

**PAKISTAN
CASH
MANAGEMENT
FUND**



CONTENTS

2	Fund's Information
3	Report of the Directors of Management Company
7	Report of the Fund Manager
11	Trustee Report to the Unit Holders
12	Statement of Compliance with the Code of Corporate Governance
14	Review Report to the Unit Holders on Statement of Compliance with the Best Practices of the Code of Corporate Governance
15	Independent Auditors Report to the Unit Holders
17	Statement of Assets and Liabilities
18	Income Statement
19	Distribution Statement
20	Statement of Movement in Unit Holders' Funds
21	Cash Flow Statement
22	Notes to the Financial Statements
38	Pattern of Holding as per Requirements of Code of Corporate Governance
39	Pattern of Unit Holding (By Size)
40	Performance Table

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	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

Habib Metropolitan Bank Limited
7th Floor, HBZ Plaza,
I.I.Chundrigar Road, Karachi.

Bankers

Habib Metropolitan Bank Limited
Bank Alfalah Limited
Standard Chartered Bank (Pakistan) Limited

Auditors

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

Legal Adviser

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

Registrar

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

Distributor

Habib Metropolitan Bank Limited

Rating

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

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

The Board of Directors of Arif Habib Investments Limited, the Management Company of the Pakistan Cash Management Fund (PCF), is pleased to present its annual report together with audited Financial Statements for the Financial Year ended June 30, 2010.

Fund Objective

The objective of the Fund is to deliver regular income, preservation of capital and high level of liquidity primarily from short duration government securities investments.

Fund Profile

Pakistan Cash Management Fund (PCF) is an open end fund, which invests in government securities mainly Treasury Bills and short maturity reverse repurchase transactions against Government Securities. The un-invested funds are kept in deposits with AA or better rated Commercial Banks. The overall duration of the portfolio is kept below 90 days, in order to keep interest rate risk at a relatively low and manageable level and provide high liquidity to investors comparable to current bank deposits. PCF is a long only fund and cannot undertake leveraged investments. The Board has approved the categorization of the Fund as "Money Market Scheme".

Fund Performance during Financial Year Ended June 30, 2010

The net assets of the Fund as at June 30, 2010 stood at Rs 2,061.964 million compared to Rs 579.81 million at June 30, 2009, registering an increase of 255.63%.

The Net Asset Value (NAV) per unit at the end of the year was at Rs 50.6935 per unit compared to the opening Ex NAV of Rs 50.00 per unit. During the year total interim distribution amounted to Rs 4.6932 per unit. NAV registered an increase of Rs 5.3835 per unit for the year.

Income Distribution

The Board in the meeting held on July 05, 2010 has declared final distribution in the form of bonus units to Type A units and equivalent cash dividend of Re 0.6900 per unit for Type B units for the year ended June 30, 2010, amounting to Rs 28.066 million. In addition to final distribution, the Management Company has announced the following interim distributions during the year ended June 30, 2010:

Date of Distribution	Interim payouts during the Year	
	(PKR/Unit)	Return as % of opening Ex-NAV
26 th July 2009	0.3500	0.70% of Ex-NAV of 06 th July 2009
26 th August 2009	0.3864	0.77% of Ex-NAV of 26 th July 2009
26 th September 2009	0.4122	0.82% of Ex-NAV of 26 th August 2009
26 th October 2009	0.4413	0.88% of Ex-NAV of 26 th September 2009
26 th November 2009	0.4300	0.86% of Ex-NAV of 26 th October 2009
26 th December 2009	0.4301	0.86% of Ex-NAV of 26 th November 2009
26 th January 2010	0.4300	0.86% of Ex-NAV of 26 th December 2009
26 th February 2010	0.4300	0.86% of Ex-NAV of 26 th January 2010
26 th March 2010	0.4061	0.81% of Ex-NAV of 26 th February 2010
26 th April 2010	0.5200	1.04% of Ex-NAV of 26 th March 2010
26 th May 2010	0.4571	0.91% of Ex-NAV of 26 th April 2010
Total	4.6932	

Hence total distribution for the financial year 2010 was Rs 5.3832 (8.81% on the opening Ex-NAV).

Explanation With Regards To Auditors' 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 is accountable to the shareholders 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 its business in line with listing regulations of Islamabad stock exchange, which clearly define the role and responsibilities of Board of Directors and Management. The Board has already approved the Vision, Mission and Code of Ethics & Business Practices.

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 July 01, 2009 to June 30, 2010

S. No	Name	Designation	Meetings		
			Total	Attended	Leave Granted
1.	Mr. Muhammad Shafi Malik	Chairman	11	11	-
2.	Mr. Nasim Beg	Chief Executive	11	11	-
3.	Mr. Salim Chamdia*	Former Director	3	1	2
4.	Mr. Sirajuddin Cassim	Former 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	Director	11	8	3

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

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

- m. The trades in Units of the Fund carried out by the Directors, CE, CFO/Company Secretary of the Management Company and their spouses and minor children are as under:

S. No	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Chief Executive	81,163.38	81,492.92	859.04
2.	Mr. Zeeshan	Company Secretary & CFO	1,690.61	2,411.15	23.89

External Auditors

As recommended by the Audit Committee, the Board of Directors of the Management Company has reappointed M/s. A.F.Fergusons & Co., Chartered Accountants as the Fund's auditors for the year ending June 30, 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, Habib Metropolitan Bank Limited and the management of the Islamabad Stock Exchange for their continued cooperation and support. The Directors of the Management Company also acknowledge the efforts put in by the team of the Management Company for the growth and the meticulous management of the Fund.

For and on behalf of the Board



Nasim Beg
Chief Executive

August 03, 2010
Karachi

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

Objective

The objective of the Fund is to deliver regular income, preservation of capital and high level of liquidity by investing in short dated government securities.

Fund Profile

Pakistan Cash Management Fund (PCF) is an Open-end Fund, which is allowed to invest in Government Securities mainly Treasury bills and short maturity Reverse Repurchase transactions against Government Securities. The un-invested funds are kept in deposits with AA or better rated Commercial Banks. The overall maturity of the portfolio is kept below 90 days, in order to keep interest rate risk at the relatively low and manageable level and to provide high liquidity to investors comparable to current bank deposits. PCF is a long only Fund.

Fund Performance

PCF delivered a total annualized return of 11.28% during the year ended June 30, 2010, compared to its benchmark (3-month T-bill less expense ratio) return of 10.92% for FY10. Industry average return of Cash and Money Market Fund category was 10.30% during 2010. PCF has rendered itself as the highest return generating Money Market Fund in the industry during FY2009-10. The average duration of its portfolio was 37 days at the end of the period.

The funds under management witnessed a robust growth of 255.5% to Rs. 2.06 billion compared to Rs. 0.58 billion on June 30, 2009. The Fund declared its 12th monthly dividend of Re. 0.69 taking the tally to Rs. 5.3832 for the full year 2009-10 with the cumulative dividend yield of 10.76%.

Jul,09	Aug,09	Sep,09	Oct,09	Nov,09	Dec,09	Jan,10	Feb,10	Mar,10	Apr,10	May,10	Jun,10
11.43%	9.86%	10.87%	10.85%	11.16%	10.74%	10.17%	10.44%	10.94%	11.15%	10.69%	10.47%

Asset Allocation

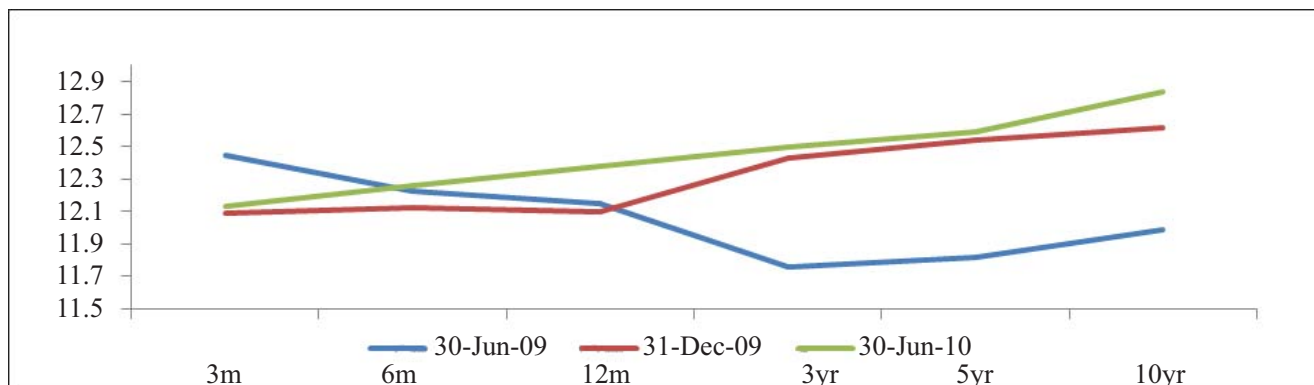
At the year ended June 30, 2010, PCF was 96.5% invested in short maturity T-bills, followed by 3.5% in bank deposits.

Market Review

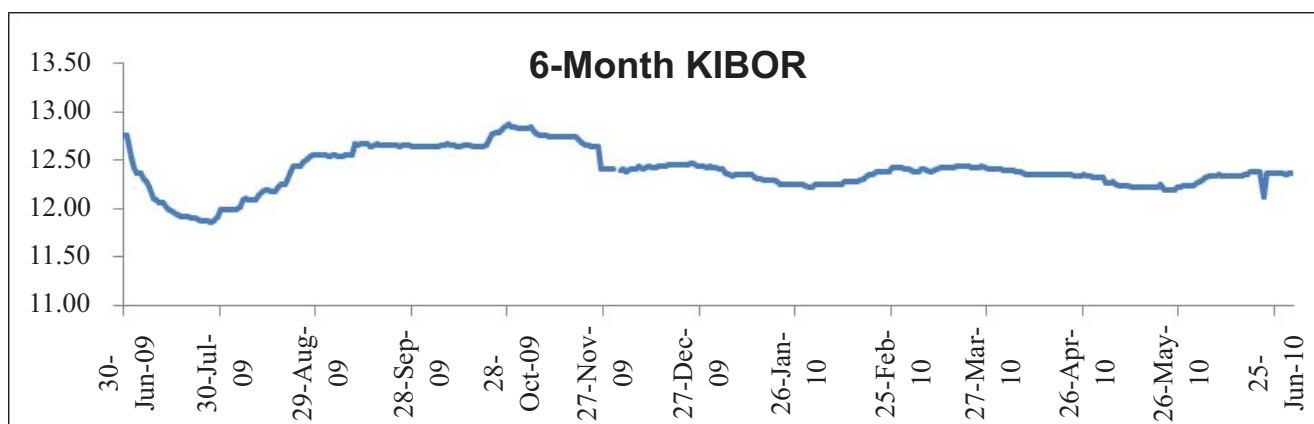
Interest rates have edged upward during FY2010 and most prominently later in the year, when expectations of further easing in monetary policy diminished amid concerns over inflation and higher government borrowings. Earlier during the year, declining CPI enabled the Central Bank to cut the discount rate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

The leading concern among market participants at this time seems to be the huge government borrowing outstanding from the central bank and consequently non compliance with a major IMF quantitative target. As of the latest Net Domestic Assets (NDA) figures available up to June 25th, the government's total borrowing during the fiscal year stands at Rs.461.86 billion. Of this amount, Rs.200.22 billion 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 June 30, 2010 closed at 12.37%, 39 bps low from 12.76% (as on June 30, 2009).



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

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

Financial Year 2010 in Review

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

The Real Sector

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

The Monetary Sector

Money supply (M2) has grown as compared to the previous year, but the increase continues to be explained by government borrowing from the banking system which has further increased. Improvement in external balance of payment position has increased the net foreign assets of the banking system during July-Jun FY10 which rose by Rs.89.07 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 October 1st, 2010 would further strengthen the tax base and tax/GDP ratio under a flat tax rate. However, at the same time, evidence from other countries has shown that VAT implementation is not without significant costs especially in the first year of imposition. At the same time the government continues to face significant expenditure requirements due to continued war on terror and development needs.

The External Sector

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

The year ahead

The fiscal year 2011 has started on a disastrous note for the country as historic high floods due to severe monsoon have resulted in unprecedented loss of human life and vast scale damages to housing/properties, roads/electricity infrastructure, crops and livestock in Pakistan's economic and agriculture heartland along the 3200 kilometre long Indus River. The scale of damages looks quite large with initial estimates of around US\$5-6 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.



Habib Metropolitan Bank Ltd.

(Subsidiary of Habib Bank AG Zurich)

HEAD OFFICE : SPENCER'S BUILDING 11, CHUNDRIGAR ROAD KARACHI – 74200, PAKISTAN.

TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN CASH MANAGEMENT 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

Pakistan Cash Management Fund (the Fund), an open-end fund was established under a trust deed executed between Arif Habib Investments Limited, as the Management Company and Habib Metropolitan Bank Limited as Trustee on February 08, 2008. The Fund was authorized by the Securities and Exchange Commission of Pakistan (SECP) on 1st February 2008.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended 30 June 2010 in accordance with the provisions of the following:

- (i) Limitations imposed on the Management Company under the Constitutive Documents;
- (ii) Valuation and pricing of Units are carried out in accordance with the requirements of the Trust Deed and Offering Document;
- (iii) Creation and cancellation of units are carried out in accordance with the requirements of the Trust Deed and Offering Document;
- (iv) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003; the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

Karachi
September 23, 2010



Azam Zaidi
Senior Executive Vice President
Habib Metropolitan Bank Limited

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

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

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

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes six non-executive directors, however, none of the directors on the Board represent minority shareholders.
2. The directors of the Management Company have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year Mr. Salim Chamdia had resigned on September 7, 2009 and was replaced by Mr. S. Gulrez Yazdani on October 6, 2009.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive (CE) has been taken by the Board. As on June 30, 2010, there is no other executive director of the Management Company besides the CE.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated and signed by the Chairman of the Board of Directors.
9. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. The Board arranged orientation for the directors of the Management Company during the year to apprise them of their duties and responsibilities.
11. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive.

12. The Directors' Report of the Fund for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The Directors, CE and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
14. The financial statements of the Fund were duly endorsed by CE and CFO of the Management Company before approval of the Board.
15. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee for the Fund. It comprises of four members, all of whom are non-executive directors including the Chairman of the committee. During the year Mr. Salim Chamdia has resigned as Chairman. Mr. Muhammad Shafi Malik has been appointed as Chairman in his place.
17. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.
18. The Board has set-up an effective internal audit function headed by the Head of Internal Audit and Compliance. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund and is involved in the internal audit function on a full time basis.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold any units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board



Nasim Beg
Chief Executive

Karachi: August 03, 2010

A.F.FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

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

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

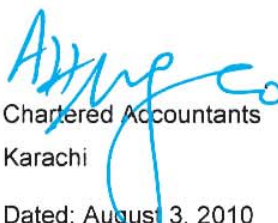
We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Arif Habib Investments Limited**, the Management Company of **Pakistan Cash Management Fund** to comply with the Listing Regulation No. 35 (Chapter XI) of the Islamabad Stock Exchange where the Fund is listed.

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

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

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

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


Chartered Accountants
Karachi
Dated: August 3, 2010

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

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

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

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

Basis for Qualified Opinion

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 applies. On the basis of an independent legal advice, in our opinion this levy has now become applicable on the Fund as well. However, no provision in respect of Workers Welfare Fund (WWF) has been made by the management for the reasons explained in note 9 to the financial statements. Had the management recognised this provision the liability towards WWF at June 30, 2010 would have amounted to Rs 3.795 million (including Rs 0.451 million for the year ended June 30, 2009) and accordingly the undistributed income and net asset value of the Fund at June 30, 2010 would have been lower by Rs 3.795 million.

Qualified Opinion

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

A.F.FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

Other matters

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

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



Chartered Accountants

Engagement Partner: Rashid A. Jafer

Dated: August 3, 2010

Karachi

**STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2010**

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
ASSETS			
Balances with banks	3	74,872	50,895
Receivable against sale of units		1,100	1,025
Investments	4	1,989,521	481,806
Profit receivable		2	1,836
Receivable against reverse repurchase transactions in government securities		-	44,758
Other receivables		-	410
Preliminary expenses and floatation costs	5	544	744
Total assets		<u>2,066,039</u>	<u>581,474</u>
LIABILITIES			
Payable to the Management Company	6	2,980	1,527
Accrued expenses and other liabilities	7	1,095	133
Total liabilities		<u>4,075</u>	<u>1,660</u>
NET ASSETS		<u>2,061,964</u>	<u>579,814</u>
UNIT HOLDER'S FUND (AS PER STATEMENT ATTACHED)		<u>2,061,964</u>	<u>579,814</u>
Contingencies and Commitments	8		
		(Number of Units)	
Number of units in issue		<u>40,675,146</u>	<u>11,441,686</u>
		(Rupees)	
NET ASSET VALUE PER UNIT		<u>50.6935</u>	<u>50.68</u>

The annexed notes 1 to 21 form an integral part of these financial statements.

**For Arif Habib Investments Limited
(Management Company)**


Chief Executive


Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
(Rupees in '000)			
INCOME			
Capital (loss) / gain on sale of investments - net		(172)	114
Income from reverse repurchase transactions		4,984	2,099
Income from investment in government securities		164,706	13,499
Profit on bank deposits		4,476	6,423
Other income		15	55
Unrealised (diminution) / appreciation in fair value of investments 'at fair value through profit or loss' - net	4.2	<u>(409)</u>	<u>37</u>
Total income		<u>173,600</u>	<u>22,227</u>
EXPENSES			
Remuneration of the Management Company	6.1	<u>17,363</u>	<u>2,224</u>
Securities transaction cost		299	38
Legal and other charges		142	139
Amortisation of preliminary expenses and floatation costs	5	<u>200</u>	<u>200</u>
Total expenses		<u>18,004</u>	<u>2,601</u>
Net income from operating activities		<u>155,596</u>	<u>19,626</u>
Element of income and capital gains included in prices of units issued less those in units redeemed - net		11,614	2,907
Net income for the year before taxation		<u>167,210</u>	<u>22,533</u>
Taxation	2.12	-	-
Net income for the year after taxation		<u>167,210</u>	<u>22,533</u>
Other comprehensive income / (loss) for the year		-	-
Total comprehensive income for the year		<u><u>167,210</u></u>	<u><u>22,533</u></u>
Earnings per unit	2.11		

The annexed notes 1 to 21 form an integral part of these financial statements.

**For Arif Habib Investments Limited
(Management Company)**


Chief Executive


Director

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	<i>Note</i>	2010 (Rupees in '000)	2009 (Rupees in '000)
Undistributed income brought forward			
- Realised gain		7,694	1,256
- Unrealised gain / (loss)		<u>37</u>	<u>(35)</u>
		<u>7,731</u>	<u>1,221</u>
Final distribution for the year ended June 30, 2009: Re 0.6750 per unit (Date of distribution: July 6, 2009) (2008: Re 0.50 per unit Date of distribution : July 3, 2008)			
- Bonus units		(7,056)	(1,128)
- Cash distribution		(667)	-
Net income for the year		167,210	22,533
Interim Distribution for the year ended June 30, 2010			
- Bonus units	10	(124,389)	(14,428)
- Cash distribution	10	(14,621)	(467)
Undistributed income carried forward		<u>28,208</u>	<u>7,731</u>
Undistributed income carried forward			
- Realised gain		28,617	7,694
- Unrealised (loss) / gain		<u>(409)</u>	<u>37</u>
		<u>28,208</u>	<u>7,731</u>

The annexed notes 1 to 21 form an integral part of these financial statements.

**For Arif Habib Investments Limited
(Management Company)**


Chief Executive


Director

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

	2010	2009
	(Rupees in '000)	
Net assets at the beginning of the year	579,814	114,075
Issue of 114,815,927 units (2009: 17,833,533 units)	5,789,630	897,949
Redemption of 88,202,331 units (2009: 8,959,619 units)	(4,447,788)	(451,369)
	1,341,842	446,580
Element of (income) and capital (gains) included in prices of units issued less those in units redeemed - net (transferred to income statement)	(11,614)	(2,907)
Final Distribution of 141,120 bonus units for the year ended June 30, 2009 at Re 0.6750 per unit (2008: 22,553 units at Re 0.50 per unit)	7,056	1,128
Interim distribution of 2,478,744 bonus units for the year ended June 30, 2010 (2009: 288,134 bonus units)	124,389	14,428
Final distribution for the year ended June 30, 2009: at Re 0.6750 per unit (Date of distribution: July 6, 2009) (2008: Re 0.50 per unit Date of distribution : July 3, 2008)		
- Bonus units	(7,056)	(1,128)
- Cash distribution	(667)	-
Capital (loss) / gain on sale of investments - net	(172)	114
Unrealised (diminution) / appreciation in value of investments classified as 'at fair value through profit or loss' - net	(409)	37
Other net income for the year	167,791	22,382
Interim Distribution for the year ended June 30, 2010		
- Bonus units	(124,389)	(14,428)
- Cash distribution	(14,621)	(467)
	20,477	6,510
Net assets as at the end of the year	2,061,964	579,814

The annexed notes 1 to 21 form an integral part of these financial statements.

**For Arif Habib Investments Limited
(Management Company)**



Chief Executive



Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	167,210	22,533
Adjustments for non cash items:		
Unrealised appreciation / (diminution) in value of investments classified as 'at fair value through profit or loss' - net	409	(37)
Element of income and capital gains included in prices of units issued less those in units redeemed - net	(11,614)	(2,907)
Amortisation of preliminary expenses and floatation costs	200	200
Remuneration of the Management Company	17,363	2,224
	173,568	22,013
(Increase) / decrease in assets		
Investments	(1,508,124)	(381,855)
Receivable against reverse repurchase transactions in government securities	44,758	(44,758)
Profit receivable	1,834	(1,763)
Other receivables	410	(410)
Receivable against sale of units	(75)	(525)
	(1,461,197)	(429,311)
Increase / (decrease) in liabilities		
Preliminary expenses and floatation costs payable to the Management Company	(200)	-
Accrued expenses and other liabilities	962	133
	762	133
Remuneration paid to the Management Company	(15,710)	(1,797)
Net cash used in operating activities	(1,302,577)	(408,962)
CASH FLOW FROM FINANCING ACTIVITIES		
Distributions made during the year	(15,288)	(467)
Net cash received on issuance of units	1,341,842	446,580
Net cash generated from financing activities	1,326,554	446,113
Net increase in cash and cash equivalents during the year	23,977	37,151
Cash and cash equivalents at the beginning of the year	50,895	13,744
Cash and cash equivalents at the end of the year	74,872	50,895

The annexed notes 1 to 21 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 JUNE 30, 2010

1 LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Cash Management Fund (PCF) "the Fund" was established under a Trust Deed executed between Arif Habib Investments Limited (the Management Company) and Habib Metropolitan Bank Limited as Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on February 1, 2008 and was executed on February 8, 2008 in accordance with the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2007 (Repealed).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non Banking Finance Companies (Establishment and Regulation) Rules 2003 through a certificate of registration issued by SECP. During the current year, the registered office of the Management Company has been shifted to Arif Habib Centre, 23 M.T. Khan Road, Karachi, Pakistan.

PCF is an open-ended mutual fund and is listed on Islamabad Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

The Fund is allowed to invest in treasury bills, short term government instruments and reverse repurchase transactions against government Securities and the uninvested portion is deposited in bank accounts.

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

Title to the assets of the Fund is held in the name of Habib Metropolitan Bank Limited as trustee of the Fund.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 Statement of compliance

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

2.1.2 Accounting convention

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

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

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

The Fund has applied IAS 1 (Revised) with effect from July 1, 2009 and has chosen to present all non-owner changes in equity in one performance statement - the Statement of comprehensive income (income statement). Accordingly, items of income and expenses representing other comprehensive income have been presented in the 'Income statement'. Comparative information has been represented to reflect these changes. As the change in accounting policy only impacts presentation aspects, there is no impact on the values of the net assets of the Fund for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented.

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

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

- (a) IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of this amendment did not have a significant impact on the Fund's financial statements.
- (b) IFRS 7 (Amendment), 'Financial Instruments: Disclosure'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements, by level of fair value measurement hierarchy. The adoption of the amendment has resulted in additional disclosures but did not have an impact on the Fund's financial position or performance.
- (c) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access of goods or receipt of services. The adoption of this amendment did not have any effect on the Fund's financial statements.

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

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

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

- (a) IAS 7 (Amendment), 'Statement of Cash Flows' (effective from January 1, 2010). The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Fund's financial statements.
- (b) IAS 24 related party Disclosures (revised) (effective from January 01, 2011). The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

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

2.1.6 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments (notes 2.2 and 4).

2.2 Financial assets

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

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

2.2.2 Regular way contracts

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

2.2.3 Initial recognition and measurement

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

2.2.4 Subsequent measurement

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

Basis of valuation of government securities

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Markets Association of Pakistan.

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

Loans and receivables are carried at amortised cost.

2.2.5 Impairment

The carrying amounts of the Fund's assets are revalued at each balance sheet date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement.

2.2.6 Derecognition

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

2.2.7 Offsetting of financial assets and liabilities

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

2.3 Financial liabilities

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

2.4 Derivatives

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

2.5 Securities under repurchase / resale agreements

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

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

2.6 Proposed distributions

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

2.7 Issue and redemption of units

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

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

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

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

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

2.9 Provisions

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

2.10 Net asset value per unit

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

2.11 Earnings per unit

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

2.12 Taxation

No provision for taxation has been made as Fund is exempt from Income Tax as per clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders.

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

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

2.13 Revenue recognition

- Realised capital gains / losses arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised capital gains / losses arising on marking to market of investments classified as 'financial assets at fair value through profit or loss' are included in the Income Statement in the period in which they arise.
- Profit on bank deposits is recognised on an accrual basis.
- Profit on investment is recognised on an accrual basis.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise of balances with banks.

2.15 Foreign currency translation

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

2.16 Functional and presentation currency

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

	Note	2010	2009
		(Rupees in '000)	
3 BALANCES WITH BANKS			
In current accounts		5	-
In deposit accounts	3.1	<u>74,867</u>	<u>50,895</u>
		<u>74,872</u>	<u>50,895</u>
3.1 These carry a rate of return ranging from 5% to 9% (2009: 5% to 13.25%) per annum.			
4 INVESTMENTS			
At fair value through profit or loss - held for trading			
Government Securities	4.1	<u>1,989,521</u>	<u>481,806</u>

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

Issue Date	Tenor	Face Value				Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investments
		Balance as at July 1, 2009	Purchases during the year	Sales / matured during the year	Balance as at June 30, 2010	Cost	Market value	Appreciation / (Diminution)		
(Rupees in '000')										
Market Treasury Bills										
12th February 2009	3 Months	50,000	-	50,000	-	-	-	-	-	-
12th February 2009	3 Months	50,000	-	50,000	-	-	-	-	-	-
12th February 2009	3 Months	65,000	-	65,000	-	-	-	-	-	-
12th February 2009	3 Months	25,000	-	25,000	-	-	-	-	-	-
12th February 2009	3 Months	25,000	-	25,000	-	-	-	-	-	-
12th February 2009	3 Months	75,000	-	75,000	-	-	-	-	-	-
26th February 2009	3 Months	200,000	-	200,000	-	-	-	-	-	-
29th January 2010	6 Months	-	40,000	40,000	-	-	-	-	-	-
23th April 2009	6 Months	-	100,000	100,000	-	-	-	-	-	-
26th February 2009	6 Months	-	50,000	50,000	-	-	-	-	-	-
07th May 2009	6 Months	-	25,000	25,000	-	-	-	-	-	-
07th May 2009	6 Months	-	100,000	100,000	-	-	-	-	-	-
07th May 2009	6 Months	-	100,000	100,000	-	-	-	-	-	-
07th May 2009	6 Months	-	50,000	50,000	-	-	-	-	-	-
07th May 2009	6 Months	-	50,000	50,000	-	-	-	-	-	-
07th May 2009	6 Months	-	100,000	100,000	-	-	-	-	-	-
07th May 2009	6 Months	-	50,000	50,000	-	-	-	-	-	-
07th May 2009	6 Months	-	50,000	50,000	-	-	-	-	-	-
07th May 2009	6 Months	-	65,000	65,000	-	-	-	-	-	-
10th September 2009	3 Months	-	35,000	35,000	-	-	-	-	-	-
10th September 2009	3 Months	-	50,000	50,000	-	-	-	-	-	-
10th September 2009	3 Months	-	75,000	75,000	-	-	-	-	-	-
26th September 2009	3 Months	-	50,000	50,000	-	-	-	-	-	-
26th September 2009	3 Months	-	100,000	100,000	-	-	-	-	-	-
09th April 2009	6 Months	-	195,000	195,000	-	-	-	-	-	-
08th December 2009	3 Months	-	525,000	525,000	-	-	-	-	-	-
22th October 2009	3 Months	-	60,000	60,000	-	-	-	-	-	-
22th October 2009	3 Months	-	50,000	50,000	-	-	-	-	-	-
05th November 2009	3 Months	-	50,000	50,000	-	-	-	-	-	-
22th October 2009	3 Months	-	110,000	110,000	-	-	-	-	-	-
05th November 2009	3 Months	-	50,000	50,000	-	-	-	-	-	-
12th February 2009	1 Year	-	150,000	150,000	-	-	-	-	-	-
19th November 2009	3 Months	-	50,000	50,000	-	-	-	-	-	-
03th December 2009	3 Months	-	25,000	25,000	-	-	-	-	-	-
12 February 2009	1 Year	-	75,000	75,000	-	-	-	-	-	-
03 December 2009	3 Months	-	200,000	200,000	-	-	-	-	-	-
12 February 2009	1 Year	-	25,000	25,000	-	-	-	-	-	-
29 January 2009	1 Year	-	50,000	50,000	-	-	-	-	-	-
26 February 2009	1 Year	-	50,000	50,000	-	-	-	-	-	-
10 September 2009	6 Months	-	85,000	85,000	-	-	-	-	-	-
26 September 2009	6 Months	-	100,000	100,000	-	-	-	-	-	-
27th August 2009	6 Months	-	150,000	150,000	-	-	-	-	-	-
09th April 2009	1 Year	-	50,000	50,000	-	-	-	-	-	-
09th April 2009	1 Year	-	50,000	50,000	-	-	-	-	-	-
14th January 2010	3 Months	-	150,000	150,000	-	-	-	-	-	-
14th January 2010	3 Months	-	50,000	50,000	-	-	-	-	-	-
26th February 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
26th February 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
29th January 2010	1 Year	-	35,000	35,000	-	-	-	-	-	-
09th April 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
26th February 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
09th April 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
11th March 2010	6 Months	-	10,000	10,000	-	-	-	-	-	-
09th April 2009	1 Year	-	150,000	150,000	-	-	-	-	-	-
12th March 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
23rd April 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
10th September 2009	6 Months	-	20,000	20,000	-	-	-	-	-	-
26th September 2009	6 Months	-	140,000	140,000	-	-	-	-	-	-

Issue Date	Tenor	Face Value			Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investments	
		Balance as at July 1, 2009	Purchases during the year	Sales / matured during the year	Balance as at June 30, 2010	Cost	Market value			Appreciation / (Diminution)
(Rupees in '000')										
26th February 2009	1 Year	-	50,000	50,000	-	-	-	-	-	
26th September 2009	6 Months	-	100,000	100,000	-	-	-	-	-	
26th March 2009	1 Year	-	50,000	50,000	-	-	-	-	-	
23rd April 2009	1 Year	-	150,000	150,000	-	-	-	-	-	
07th March 2009	1 Year	-	300,000	300,000	-	-	-	-	-	
26th February 2010	3 Months	-	50,000	50,000	-	-	-	-	-	
26th February 2010	3 Months	-	260,000	260,000	-	-	-	-	-	
12th March 2009	1 Year	-	75,000	75,000	-	-	-	-	-	
11th March 2009	3 Months	-	225,000	225,000	-	-	-	-	-	
11th March 2009	3 Months	-	25,000	25,000	-	-	-	-	-	
04th June 2009	1 Year	-	100,000	100,000	-	-	-	-	-	
11th March 2009	3 Months	-	25,000	25,000	-	-	-	-	-	
25th March 2009	3 Months	-	98,000	98,000	-	-	-	-	-	
25th March 2009	3 Months	-	175,000	175,000	-	-	-	-	-	
25th March 2009	3 Months	-	36,000	36,000	-	-	-	-	-	
09th April 2009	1 Year	-	250,000	250,000	-	-	-	-	-	
09th April 2009	1 Year	-	50,000	50,000	-	-	-	-	-	
08th April 2009	3 Months	-	150,000	150,000	-	-	-	-	-	
08th April 2009	3 Months	-	175,000	175,000	-	-	-	-	-	
23th April 2009	1 Year	-	100,000	100,000	-	-	-	-	-	
23rd April 2009	1 Year	-	200,000	200,000	-	-	-	-	-	
23rd April 2009	1 Year	-	45,000	45,000	-	-	-	-	-	
22nd April 2010	3 Months	-	150,000	-	150,000	149,320	149,319	(1)	7.24	7.51
22nd April 2010	3 Months	-	175,000	75,000	100,000	99,548	99,546	(2)	4.83	5.00
22nd April 2010	3 Months	-	150,000	50,000	100,000	99,547	99,546	(1)	4.83	5.00
22nd April 2010	3 Months	-	150,000	50,000	100,000	99,547	99,546	(1)	4.83	5.00
22nd April 2010	3 Months	-	200,000	200,000	-	-	-	-	-	-
11th March 2010	6 Months	-	5,000	5,000	-	-	-	-	-	-
14th January 2010	6 Months	-	100,000	-	100,000	99,551	99,546	(5)	4.83	5.00
22nd April 2010	3 Months	-	35,000	25,000	10,000	9,955	9,955	-	0.48	0.50
06th May 2010	3 Months	-	100,000	-	100,000	99,107	99,087	(20)	4.81	4.98
11th March 2010	3 Months	-	50,000	50,000	-	-	-	-	-	-
25th Feb 2010	3 Months	-	50,000	50,000	-	-	-	-	-	-
11th March 2010	3 Months	-	50,000	50,000	-	-	-	-	-	-
20th May 2010	3 Months	-	75,000	-	75,000	73,999	73,970	(29)	3.59	3.72
20th May 2010	3 Months	-	150,000	-	150,000	148,005	147,940	(65)	7.17	7.44
20th May 2010	3 Months	-	170,000	-	170,000	167,739	167,666	(73)	8.13	8.43
20th May 2010	3 Months	-	100,000	-	100,000	98,662	98,627	(35)	4.78	4.96
11th Feb 2010	6 Months	-	125,000	-	125,000	123,330	123,283	(47)	5.98	6.20
08th April 2010	3 Months	-	50,000	-	50,000	-	-	-	-	-
20th MaY 2010	3 Months	-	30,000	-	30,000	29,590	29,588	(2)	1.43	1.49
22nd April 2010	3 Months	-	150,000	17,000	133,000	132,397	132,396	(1)	6.42	6.65
13th August 2009	1 Year	-	50,000	-	50,000	49,325	49,313	(12)	2.39	2.48
03rd June 2010	3 Months	-	225,000	-	225,000	220,965	220,899	(66)	10.71	11.10
17th December 2009	6 Months	-	125,000	125,000	-	-	-	-	-	-
17th June 2010	3 Months	-	225,000	-	225,000	219,937	219,885	(52)	10.66	11.05
22nd April 2010	3 Months	-	50,000	-	50,000	49,770	49,773	3	2.41	2.50
25th February 2010	6 Months	-	10,000	-	10,000	9,818	9,818	-	0.48	0.49
03rd June 2010	3 Months	-	10,000	-	10,000	9,818	9,818	-	0.48	0.50
Total as at June 30, 2010						1,989,930	1,989,521	(409)		
Total as at June 30, 2009						481,769	481,806	37		

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

2010 **2009**
(Rupees in '000)

Market value of investments
Less: Cost of investments

1,989,521	481,806
<u>(1,989,930)</u>	<u>(481,769)</u>
(409)	37

Net unrealised (appreciation) / diminution in value of investments at the beginning of the year

(37)	35
------	----

Realised on disposal during the year

37	(35)
<u>(409)</u>	<u>37</u>

5 PRELIMINARY EXPENSES AND FLOATATION COSTS

Opening balance
Less: Amortisation during the year
Balance as at June 30,

744	944
<u>(200)</u>	<u>(200)</u>
<u>544</u>	<u>744</u>

6	PAYABLE TO THE MANAGEMENT COMPANY	Note	2010	2009
			(Rupees in '000)	
	Performance fee	6.1	2,180	527
	Preliminary expenses and floatation costs		800	1,000
			<u>2,980</u>	<u>1,527</u>

- 6.1 Under the provisions of Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such net assets of the Fund. The Management Company has charged a performance fee at the rate of 10% of the gross earnings of the Fund. This fee is subject to a minimum of 0.25% of the average daily Net Assets of the Fund.

The performance fee charged by the Management Company covers SECP fee, trustee remuneration, bank charges, listing fee, rating fee, auditors remuneration and printing cost on behalf of the Fund.

7	ACCRUED EXPENSES AND OTHER LIABILITIES	2010	2009
		(Rupees in '000)	
	Legal and professional charges	118	125
	Brokerage payable	20	-
	Zakat Payable	-	8
	Payable to Pakistan Income Enhancement Fund	957	-
		<u>1,095</u>	<u>133</u>

8 CONTINGENCIES AND COMMITMENTS

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

9 CONTRIBUTION TO WORKERS WELFARE FUND

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

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

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

10 INTERIM DISTRIBUTIONS

Date	Rate Per Unit	Bonus*		Cash Distribution**	Total
		Units	Amount		
				Rupees in '000	
26th July 2009	Re 0.3500	77,057	3,857	-	3,857
26th August 2009	Re 0.3864	92,444	4,631	-	4,631
26th September 2009	Re 0.4122	100,603	5,044	411	5,455
26th October 2009	Re 0.4413	163,759	8,211	440	8,651
26th November 2009	Re 0.4300	168,739	8,467	428	8,895
26th December 2009	Re 0.4301	186,717	9,372	1,279	10,651
26th January 2010	Re 0.4300	231,391	11,617	2,558	14,175
26th February 2010	Re 0.4300	302,409	15,186	2,558	17,744
26th March 2010	Re 0.4061	267,796	13,451	2,415	15,866
26th April 2010	Re 0.5200	429,719	21,566	3,616	25,182
26th May 2010	Re 0.4571	458,110	22,987	916	23,903
		<u>2,478,744</u>	<u>124,389</u>	<u>14,621</u>	<u>139,010</u>

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

** Cash dividend has been distributed to unit holder under plan B

As per clause 12 of the Trust Deed and clause 6 of Part VI of the Offering Document, the Management Company, on behalf of the Fund, on a monthly basis (except June) distributes cash dividend, bonus, partially cash / bonus or in any other form acceptable to the Commission (such as bonus units) that may qualify under the tax laws. Net income (after deducting all the expenses of the Fund) earned upto 25th of each month may be distributed by the Management Company. The Board of Directors on 22nd September 2008 have passed a resolution providing standing authorisation 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.

11 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited (AHI) being the Management Company (AMC), Arif Habib Securities Limited being the holding company of AHI, Arif Habib Limited, Thatta Cement Limited being companies under common control, Arif Habib Bank Limited and Pak Arab Fertilizer Limited being company under common directorship and Habib Metropolitan Bank Limited being the Trustee, other collective investment schemes managed by the Management Company and directors and executive of the Management Company.

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

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

	Year ended June 30, 2010	Year ended June 30, 2009
(Rupees in '000)		
11.1 Details of transactions with connected persons are as follows:		
Management Company		
Performance fee for the year	17,363	2,224
Issue of 6,140,185 units (2009: 477,312 units)	308,657	24,000
Redemption of 7,739,270 units (2009: 1,183,177 units)	389,638	59,664
Issue of 115,263 bonus units (2009: 163,729 units)	5,776	8,198
Associated Companies		
Arif Habib Bank Limited		
Profit on bank deposits	-	59
Habib Metropolitan Bank Limited - Trustee		
Profit on bank deposits	3,318	1,103
Directors and executives of the management company		
Issue of 182,199 units (2009: 600,205 units)	9,189	30,184
Issue of 5,122 bonus units (2009: 11,240 units)	257	563
Redemption of 194,060 units (2009: 570,577 units)	9,765	28,714
	June 30, 2010	June 30, 2009
11.2 Amounts outstanding as at the year end	(Rupees in '000)	
Management Company		
Payable to the Management Company	2,980	1,527
Units held Nil (2009: 1,483,822 units)	-	75,200
Arif Habib Bank Limited		
Bank balance	-	1
Habib Metropolitan Bank Limited - Trustee		
Bank balance	74,650	3,067
Profit receivable on bank deposits	-	98
Amounts due on account of Conversion / Transfer of units		
(Payable to) / receivable from Pakistan Income Enhancement Fund	(957)	288
Receivable from Pakistan Stock Market Fund	-	95
Directors / officers and employees of the management company		
Units held 34,129 units (2009: 40,868 units)	1,730	2,071

12 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

	Designation	Qualification	Experience in years	
1	Basharat Ullah	Chief Investment Officer	MBA	17
2	Zeeshan	Chief Financial Officer	ACA	7
3	Mr. Zafar Rehman	Head of Debt and Money Market Funds	B.Com	18
4	Mr. Imran Khan	Head of Research	MBA	7
5	Mr. Nadeem Khan	Fund Manager	MBA	18
6	Mr. Tariq Hashmi	Head of Marketing	MBA	18

12.1 Mr. Nadeem Khan is the manager of the Fund. He has obtained a Masters degree in Business Administration. Other Fund being managed by the fund manager is as follow:

- Pakistan Capital Protected Fund - Fixed Income Securities

13 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

	2010	
1	JS Global Capital Limited	19.99%
2	KASB Securities Limited	16.93%
3	Invest Capital Investment Bank Limited	12.66%
4	Atlas Capital Markets (Private) Limited	11.10%
5	Alfalsh Securities (Private) Limited	10.42%
6	First Capital Securities Corporation Limited	9.94%
7	Global Securities Pakistan Limited	7.13%
8	Invisor Securities (Private) Limited	4.47%
9	BMA Capital Management Limited	4.24%
10	Elixir Securities Pakistan (Private) Limited	3.13%
	2009	
1	Global Securities Pakistan Limited	34.35%
2	Invest Capital Investment Bank Limited	31.64%
3	Elixir Securities Pakistan (Private) Limited	12.85%
4	Invisor Securities (Private) Limited	4.96%
5	BMA Capital Management Limited	4.34%
6	KASB Securities Limited	3.46%
7	JS Global Capital Limited	3.21%
8	First Capital Securities Corporation Limited	2.59%
9	Alfalsh Securities (Private) Limited	1.73%
10	Atlas Capital Market (Private) Limited	0.85%

14 PATTERN OF UNIT HOLDING

	June 30, 2010		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	222	228,261	11.07
Directors	1	327	0.02
Insurance companies	6	296,246	14.37
Bank / DFIs	1	101,561	4.93
NBFCs	2	63,428	3.08
Retirement funds	13	89,006	4.32
Public Limited companies	13	995,781	48.28
Others	15	287,354	13.93
	273	2,061,964	100.00

	June 30, 2009		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	126	82,389	14.21
Directors	1	300	0.05
Insurance companies	4	62,719	10.82
Bank / DFIs	1	50,085	8.64
NBFCs	1	75,193	12.97
Retirement funds	9	20,903	3.61
Public Limited companies	2	111,100	19.16
Others	13	177,125	30.54
	157	579,814	100.00

15 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

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

For the year ended June 30, 2010				
Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
1 Mr. Shafi Malik	11	11	-	-
2 Mr. Salim Chamdia *	3	1	2	64th and 65th meeting
3 Mr. Nasim Beg	11	11	-	-
4 Mr. Sirajuddin Cassim	11	1	10	63rd to 67th and 69th to 73rd meeting
5 Mr. S. Gulrez Yazdani **	7	7	-	-
6 Mr. Muhammad Akmal Jameel	11	10	1	64th meeting
7 Mr. Syed Ajaz Ahmed	11	11	-	-
8 Mr. Muhammad Kashif	11	8	3	67th, 69th and 70th meeting

* Mr. Salim Chamdia resigned from the office on September 7, 2009.

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

16 FINANCIAL RISK MANAGEMENT

The Fund is a money market fund which invests in government securities. The Fund's activities expose it to a variety of financial risk: market risk, credit risk and liquidity risk.

16.1 Market risk

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

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

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

16.1.1 Currency risk

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

16.1.2 Interest rate risk

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

Sensitivity analysis for fixed rate instruments

As at June 30, 2010, the Fund only holds Treasury Bills which are classified 'as at fair value through profit or loss' exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by Financial Market Association on June 30, 2010 with all other variables held constant, the net income for the year and net assets would be lower by Rs. 1.91 million (2009: Rs 0.645 million). In case of 100 basis points decrease in rates announced by Financial Market Association on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be higher by Rs. 1.91 million (2009: Rs 0.645 million)

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

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

As at June 30, 2010

Exposed to Yield / Interest risk			Not exposed to Yield / Interest rate risk	Total
Upto three months	More than three months and upto one year	More than one year		

(Rupees in '000)

On-balance sheet financial instruments**Financial assets**

Balances with banks	74,867	-	-	5	74,872
Receivable against sale of investments	-	-	-	1,100	1,100
Investments	1,989,521	-	-	-	1,989,521
Profit receivable	-	-	-	2	2
	2,064,388	-	-	1,107	2,065,495

Financial liabilities

Payable to the Management Company	-	-	-	2,980	2,980
Accrued expenses and other liabilities	-	-	-	1,095	1,095
	-	-	-	4,075	4,075

On-balance sheet gap

	2,064,388	-	-	(2,968)	2,061,420
--	------------------	---	---	----------------	------------------

Off-balance sheet financial instruments

	-	-	-	-	-
--	---	---	---	---	---

Off-balance sheet gap

	-	-	-	-	-
--	---	---	---	---	---

As at June 30, 2009

Exposed to Yield / Interest risk			Not exposed to Yield / Interest rate risk	Total
Upto three months	More than three months and upto one year	More than one year		

(Rupees in '000)

On-balance sheet financial instruments**Financial assets**

Balances with banks	50,895	-	-	-	50,895
Receivable against sale of units	-	-	-	1,025	1,025
Investments	481,806	-	-	-	481,806
Profit receivable	-	-	-	1,836	1,836
Receivable against reverse repurchase transactions in government securities	44,758	-	-	-	44,758
Other receivables	-	-	-	410	410
	577,459	-	-	3,271	580,730

Financial liabilities

Payable to the Management Company	-	-	-	1,527	1,527
Accrued expenses and other liabilities	-	-	-	133	133
	-	-	-	1,660	1,660

On-balance sheet gap

	577,459	-	-	1,611	579,070
--	----------------	----------	----------	--------------	----------------

Off-balance sheet financial instruments

	-	-	-	-	-
--	---	---	---	---	---

Off-balance sheet gap

	-	-	-	-	-
--	---	---	---	---	---

16.2 Credit risk

Credit risk represents the risk of a loss if a counter party fails to perform as contracted. Since the Fund primarily invests in government securities the Fund does not have such risk to that extent. The Fund is also exposed to counter party credit risks on balances with banks and profit receivable. The credit risk on such funds is limited because the uninvested amount is placed with financial institutions having a minimum credit rating of AA.

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

Bank Balances by rating category**2010**

Standard Chartered Bank (Pakistan) Limited	AAA
Habib Metropolitan Bank Limited	AA+
Bank Alfalah Limited	AA

2009

Standard Chartered Bank (Pakistan) Limited	AAA
Habib Metropolitan Bank Limited	AA+
Faysal Bank Limited	AA
Bank Alfalah Limited	AA
NIB Bank Limited	AA-
Arif Habib Bank Limited	A

The maximum exposure to credit risk before any credit enhancement as at June 30, 2010 is the carrying amount of the financial assets. None of these assets are impaired nor past due.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments primarily consist of government securities. Further to the extent of uninvested portion which is kept in banks and that too with a bank having a minimum rating of AA, thus mitigating any significant concentration of credit risk.

16.3 Liquidity risk

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

The Fund is exposed to daily cash redemptions, if any. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest in short dated government instruments that are very liquid, hence, can be readily disposed off and are considered readily realisable.

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

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

As at June 30, 2010					
Total	Upto three months	More than three months and upto one year	More than one year		
-----Rupees in '000-----					
Payable to the Management Company	2,980	2,180	200	600	
Accrued expenses and other liabilities	1,095	1,095	-	-	
	<u>4,075</u>	<u>3,275</u>	<u>200</u>	<u>600</u>	
As at June 30, 2009					
Total	Upto three months	More than three months and upto one year	More than one year		
-----Rupees in '000-----					
Payable to the Management Company	1,527	777	150	600	
Accrued expenses and other liabilities	133	133	-	-	
	<u>1,660</u>	<u>910</u>	<u>150</u>	<u>-</u>	

16.4 Financial instruments by category

		As at June 30, 2010		
		Loans and receivables	Assets at fair value through profit or loss	Total
		Rupees in '000		
Assets				
Balances with banks		74,872	-	74,872
Receivable against sale of investments		1,100	-	1,100
Investments		-	1,989,521	1,989,521
Profit receivable		2	-	2
		<u>75,974</u>	<u>1,989,521</u>	<u>2,065,495</u>
		As at June 30, 2010		
		Liabilities at fair value through profit or loss	Other financial liabilities	Total
		Rupees in '000		
Liabilities				
Payable to the Management Company		-	2,980	2,980
Accrued expenses and other liabilities		-	1,095	1,095
		<u>-</u>	<u>4,075</u>	<u>4,075</u>
		As at June 30, 2009		
		Loans and receivables	Assets at fair value through profit or loss	Total
		Rupees in '000		
Assets				
Balances with banks		50,895	-	50,895
Receivable against sale of investments		1,025	-	1,025
Investments		-	481,806	481,806
Dividend and profit receivable		1,836	-	1,836
Receivable against reverse repurchase transactions in government securities		44,758	-	44,758
Other receivables		410	-	410
		<u>98,924</u>	<u>481,806</u>	<u>580,730</u>
		As at June 30, 2009		
		Liabilities at fair value through profit or loss	Other financial liabilities	Total
		Rupees in '000		
Liabilities				
Payable to the Management Company		-	1,527	1,527
Accrued expenses and other liabilities		-	133	133
		<u>-</u>	<u>1,660</u>	<u>1,660</u>

16.5 Fair value of financial assets and liabilities

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

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

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

	As at June 30, 2010			
	Level 1	Level 2	Level 3	Total
	----- Rupees in '000 -----			
ASSETS				
Investment in government securities- 'at fair value through profit or loss'	1,989,521	-	-	1,989,521

17 CAPITAL RISK MANAGEMENT

The Fund's capital is represented by redeemable units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per share on the redemption date. The relevant movements are shown on the statement of movement in unit holders' funds.

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

In accordance with the risk management policies stated in note 16, the Fund primarily invests in short dated government papers to ensure liquidity.

18 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in its meeting held on July 5, 2010 has proposed a final distribution in respect of the year ended June 30, 2010 of Re 0.6900 per unit (2009: Rs 0.6750 per unit) amounting to Rs 28.066 million (2009: Rs 7.72 million). The financial statements for the year ended June 30, 2010 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2011.

19 DATE OF AUTHORISATION FOR ISSUE

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

20 CORRESPONDING FIGURES

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

21 GENERAL

Figures have been rounded off to the nearest thousand rupees.



Chief Executive

**For Arif Habib Investments Limited
(Management Company)**



Director

**PATTERN OF HOLDING AS PER REQUIEMENTS
OF CODE OF CORPORATE GOVERNANCE
AS AT JUNE 30, 2010**

	<u>UNITS HELD</u>
Directors and CEO	
Nasim Beg	6,460
Public Limited Companies	19,643,179
Banks and Financial Institution	2,003,437
Insurance Companies	5,843,874
Indiviiduals	4,502,785
Retirement Funds	1,755,768
Modarabas & Mutual Funds	1,251,208
Othes Corporate Sector Entities	3,702,592
Non Profit Organizations	1,965,843
TOTAL	40,675,146

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

No. of Unit Holders	Unit Holdings		Total Units Held	Percentage	
	FROM	TO			
125	0	-	5000	142,264	0.35
37	5001	-	10000	244,287	0.60
10	10001	-	15000	119,683	0.29
10	15001	-	20000	177,227	0.44
6	20001	-	25000	128,624	0.32
3	25001	-	30000	84,643	0.21
4	30001	-	35000	125,944	0.31
5	35001	-	40000	190,938	0.47
3	40001	-	45000	127,986	0.31
5	45001	-	50000	243,034	0.60
5	50001	-	55000	260,420	0.64
2	55001	-	60000	114,413	0.28
1	60001	-	65000	61,805	0.15
1	65001	-	70000	68,622	0.17
1	70001	-	75000	74,335	0.18
4	75001	-	80000	312,060	0.77
2	80001	-	85000	161,137	0.40
1	85001	-	90000	89,171	0.22
2	90001	-	95000	183,223	0.45
1	100001	-	105000	100,480	0.25
1	115001	-	120000	119,242	0.29
3	125001	-	130000	380,339	0.94
1	130001	-	135000	132,371	0.33
1	135001	-	140000	136,829	0.34
3	140001	-	145000	430,580	1.06
2	150001	-	155000	304,781	0.75
1	155001	-	160000	159,152	0.39
1	195001	-	200000	197,614	0.49
1	200001	-	205000	202,489	0.50
1	210001	-	215000	212,261	0.52
1	225001	-	230000	227,301	0.56
2	295001	-	300000	594,477	1.46
1	370001	-	375000	372,431	0.92
1	390001	-	395000	394,886	0.97
1	395001	-	400000	398,268	0.98
1	440001	-	445000	440,879	1.08
1	495001	-	500000	495,658	1.22
1	510001	-	515000	512,385	1.26
1	545001	-	550000	549,807	1.35
1	550001	-	555000	551,487	1.36
1	620001	-	625000	621,791	1.53
1	720001	-	725000	721,897	1.77
1	745001	-	750000	747,056	1.84
2	995001	-	1000000	1,995,673	4.91
1	1015001	-	1020000	1,018,986	2.51
1	1030001	-	1035000	1,031,799	2.54
1	1075001	-	1080000	1,076,541	2.65
1	1250001	-	1255000	1,251,208	3.08
1	1355001	-	1360000	1,358,967	3.34
1	1625001	-	1630000	1,627,013	4.00
1	1975001	-	1980000	1,977,919	4.86
1	1990001	-	1995000	1,993,437	4.90
1	201000	-	2015000	2,013,739	4.95
1	2100001	-	2105000	2,103,911	5.17
1	3065001	-	3070000	3,068,126	7.54
1	3100001	-	3105000	3,104,832	7.63
1	3135001	-	3140000	3,135,282	7.71
1	2000001	-	2005000	2,003,437	4.93
273	TOTAL UNITS			40,675,146	100.00

PERFORMANCE TABLE

	2010	2009 (Rupees in '000)	2008
Net assets	<u>2,061,964</u>	<u>579,814</u>	<u>114,075</u>
Net income	<u>167,210</u>	<u>22,533</u>	<u>2,526</u>
		(Rupees per unit)	(Rupees per unit)
Net assets value	<u>50.6935</u>	<u>50.68</u>	<u>50.54</u>
Interim distribution per unit (stock)*	<u>4.6932</u>	<u>5.04</u>	<u>0.65</u>
Final Distribution per unit (stock)	<u>0.6900</u>	<u>0.675</u>	<u>0.50</u>
Distribution date-final	<u>July 05, 2010</u>	<u>July 06, 2009</u>	<u>July 03, 2008</u>
Year end Offer price per unit	<u>50.6935</u>	<u>50.68</u>	<u>50.54</u>
Year end Repurchase price per unit	<u>50.6935</u>	<u>50.68</u>	<u>50.54</u>
Highest offer price	<u>50.6807</u>	<u>50.67</u>	<u>50.70</u>
Lowest offer price	<u>50.0700</u>	<u>50.06</u>	<u>50.08</u>
Highest repurchase price per unit	<u>50.6807</u>	<u>50.67</u>	<u>50.70</u>
Lowest repurchase price per unit	<u>50.0700</u>	<u>50.06</u>	<u>50.07</u>
		(Percentage)	
Total return of the fund			
- capital growth	<u>0.52</u>	<u>0.52</u>	<u>0.33</u>
- income distribution	<u>10.76</u>	<u>11.43</u>	<u>8.17</u>
Average return of the fund			
-One Year	<u>11.28</u>	<u>11.95</u>	<u>8.50</u>
-Since inception (20 March 2008)	<u>11.25</u>	<u>11.24</u>	<u>-</u>
Weighted average Portfolio duration	<u>37 days</u>	<u>42 days</u>	<u>85 days</u>

* Interim Distribution

Date	2010	Rate per Unit
26th July 2009		Re 0.3500
26th August 2009		Re 0.3864
26th September 2009		Re 0.4122
26th October 2009		Re 0.4413
26th November 2009		Re 0.4300
26th December 2009		Re 0.4301
26th January 2010		Re 0.4300
26th Februray 2010		Re 0.4300
26th March 2010		Re 0.4061
26th April 2010		Re 0.5200
26th May 2010		Re 0.4571

Disclaimer

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)



HEAD OFFICE:

Arif Habib Centre,

23 M. T. Khan Road, Karachi-74000, Pakistan.

Tel: (+92-21) 111-468-378 (111-INVEST)

Fax: (+92-21) 32470351, 32470337

E-mail: marketing@arifhabib.com.pk

Website: www.arifhabib.com.pk