

PAKISTAN STOCK MARKET FUND



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



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FUND'S INFORMATION

Management Company	Arif Habib Investments Limited Arif Habib Centre, 23 M. T. Khan Road, Karachi-74000.
Board of Directors of the Management Company	Mr. Muhammad Shafi Malik Chairman Mr. Nasim Beg Chief Executive Mr. Sirajuddin Cassim Director Mr. S. Gulrez Yazdani Director Mr. Muhammad Akmal Jameel Director Syed Ajaz Ahmed Director Mr. Muhammad Kashif Habib Director
Company Secretary & CFO of the Management Company	Mr. Zeeshan
Audit Committee	Mr. Muhammad Shafi Malik Chairman Mr. Muhammad Akmal Jameel Member Mr. Muhammad Kashif Habib Member Syed Ajaz Ahmed Member
Trustee	Central Depository Company of Pakistan Limited (CDC) CDC House, 99-B, S.M.C.H.S Main Shahrah-e-faisal, Karachi.
Bankers	<ul style="list-style-type: none">• Bank AL Habib Limited• Summit Bank Limited (formerly: Arif Habib Bank Limited)• Deutsche Bank A.G.• Standard Chartered Bank (Pakistan) Limited• United Bank Limited• Habib Metropolitan Bank Limited• MCB Bank Limited• Soneri Bank Limited• Meezan Bank Limited• Habib Bank Limited• Allied Bank Limited• The Royal Bank of Scotland• Bank Alfalah Limited• Askari Commercial Bank 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.
Rating	PACRA: 4 Star (Normal) PACRA: 2 Star (Long Term) 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 Pakistan Stock Market Fund (PSM) is pleased to present its Annual Report together with the Audited Financial Statements for the year ended June 30, 2010.

Fund Objective

The objective of the fund is to provide investors long term capital appreciation from its investment in Pakistani equities.

Fund Profile

Pakistan Stock Market Fund (PSM) is an open end equity fund that invests in quality stocks listed in Pakistan. Board has approved the categorisation of Fund as an "Equity Scheme".

The fund is actively managed and fundamental research drives the investment process. Fundamental outlook of sectors/companies and DCF (discounted cash flow) valuations are the primary factors in sectors' allocation and stock selection. Major portion of the fund's portfolio is high quality liquid stocks. The funds which are not invested in equities are required to be kept in bank deposits and short-term money market instruments/ placements.

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

Fund Performance during the year ended June 30, 2010

The net assets of the Fund as at June 30, 2010 stood at Rs 1,841.34 million as compared to Rs 1,847.89 million at June 30, 2009, registering a slight decrease of 0.35%.

The Net Asset Value (NAV) per unit at the end of the year stood at Rs 59.34 per unit compared to opening NAV of Rs 47.56 per unit. NAV registered an increase of Rs 11.78 per unit for the year.

Income Distribution

The Board in the meeting held on July 05, 2010 declared a distribution of Rs 9.70 per unit in the form of bonus for the year ended June 30, 2010 (20.40% on the opening NAV and 19.40% of face value of Rs 50 for Financial Year 2010) amounting to Rs 300.98 million.

Explanation With Regards To Auditor's Qualified Opinion

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

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

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

Corporate Governance

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

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

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements except as disclosed in Note 2.1.3 to the financial statements to reflect changes introduced by revised "IAS 1".
Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data of last nine 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. Shafi Malik	Chairman	11	11	-
2	Mr. Salim Chamdia *	Former Director	3	1	2
3	Mr. Nasim Beg	Chief Executive	11	11	-
4	Mr. Sirajuddin Cassim	Director	11	1	10
5	Mr. S. Gulrez Yazdani **	Director	7	7	-
6	Mr. Muhammad Akmal Jameel	Director	11	10	1
7	Syed Ajaz Ahmed	Director	11	11	-
8	Mr. Muhammad Kashif Habib	Director	11	8	3

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

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

SECP on November 05, 2009.

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

S. No.	Name	Designation	<i>Investment</i>	<i>Redemption</i>	<i>Bonus</i>
			<i>(Number of Units)</i>		
1.	Mr. Nasim Beg	Chief Executive	-	3,140	-
2.	Mr. Zeeshan	CFO & Company Secretary	15,671	16,302	-
3.	Syed Ajaz Ahmed	Director	-	5,099	-

External Auditors

In accordance with clause 30.2 of the Trust deed of PSM pertaining to rotation of auditors, the retiring auditors, M/s A.F. Ferguson & Co., Chartered Accountants have completed their term. Hence, the Board of Directors of the Management Company, on recommendation of the Audit committee has appointed M/s. KPMG Taseer Hadi & Co, Chartered Accountants, as the Fund's auditors for the year ending June 30, 2011.

Market Outlook

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

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

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

Acknowledgement

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

For and on behalf of the Board



Nasim Beg
Chief Executive

Karachi
August 03, 2010

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

Fund Objective

The objective of the fund is to provide investors long term capital appreciation from its investment in Pakistani equities.

Fund Profile

Pakistan Stock Market Fund (PSM) is an open end equity fund that invests in quality stocks listed in Pakistan. Board has approved the categorisation of Fund as an "Equity Scheme".

The fund is actively managed and fundamental research drives the investment process. Fundamental outlook of sectors/companies and DCF (discounted cash flow) valuations are the primary factors in sectors' allocation and stock selection. Major portion of the fund's portfolio is high quality liquid stocks. The funds which are not invested in equities are required to be kept in bank deposits and short-term money market instruments/ placements.

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

Fund's Performance

PSM NAV increased 24.77% in FY10, compared to 35.74% rise in the KSE-100 Index during this time. PSM's investment remained in line with the Fund's stated objectives. The underperformance was mainly because of the lower return (relative to the Index) of some of the top portfolio holdings and absence of OGDC which was the major Index driver in the second half of the financial year. Amongst the top holdings, PPL (-0.77%), Packages (-23%), NML (+20.38%), PSMC (+16.75%) underperformed. Nevertheless, these stocks continue to offer long term fundamental growth prospects and hence the allocation in the Fund. Pak Tobacco (53%), ABL (86%), Nestle (60%), POL (69%), FFC (39%), Engro (56%) were outperformers.

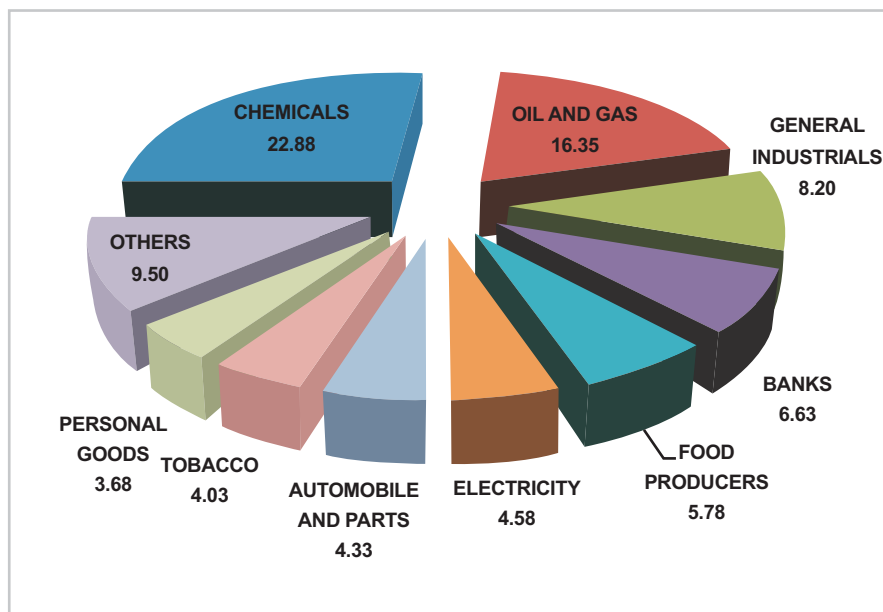
	FY2008 -2009	FY2009 -2010
Beginning net assets (Rs. 000)	3,321,995	1,847,887
No. of Units	51,461,885	38,857,196
Beginning NAV (Rs.) (Ex Div)	64.55	47.56
Ending Net Assets (Rs. 000)	1,847,887	1,841,340
No. of Units	38,857,196	31,028,566
Ending NAV (Rs.)	47.56	59.34
Bonus Distribution (Rs.)	0	9.70
Ending NAV (Ex -Dividend)	47.56	49.64
Income Distribution	0.00%	20.40%
Capital Growth	-26.32%	4.37%
Total Return	-26.32%	24.77%

	Total Return	Annualised Return (CAGR)
1 year	24.77%	24.77%
2 Year	-8.07%	-4.12%
3 year	-10.84%	-3.75%

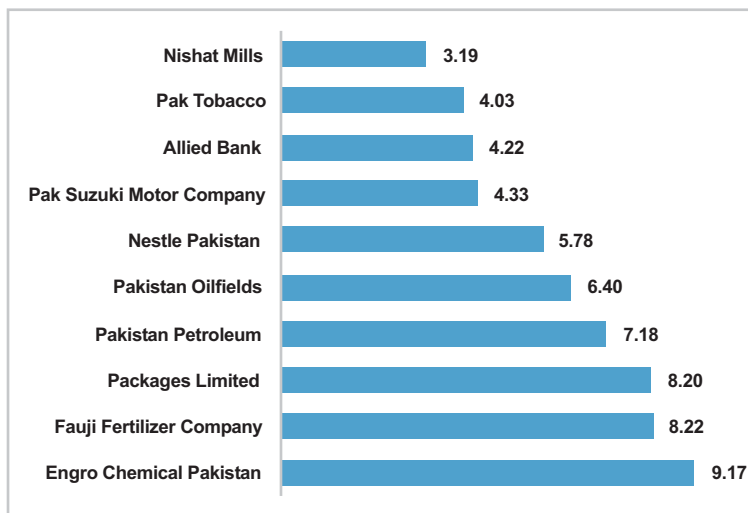
Asset allocation and Investment Activities during 2010

PSM remained on average 83% invested in equities. Beginning and ending equity exposures were 80.06% and 85.95%. Although allocation remained diversified across sectors, major holdings remained in the Oil & Gas and Chemicals sectors. (During the year, sectors were reclassified by the stock exchanges. Major changes included merging Oil & Gas exploration and Oil Marketing Companies into a single sector and merging Fertilizer and Chemicals sector into one sector.)

Year end sector exposures



Year end Top 10 holdings



Major decisions during FY2010 are as follows:

- Banks: PSM, on average, remained 7.9% invested in banks, with beginning and ending exposure of 5.92% and 6.63%, respectively. During the year, exposure in ABL, HBL and Bank Alhabib was increased/added keeping in view their better asset quality and growth prospects. ABL stock price increased 86% over the year, while HBL rose in line with the market. Bank Alhabib was added in the last quarter of the financial year, though the stock price has fallen in the last two months. Holding in MCB was offloaded in the last quarter, when stock price had increased above fair value. The stock rose more than 40% during the year, contributing about 1.5% in the overall Fund return for the year. UBL was offloaded in the initial part of the year, considering asset quality issues.
- Oil & Gas: Sector exposure, on average, was 16.71% in FY10, with beginning and ending exposure at 15.81% and 16.35%. Towards the end of the first half, OGDC exposure was offloaded as the stock price rose above fair value, while this exposure was replaced in the relatively undervalued POL and PPL. Sector exposure had gradually risen above 20% towards end 3Q/beginning 4Q, before being reduced again towards the yearend. However, during the second half of the fiscal year, OGDC

stock price rose 31%, whereas POL and PPL prices reduced 3% and 1% respectively. Exit from OGDC and subsequent outperformance of the stock led to the major underperformance of the Fund. Holding in PSO was reduced in June on concerns over increased turnover tax as proposed in the Budget for FY2011.

- Chemicals: Sector exposure was gradually increased from 15.57% at the beginning to 22.88% at the end of the year. Major addition in the sector was Engro, which was increased from 2.43% to 9.17%, while small exposures of FFBL and Sitara Chemicals were also added/increased in the portfolio. Within the sector, major return contributors were Engro and FFC, which increased 56% and 39%, respectively during the year. ICI, however, fell 10.35% during this time.
- General Industries: This comprises exposure in Packages Limited. Year end exposure in the stock was 8.20%, compared to 7.71% a year earlier. The scrip has been a major underperformer during the financial year, with the share price falling 23%. Despite this underperformance, high allocation has been maintained considering long term growth as the company starts reaping benefits of the expansion last year.
- Pharmaceuticals: Searle Pakistan was added in the portfolio to the extent of 2.85% on the basis of its strong earnings potentials.
- Besides the above, PSM booked some profit in Hubco, offloaded PTCL completely at higher prices, offloaded Construction & Materials (Cements) exposure on negative sector outlook. Furthermore, exposure was gradually built in Nestle, Pak Tobacco and PSMC.

Stock market review

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

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

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

Financial Year 2010 in Review

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

The Real Sector

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

The Monetary Sector

Money supply (M2) has grown as compared to the previous year, but the increase continues to be explained by government borrowing from

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

Prices

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

The Fiscal Sector

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

The External Sector

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

The year ahead

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

Agriculture sector is severely impacted with approximate losses of nearly US\$3 billion on account of severe damages to standing crops of cotton, rice and sugar cane; loss of 500,000 metric tonnes of wheat stock; and loss of two hundred thousand livestock. In addition, floods have made it difficult to achieve wheat cultivation target for the year 2011, which will lead to lower wheat output during the year. Against the earlier growth target of 3.8% for FY2011, agriculture sector growth is most likely to be in red for the year. Similarly, manufacturing and services growth, which were earlier projected at 4.9% and 4.7%, are expected to be scaled down due to weak demand conditions in the economy along with the supply side problem due to the heavy destruction of infrastructure (roads, bridges) in the flood affected areas. With commodity prices on the rise once again in international markets (partly due to flood damages in Pakistan) and Pakistan facing domestic shortages, inflation is expected to rise even further in coming months. As a result, monetary policy will continue to have a tightening stance in the remaining months of the year.

One other major negative consequence will be the deterioration in balance of trade as the country will become net importer of sugar, cotton

and wheat and will be left with little rice to export (Pakistan is the third largest exporter of rice in the world-US\$2 bn export in 2010). This additional burden will have its impact on balance of payment and current account deficit, leading to additional downward pressure on the Rupee.

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

Market Outlook

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

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

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

Other Disclosures under NBFC Regulations 2008

The Fund manager hereby makes the following disclosures as required under the NBFC Regulations 2008.

- a. The management company or any of its delegates did not receive any soft commission (goods & services) from any of its broker/dealer by virtue of transactions conducted by the fund.
- b. There was no unit split undertaken during the year.
- c. The fund manager is not aware of any circumstances that can materially affect any interests of the unit holders other than those already disclosed in this report.

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
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Email: info@cdcpak.com

TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN STOCK MARKET FUND

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

The Pakistan Stock Market Fund (the Fund), an open-end fund was established under a trust deed dated October 23, 2001, executed between Arif Habib Investments Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

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

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.


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

Karachi: September 29, 2010

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 Stock Market Fund (“The Fund”) to comply with the Code of Corporate Governance contained in Listing Regulations of Karachi 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.

For and on behalf of the Board



Nasim Beg
Chief Executive

Karachi
August 03, 2010

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 Stock Market Fund** to comply with the Listing Regulation No. 35 (Chapter XI) of the Karachi Stock Exchange where the Fund is listed.

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

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

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

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



Chartered Accountants
Karachi

Dated: August 3, 2010

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

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

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

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

Basis for Qualified Opinion

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 applies. On the basis of an independent legal advice, in our opinion this levy has now become applicable on the Fund as well. However, no provision in respect of Workers Welfare Fund (WWF) has been made by the management for the reasons explained in note 12 to the financial statements. Had the management recognised this provision the liability towards WWF at June 30, 2010 would have amounted to Rs 7.705 million (2009: Nil) and accordingly the undistributed income and net asset value of the Fund at June 30, 2010 would have been lower by the same amount.

Qualified Opinion

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

A.F.FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

Other matters

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



Chartered Accountants

Engagement Partner: Rashid A. Jafer

Dated: August 3, 2010

Karachi

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

	Note	2010	2009
(Rupees in '000)			
ASSETS			
Balances with banks	3	13,780	364,762
Investments	4	1,779,291	1,479,402
Dividend and profit receivable	5	503	15,997
Advances, deposits, prepayments and other receivables	6	4,218	7,621
Receivable against sale of investments		51,925	10,170
Receivable against sale of units		2,669	5,744
TOTAL ASSETS		1,852,386	1,883,696
LIABILITIES			
Payable on redemption of units		1,580	1,279
Payable to Management Company	7	3,465	3,257
Payable to Central Depository Company of Pakistan Limited - Trustee	8	242	237
Payable to Securities and Exchange Commission of Pakistan	9	2,050	1,988
Payable against purchase of investments		-	23,863
Accrued expenses and other liabilities	10	3,709	5,186
TOTAL LIABILITIES		11,046	35,810
NET ASSETS		1,841,340	1,847,886
UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)		1,841,340	1,847,886
CONTINGENCIES AND COMMITMENTS			
	11	(Number of units)	
Number of units in issue		31,028,566	38,857,196
NET ASSET VALUE PER UNIT		59.34	47.56
(Rupees)			

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)



Chief Executive



Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
(Rupees in '000)			
INCOME			
Capital gain / (loss) on sale of investments		315,443	(201,419)
Dividend income		95,730	88,974
Income from Continuous Funding System (CFS) Transactions		-	2,001
Income from Government Securities		9,443	
Profit on bank deposits		22,180	51,316
Income from Term Deposit Receipts		-	1,068
Income from Placements with financial institutions		7,848	
Impairment loss on financial assets classified as 'available for sale'	4.6	(1,874)	(70,404)
Other income		-	1,028
Unrealised appreciation / (diminution) in value of investments at fair value through profit or loss - net	4.5	57,061	(464,996)
Total income / (loss)		505,831	(592,432)
OPERATING EXPENSES			
Remuneration of the Management Company	7.1	43,150	39,339
Remuneration of Central Depository Company of Pakistan Limited - Trustee	8.1	3,158	3,042
Annual fee - Securities and Exchange Commission of Pakistan		2,050	1,988
Securities transaction cost		5,306	4,292
Settlement and bank charges		632	338
Fees and subscriptions		207	203
Legal and professional charges		123	150
Auditors' remuneration	13	401	810
Printing and related costs		296	312
Total operating expenses		55,323	50,474
Net income / (loss) from operating activities		450,508	(642,906)
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(65,272)	82,347
Net income / (loss) for the year		385,236	(560,559)
Other comprehensive income / (loss) for the year			
Unrealised appreciation / (diminution) in value of investments classified as 'available for sale'	4.6	23,210	(182,104)
Total comprehensive income / (loss) for the year		408,446	(742,663)

The annexed notes from 1 to 24 form an integral part of these financial statements.

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



Chief Executive



Director

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	(Rupees in '000)	
(Accumulated loss) / Undistributed income brought forward		
- Realised gain	243,686	1,121,914
- Unrealised loss	(403,027)	(71,616)
	(159,341)	1,050,298
Final distribution of Rs. Nil for the year ended June 30, 2009 (2008: 34%)		
- Cash Distribution	-	(28,624)
- Bonus units	-	(669,822)
Net income / (loss) for the year	385,236	(560,559)
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - amount representing unrealised (diminution) / appreciation	(23,562)	49,366
Undistributed income / (accumulated loss) carried forward	202,333	(159,341)
Undistributed income / (accumulated loss) carried forward		
- Realised gain	240,589	243,686
- Unrealised loss	(38,256)	(403,027)
	202,333	(159,341)

The annexed notes from 1 to 24 form an integral part of these financial statements.

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



Chief Executive



Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
(Rupees in '000)			
CASH FLOW FROM OPERATING ACTIVITIES			
Net income / (loss) for the year		385,236	(560,559)
Adjustments for non - cash items:			
Unrealised (appreciation) / diminution in value of investments at fair value through profit or loss - net	4.5	(57,061)	464,996
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed		65,272	(82,347)
Impairment loss on financial assets classified as 'available for sale'	4.6	1,874	70,404
Remuneration of the Management Company		43,150	39,339
Remuneration of Central Depository Company of Pakistan Limited - Trustee		3,158	3,042
		441,629	(65,125)
(Increase) / decrease in assets			
Receivable against Continuous Funding System (CFS) Transactions		-	330,021
Investments		(221,492)	204,942
Dividend and profit receivable		15,494	10,050
Advances, deposits, prepayments and other receivables		3,403	699
Receivable against sale of investments		(41,755)	(10,164)
		(244,350)	535,548
(Decrease) / Increase in liabilities			
Payable against purchase of investments		(23,863)	23,863
Payable to Management Company		-	(238)
Payable to Central Depository Company of Pakistan Limited - Trustee		(6)	(18)
Payable to Securities and Exchange Commission of Pakistan		62	(1,481)
Accrued expenses and other liabilities		(1,477)	(4,741)
		(25,284)	17,385
Remuneration paid to the Management Company		(42,942)	(41,708)
Remuneration paid to Central Depository Company of Pakistan Limited - Trustee		(3,147)	(3,166)
Net cash generated from operating activities		125,906	442,934
CASH FLOW FROM FINANCING ACTIVITIES			
Net payments made against redemption of units		(476,888)	(645,530)
Distribution made during the year		-	(28,624)
Net cash outflow on financing activities		(476,888)	(674,154)
Net decrease in cash and cash equivalents		(350,982)	(231,220)
Cash and cash equivalents at the beginning of the year		364,762	595,982
Cash and cash equivalents as at the end of the year	3	13,780	364,762

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)



Chief Executive



Director

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

	Note	2010	2009
		(Rupees in '000)	
Net assets at the beginning of the year		1,847,886	3,350,619
Issue of 18,432,500 units (2009: 33,256,099 units)		1,089,870	1,708,339
Redemption of 26,261,130 units (2009: 45,860,788 units)		(1,570,134)	(2,357,438)
		(480,264)	(649,099)
		1,367,622	2,701,520
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed			
- amount representing loss / (accrued income) and capital losses / (gains) - transferred to Income Statement		65,272	(82,347)
- amount representing unrealised diminution / (appreciation) in value of investments transferred directly to Distribution Statement		23,562	(49,366)
		88,834	(131,713)
Net unrealised appreciation / (diminution) in value of investments classified as 'available for sale'	4.6	23,210	(182,104)
Capital gain / (loss) on sale of investments		315,443	(201,419)
Unrealised appreciation / (diminution) in value of investments at fair value through profit or loss - net		57,061	(464,996)
Other net income for the year		12,732	105,856
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - amount representing unrealised diminution		(23,562)	49,366
Final distribution of Rs.Nil for the year ended June 30, 2009 (2008: 34%)			
- Cash Distribution		-	(28,624)
- Issue of bonus units		-	(669,822)
		361,674	(1,209,639)
Issue of nil bonus units (2008: 10,376,801 bonus units) for the year ended June 30, 2009		-	669,822
Net assets at end of the year		1,841,340	1,847,886

The annexed notes from 1 to 24 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 Stock Market Fund (PSM) was established under a Trust Deed executed between Arif Habib Investments Limited (AHIL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on October 23, 2001 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on February 28, 2002 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules) [repealed by Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules)].

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by 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.

PSM is an open-ended mutual fund, listed on the Karachi 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 Pakistan Credit Rating Agency Limited (PACRA) has assigned management quality rating of 'AM2' (positive outlook) to the Management Company and 4-Star Normal and 2-Star Long Term to the Fund.

The Fund primarily invests in shares of listed companies.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust deed, 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 Trust deed, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Regulations or the directives issued by the SECP prevail.

2.1.2 Accounting convention

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

2.1.3 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 01, 2009 and has chosen to present all non-owner changes in equity in one performance statement - Statement of comprehensive income (income statement). Accordingly, items of income and expenses representing other comprehensive income have been presented in the 'Income statement'. Comparative information has been represented to reflect these changes. As the change in accounting policy only impacts presentation aspects, there is no impact on the values of the net assets of the Fund for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented.

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

The following new standards and amendments to existing standards that are mandatory for the first time for the financial year beginning on and after 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 this 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 did not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

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

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

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

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

2.1.6 Critical accounting estimates and judgments

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

2.2 Financial assets

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

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

c) Available for sale

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

2.2.2 Regular way contracts

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

2.2.3 Initial recognition and measurement

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

2.2.4 Subsequent measurement

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

a) Basis of valuation of Equity Securities

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

b) 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.

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

Loans and receivables are carried at amortised cost.

2.2.5 Impairment

"The carrying amounts of the Fund's assets are revalued at each balance sheet date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement. In case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income is reclassified from other comprehensive income and recognised in the income statement. Impairment losses recognised on equity financial assets recognised in the income statement are not reversed through the income statement. For loans and receivables, a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

2.2.6 Derecognition

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

2.2.7 Offsetting of financial assets and liabilities

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

2.2.8 Reclassification

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

2.3 Financial liabilities

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

2.6 Securities under repurchase / resale agreements

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

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

2.7 Issue and redemption of units

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

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

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

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

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

2.9 Provisions

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

2.10 Net asset value per unit

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

2.11 Earnings per unit

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

2.12 Taxation

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

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

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

2.13 Revenue recognition

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

2.14 Cash and cash equivalents

Cash and cash equivalents comprise of balances with banks.

2.15 Foreign currency translation

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

2.16 Functional and presentation currency

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

3	BALANCES WITH BANKS	Note	June 30, 2010 (Rupees in '000)	June 30, 2009 (Rupees in '000)
	In current accounts		2,515	3,951
	In deposit accounts	3.1	11,265	360,811
			<u>13,780</u>	<u>364,762</u>
3.1	These accounts carry profit at the rates ranging from 5% to 11.25% (2009: 5% to 13.25%) per annum.			
4	INVESTMENTS	Note	June 30, 2010 (Rupees in '000)	June 30, 2009 (Rupees in '000)
	At fair value through profit or loss			
	Investments in shares listed in Pakistan	4.1	1,318,785	1,211,837
	Investments in government securities	4.2	196,691	-
	Available for sale			
	Investments in shares listed in Pakistan	4.3	263,815	267,565
			<u>1,779,291</u>	<u>1,479,402</u>

4.1 Investment in shares listed in Pakistan - 'at fair value through profit or loss'

Name of the Investee company	Number of shares				As at June 30, 2010	Balance as at June 30, 2010 (Rupees in 000)			Market value as a percentage of		Paid up value of shares held as a % of total paid up capital of the investee company	
	As at July 01, 2009	Purchases during the year	Bonus / Right issue during the year	Sales during the year		Cost	Market value	(Diminution) / Appreciation	Investments	net assets		
SHARES OF LISTED COMPANIES - Fully paid ordinary shares / certificates of Rs. 10 each unless stated otherwise												
OIL & GAS PRODUCERS												
Oil & Gas Development Company Limited	2,058,400	-	-	2,058,400	-	115,797	117,867	2,070	-	6.62	6.40	0.23
Pakistan Oilfield Limited	119,600	655,000	-	228,668	-	136,974	132,295	(4,679)	-	7.44	7.18	0.07
Pakistan Petroleum Limited	-	831,638	-	113,100	-	60,156	50,830	(9,326)	-	2.86	2.76	0.11
Pakistan State Oil Company Limited	438,800	125,550	-	369,000	-	312,927	300,992	(11,935)	-	-	-	-
CHEMICALS												
Descon oxychem Limited	460,112	-	-	-	460,112	4,601	2,098	(2,503)	-	0.12	0.11	0.45
Engro Corporation Limited	350,000	808,808	115,880	302,291	972,397	133,300	168,789	35,489	-	9.49	9.17	0.30
Fauji Fertilizer Bin Qasim Limited	-	534,000	-	-	534,000	11,603	13,906	2,303	-	0.78	0.76	0.06
Fauji Fertilizer Company Limited	1,006,638	-	-	482,964	523,674	47,401	53,975	6,574	-	3.03	2.93	0.08
I.C.I. Pakistan Limited	441,800	-	-	30,000	411,800	64,711	48,823	(15,888)	-	2.74	2.65	0.30
Siara Chemical Industries Limited	28,160	240,332	-	-	268,492	45,186	36,228	(8,958)	-	2.04	1.97	1.32
CONSTRUCTION AND MATERIALS												
Attock Cement Pakistan Limited	396,300	-	-	396,300	-	-	-	-	-	-	-	-
Lucky Cement Limited	1,732,100	-	-	1,732,100	-	-	-	-	-	-	-	-
GENERAL INDUSTRIALS												
Packages Limited	491,850	381,249	-	13,781	859,318	128,192	101,829	(26,363)	-	5.72	5.53	1.02
INDUSTRIAL TRANSPORTATION												
Pakistan International Container Terminal Limited	702,400	-	140,480	239,273	603,607	29,252	45,271	16,019	-	2.54	2.46	0.55
AUTOMOBILE AND PARTS												
Pak Suzuki Motor Company Limited	400,950	286,146	-	-	687,096	84,630	54,466	(30,164)	-	3.06	2.96	0.83
FOOD PRODUCERS												
Nestle Pakistan Limited	38,000	17,813	-	55,813	-	73,789	94,045	20,256	-	5.29	5.11	0.12
HOUSEHOLD GOODS												
Pakistan Elektron Limited	-	1,084,308	227,703	-	1,312,011	24,418	15,547	(8,871)	-	0.87	0.84	1.12
PERSONAL GOODS												
Artistic Denim Limited	158,200	-	-	-	158,200	6,803	3,230	(3,573)	-	0.18	0.18	0.19
Gul Ahmed Textile Mills Limited	64,500	-	-	-	64,500	2,709	1,195	(1,514)	-	0.07	0.06	0.10
Nishat Mills Limited	2,100,000	672,730	-	1,410,600	1,362,130	61,613	58,735	(2,878)	-	3.30	3.19	0.39
TOBACCO												
Pakistan Tobacco Company Limited	235,200	178,000	-	-	413,200	37,073	42,977	5,904	-	2.42	2.33	0.16
PHARMA AND BIO TECH												
Seart Pakistan Limited	-	805,684	84,070	-	889,754	53,448	52,496	(952)	-	2.95	2.85	2.91

Name of the investee company	Number of shares				Sales during the year			As at June 30, 2010		Balance as at June 30, 2010			Market value as a percentage of		Paid up value of shares held as a % of total paid up capital of the investee company
	As at July 01, 2009	Purchases during the year	Bonus / Right issue during the year	As at June 30, 2010	As at July 01, 2009	Sales during the year	As at June 30, 2010	Cost	Market value	(Diminution) / Appreciation	Investments		net assets		
											Investments	net assets			
FIXED LINE TELECOMMUNICATION															
Pakistan Telecommunication Company Limited, "A"	3,995,200	-	-	1,000,000	-	3,995,200	1,000,000	6,290	-	-	-	0.35	-	0.34	-
Waateen Telecom Limited	-	1,000,000	-	-	-	-	-	6,290	(60)	(60)	-	-	-	-	-
ELECTRICITY															
Hub Power Company Limited	2,442,500	-	-	1,221,266	-	1,221,234	1,221,266	35,483	39,032	3,549	2.19	2.12	-	0.11	-
Kot Addu Power Company Limited	1,086,400	-	-	1,086,400	-	-	1,086,400	52,615	45,346	(7,269)	2.55	2.46	-	0.12	-
BANKS															
Allied Bank Limited	1,093,969	765,012	54,396	1,363,377	-	550,000	1,363,377	72,484	77,644	5,160	4.36	4.22	-	0.17	-
Bank Al Habib Limited	-	650,000	-	650,000	-	-	650,000	21,775	20,475	(1,300)	1.15	1.11	-	0.09	-
Habib Bank Limited	-	618,100	22,440	246,840	-	393,700	246,840	21,605	24,005	2,400	1.35	1.30	-	0.02	-
MCB Bank Limited	118,000	432,400	34,840	-	-	585,240	-	-	-	-	-	-	-	-	-
United Bank Limited	1,303,120	-	-	-	-	1,303,120	-	115,864	122,124	6,260	-	-	-	-	-
NON LIFE INSURANCE															
Adanjee Insurance Company Limited	-	250,000	-	164,550	-	250,000	164,550	25,062	11,451	(13,611)	0.64	0.62	-	0.23	-
IGI Insurance Limited	137,125	-	27,425	-	-	-	-	25,062	11,451	(13,611)	-	-	-	-	-
FINANCIAL SERVICES															
Arif Habib Securities Limited	668,750	-	-	-	-	668,750	-	1,356,970	1,318,785	(38,185)	-	-	-	-	-
Total as at June 30, 2010															

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

Issue Date	Face value				Balance as at June 30, 2010			Market value	
	Tenor	As at July 01, 2009	Purchases during the year	Sales / Matured during the year	As at June 30, 2010		Appreciation / (Diminution)	Market value	as a percentage of net assets
					Cost	Market Value			
Treasury Bills									
March 12, 2009	1 Year	-	100,000	100,000	-	-	-	-	-
May 7, 2009	6 Months	-	200,000	200,000	-	-	-	-	-
June 4, 2009	1 Year	-	25,000	25,000	-	-	-	-	-
September 10, 2009	6 Months	-	100,000	100,000	-	-	-	-	-
September 26, 2009	3 Months	-	100,000	100,000	-	-	-	-	-
October 8, 2009	1 Year	-	60,000	60,000	-	-	-	-	-
October 8, 2009	6 Months	-	75,000	75,000	-	-	-	-	-
October 8, 2009	3 Months	-	100,000	100,000	-	-	-	-	-
November 5, 2009	3 Months	-	50,000	50,000	-	-	-	-	-
March 11, 2010	3 Months	-	200,000	200,000	-	-	-	-	-
May 20, 2010	3 Months	-	100,000	-	100,000	98,670	(13,330)	98,670	5.36
June 3, 2010	3 Months	-	125,000	50,000	75,000	73,655	(1,345)	73,655	4.14
June 17, 2010	3 Months	-	25,000	-	25,000	24,432	(568)	24,432	1.33
Total as at June 30, 2010					200,000	1,060,000	196,691	(71)	1,333,691

4.3 Investment in shares listed in Pakistan - 'Available for sale'

Name of the Investee company	Number of shares				Balance as at June 30, 2010			Market value as a percentage of		Paid up value of shares held as a % of total paid up capital of the investee company	
	As at July 01, 2009	Purchases during the year	Bonus / Right Issue during the year	Sales during the year	As at June 30, 2010	Cost less impairment	Market value	(Diminution) / Appreciation	Investments		net assets
SHARES OF LISTED COMPANIES - Fully paid ordinary shares / certificates of Rs. 10 each unless stated otherwise											
(Rupees in 000)											
OIL & GAS PRODUCERS											
Oil & Gas Development Co. Limited	242,720	-	-	242,720	-	-	-	-	-	-	-
CHEMICALS											
BOC Pakistan Limited	27,900	-	-	27,900	-	-	-	-	-	-	-
Fauji Fertilizer Company Limited	945,268	-	-	-	945,268	49,029	97,429	48,400	5.48	5.29	0.14
FORESTRY AND PAPER											
Century Paper & Board Mills Limited	781,220	-	-	-	781,220	10,304	12,500	2,196	0.70	0.68	1.11
Security Paper Limited	76,522	-	-	-	76,522	3,138	3,290	152	0.18	0.18	0.19
INDUSTRIAL METALS AND MINING											
International Industries Limited	502,012	-	-	-	502,012	27,362	28,107	745	1.58	1.53	0.50
GENERAL INDUSTRIALS											
Packages Limited	415,041	-	-	-	415,041	41,386	49,182	7,796	2.76	2.67	0.49
AUTOMOBILE AND PARTS											
Pak Suzuki Motor Company Limited	318,300	-	-	-	318,300	17,357	25,232	7,875	1.42	1.37	0.39
FOOD PRODUCERS											
Nestle Pakistan Limited	7,300	-	-	-	7,300	3,511	12,301	8,790	0.69	0.67	0.02
PERSONAL GOODS											
Aristic Denim Limited	95,400	-	-	-	95,400	2,142	1,948	(194)	0.11	0.11	0.11
Chenab Limited	1,000,000	-	-	1,000,000	-	-	-	-	-	-	-
Gul Ahmed Textile Mills Limited	70,291	-	-	-	70,291	1,811	1,302	(509)	0.07	0.07	0.11
Kohinoor Mills Limited	418,180	-	-	-	418,180	2,032	1,321	(711)	0.07	0.07	0.82
TOBACCO											
Pakistan Tobacco Co. Limited	300,000	-	-	-	300,000	20,442	31,203	10,761	1.75	1.69	0.12
Total as at 30 June 2010						178,514	263,815	85,301			

4.4

Investments as at June 30, 2010 include shares with market value of Rs 49,002 million (2009: Rs 48,681 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular number 11 dated October 23, 2007 issued by the Securities & Exchange Commission of Pakistan.

	June 30, 2010	June 30, 2009
	(Rupees in '000)	
4.5 Net unrealised appreciation / (diminution) in value of investments 'at fair value through profit or loss		
Market value of investments	1,515,476	1,211,837
Less: Cost of investments	(1,553,732)	(1,614,864)
	(38,256)	(403,027)
Net unrealised appreciation in value of investments at fair value through profit or loss at the beginning of the year	403,027	71,616
Realised on disposal during the year	(307,710)	(133,585)
	95,317	(61,969)
	57,061	(464,996)
4.6 Net unrealised appreciation / (diminution) in value of investments classified as 'available for sale'		
Market value of investments	263,815	267,565
Cost less impairment	(178,514)	(274,004)
	85,301	(6,439)
Impairment loss on financial assets classified as available for sale' - transferred to income statement	1,874	70,404
	87,175	63,965
Less: Net unrealised appreciation in value of investments at the beginning of the year	(63,965)	(246,069)
	23,210	(182,104)

As at June 30, 2010, the management has carried out a scrip wise analysis of impairment in respect of equity securities classified as available for sale and has determined that an impairment loss amounting to Rs. 1.874 million (2009: Rs. 70.404 million) for the year ended June 30, 2010 be charged to the income statement.

	Note	June 30, 2010	June 30, 2009
		(Rupees in '000)	
5 DIVIDEND AND PROFIT RECEIVABLE			
Dividend receivable		-	12,132
Profit accrued on bank deposits		503	3,865
		503	15,997
6 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advance tax		1,036	1,036
Deposit with National Clearing Company of Pakistan Limited		2,500	2,500
Deposit with Central Depository Company of Pakistan Limited		200	200
Receivable from Pakistan Income Fund		-	294
Receivable from Pakistan Income Enhancement Fund		482	-
Receivable from Management Company		-	3,591
		4,218	7,621
7 PAYABLE TO MANAGEMENT COMPANY			
Management fee payable	7.1	3,193	2,985
Sales load payable		272	272
		3,465	3,257
7.1		The management fee is calculated at the rate of 2 per cent of average annual net assets of the Fund. The fee is paid monthly in arrears.	
8 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE			
	Note	June 30, 2010	June 30, 2009
		(Rupees in '000)	
Remuneration payable	8.1	242	231
CDS charges payable		-	6
		242	237

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

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

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

The remuneration is paid to the trustee monthly in arrears.

9 FEE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the Fund.

10 ACCRUED EXPENSES AND OTHER LIABILITIES	June 30,	June 30,
	2010	2009
	(Rupees in '000)	
Auditors' remuneration payable	240	564
Withholding tax payable	270	90
Legal and professional charges payable	145	168
Brokerage payable	214	522
Zakat payable	-	3
Payable to Pakistan Income Enhancement Fund	-	3,539
Payable to Pakistan Cash Management Fund	-	95
Payable to Pakistan Income Fund	2,406	-
CVT payable	-	20
NCSS charges payable	15	3
Printing and related expenditure payable	224	180
Risk Management Service charges payable	1	2
Others	194	-
	3,709	5,186

11 CONTINGENCIES AND COMMITMENTS

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

12 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.

13	AUDITOR'S REMUNERATION	June 30,	June 30,
		2010	2009
		(Rupees in '000)	
	Audit fee	340	340
	Other certifications and services	14	432
	Out of pocket expenses	47	38
		401	810

14 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 and Thatta Cement Limited being companies under common control, Arif Habib Bank Limited and Pak Arab Fertilizer being companies under common directorship, Central Depository Company of Pakistan Limited being the trustee, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.

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

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

14.1	Transactions during the year	Year ended	Year ended
		June 30, 2010	June 30, 2009
		(Rupees in '000)	
	Management Company		
	Remuneration of the Management Company	43,150	39,339
	Sales load	901	1,832
	Transaction costs	-	922
	Arif Habib Limited		
	Brokerage *	927	800
	Central Depository Company of Pakistan Limited-Trustee		
	Remuneration of the Trustee	3,158	3,042
	CDS charges	62	75
	Arif Habib Bank Limited		
	Mark-up income for the year	8,665	39,681
	Management Company		
	Nil bonus units (2009: 2,094 units) distributed during the year	-	-
	Issue of Nil units (2009: 1,658,375 units)	-	100,000
	Redemption of Nil units (2009: 1,658,375,units)	-	85,265
	Pakistan Income Fund		
	Nil units (2009: 9,161,128 units) sold / issued during the year	-	460,000
	Nil units (2009: 9,161,128 units) redeemed during the year	-	454,458
	Directors and executives of the Management Company		
	1,308,486 units (2009: 1,261,269 units) sold / issued during the year	78,068	62,682
	Nil bonus units (2009: 82,387 units) distributed during the year	-	5,318
	1,394,691 units (2009: 1,397,870 units) redeemed during the year	84,144	70,420
	Arif Habib Securities Limited		
	Purchase of Nil shares (2009: 935,000 shares)	-	101,592
	Sale of 668,750 shares (2009: 400,000 shares)	33,694	52,693
	Nil bonus shares received (2009: 133,750 shares)	-	-

	Year ended June 30, 2010	Year ended June 30, 2009
14.2 Amounts outstanding as at the year end	(Rupees in '000)	
Arif Habib Bank Limited		
Balance with bank	4,869	30,778
Management Company		
Management fee and sales load payable	3,465	3,257
Transaction cost receivable	-	3,591
Directors and executives of the Management Company		
194,582 units (2009: 258,613 units) held	11,546	12,300
Central Depository Company of Pakistan Limited-Trustee		
Security deposit	200	200
Trustee fee and CDS charges	242	237
Arif Habib Bank Limited		
Accrued mark-up	401	265
Arif Habib Securities Limited		
Nil shares (2009: 668,750) held	-	18,484
Pakistan Income Enhancement Fund		
Receivable from Pakistan Income Enhancement Fund	482	-
Payable to Pakistan Income Enhancement Fund	-	3,539
Pakistan Cash Management Fund		
Payable at year end	-	95
Pakistan Income Fund		
Receivable from Pakistan Income Fund	-	294
Payable to Pakistan Income Fund	2,406	-

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

15 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	Muhammad Imran Khan	Head of Research	MBA	7
4	Nazia Nauman	Head of Equity and Fund Manager	MBA / CFA	10
5	Tariq Hashmi	Head of Marketing	MBA	18

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

- a) Pakistan Capital Market Fund
- b) Pakistan Capital Protected Fund - I

16 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Details of commission paid by the fund to top ten brokers by percentage during the year are as follows:

	2010
Arif Habib Limited	26.83%
KASB Securities Limited	10.04%
H.H Misbah Securities (Private) Limited	9.80%
Invest Capital Investment Bank Limited	9.42%
DJM Securities (Private) Limited	4.76%
JS Global Capital Limited	4.48%
Motiwala Securities (Private) Limited	4.48%
Top Line Securities (Private) Limited	4.16%
Invest & Finance Securities Limited	4.01%
Elixir Securities Pakistan (Private) Limited	3.89%
	2009
H.H Misbah Securities (Private) Limited	19.77%
Arif Habib Limited	15.44%
KASB Securities Limited	8.09%
BMA Capital Management Limited	6.47%
Invisor Securities (Private) Limited	6.17%
First Capital Equities Limited	5.77%
JS Global Capital Limited	5.68%
Elixir Securities Pakistan (Private) Limited	5.03%
DJM Securities (Private) Limited	4.64%
Invest Capital Investment Bank Limited	4.06%

17 PATTERN OF UNIT HOLDING

Details of pattern of unit holding as at June 30, 2010

	As at June 30, 2010		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	3,519	876,922	47.62
Associated companies / directors	1	20,072	1.09
Directors	2	1,014	0.06
Insurance companies	2	13,109	0.71
Bank / DFIs	2	150,268	8.16
NBFCs	2	6,321	0.34
Retirement funds	104	705,697	38.33
Others	33	67,935	3.69
	3,665	1,841,340	100

Details of pattern of unit holding as at June 30, 2009

	As at June 30, 2009		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	4,398	918,378	49.70
Associated companies / directors	2	1,113	0.06
Insurance companies	5	23,156	1.25
Bank / DFIs	4	142,614	7.72
NBFCs	4	17,037	0.92
Retirement funds	131	671,809	36.36
Others	45	73,779	3.99
	4,589	1,847,886	100

18 ATTENDANCE AT MEETINGS OF THE 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 & June 17, 2010 respectively.

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

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

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

19 FINANCIAL RISK MANAGEMENT

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

19.1 Market risk

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

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

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

19.1.1 Currency risk

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

19.1.2 Interest rate risk

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

Sensitivity analysis for fixed rate instruments

As at June 30, 2010, the Fund 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 Markets Association of Pakistan on June 30, 2010 with all other variables held constant, the net income for the year and net assets would be lower by Rs 0.27 million (2009: Rs Nil). In case of 100 basis points decrease in rates announced by Financial Markets Association of Pakistan on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be higher by Rs 0.27 million (2009:Rs Nil)

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

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

-----As at June 30, 2010-----					
Exposed to yield / interest risk					
	Upto three months	More than three months and up-to one year	More than one year	Not exposed to Yield Interest risk	Total
----- Rupees in '000-----					
Financial Assets					
Balances with banks	11,265	-	-	2,515	13,780
Investments	196,691	-	-	1,582,600	1,779,291
Dividend and profit receivable	503	-	-	-	503
Advances, deposits, prepayments and other receivables	-	-	-	3,182	3,182
Receivable against sale of investments	-	-	-	51,925	51,925
Receivable against sale of units	-	-	-	2,669	2,669
	208,459	-	-	1,642,891	1,851,350
Financial Liabilities					
Payable on redemption of units	-	-	-	1,580	1,580
Payable to Management Company	-	-	-	3,465	3,465
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	242	242
Payable against purchase of investments	-	-	-	-	-
Accrued expenses and other liabilities	-	-	-	3,709	3,709
	-	-	-	8,996	8,996
	208,459	-	-	1,633,895	1,842,354
-----As at June 30, 2009-----					
Exposed to yield / interest risk					
	Upto three months	More than three months and upto one year	More than one year	Not exposed to Yield Interest risk	Total
----- Rupees in '000-----					
Financial Assets					
Balances with banks	360,811	-	-	3,951	364,762
Investments	-	-	-	1,479,402	1,479,402
Dividend and profit receivable	-	-	-	15,997	15,997
Advances, deposits, prepayments and other receivables	-	-	-	6,585	6,585
Receivable against sale of investments	-	-	-	10,170	10,170
Receivable against sale of units	-	-	-	5,744	5,744
	360,811	-	-	1,521,849	1,882,660
Financial Liabilities					
Payable on redemption of units	-	-	-	1,279	1,279
Payable to Management Company	-	-	-	3,257	3,257
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	237	237
Payable against purchase of investments	-	-	-	23,863	23,863
Accrued expenses and other liabilities	-	-	-	5,186	5,186
	-	-	-	33,822	33,822
	360,811	-	-	1,488,027	1,848,838

19.1.3 Price Risk

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

In case of 5% increase in KSE 100 index on June 30, 2010, net profit for the year and net assets would increase by Rs. 62.75 million (2009: Rs. 58.703 million) as a result of gains / losses on equity securities at fair value through profit or loss. Other components of equity and net assets of the Fund would increase by Rs. 10.25 million (2009: Rs. 10.505 million) as a result of gains / losses on equity securities classified as available for sale.

In case of 5% decrease in KSE 100 index on June 30, 2010, net profit for the year and net assets would decrease by Rs. 62.21 million (2009: Rs. 58.703 million) as a result of gains / losses on equity securities at fair value through profit or loss. Other components of equity and net assets of the Fund would decrease by Rs. 10.19 million (2009: Rs. 10.505 million) as a result of gains / losses on equity securities classified as available for sale.

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

19.2 Credit risk

Credit risk represents the risk of a loss if counterparties fail to perform as contracted. Credit risk arises from deposits with banks and financial institutions, and credit exposure arising as a result of dividends receivable on equity securities. For banks and financial institutions, credit ratings and other factors are evaluated. Credit risk on dividend receivable is minimal due to statutory protection. All transactions in listed securities are settled / paid for upon delivery using the National Clearing Company of Pakistan Limited. The risk of default is considered minimal due to inherent systematic measures taken therein.

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

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

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Board. The Fund does not expect to incur material credit losses on its financial assets.

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 but not impaired.

Concentration of credit risk

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

19.3 Liquidity risk

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

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

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

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

The Fund did not withhold any redemptions during the year.

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

	----- As at June 30, 2010 -----			
	Total	Upto three months	Over three months and upto one year	Over one year
	-----Rupees '000-----			
Liabilities				
Payable on redemption of units	1,580	1,580	-	-
Payable to Management Company	3,465	3,465	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	242	242	-	-
Payable against purchase of investments	-	-	-	-
Accrued expenses and other liabilities	3,709	3,709	-	-
	<u>8,996</u>	<u>8,996</u>	<u>-</u>	<u>-</u>

	----- As at June 30, 2009 -----			
	Total	Upto three months	Over three months and upto one year	Over one year
	-----Rupees '000-----			
Liabilities				
Payable on redemption of units	1,279	1,279	-	-
Payable to Management Company	3,257	3,257	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	237	237	-	-
Payable against purchase of investments	23,863	23,863	-	-
Accrued expenses and other liabilities	5,186	5,186	-	-
	<u>33,822</u>	<u>33,822</u>	<u>-</u>	<u>-</u>

19.4 Financial instruments by category

	-----As at June 30, 2010-----			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
	-----Rupees in '000-----			
Assets				
Balances with Banks	13,780	-	-	13,780
Investments	-	1,515,476	263,815	1,779,291
Dividend and profit receivable	503	-	-	503
Advances, deposits, prepayments and other receivables	3,182	-	-	3,182
Receivable against sale of investments	51,925	-	-	51,925
Receivable against sale of units	2,669	-	-	2,669
	<u>72,059</u>	<u>1,515,476</u>	<u>263,815</u>	<u>1,851,350</u>

	-----As at June 30, 2010-----		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	-----Rupees in '000-----		
Liabilities			
Payable on redemption of units	-	1,580	1,580
Payable to Management Company	-	3,465	3,465
Payable to Central Depository Company of Pakistan Limited - Trustee	-	242	242
Payable against purchase of investments	-	-	-
Accrued expenses and other liabilities	-	3,709	3,709
	-	8,996	8,996

	-----As at June 30, 2009-----			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
	-----Rupees in '000-----			
Assets				
Balance with banks	364,762	-	-	364,762
Investments	-	1,211,837	267,565	1,479,402
Dividend and profit receivable	15,997	-	-	15,997
Advances, deposits, prepayments and other receivables	6,585	-	-	6,585
Receivable against sale of investments	10,170	-	-	10,170
Receivable against sale of units	5,744	-	-	5,744
	403,258	1,211,837	267,565	1,882,660

	-----As at June 30, 2009-----		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	-----Rupees in '000-----		
Liabilities			
Payable on redemption of units	-	1,279	1,279
Payable to Management Company	-	3,257	3,257
Payable to Central Depository Company of Pakistan Limited - Trustee	-	237	237
Payable against purchase of investments	-	23,863	23,863
Accrued expenses and other liabilities	-	5,186	5,186
	-	33,822	33,822

19.5 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).

ASSETS	As at June 30, 2010			
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
Investment in securities - at fair value through profit or loss	1,318,785	-	-	1,318,785
Investment in securities - 'Available for sale'	263,815	-	-	263,815
Investments in government securities - at fair value through profit and loss	196,691	-	-	196,691
	<u>1,779,291</u>	<u>-</u>	<u>-</u>	<u>1,779,291</u>

20 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 gains as reduced by such expenses as are chargeable to the Fund).

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

21 NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 05, 2010 have proposed a final distribution in respect of the year ended June 30, 2010 of Rs 9.70 per unit (2009: Nil) amounting to Rs. 300.98 million (2009: Nil). The financial statements for the year ended June 30, 2010 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2011.

22 DATE OF AUTHORISATION FOR ISSUE

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

23 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified wherever necessary, for the purposes of comparison and better presentation. During the current year, there were no major reclassifications, except as required due to change in accounting policy as more fully explained in note 2.1.3 to these financial statements.

24 GENERAL

24.1 Figures have been rounded off to the nearest thousand Rupees.

For Arif Habib Investments Limited
(Management Company)



Chief Executive



Director

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

No. of Unit Holders	Units Holdings	Total Units Held
2,910	1 TO 5000	2,860,541
316	5001 TO 10000	2,228,991
123	10001 TO 15000	1,502,966
72	15001 TO 20000	1,253,534
51	20001 TO 25000	1,141,236
30	25001 TO 30000	823,880
25	30001 TO 35000	817,538
18	35001 TO 40000	664,184
15	40001 TO 45000	638,295
14	45001 TO 50000	661,467
8	50001 TO 55000	416,227
7	55001 TO 60000	394,719
6	60001 TO 65000	376,382
5	65001 TO 70000	339,753
3	70001 TO 75000	215,324
8	75001 TO 80000	621,125
2	80001 TO 85000	163,159
4	85001 TO 90000	348,786
1	90001 TO 95000	94,157
2	95001 TO 100000	197,494
4	100001 TO 105000	408,768
1	105001 TO 110000	109,812
2	110001 TO 115000	224,495
2	120001 TO 125000	245,083
3	125001 TO 130000	380,127
1	135001 TO 140000	139,538
2	140001 TO 145000	284,152
1	150001 TO 155000	150,973
2	165001 TO 170000	332,272
1	170001 TO 175000	173,788
3	175001 TO 180000	529,492
1	180001 TO 185000	184,202
2	185001 TO 190000	374,767
1	190001 TO 195000	194,557
3	210001 TO 215000	641,207
2	215001 TO 220000	437,773
1	220001 TO 225000	223,376
1	250001 TO 255000	250,314
1	320001 TO 325000	321,699
1	330001 TO 335000	334,063
1	335001 TO 340000	338,241
1	385001 TO 390000	386,419
1	430001 TO 435000	433,867
1	500001 TO 505000	503,242
1	575001 TO 580000	579,389
1	630001 TO 635000	630,978
1	835001 TO 840000	838,736
1	1765001 TO 1770000	1,767,555
1	1900001 TO 1905000	1,901,203
1	1945001 TO 1950000	1,948,720
3,665		31,028,566

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

	Units Held
Associated Companies	Nil
Directors and CEO	
Nasim Beg	11,454
Syed Ajaz Ahmed	5,641
Public Limited Companies	-
Banks and Financial Institution	2,899,758
Insurance Companies	220,901
Individuals	14,777,244
Retirement Funds	11,891,764
Modarabas & Mutual Funds	77,187
Othes Corporate Sector Entities	17,102
Non Profit Organizations	1,127,515
Total	31,028,566

PERFORMANCE TABLE

	2010	2009	2008	2007	2006	2005	2004	2003	2002*
	----- (Rupees in '000) -----								
Net assets	1,841,340	1,847,196	3,350,619	3,245,587	3,617,732	2,712,985	1,051,643	783,991	322,974
Net income / (loss)	385,236	(560,559)	507,463	490,678	1,114,205	1,171,637	382,103	199,155	9,224
	----- (Rupees) -----								
Net assets value per unit (Ex- Div)	49.64	47.56	64.55	84.08	84.29	90.10	81.99	69.02	48.97
	----- (Percentage) -----								
Annual dividend distribution	19.4**	NIL	34**	50**	60**	70***	60**	40**	3**

* First year of operations from the period 01 March 2002 to 30 June 2002

** Stock Dividend

*** Interim Cash Dividend of 20% and Stock Dividend of 50%

	----- Announcement date of distribution -----								
Interim	-	-	-	-	-	10 February 2005****			
Final	05 July 2010	-	03 July 2008	04 July 2007	04 July 2006	04 July 2005	5 July 2004	03 July 2003	01 July 2002

**** The interim dividend was distributed on 25th March 2005

	----- (Rupees) -----								
Highest offer price per unit	67.93	66.00	100.55	111.96	135.42	148.71	118.59	92.85	54.08
Lowest offer price per unit	50.38	34.14	77.06	81.79	90.64	83.28	71.81	50.58	47.60
Highest repurchase price per unit	66.57	63.36	96.53	109.16	132.03	144.99	115.63	90.53	51.65
Lowest repurchase price per unit	49.37	33.46	75.13	79.75	88.37	81.20	70.01	48.30	45.46
Year end offer price per unit	60.55	48.53	84.95	111.88	117.22	118.05	114.86	91.30	52.68
Year end repurchase price per unit	59.34	47.56	81.55	109.08	114.29	115.10	111.99	89.02	50.31

	----- Percentage of Average Annual Return -----								
1 year	24.77%	-26.32%	-3.01%	29.41%	26.85%	52.41%	62.04%	81.23%	2.02%
2 year	-4.12%	-15.45%	12.02%	28.12%	39.04%	46.66%	71.38%	-	-
3 year	-3.75%	-2.57%	16.75%	35.75%	46.34%	64.83%	-	-	-
Capital Growth	4.37%	-26.32%	-23.23%	-0.25%	-6.45%	9.89%	18.79%	40.94%	-2.06%

Since inception from 11 March 2002 the Fund deliver a cumulative annualised growth return of 25.54%.

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