfalah Securities Limited	**22**
KASB Securities	**15**
First Capital Securities	**14**
Invest Capital and Investment Bank Limited	**12**
Global Securities	**11**
JS Global Capital Limited	**10**
Elixir Securities Pakistan (Private) Limited	**6**
BMA Capital Management Limited	**4**
IGI Finex	**3**
Atlas Capital	**2**
	99

Name of Broker	2009 Percentage
JS Global Capital Limited	30
Alfalah Securities Limited	29
Global Securities Limited	9
First Capital Securities Limited	8
BMA Capital Limited	7
Elixir Securities Limited	6
KASB Securities Limited	5
Invest Capital Limited	3
AMZ Securities Limited	2
Akhai Capital Limited	1
	100

24. PARTICULARS OF MEMBERS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

Name	Designati	Qualificat	Experience in years
Basharat Ullah	Chief Investment Officer	MBA	17
Zeeshan	Chief Financial Officer	ACA	7
Muhammed Imran Khan	Head of Research	MBA	7
Zafar Rehman	Head of Debt & Fund Manager	B.COM	18
Tariq Hashmi	Head of Marketing	MBA	18

24.1 Zafar Rehman is the Manager of the Fund. He has obtained a Bachelors degree in Commerce. Other funds beings managed by the Fund manager are as follows:

- Metro-Bank Pakistan Sovereign Fund
- Pakistan Income Fund

25. PATTERN OF UNIT HOLDING

Category	As at 30 June 2010			
	Number of Unit Holders	Units	Amount (Rupees in '000)	Percentage
Individuals	1,018	25,767,864	1,324,100	59.55%
Associated companies	2	4,931,111	253,361	11.39%
Directors	1	4,094	210	0.01%
Insurance companies	2	1,301,070	66,849	3.01%
Banks / financial institutions	3	842,811	43,304	1.95%
NBFCs	-	-	-	0.00%
Retirement Funds	30	3,426,366	176,047	7.92%
Others	22	7,001,190	359,721	16.18%
	1,078	43,274,506	2,223,592	100%

Category	As at 30 June 2009			
	Number of Unit Holders	Units	Amount (Rupees in '000)	Percentage
Individuals	473	9,086,950	462,562	57.87%
Associated companies	1	2,000,000	101,820	12.74%
Directors	1	3,616	184	0.02%
Insurance companies	1	189,728	9,659	1.21%
Banks / financial institutions	2	1,001,907	51,007	6.38%
NBFCs	1	294,927	15,015	1.88%
Retirement Funds	5	587,966	29,933	3.74%
Others	9	2,536,976	129,157	16.16%
	493	15,702,070	799,337	100%

26. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

During the year; 63rd, 64th, 65th, 66th, 67th, 68th, 69th, 70th, 71st, 72nd & 73rd Board meetings were held on 06 July 2009, 28 July 2009, 29 July 2009, 22 October 2009, 10 November 2009, 22 February 2010, 22 March 2010, 22 April 2010, 24 April 2010 16 June 2010 & 17 June 2010 respectively.

Information in respect of attendance by Directors in the meetings is given below:

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

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

27. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

27.1 Dividend distribution

The Board of Directors of the Management Company have approved a dividend of Rs. 0.51 (2009: Re 0.37) for every unit held for the year ended 30 June 2010, amounting to Rs. 22.070 million (2009: Rs. 5.810 million) in total in their meeting held on 05 July 2010. The financial statements for the year ended 30 June 2010 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending 30 June 2011.

27.2 Provision against Non-Performing Exposure

The fourth coupon of mark-up with principal redemption of the Eden Housing Limited Sukuk - Issue II amounting to Rs. 3,442,140 and Rs. 6,509,375 respectively, was due on 30 March 2010. In compliance with Circular no. 01 of 2009 dated 06 January 2009, the Sukuk was classified as non performing on 14 April 2010. The accrued mark-up of Rs 3,442,140 was reversed and accrual of mark-up was also suspended from the day the payment of mark up became due i.e. 30 March 2010. Furthermore, provision was made against the remaining overdue principal amount of Rs. 6,509,375.

However, subsequent to making the above provision and after reversing the accrued mark-up, the mark-up amounting to Rs. 3,442,140 (100% Mark up) and principal amounting to Rs. 4,231,094 (65% of principal) was received on 27 May 2010 and 22 June 2010 respectively and in compliance with the above mentioned circular, the provision to the extent of amount received was written back. For the remaining amount due, a post dated cheque dated 14 July 2010 amounting to Rs 2,278,281 against 35% principal redemption was received which was subsequently cleared.

Subsequent to the balance sheet date, in compliance with Circular No. 3 of 2010 issued by SECP on 20 January 2010 the Sukuk has been reclassified as performing and the provision thereon has been written back and the suspended mark-up has also been taken to income.

28. DATE OF AUTHORIZATION

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

For Arif Habib Investments Limited
(Management Company)

Chief Executive	**Director**

DETAILS OF PATTERN OF HOLDING (UNITS)

	Unit Held
Associated Company	
Arif Habib Investments Limited	1,013,953
Director and CEO	
Syed Ajaz Ahmed (Director)	4,094
Public Limited Companies	-
Banks and Financial Institution	6,061,039
Other Corporate Sector Entities	7,001,190
Individual	25,767,864
Retirement Funds	3,426,366
TOTAL	**43,274,506**

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

NO OF UNIT HOLDERS	FROM	TO	TOTAL UNITS HELD	PERCENTAGE
460	0	5000	803,254	1.86
184	5001	10000	1,303,635	3.01
76	10001	15000	913,673	2.11
60	15001	20000	1,097,371	2.54
45	20001	25000	979,813	2.26
26	25001	30000	725,007	1.68
18	30001	35000	583,618	1.35
29	35001	40000	1,108,679	2.56
14	40001	45000	597,605	1.38
12	45001	50000	575,497	1.33
11	50001	55000	584,656	1.35
19	55001	60000	1,101,812	2.55
9	60001	65000	564,585	1.30
6	65001	70000	407,664	0.94
4	70001	75000	291,782	0.67
7	75001	80000	545,532	1.26
2	80001	85000	165,407	0.38
1	85001	90000	88,600	0.20
3	90001	95000	277,751	0.64
14	95001	100000	1,368,967	3.16
3	100001	105000	310,236	0.72
7	105001	110000	749,861	1.73
2	110001	115000	225,396	0.52
4	120001	125000	485,257	1.12
5	130001	135000	660,799	1.53
2	135001	140000	279,223	0.65
1	145001	150000	149,882	0.35
1	155001	160000	155,703	0.36
3	160001	165000	483,484	1.12
1	165001	170000	168,436	0.39
1	175001	180000	177,630	0.41
2	180001	185000	365,622	0.84
1	185001	190000	188,681	0.44
4	190001	195000	771,029	1.78
7	195001	200000	1,372,819	3.17
1	200001	205000	200,201	0.46
1	205001	210000	209,479	0.48
3	210001	215000	632,572	1.46
1	225001	230000	227,342	0.53
1	230001	235000	230,895	0.53
1	245001	250000	249,176	0.58
2	265001	270000	534,251	1.23
1	285001	290000	285,907	0.66
3	295001	300000	893,171	2.06
1	305001	310000	309,327	0.71
1	315001	320000	315,269	0.73
1	345001	350000	347,065	0.80
1	435001	440000	435,340	1.01
1	445001	450000	448,942	1.04
1	450001	455000	451,351	1.04
1	470001	470000	470,856	1.09
1	525001	530000	528,169	1.22
1	540001	545000	544,602	1.26
1	555001	560000	558,880	1.29
1	600001	605000	603,246	1.39
1	825001	830000	828,299	1.91
1	835001	840000	838,576	1.94
1	1010001	1015000	1,013,953	2.34
1	1100001	1105000	1,100,869	2.54
1	1375001	1380000	1,376,393	3.18
1	1500001	1505000	1,501,555	3.47
1	1585001	1590000	1,589,015	3.67
1	2000001	2005000	2,003,676	4.63
1	3915001	3920000	3,917,158	9.05
1,078	**TOTAL**		**43,274,506**	**100.00**

PERFORMANCE TABLE

	2010	2009
	(Rupees in '000)	
Net assets	**2,223,592**	799,337
Net income	**227,364**	84,732
	(Rupees per unit)	
Net assets value	**51.38**	50.91
Dividend distribution (Stock)-interim	**5.95**	6.37
Dividend distribution (Stock)-final	**0.51**	0.37
Distribution date-final	**05 July 2010**	06 July 2009
Offer price	**52.08**	51.61
Repurchase price	**51.38**	50.91
Highest offer price	**52.09**	52.55
Lowest offer price	**51.11**	49.65
Highest repurchase price	**51.39**	51.84
Lowest repurchase price	**50.42**	48.98
	(Percentage)	
Total return of the fund		
- capital growth	**1.48**	2.56
- income distribution	**12.78**	16.03
Average return of the fund	**14.26**	18.59
Weighted average Portfolio duration	**165**	118

* Distribution date	Rate
26 July 2009	Re. 0.65 per unit
26 August 2009	Re. 0.53 per unit
26 September 2009	Re. 0.82 per unit
26 October 2009	Re. 0.43 per unit
26 November 2009	Re. 0.52 per unit
26 December 2009	Re. 0.47 per unit
26 January 2010	Re. 0.51 per unit
26 February 2010	Re. 0.51 per unit
26 March 2010	Re. 0.51 per unit
26 April 2010	Re. 0.49 per unit
26 May 2010	Re. 0.51 per unit

- Credit rating of the Management Company is AM2. (Positive Outlook)

- The Past performance is not necessarily indicative of future performance and units 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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