

**PAKISTAN
CAPITAL
PROTECTED
FUND-I**



BRANCHES:**Lahore:**

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

Rawalpindi:

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

Islamabad:

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

Multan:

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

Peshawar:

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

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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	Member
Syed Ajaz Ahmed	Member

Trustee

MCB Financial Services Limited
3rd Floor, Adamjee House,
I.I. Chundrigar Road, Karachi.

Bankers of the Fund

Banl Al-Falah Limited
Deutsche Bank AG, Karachi Branch
Habib Metropolitan Bank Limited
Summit Bank Limited (*Formerly: Arif Habib Bank Limited*)
The Bank of Punjab

Auditors

M/s. Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza
Beaumont Road, Karachi-75530

Legal Adviser

Bawaney & Partners
404, Beaumont Plaza
Beaumont Road, Karachi-75530

Registrar

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

Rating

PACRA: AM2 (Positive Outlook) - Management Quality Rating assigned to the 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 Capital Protected Fund-I (PCPF-I), is pleased to present its annual report together with audited Financial Statements for the Financial Year ended June 30, 2010.

Fund Objective

The objective of the fund is to provide 100% capital protection plus any returns made on high risk investments.

Fund Profile

Pakistan Capital Protected Fund (PCPF-I) is a closed end fund. Consistent with the objective of PCPF - I, about 78% of the Fund was invested in bank deposits with Bank of Punjab that will yield a future value at maturity equivalent to the initial size of the fund (plus fund expenses), providing 100% protection of total initial investment (net of all expenses) to the investors.

The remaining fund is invested in capital markets within and outside Pakistan in high risk investments aimed at providing investors an opportunity to earn high absolute return. Under the NBFC Rules, the Fund is not allowed to borrow.

Funds Performance during Financial Year ended June 30, 2010

The Net Asset Value (NAV) per certificate at the end of the year stood at Rs 9.46 per certificate as compared to opening ex-dividend NAV of Rs 8.88 per certificate, thus registering an increase of Rs 0.58/- per certificate during the year.

The net assets of the Fund as at June 30, 2010 stood at Rs 617.07 million as compared to Rs 579.69 million as at June 30, 2009 registering an increase of 6.45%.

The Fund earned net income of Rs 37.38 million during the year ended June 30, 2010 compared a net loss of Rs 76.39 million for the corresponding year. The net income comprises mainly of income from term deposit receipts of Rs 61.58 million, net capital gain of Rs 3.01 million & profit on bank deposits of Rs 2.90 million.

Earnings Per Certificate (EPC)

EPC of the Fund for the year ended June 30, 2010 is Rs 0.58.

Income Distribution

The Board in the meeting held on August 03, 2010 has declared final distribution of Re 0.5157- per certificate (5.81% on the opening Ex - NAV and 5.16% of face value of Rs 10 for Financial Year 2010) in the form of bonus certificates amounting to Rs 33.65 million.

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 certificate holders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Islamabad stock exchange.

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

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and change in certificate 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 three 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 certificate holding, as required by NBFC Regulations and the Code of Corporate Governance is enclosed.
- l. Statement showing attendance of Board meetings is as under:

Attendance of Board Meetings
From July 01, 2009 to June 30, 2010

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

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

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

- m. There have been no trades in the certificates of the Fund carried out by the Directors, C.E, C.F.O and Company Secretary of the Management Company and their spouses and minor children.

External Auditors

As recommended by the Audit Committee, The Board of Directors of the Management Company has reappointed M/s. Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants as the Fund's auditors for the audit of next year till the maturity of the fund.

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 thanks the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, MCB Financial Services Limited (the Trustee of the Fund) and the management of the Islamabad stock exchange for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Management Company for the growth and meticulous management of the Fund.

For and on behalf of the Board



Nasim Beg

Chief Executive

August 03, 2010
Karachi

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

Fund Objective

The objective of the fund is to provide 100% capital protection plus any returns made on high risk investments.

Fund Profile

Pakistan Capital Protected Fund (PCPF-I) is a closed end fund. Consistent with the objective of PCPF - I, about 78% of the Fund was invested in bank deposits with Bank of Punjab that will yield a future value at maturity equivalent to the initial size of the fund (plus fund expenses), providing 100% protection of total initial investment (net of all expenses) to the investors.

The remaining fund is invested in capital markets within and outside Pakistan in high risk investments aimed at providing investors an opportunity to earn high absolute return.

Asset allocation

During FY10, PCPF-I's asset allocation was line with its stated objective. The capital protected segment of the fund was invested in a three-year term deposit with The Bank of Punjab yielding 10.8% p.a. The investment segment of the fund was mostly being invested in the local equity market. The Fund matured in July 2010.

Fund's Performance

PCPF-I NAV increased 6.53% in FY10, with overall return since inception of 1.56%.

Other Disclosures under NBFC Regulations 2008

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

1. 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.
2. There was no certificate split undertaken during the year.
3. The fund manager is not aware of any circumstances that can materially affect any interests of the certificate holders other than those already disclosed in this report.



MCB FINANCIAL SERVICES LIMITED

[FORMERLY MUSLIM COMMERCIAL FINANCIAL SERVICES LIMITED]

REPORT OF THE TRUSTEE TO THE CERTIFICATE HOLDERS

PAKISTAN CAPITAL PROTECTED FUND I

Report of the Trustee Pursuant to Regulation 41(h) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

Pakistan Capital Protected Fund I, a close-end Scheme established under a Trust Deed dated June 04, 2007 executed between Arif Habib Investments Limited, as the Management Company and MCB Financial Services Limited (formerly: Muslim Commercial Financial Services Limited), as the Trustee. The Scheme was authorized by Securities and Exchange Commission of Pakistan (Commission) on June 28, 2007.

1. Arif Habib Investments Limited, the Management Company of Pakistan Capital Protected Fund I has in all material respects managed Pakistan Capital Protected Fund I 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;
 - (ii) the valuation and pricing of Certificates are carried out in accordance with the requirements of the Trust Deed and the Offering Document;
 - (iii) the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008; and the constitutive documents.

For the purpose of information, the attention of unit holders is drawn towards auditor's report and note 1.4 of the financial statements regarding the preparation of financial statements on ongoing basis.

Khawaja Anwar Hussain
Chief Executive Officer

Karachi: August 24, 2010

MCB Financial Services Limited (formerly: Muslim
Commercial Financial Services Limited)

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

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

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

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

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

On behalf of the Board



Nasim Beg

Chief Executive

Karachi: August 03, 2010



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541, Karachi 75530, Pakistan
Tel: +9221 3565 0007
Fax: +9221 3568 1965
www.ey.com

REVIEW REPORT TO THE CERTIFICATE HOLDERS 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 (the Statement) contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Arif Habib Investments Limited, the Management Company of **Pakistan Capital Protected Fund-I** (the Fund), to comply with Chapter XI of the Listing Regulations of the Islamabad Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code 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 reflects the status of the Management Company's compliance with the provisions of the Code in respect of the Fund and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

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

Chartered Accountants

Date: 03 August 2010

Karachi



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541, Karachi 75530, Pakistan
Tel: +9221 3565 0007
Fax: +9221 3568 1965
www.ey.com

INDEPENDENT AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the accompanying financial statements of **Pakistan Capital Protected Fund-I** (the Fund), which comprise the statement of assets and liabilities as at 30 June 2010, and the related income statement, distribution statement, cash flow statement, statement of movement in equity and reserves 'per certificate' and statement of movement in equity and reserves for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management'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 the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

:- 2 :-

Opinion

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

Without qualifying our opinion, we draw attention to note 1.4 to the financial statements which indicates that, although the Fund is due to mature on 14 July 2010, these financial statements have been prepared on a going concern basis for the reasons given in the above referred note.

Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed, the NBFC Rules and the NBFC Regulations.

A handwritten signature in blue ink, appearing to read 'Ernst & Young Shabbir Yunus'.

Chartered Accountants

Audit Engagement Partner: Shabbir Yunus

Date: 03 August 2010

Karachi

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2010

	Note	30 June 2010	30 June 2009
----- (Rupees in '000) -----			
ASSETS			
Capital Protection Segment			
Term deposit receipts	4	611,538	550,037
Profit receivable		2,352	2,279
		613,890	552,316
Investment Segment			
Bank balances	5	12,776	35,247
Investments	6	32,900	23,804
Dividend and profit receivable	7	172	358
		45,848	59,409
Advances, deposits and prepayments	8	2,703	2,703
Preliminary expenses and floatation costs	9	78	2,116
TOTAL ASSETS		662,519	616,544
LIABILITIES			
Investment Segment			
Payable to the Management Company	10	44,181	30,460
Payable to the Trustee	11	80	77
Payable to the Securities and Exchange Commission of Pakistan	12	449	490
Payable against purchase of investments		-	5,139
Accrued expenses and other liabilities	13	735	686
TOTAL LIABILITIES		45,445	36,852
NET ASSETS		617,074	579,692
REPRESENTED BY:			
CERTIFICATE HOLDERS' EQUITY			
Issued, subscribed and paid-up capital			
61,204,500 (30 June 2009: 61,204,500) ordinary certificates of Rs.10 each issued as fully paid in cash		612,045	612,045
4,039,497 (30 June 2009: 4,039,497) ordinary certificates of Rs.10 each issued as fully paid bonus certificates		40,395	40,395
		652,440	652,440
Accumulated losses		(35,366)	(72,748)
		617,074	579,692
----- (Rupees) -----			
Net asset value per certificate		9.46	8.88
Contingencies and commitments	14		

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

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



Chief Executive




Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	Note	30 June 2010	30 June 2009
		----- (Rupees in '000) -----	
INCOME			
Dividend income		13	-
Income from term deposit receipts - Capital Protection Segment		61,575	55,685
Profit on bank deposits		2,902	4,709
Loss on sale of 'available-for-sale' investment - net		-	(113,841)
Gain / (loss) on investments 'at fair value through profit or loss'			
- Unrealised loss on investments - net	6.2	(2,651)	(1)
- Gain on sale of investments - net		3,013	1,066
		362	1,065
Other income		9	-
Total income / (loss)		64,861	(52,382)
EXPENSES			
Remuneration of the Management Company	10.1	17,947	17,283
Mark-up on outstanding management fee	10.1	3,764	2,274
Remuneration of the Trustee		954	936
Annual fee - Securities and Exchange Commission of Pakistan		449	490
Legal and professional charges		250	138
Settlement and bank charges		190	76
Auditors' remuneration	15	493	310
Fees and subscription		78	91
Printing and other expenses		125	73
Amortisation of preliminary expenses and floatation costs		2,038	2,038
Securities transaction costs		1,191	295
Total expenses		27,479	24,004
NET INCOME / (LOSS) FOR THE YEAR		37,382	(76,386)
Other comprehensive income for the year		-	-
Total comprehensive income / (loss) for the year		37,382	(76,386)
		----- (Rupees) -----	
Earnings / (loss) per certificate	16	0.58	(1.17)

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

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



Chief Executive



Director

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

30 June 30 June
2010 2009
----- (Rupees in '000) -----

(Accumulated losses) / undistributed income brought forward

- Realised loss
- Unrealised loss

(72,747)	44,033
(1)	-
<u>(72,748)</u>	<u>44,033</u>

(Accumulated losses) / undistributed income brought forward

Final distribution of bonus certificates for the year ended
30 June 2009: Nil (30 June 2008: 6.60%)

Net income / (loss) for the year

Accumulated losses carried forward

Accumulated losses carried forward

- Realised loss
- Unrealised loss

(72,748)	44,033
-	(40,395)
37,382	(76,386)
<u>(35,366)</u>	<u>(72,748)</u>
(32,715)	(72,747)
(2,651)	(1)
<u>(35,366)</u>	<u>(72,748)</u>

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

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



Chief Executive



Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	30 June 2010	30 June 2009
	----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss) for the year	37,382	(76,386)
Adjustments		
Amortisation of preliminary expenses and floatation costs	2,038	2,038
Remuneration of the Management Company	17,947	17,283
Mark-up on outstanding management fee	3,764	2,274
Remuneration of the Trustee	954	936
Loss on sale of 'available-for-sale' investment - net	-	113,841
Unrealised loss on investments 'at fair value through profit or loss' - net	2,651	1
	64,736	59,987
(Increase) / decrease in assets		
Term deposit receipts	(61,501)	(55,601)
Investments	(11,747)	16,450
Dividend and profit receivable	113	63
Advances, deposits and prepayments	-	(2,584)
	(73,135)	(41,672)
(Decrease) / increase in liabilities		
Payable to the Management Company	(2,038)	(2,044)
Payable to the Trustee	-	10
Payable to the Securities and Exchange Commission of Pakistan	(41)	(112)
Payable against purchase of investments	(5,139)	5,139
Accrued expenses and other liabilities	49	273
	(7,169)	3,266
Remuneration paid to the Management Company	(5,952)	(6,322)
Remuneration paid to the Trustee	(951)	(938)
Net cash (used in) / from operating activities	(22,471)	14,321
Cash and cash equivalents at the beginning of the year	35,247	20,926
Cash and cash equivalents at the end of the year	12,776	35,247

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

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



Chief Executive



Director

**STATEMENT OF MOVEMENT IN EQUITY AND RESERVES 'PER CERTIFICATE'
FOR THE YEAR ENDED JUNE 30, 2010**

	30 June 2010	30 June 2009
	----- (Rupees in '000) -----	
Net assets per certificate at the beginning of the year	8.88	9.63
Dilution due to issue of bonus certificates	-	(0.60)
Capital gain / (loss) on sale of investments - net	0.05	(1.73)
Unrealised loss on investments 'at fair value through profit or loss' - net	(0.04)	-
Other net operating income for the year	0.57	0.56
Net income / (loss) for the year	0.58	(1.17)
Reversal of unrealised diminution in fair value of investments classified as 'available-for-sale'	-	1.02
Net assets per certificate at the end of the year	<u>9.46</u>	<u>8.88</u>

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

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



Chief Executive



Director

**STATEMENT OF MOVEMENT IN EQUITY AND RESERVES
FOR THE YEAR ENDED JUNE 30, 2010**

	Issued, subscribed and paid up capital	Undistributed income / (Accumulated losses)	Unrealised (loss) / gain on investments classified as 'available-for- sale'	Total
	----- (Rupees in '000) -----			
Balance as at 01 July 2008	612,045	44,033	(66,711)	589,367
Issue of bonus certificates @ 6.6% on the face value of Rs.10 per certificate (2007: Nil)	40,395	(40,395)	-	-
Reversal of unrealised diminution in fair value of investments classified as 'available-for-sale'	-	-	66,711	66,711
Loss for the year	-	(76,386)	-	(76,386)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss for the year	-	(76,386)	-	(76,386)
Balance as at 30 June 2009	<u>652,440</u>	<u>(72,748)</u>	<u>-</u>	<u>579,692</u>
Balance as at 01 July 2009	652,440	(72,748)	-	579,692
Income for the year	-	37,382	-	37,382
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	37,382	-	37,382
Balance as at 30 June 2010	<u>652,440</u>	<u>(35,366)</u>	<u>-</u>	<u>617,074</u>

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

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



Chief Executive



Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** Pakistan Capital Protected Fund-I (the Fund) was established under a Trust Deed executed between Arif Habib Investments Limited as Investment Adviser and MCB Financial Services Limited (Formerly: Muslim Commercial Financial Services (Private) Limited) (the Trustee) as Trustee on 04 June 2007. The Investment Adviser of PCPF-I has obtained the requisite license from the Securities and Exchange Commission of Pakistan (SECP) to undertake investment advisory services under the Non-Banking Finance Companies (Establishment and Regulation) Rules 2003 (NBFC Rules). Formation of PCPF-I as closed-end fund was authorized by SECP on 28 June 2007. The Fund offered its certificates for public subscription from 04 July 2007 to 14 July 2007. The Fund is listed on the Islamabad Stock Exchange.
- 1.2** The Fund consists of two segments, a capital protection segment and an investment segment. The Capital protection segment aims at protecting investors' capital by placing the assets of the segment in Pakistan Investment Bonds, Structured Zero Coupon Bonds, Bank Deposits / Instruments or Term Finance Certificates having an appropriate life and at least AA rating having equal or senior rights to the depositors. The investment segment generally invests in high return / high risk investments with an objective of providing certificate holders a higher return than the minimum protection provided by The Capital Protection Segment. As per Paragraph 17.2.4 of the Trust Deed of the Fund, the creditors of the Fund will have no claim against the assets of The Capital Protection Segment.
- 1.3** The Fund is a closed-end scheme with a three years maturity period ending on 14 July 2010. The investment objectives of Fund is to pay investors, with certain conditions, whole of their initial investment i.e. Rs.10 per certificate back over the term of its life in form of dividend or return of capital on its termination. In addition, the Fund may also pay a minimum income.

On maturity, the Management Company will liquidate all the investments of the Fund within three months from 14 July 2010 being the maturity date, and shall distribute such proceeds (after deduction of applicable expenses) to the certificate holders. The distribution shall be on pro rata basis against the number of certificates held by certificate holders in proportion to the total number of certificates outstanding on the date of liquidation.

- 1.4** The management continues to prepare these financial statements on a going concern basis as the Fund has been established for a specific period and will continue its operations till the end of the period. Further, the management has assessed that, except for preliminary expenses and floatation costs, which will be amortised as stated in note 3.7 to the financial statements, this has not resulted in any impact on the carrying amount of the assets and the liabilities of the Fund as these are already stated at the amounts expected to be realised or paid in accordance with accounting policies of the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Accounting Standards and interpretations that became effective during the year

The Fund has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

IFRS 2 – Share Based Payment – Amendments regarding Vesting Conditions and Cancellations (Amendment)

- IFRS 3 – Business Combinations (Revised)
- IFRS 7 – Financial Instruments: Disclosures (Amendments)
- IFRS 8 – Operating Segments
- IAS 1 - Presentation of Financial Statements (Revised)
- IAS 23 - Borrowing Costs (Revised)
- IAS 27 - Consolidated and Separate Financial Statement - Cost of an Investment
in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)
- IAS 27 - Consolidated and Separate Financial Statements (Amendment)
- IAS 32 - Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements -
Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)
- IAS 39 – Financial Instruments: Recognition and Measurement – Eligible
hedged items (Amendments)
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 - Distributions of Non-cash Assets to owners
- IFRIC 18 – Transfers of Assets from Customers

The adoption of the above standards, amendments and interpretations did not have any effect on the financial statements except for the following:

IAS - 1 "Presentation of Financial Statements (Revised)"

The Fund has adopted IAS - 1 "Presentation of Financial Statements (Revised)" which became effective during the year. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity (i.e. statement of movement in equity and reserves) includes only details of transactions with owners, with non-owner changes in equity presented as a single line item in the above said statement. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Fund has elected to present one single statement.

IFRS 7 - "Financial Instruments: Disclosures (Amendments)"

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurement is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity management. The fair value measurement disclosures are presented in note 21.6 to the financial statements. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 21.4 to the financial statements.

2.3 Accounting standards and interpretations not yet effective

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards or interpretations:

Standard or Interpretation		Effective date (accounting periods beginning on or after)
IAS 32	Financial Instruments: Presentation - Classification of Rights Issues (Amendment)	01 February 2010
IAS 24	Related Party Disclosures (Revised)	01 January 2011
IFRS 2	Share-based Payments: Amendments relating to Group Cash-settled Share-based Payment Transactions	01 January 2010
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendments)	01 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	01 July 2010

The Fund expects that the adoption of the above revisions, amendments and interpretations of the standards will not affect the Fund's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB as a result of its annual improvement project in April 2009. Such improvements are generally effective for accounting periods beginning on or after 01 January 2010. The Fund expects that such improvements to the standards will not have any material impact on the Fund's financial statements in the period of initial application.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards 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 are as follows:

- i) Classification and valuation of investments (note 3.1)
- ii) Amortisation of preliminary expenses and floatation costs (note 3.7)

2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain investments have been carried at fair value.

2.6 Functional and Presentation Currency

These financial statements have been presented in Pak Rupees which is the Fund's functional and presentational currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Investments

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the asset.

The management determines the appropriate classification of the investments made by the Fund in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement', at the time of purchase and re-evaluates this classification on a regular basis. Investments are categorised as follows:

a) Financial assets at fair value through profit or loss

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in prices are classified as 'at fair value through profit or loss'. These investments are marked to market using the closing market rates at the end of each day and are carried on the Statement of Assets and Liabilities at fair value. Net gains and losses arising on changes in fair value of these investments are taken to the Income Statement.

b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity that the Fund has the positive intent and ability to hold to maturity.

Held to maturity investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition these investments are carried at amortised cost.

c) Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

Investments categorised as available for sale are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition, 'available-for-sale' investments are measured at fair value. Net gains and losses arising on changes in fair values of these investments are taken to equity until the available for sale investment is derecognised. At this time, the cumulative gain or loss previously recognised directly in equity is transferred to the income statement.

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset classified as available for sale is impaired. If evidence of impairment exists, the cumulative loss recognised in equity is removed from equity and recognised in the income statement.

Investments in unquoted debt securities, if any, are carried at fair value.

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

Transaction costs are included in the initial measurement of all financial assets and liabilities except for transaction costs incurred at the time of acquisition of financial assets at 'fair value through profit or loss' and transaction costs that may be incurred on disposal which are charged as expense when incurred.

d) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognised at fair value. Subsequent to initial recognition, they are measured at amortised cost.

3.2 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.

3.3 Proposed dividend and transfer between reserves

Dividends declared and transfers between reserves made subsequent to the Statement of Assets and Liabilities date are considered as non-adjusting events and are recognised in the financial statements in the period in which such dividends are declared / transfers are made.

3.4 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.

3.5 Earnings per certificate

Earnings per certificate is calculated by dividing the income for the year by the weighted average number of certificates outstanding during the year.

3.6 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the certificate holders.

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

3.7 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and include underwriting commission, commission to the bankers to the issue, brokerage paid to the members of the stock exchanges and other expenses. These costs are being amortised over a period not exceeding three years or the life of the Fund, whichever is earlier.

3.8 Offsetting of financial instruments

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

3.9 Financial assets and financial liabilities

All financial assets and financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to receive cash flows related to the asset expire. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

3.10 Impairment

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

3.11 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 'available-for-sale' are included in the equity 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.

3.12 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances.

3.13 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 recognized 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.

	Note	30 June 2010	30 June 2009
		----- (Rupees in '000) -----	
4. TERM DEPOSIT RECEIPTS			
Principal	4.1	450,000	450,000
Mark-up reinvested		<u>161,538</u>	<u>100,037</u>
		<u><u>611,538</u></u>	<u><u>550,037</u></u>

4.1 This represents a term deposit placed with the Bank of Punjab (a connected person) at a mark-up rate of 10.80% (2009: 10.80%) per annum with quarterly rests, over a period of three years, maturing on 26 July 2010. The Term Deposit Receipt was subsequently realised in full.

5. BANK BALANCES

In current accounts	5.1	45	19
In deposit accounts	5.2	<u>12,731</u>	<u>35,228</u>
		<u><u>12,776</u></u>	<u><u>35,247</u></u>

5.1 This includes balance of Rs.0.025 million (2009: Rs.0.009 million) held with the Bank of Punjab (a connected person).

5.2 These carry mark-up ranging from 5% to 11.25% (2009: 5% to 13%) per annum and includes balance of Rs.12.705 million (2009: Rs.22.776 million) and Rs.0.016 million (2009: Rs.10.292 million) held with the Arif Habib Bank Limited and the Bank of Punjab respectively (connected persons).

Note 30 June 2010 30 June 2009
----- (Rupees in '000) -----

6. INVESTMENTS

At fair value through profit or loss

Listed equity securities

6.1	32,900	23,804
	<u>32,900</u>	<u>23,804</u>

6.1 Listed equity securities

Name of the Investee Company	Note	----- Number of shares -----				Balance as at 30 June 2010			-- Investment as percentage of --			
		As at 01 July 2009	Purchased during the year	Bonus shares issued during the year	Disposed off during the year	As at 30 June 2010	Cost	Market value	Unrealised loss	Net assets	Total investments	Investee company paid-up capital
----- (Rupees in '000) -----												
Fully paid ordinary shares of Rs.10 each unless stated otherwise												
Oil and Gas												
Oil and Gas Development Company Limited		25,000	60,000	-	85,000	-	-	-	-	-	-	
Pakistan Oilfields Limited		-	362,700	-	362,700	-	-	-	-	-	-	
Pakistan Petroleum Limited		-	319,200	-	319,200	-	-	-	-	-	-	
Pakistan State Oil Company Limited		-	225,905	-	225,905	-	-	-	-	-	-	
						-	-	-	-	-	-	
						-	-	-	-	-	-	
Chemicals												
Engro Corporation Limited (formerly Engro Chemicals Limited)		-	873,891	-	873,891	-	-	-	-	-	-	
Fauji Fertilizer Bin Qasim Limited		-	480,000	-	480,000	-	-	-	-	-	-	
I.C.I. Pakistan Limited		-	190,166	-	190,166	-	-	-	-	-	-	
						-	-	-	-	-	-	
						-	-	-	-	-	-	
Construction and Materials												
Lucky Cement Limited		50,000	462,502	-	512,502	-	-	-	-	-	-	
						-	-	-	-	-	-	
						-	-	-	-	-	-	
Household Goods												
Pak Elektron Limited		771,600	312,066	44,481	1,128,147	-	-	-	-	-	-	
						-	-	-	-	-	-	
						-	-	-	-	-	-	
Personal Goods												
Nishat Mills Limited		-	95,000	-	95,000	-	-	-	-	-	-	
						-	-	-	-	-	-	
						-	-	-	-	-	-	
Fixed Line Telecommunication												
Pakistan Telecommunication Company Limited "A"		-	375,190	-	375,190	-	-	-	-	-	-	
						-	-	-	-	-	-	
						-	-	-	-	-	-	
Banks												
Allied Bank Limited	6.1.1	-	592,705	5,000	20,000	577,705	35,551	32,900	(2,651)	5.33	100.00	0.07
Bank Al-Falah Limited		-	400,000	-	400,000	-	-	-	-	-	-	-
Habib Bank Limited		-	51,100	-	51,100	-	-	-	-	-	-	-
National Bank of Pakistan		-	35,000	-	35,000	-	-	-	-	-	-	-
						-	-	-	-	-	-	-
						35,551	32,900	(2,651)	-	-	-	-
Non Life Insurance												
Adamjee Insurance Company Limited		-	67,587	-	67,587	-	-	-	-	-	-	
						-	-	-	-	-	-	
						-	-	-	-	-	-	
						35,551	32,900	(2,651)	-	-	-	-

6.1.1 Includes 84,000 shares pledged with National Clearing Company of Pakistan Limited (NCCPL), against exposure margin for ready trades.

30 June
2010
----- (Rupees in '000) -----

30 June
2009

Note

**6.2 Net unrealised loss on investments
'at fair value through profit or loss'**

Fair value of investments	32,900	23,804
Less: Cost of investments	<u>(35,551)</u>	<u>(23,805)</u>
	(2,651)	(1)
Net unrealised diminution in fair value of investments at the beginning of the period	1	-
Realised on disposal during the period	<u>(1)</u>	<u>-</u>
	<u>(2,651)</u>	<u>(1)</u>

7. DIVIDEND AND PROFIT RECEIVABLE

Profit receivable on bank balances	172	208
Dividend receivable	<u>-</u>	<u>150</u>
	<u>172</u>	<u>358</u>

8. ADVANCES, DEPOSITS AND PREPAYMENTS

Advance tax	3	3
Deposits with Central Depository Company of Pakistan Limited	200	200
Deposits with National Clearing Company of Pakistan Limited	8.1 <u>2,500</u>	<u>2,500</u>
	<u>2,703</u>	<u>2,703</u>

8.1 This represents non-interest bearing security deposit for Institutional Delivery System (IDS) functionality on regular market trades.

9. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs incurred	2,116	4,154
Less: Amortisation during the year	<u>(2,038)</u>	<u>(2,038)</u>
	<u>78</u>	<u>2,116</u>

9.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over the life of the Fund.

10. PAYABLE TO THE MANAGEMENT COMPANY

Management fee	10.1 <u>36,038</u>	24,043
Preliminary expenses and floatation costs	2,105	4,143
Mark-up on outstanding management fee	10.1 <u>6,038</u>	<u>2,274</u>
	<u>44,181</u>	<u>30,460</u>

10.1 The management fee is calculated at the rate of 3% of the average annual net assets of the Fund. As per the Trust Deed, a fee up to 1% of the average daily Net Asset Value of the Fund shall be paid annually. The remaining fee of the Management Company will continue to accrue and will be paid on termination of the Fund and will attract a cost equal to the average six-month KIBOR offer rate from the date it should have been paid calculated bi-annually. In case the net amount to be paid to the certificate holders after the termination of the Fund is not sufficient to complete capital protection, the fee plus the mark-up accruing to the Management Company will be reduced to the extent that such amount becomes so sufficient.

30 June 30 June
2010 2009
----- (Rupees in '000) -----

11. PAYABLE TO THE TRUSTEE

Trustee fee	80	77
-------------	-----------	----

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

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

Amount of Funds Under Management (Average NAV)	Tariff per annum
On an amount exceeding Rs.500 million upto Rs.1,000 million	Rs.0.875 million plus 0.08% p.a. on amount exceeding Rs.500 million

The remuneration is paid to the trustee monthly in arrears.

12. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the NBFC Regulations, a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.075% of net assets value.

13. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration	295	200
Legal and professional charges	285	120
Settlement and custody charges	17	15
Printing and related expenditure	100	91
Securities transaction costs	38	260
	735	686

14. CONTINGENCIES AND COMMITMENTS

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

15. AUDITORS' REMUNERATION

Half yearly review and statutory audit fee	420	260
Out of pocket expenses	28	30
Other certifications	45	20
	493	310

16. EARNINGS / (LOSS) PER CERTIFICATE - BASIC AND DILUTED

Net income / (loss) for the year	37,382	(76,386)
----------------------------------	---------------	----------

---- Number of certificates ----

Weighted average number of ordinary certificates outstanding during the year	65,243,997	65,243,997
	----- (Rupees) -----	
Earnings / (loss) per certificate - basic and diluted	0.58	(1.17)

16.1 There were no convertible dilutive ordinary certificates in issue as at 30 June 2010.

	As at 30 June 2010		
	Number of certificates holders	Investment amount (Rupees in '000)	Percentage held
17. PATTERN OF CERTIFICATE HOLDING			
Individuals	949	75,595	12.25
Associated Companies / Directors	5	30,675	4.97
Banks / DFIs / NBFCs	2	444,862	72.09
Retirement Funds	10	65,937	10.69
Others	1	5	-
	967	617,074	100.00

	As at 30 June 2009		
	Number of certificates holders	Investment amount (Rupees in '000)	Percentage held
Individuals	961	71,200	12.28
Associated Companies / Directors	5	28,817	4.97
Banks / DFIs / NBFCs	2	417,727	72.06
Retirement Funds	10	61,943	10.69
Others	1	5	-
	979	579,692	100.00

18. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

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

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

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:

	30 June 2010	30 June 2009
	----- (Rupees in '000) -----	
Arif Habib Investments Limited - Management Company		
Remuneration for the year	17,947	17,283
Payment of preliminary expenses and floatation costs	2,038	2,044
Mark-up on outstanding management fee	3,764	2,274
MCB Financial Services Limited - Trustee		
Remuneration for the year	954	936

	30 June 2010	30 June 2009
	----- (Rupees in '000) -----	
Arif Habib Bank Limited - common management		
Mark-up income on bank balances	2,621	133
Arif Habib Limited - common management		
Brokerage expense*	282	78
The Bank of Punjab - major certificate holder		
Mark-up income on bank balances and term deposit receipts	61,841	57,274
	---- (Number of Certificates) ----	
Bonus certificates issued during the year		
Arif Habib Investments Limited - Management Company	-	201,729
Arif Habib Bank Limited -common management	-	198,000
The Bank of Punjab - major certificate holder	-	2,640,000
Directors and employees	-	5,907

* The amount disclosed represents the amount of brokerage expense pertaining 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 transaction with connected person as the ultimate counter parties are not connected persons.

	30 June 2010	30 June 2009
	----- (Rupees in '000) -----	
18.1 Amounts outstanding as at the year end		
Arif Habib Investments Limited - Management Company		
Remuneration payable	36,038	24,043
Preliminary expenses and floatation costs	2,105	4,143
Mark-up on outstanding management fee	6,038	2,274
MCB Financial Services Limited - Trustee		
Remuneration payable	80	77
Arif Habib Bank Limited - common management		
Accrued mark-up on bank balances	172	116
Balances with the bank at the end of the year	12,705	22,776
Arif Habib Limited - common management		
Brokerage payable	5	78
The Bank of Punjab - major certificate holder		
Term deposit receipts	611,538	550,037
Accrued mark-up on bank balances and term deposit receipts	2,352	2,279
Balances with the bank at the end of the year	41	10,301

30 June **30 June**
2010 **2009**
----- (Number of Certificates) -----

Certificates held by

Directors and employees	104,468	93,808
Arif Habib Investments Limited - Management Company	3,329,803	3,309,016
Arif Habib Bank Limited	3,198,000	3,198,000
The Bank of Punjab	42,640,000	42,640,000

30 June **30 June**
2010 **2009**
----- (Percentage) -----

19. TOP BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Arif Habib Limited	28.86	-
H.H. Misbah Securities (Pvt) Limited	27.49	100.00
Shehzad Chamdia Securities (Pvt) Limited	21.03	-
Pearl Securities (Pvt) Limited	19.90	-
Shahid Ali Habib Securities (Pvt) Limited	2.72	-

20. INVESTMENT COMMITTEE

Details of members of the Investment Committee of the Fund are as follow:

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

20.1 Ms. Nazia Nauman is the Manager of the Fund. She is also managing Pakistan Stock Market Fund and Pakistan Capital Market Fund.

21. RISK MANAGEMENT**21.1 Financial risk management**

Investments pertaining to the Capital Protection Segment are made in term deposit receipts with a bank. Investment Segment is invested in high risk, high return investments. Such investments are subject to varying degrees of financial risks: capital risk, credit risk, liquidity risk and market risk.

21.2 Capital risk management

The Fund is a closed-end scheme with a maturity of three years. The Fund will cease to operate at maturity.

The holders of the ordinary certificates are entitled to receive dividends as declared from time to time.

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 certificate 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 gain as reduced by such expenses as are chargeable to the Fund. Another important consideration in managing capital is the life of three years of the Fund and preservation of the investment of the Capital Protection Segment which is invested in term deposit receipts (also see note 1.2).

Regulation 55 (11) of the NBFC Regulations 2008 allows the Fund to invest in its own certificates or shares upto twenty percent of the issued capital. The procedures for investment and subsequent resale have been defined in Circular 14 of 2009 issued by SECP.

On a regular basis the Investment Committee monitors capital on the basis of the value of net assets attributable to the certificate holders as well as return earned on the net assets and ensure to maintain a strong capital so as to maintain investors and other stake holders confidence.

The Fund's Investment Committee is responsible for identifying and controlling risks. The Chief Executive supervises the Investment Committee.

21.3 Credit risk

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

21.3.1 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at year end is:

	30 June 2010	30 June 2009
	-- (Rupees in '000) --	
Bank balances	12,776	35,247
Term deposit receipts	611,538	550,037
Advances, deposits and prepayments	2,700	2,700
Total	627,014	587,984

21.3.2 Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund is exposed to concentration of credit risk in respect of term deposit receipts amounting to Rs.611.538 million (2009: Rs.550.037 million) with a single commercial bank in accordance with the offering document as approved by the SECP. The credit rating of such bank was AA- as of 30 June 2010 (2009: AA-), however subsequent to the Statement of Assets and Liabilities date, this deposit has been matured.

21.4 Liquidity risk

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

The Fund is exposed to the daily settlement of investments made by the Fund. The Fund's approach to managing liquidity is to ensure, as far as possible, that it 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 Fund's investment segment in investments that are traded in an active market and are considered readily realisable.

Mark-up and a portion of management fee is retained and will be paid to the Management Company on termination of the Fund. In case the net amount to be paid to the certificate holders after the termination of the Fund is not sufficient to complete capital protection, the fee plus the mark-up accruing to the Management Company will be reduced to the extent that such amount becomes so sufficient.

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

30 June 2010				
Upto one month	More than one month and upto three months	More than three months and upto one year	More than one year	Total
----- (Rupees in '000) -----				
On-balance sheet financial liabilities				
Payable to the Management Company	44,181	-	-	44,181
Payable to the Trustee	80	-	-	80
Accrued expenses and other liabilities	735	-	-	735
Total undiscounted financial liabilities	44,996	-	-	44,996

30 June 2009				
Upto one month	More than one month and upto three months	More than three months and upto one year	More than one year	Total
----- (Rupees in '000) -----				
On-balance sheet financial liabilities				
Payable to the Management Company	2,072	-	28,388	30,460
Payable to the Trustee	77	-	-	77
Payable against purchase of investments	5,139	-	-	5,139
Accrued expenses and other liabilities	22	664	-	686
Total undiscounted financial liabilities	7,310	664	-	36,362

21.5 Market risk

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

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

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

21.5.1 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 the Fund holds all investments in Pakistani Rupees, the functional currency.

21.5.2 Interest rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. As of 30 June 2010, the Fund is exposed to such risk in respect of bank balances and term deposits. The term deposits carry fixed interest rates and will mature by July 2010. The bank balances are subject to interest rates as declared by the respective bank on periodic basis. The mark-up charged on retained management fee is subject to market interest rate (KIBOR). Since the Fund will mature immediately after the statement of assets and liabilities date, therefore, the impact of such interest rate risk is not significant.

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.

30 June 2010					
Exposed to yield / interest rate risk				Not exposed to yield / interest rate risk	Total
Upto one month	More than one month and upto three months	More than three months and upto one year	More than one year		
----- (Rupees in '000) -----					
Financial Assets					
Term deposit receipts	611,538	-	-	-	611,538
Profit receivable on term deposit receipts	-	-	-	2,352	2,352
Bank balances	12,731	-	-	45	12,776
Investments	-	-	-	32,900	32,900
Dividend and profit receivable	-	-	-	172	172
Advances, deposits and prepayments	-	-	-	2,700	2,700
	624,269	-	-	38,169	662,438
Financial Liabilities					
Payable to the Management Company	36,038	-	-	8,143	44,181
Payable to the Trustee	-	-	-	80	80
Accrued expenses and other liabilities	-	-	-	735	735
	36,038	-	-	8,958	44,996
On-balance sheet gap	588,231	-	-	29,211	617,442

30 June 2009					
Exposed to yield / interest rate risk				Not exposed to yield / interest rate risk	Total
Upto one month	More than one month and upto three months	More than three months and upto one year	More than one year		
----- (Rupees in '000) -----					
Financial Assets					
Term deposit receipts	-	550,037	-	-	550,037
Profit receivable on term deposit receipts	-	-	-	2,279	2,279
Bank balances	35,228	-	-	19	35,247
Investments	-	-	-	23,804	23,804
Dividend and profit receivable	-	-	-	358	358
Advances, deposits and prepayments	-	-	-	2,700	2,700
	35,228	550,037	-	29,160	614,425
Financial Liabilities					
Payable to the Management Company	-	-	24,043	6,417	30,460
Payable to the Trustee	-	-	-	77	77
Payable against purchase of investments	-	-	-	5,139	5,139
Accrued expenses and other liabilities	-	-	-	686	686
	-	-	24,043	12,319	36,362
On-balance sheet gap	35,228	550,037	(24,043)	16,841	578,063

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

Since the Fund will mature immediately after the statement of assets and liabilities date, therefore, the impact of such equity price risk is not significant.

21.6 Fair value Hierarchy

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices in active markets for identical assets.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 30 June 2010, the Fund held the following financial instrument measured at fair value:

	Level 1 ----- (Rupees in '000) -----	Level 2	Level 3
2010			
At fair value through income statement	<u>32,900</u>	<u>-</u>	<u>-</u>
2009			
At fair value through income statement	<u>23,804</u>	<u>-</u>	<u>-</u>

22. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

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

	Name of Director	Number of meetings			Meetings not attended
		Held	Attended	Leave granted	
1	Mr. Shafi Malik	11	11	-	-
2	Mr. Salim Chamdia*	3	1	2	64th and 65th meeting
3	Mr. Nasim Beg	11	11	-	-
4	Mr. Sirajuddin Cassim	11	1	10	63rd, 64th, 65th, 66th 67th, 69th, 70th, 71st 72nd and 73rd meeting
5	Mr. S. Gulrez Yazdani**	7	7	-	-
6	Mr. Muhammad Akmal Jameel	11	10	1	64th meeting
7	Syed Ajaz Ahmed	11	11	-	-
8	Mr. Muhammad Kashif Habib	11	8	3	67th, 69th and 70th meeting

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

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

23. WORKER'S 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 Honorable 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 Workers' Welfare Fund (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 advice 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 advice 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.

24. NON-ADJUSTING EVENT AFTER THE STATEMENT OF ASSETS AND LIABILITIES DATE

The Board of Directors of the Management Company have approved bonus distribution of Rs. 0.5157 per certificate (2009: Rs.Nil) for the year ended 30 June 2010, amounting to Rs. 33.65 million (2009: Rs.Nil) in total in their meeting held on August 03, 2010.

25. DATE OF AUTHORISATION FOR ISSUE

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

26. GENERAL

Figures have been rounded off to the nearest thousand rupees.

For Arif Habib Investments Limited
(Management Company)



Chief Executive



Director

**PATTERN OF CERTIFICATE HOLDING
AS AT JUNE 30, 2010**

No. of Certificate Holders	Certificate Holdings		Total Certificate Held
	FROM	TO	
733	-	5,000	707,139
69	5,001	10,000	384,293
68	10,001	15,000	733,408
6	15,001	20,000	97,006
20	20,001	25,000	426,400
4	25,001	30,000	106,600
13	30,001	35,000	415,740
2	40,001	45,000	85,280
19	45,001	55,000	1,012,700
1	55,001	65,000	63,427
1	65,001	85,000	83,681
1	85,001	90,000	85,280
14	90,001	110,000	1,492,400
1	110,001	160,000	159,900
2	160,001	215,000	426,400
2	215,001	270,000	533,000
1	270,001	420,000	415,740
2	420,001	430,000	852,800
3	430,001	535,000	1,599,000
1	535,001	1,070,000	1,066,000
1	1,070,001	3,200,000	3,198,000
1	3,200,001	3,330,000	3,329,803
1	3,330,001	5,330,000	5,330,000
1	5,330,001	42,640,000	42,640,000
967			65,243,997

**CATEGORIES OF CERTIFICATE HOLDERS
AS AT JUNE 30, 2010**

Particulars	Certificate Holders	Certificates Holdings	Percentage
Individuals	949	7,992,716	12.25
Associated companies	1	3,198,000	4.90
Directors	3	45,305	0.07
Bank / DFIs	2	43,706,000	66.99
NBFCs	1	3,329,803	5.10
Retirement funds	10	6,971,640	10.69
Others	1	533	0.00
TOTAL	967	65,243,997	100.00

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

DETAILS	CERTIFICATES HELD	PERCENTAGE
Public Limited Companies		
Arif Habib Investments Limited	3,329,803	5.10
Arif Habib Bank Limited	3,198,000	4.90
Directors and CEO		
Nasim Beg	31,980	0.05
Muhammad Akmal Jameel	2,665	-
Syed Ajaz Ahmed	10,660	0.02
Public Limited Companies	-	-
Banks and Financial Institution	*43,706,000	66.99
Insurance Companies	-	-
Indiviiduals	7,992,716	12.25
Retirement Funds	6,971,640	10.69
Modarabas & Mutual Funds	-	-
Othes Corporate Sector Entities	533	-
Non Profit Organizations	-	-
TOTAL	65,243,997	100.00

* This figure include "The Bank of Punjab" have holdings 42,640,000 more than ten percent of total certificates.

**STATEMENT OF INCOME AND EXPENDITURE
OF THE MANAGEMENT COMPANY IN RELATION TO THE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	2010	2009
	(Rupees in '000)	
Revenue		
Remuneration of the Management Company	17,947	17,283
Return on bank deposits	133	133
Markup on Term Finance Certificates	-	283
Loss on sale of 'available for sale' investment	(30)	(10)
Other Income	871	590
	18,921	18,279
Operating Expenses		
Staff salary	8,536	9,987
Technical and professional services	159	233
Staff training	84	130
Marketing and advertisement	808	431
Rent, rates and taxes	633	801
Communication cost	313	418
Directors' fee	105	82
Printing, stationery and other supplies	297	223
Insurance	126	204
Repair and maintenance	932	420
Fees and subscription	196	204
Legal and professional fees	336	315
Travelling and conveyance	205	153
Financial charges	3,493	3,344
Depreciation	1,066	749
Impairment loss	12	735
Workers' Welfare Fund	82	-
	17,383	18,429
Net Income for the year	1,538	(150)

Note: The above mention expenses are base on revenue generated through Collective Investment Schemes (CIS) during the year. Expenses directly related to the CIS are allocated to specific CIS.

PERFORMANCE TABLE

	2010	2009	2008*
	----- (Rupees in '000) -----		
Net assets	617,074	579,692	589,367
Net Income for the year	37,382	(76,386)	44,033
	----- (Rupees) -----		
Net asset value per certificate	9.46	8.89	9.63
Earning per certificate	0.58	(1.17)	0.72
Distribution per certificate	0.5157	-	0.66
	----- (Percentage) -----		
Distribution	5.157	-	6.60
Capital Growth	1.373	(1.66)	(10.30)
Total Return	6.53	(1.66)	(3.70)
	----- (Percentage) -----		
Average annualized return of the Fund (CAGR)			
One year	6.53	(1.66)	(3.70)
Two Year	2.30	(2.78)	-
Since inception	0.26	-	-
	----- Annoucement Date of Distribution -----		
Final	August 03, 2010	-	July 25, 2008

* First year of operation from the period July 07, 2007 to June 30, 2008.

Disclaimer:

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

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



HEAD OFFICE:

Arif Habib Centre,

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

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

Fax: (+92-21) 32470351, 32470337

E-mail: marketing@arifhabib.com.pk

Website: www.arifhabib.com.pk