



Bachat ka Dusra Naam

**Annual Report
2012**



PAKISTAN

**CAPITAL PROTECTED
FUND-FIXED INCOME
SECURITIES**

Aik Pinth, Dou Kaaj

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) CONTENTS

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Vision

To become synonymous with Savings

Mission

To become a preferred Savings and Investment Manager in the domestic and regional markets, while maximizing stakeholder's value.

Core Values

The Company takes pride in its orientation towards client service. It believes that its key success factors include continuous investment in staff, systems and capacity building, and its insistence on universal best practices at all times.

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) FUND'S INFORMATION

| | | |
|--|--|---|
| Management Company | Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi | |
| Board of Directors of the Management Company | Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad | Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP) |
| Audit Committee | Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib Mr. Ali Munir | Chairman Member Member Member |
| Human Resource Committee | Dr. Salman Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri | Chairman Member Member Member Member |
| Company Secretary & CFO of the Management Company | Mr. Muhammad Saqib Saleem | |
| Trustee | MCB Financial Services Limited 3rd Floor, Adamjee House, I.I Chundrigar Road Karachi - 74000 | |
| Bankers | Habib Metro Bank Limited | |
| Auditors | KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530 | |
| Legal Advisor | Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530 | |
| Transfer Agent | Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi | |
| Rating | AM2 - Management Quality Rating assigned by PACRA | |

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2012

The board of Directors of Arif Habib Investment Limited, the Management Company of Pakistan Capital Protected Fund - Fixed Income Securities (PCPF - FIS), is pleased to present the Annual Report on the affairs of PCPF-FIS for the year ended June 30, 2012.

Economy and Money Market Overview

Despite continued macro-economic challenges throughout the period, the year under review (July '11-June '12) could be classified as a mixed bag for the economy and capital markets as some of the key macroeconomic indicators have depicted positive trend during the period under review despite having burgeoning fiscal challenges.

The external account, which was the top performing sector during the previous year, couldn't maintain its positive trend during FY12 owing to widening trade deficit on the back of lower cotton and higher oil prices despite having record-high workers' remittances. During the year, export dipped by 3% while imports grew by 12% causing the overall trade deficit to widen to around US\$ 15.4 billion, 46% higher YoY. Despite record-high level of workers' remittances flow of US\$ 13.2 billion, higher trade and income deficit caused the current account balance to post a deficit of US\$ 4.5 billion as against a surplus of US\$ 214 million last year. Given higher current account deficit coupled with meager financial account flows, country's balance of payment position declined significantly during the year by around US\$ 3.3 billion - taking the FX reserves down to a level of US\$ 15.3 billion, while also causing sizeable depreciation of 10% in the PKR-USD exchange rate during the year.

Inflationary pressures, on the other hand, have remained largely on the lower side during the period with YoY CPI Inflation averaging 11.0% amid change in CPI methodology as well as high base-effect of last year. Moreover, real economy has shown a relatively improved picture during the year with FY12 real GDP growth stood at 3.7%, slightly higher than the revised GDP growth of 3.0% during the last year.

Fiscal indiscipline continued to remain a cause of concern for the economic managers as the country is expected to witness a higher deficit of over 8% of the GDP during FY12 (including one-off circular debt adjustments). Even during the first 9M of the fiscal year, the country witnessed a fiscal deficit of Rs. 895 billion, 4.3% of the GDP. Although growth in tax revenue collection has been strong, lower non-tax revenue on the back of non-realization of CSF proceeds coupled with higher current expenditure has been the chief reason behind ballooning fiscal deficit. Unfortunately, development expenditure is expected to be under-spent for yet another year to meet revised fiscal deficit targets. In addition of having a higher fiscal deficit, the financing mix is also alarming as the country had to resort to domestic sources of funding to a large extent in the absence of sizeable foreign flows during the period under review. Government borrowing from Central Bank has gone up by Rs. 508 billion during FY12, which is staggering 44% of total outstanding stock.

Considering the volatility in the macroeconomic variables, the State Bank of Pakistan has also altered its monetary stance at least twice during the year. Given benign YoY CPI Inflation coupled with lower GoP borrowing from SBP as well as contained external current account deficit during the earlier part of the year, the SBP cut its policy discount rate cumulatively by 200 bps to 12.0%. However, gradual deterioration in the macro-economic environment lately has compelled the central bank to keep its policy DR unchanged for the next 4 policies during the latter part of the year. Due to an overall relatively lower interest rate environment, 1 year PKRV averaged at around 12.4% during FY12, much lower than the average 13.4% a year ago.

During FY12, key monetary indicators have shown reasonable improvement with money supply (M2) posting a strong growth of 14.4%. Although Net Domestic Asset (NDA) growth has been a key contributor behind M2 growth during this year as well, sizeable YoY decline of 32% in Net Foreign Assets (NFA) has been very alarming - also reflecting weak BOP position. Significant credit demand by the government coupled with an attractive risk-return profile has kept government papers a very attractive investment vehicle for the investors during this year also. However, in absence of new credit creation, existing Term Finance Certificates (TFC) market became liquid and bank issued TFCs continued to command improvement in prices during the period under review. Moreover, GoP Ijarah Sukuk (GIS), like previous year, has remained an attractive instrument during the year for conventional markets in general and Shariah compliant markets in particular. In addition of giving strong interest yield, GIS has also provided potential for capital gains due to its demand-supply gap and therefore has seen significant activities during this year also in both primary as well as secondary markets.

Future outlook

Although medium term macroeconomic picture remains gloomy, benign CPI inflation trend coupled with the release of US\$ 1.18 billion under Coalition Support Fund by the US does provide a short term breather thereby creates a potential room for monetary easing by the State Bank of Pakistan in the upcoming monetary policy announcement. We continue to emphasize that the realization of sizeable foreign inflows holds the key in rejuvenating economic engine, while a potential return to IMF program in the next 6-8 months would adversely affect the liquidity and interest rate scenario.

In this fast changing interest rates scenario, the fund will remain committed towards superior quality assets while continue to exploit attractive opportunities in the market.

Fund's Performance

During the year, the net assets of the fund remained largely unchanged on a YoY basis at around PKR 240 million as on June 30, 2012. The investment objective of the Fund is to provide 100% capital protection (net of front -end load) and maximize the returns by investing in Fixed Income, Money and Debt market instruments. The fund is benchmarked against average PKRV yield for 2.5 year + 200 basis points (for investment segment only). The fund was able to yield an annualized return of 5.7% during the period under review, which was lower than the Fund's benchmark return of 12.5% during the same period.

Committed with the objective of providing 100% capital protection, the fund had initially allocated a sizeable portion of the fund in Term Deposit with Habib Metropolitan Bank as capital protection segment of the fund. The rest of the fund i.e. Investment segment was invested in Treasury Bills, Term Finance Certificates and bank deposits.

The Fund yields for the period under review remained as follows:

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2012**

The Fund yields for the period under review remained as follows:

| Performance Information (%) | PCPF-FIS | Benchmark |
|---------------------------------------|----------|-----------|
| Last twelve Months Return(Annualized) | 5.7% | 12.5% |
| Since Inception (CAGR) | 8.3% | 11.4% |

During the year your fund earned net income of Rs 12.883 million. The Board in the meeting held on June 25, 2012 has declared final distribution amounting to Rs. 11.979 million (i.e. Rs. 0.5374 per unit).

During the period, bonus units worth Rs.30.339 million were issued and units with a value of Rs. 9.937 million were redeemed. As on 30 June 2012 the NAV of the Fund was Rs. 10.22 per unit.

The fund has certain illiquid/non-performing corporate debt instruments held in the portfolio, such illiquid securities will remain in custody of the Trustee till the time of realization and the proceeds will be disbursed to the respective unit holders in proportion to their holdings at the maturity date of the instrument:

| Security Name | Original Maturity date | Maturity after re-structuring | Net of Provisioning | Face Value | % of Assets. |
|---------------------------------|------------------------|-------------------------------|---------------------|------------|--------------|
| 1. Pakistan Electron Ltd –Sukuk | 28.9.12 | 28.9.14 | 4,800,028 | 6,857,184 | 2.00% |
| 2. Escort Inv. Bank Ltd | 15.3.12 | 15.9.14 | 3,667,576 | 5,015,975 | 1.53% |
| | | | 8,467,604 | 11,873,159 | |

This is pertinent to highlight that the above securities were performing and liquid at the time of acquisitions and expected to be liquidated before the maturity of the Fund. However, because of rescheduling the maturity dates were extended well beyond the fund maturity date.

Update on 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. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party.

Subsequently, clarifications were issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. These clarifications were forwarded by the Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal.

Further, a fresh Constitutional Petition filed with the Honorable High Court of Sindh by a CIS / mutual fund and a pension fund through their trustee and an asset management company inter alia praying to declare that mutual funds / voluntary pension funds being pass through vehicles / entities are not industrial establishments and hence, are not liable to contribute to the WWF under the WWF Ordinance. The proceedings of the Honorable Court in this matter have concluded and the Honorable Court has reserved its decision.

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC.

In view of the afore mentioned developments, the Management Company firmly believes that there is no compelling reason to make provision on account of WWF contribution in the financial statements. Further, the Management Company also expects that the constitutional petition pending in the Honourable High Court of Sindh on the subject as referred above will be decided in favour of the Mutual Funds. However the auditor of the Fund because of pending adjudication of the Constitutional petition in Honourable Sindh High Court and included a emphasis of matter paragraph in auditor' report highlighting the said issue.

The aggregate unrecognised amount of WWF as at June 30, 2012 amounted to Rs.0.866 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 unit holders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Islamabad Stock Exchange.

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

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2012**

- 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. 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. These financial statements have not been prepared on a going concern basis as the Fund has been established for a specific period and will continue its operations till the end of that period. Further, the management has assessed that, except for preliminary expenses and floatation cost, which will be amortized as stated in note 3.6 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 those are already stated at the amounts expected to be realised or paid in accordance with the accounting policies of the Fund. Auditors' of the fund have included an emphasis of matter paragraph for the fact that the financial statements are not prepared on Going Concern basis due to its short maturity.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance 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 no 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. The details of attendance of Board of Directors meeting is disclosed in note 21.3 to the attached financial statements. During the year four meetings of Audit Committee were held on 19th September 2011, 26th October 2012, 26 January 2012 and 24th April 2012, the details of attendance is as follows:

| S. No. | Name | Designation | Attendance required | Attended | Leave granted |
|--------|--------------------|----------------------------------|---------------------|----------|---------------|
| 1. | Mr. Haroun Rashid | Chairman | 4 | 3 | 1 |
| 2. | Mr. Nasim Beg | Member - Executive Vice Chairman | 4 | 4 | - |
| 3. | Mr. Samad A. Habib | Member | 4 | 2 | 2 |
| 4. | Mr. Ali Munir | Member | 4 | 2 | 2 |

- m. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.
- n. No trades in the Units of the Fund were carried out during the year by Directors, CEO, Company Secretary & Chief Financial Officer of the Management Company and their spouses and minor children.

External Auditors

The Fund's external auditors, KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the Fund auditors for the ensuing year ending June 30, 2013. The audit committee of the Board has recommended reappointment of KPMG Taseer Hadi & Co., Chartered Accountants, as auditors of the Fund for the year ending June 30, 2013.

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, 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.

On behalf of the Board

Yasir Qadri
Chief Executive Officer

Karachi: August 15, 2012

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2012

Fund Type and Category

Pakistan Capital Protected Fund - Fixed Income Securities (PCPF-FIS) is an open-end Capital Protected Scheme

Fund Benchmark

The benchmark for PCPF-FIS is an average PKRV Yield (for 2.5 years) + 200 basis points (For investment Segment only)

Investment Objective

The objective of the Fund is to provide 100% capital protection (net of front -end load) and maximize the returns by investing in Fixed Income, Money and Debt market instruments.

Investment Strategy

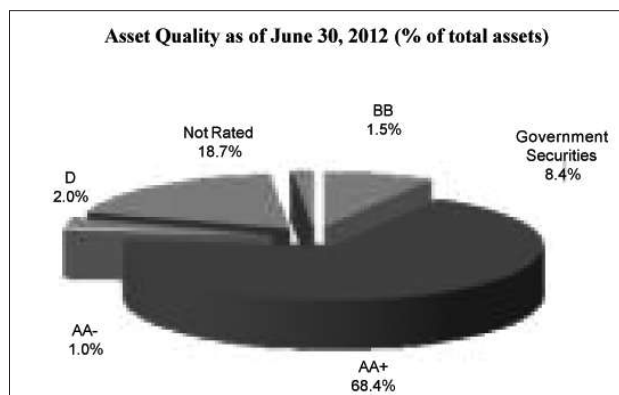
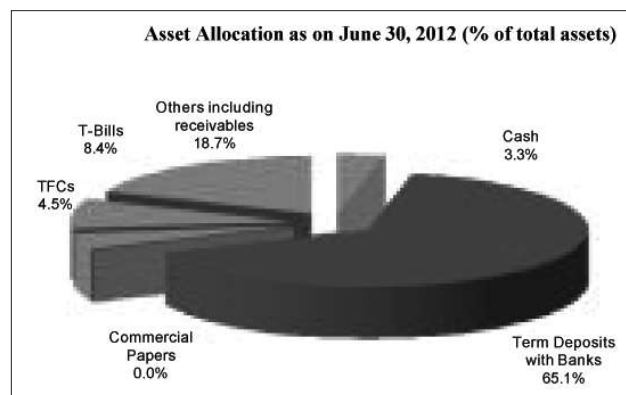
Pakistan Capital Protected Fund-Fixed Income Securities (PCPF-FIS) is an open end fund. Consistent with the objective of PCPF-FIS, about 81.85% of the fund is invested in bank deposits with Habib Metropolitan Bank that will yield a future value at maturity equivalent to the initial size of the Fund (plus Fund expenses), providing 100% protection of total initial investment (net of all expenses and front end load) to the investors. The remaining Fund is invested in fixed income securities aimed at providing investors an opportunity to earn high return relative to bank deposits. Under the NBFC rules, the Fund is not allowed to borrow.

Manager's Review

The fund was able to generate an annualized return of 5.7% during the year under review as against the fund's benchmark return of 12.5% during the same period.

Committed with the objective of providing 100% capital protection, the fund allocated 65% of net assets in Term Deposit with Habib Metropolitan Bank as capital protection segment of the fund. Around 8% of the fund's net assets were invested in Treasury Bills, 4.5% in Term Finance Certificates and the rest in cash and other assets as of 30th June 2012.

The net assets of the fund stood at PKR 240 million by the end of June 2012, which was marginally higher by around PKR 3 million as compared to June 2011.



Syed Sheeraz Ali
Fund Manager

Karachi: August 15, 2012

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
TRUSTEE REPORT TO THE UNIT HOLDERS
FOR THE YEAR ENDED JUNE 30, 2012**



REPORT OF THE TRUSTEE TO THE UNIT HOLDERS

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)

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

Pakistan Capital Protected Fund (Fixed Income Securities), an open-end Scheme established under a Trust Deed dated June 15, 2009 executed between Arif Habib Investments Limited, as the Management Company and MCB Financial Services Limited, as the trustee. Formation of the Fund as open end fund was authorized by Securities and Exchange Commission of Pakistan (Commission) on August 07, 2009.

- 1) Arif Habib Investments Limited, the Management Company of Pakistan Capital Protected Fund (Fixed Income Securities), has in all material respects managed Pakistan Capital Protected Fund (Fixed Income Securities), during the year ended 30th June 2012 in accordance with the provisions of the following:
 - (i) the limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws;
 - (ii) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;
 - (iii) the creation and cancellation of units are carried out in accordance with the deed;
 - (iv) and any regulatory requirement

For the purpose of information, the attention of unit holders is drawn towards note 14 to the financial statements relating to the provision for Workers' Welfare Fund (WWF), which refers to the pending outcome of the litigation regarding contribution to WWF in Honorable High Court of Sindh. In view of the matters more fully discussed in the above note, provision against WWF amounting to Rs. 0.866 million is not being maintained by the Fund.

Further, the attention of unit holders is also drawn towards note 1 to the financial statements which state the maturity of the Fund on 15th August 2012. No adjustments, other than mentioned above, is required in these financial statements, as the assets and liabilities are stated at values at which these are expected to be realized or settled.

A handwritten signature in black ink, appearing to read "Amir", is positioned above the printed name of the Chief Executive Officer.

Chief Executive Officer
MCB Financial Services Limited

Karachi: October 16, 2012

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PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) STATEMENT OF THE COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2012

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of Pakistan Capital Protected Fund - Fixed Income Securities ("the Fund") to comply with the Code of Corporate Governance (the Code) contained in Regulation no. 35 of Listing Regulations of Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

Pakistan Capital Protected Fund - Fixed Income Securities is an open end mutual fund and is listed at Islamabad Stock Exchange. The Fund, being a unit trust scheme, does not have its own Board of Directors. The Management Company, Arif Habib Investments Limited, on behalf of the Fund, has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes

| Category | Names |
|---------------------------|--|
| Independent Directors | 1. Dr. Salman Shah 2. Mr. Haroun Rashid 3. Mr. Mirza Mehmood |
| Executive Directors | 1. Mr. Nasim Beg - Executive Vice Chairman 2. Mr. Yasir Qadri - Chief Executive Officer |
| Non - Executive Directors | 1. Mian Mohammad Mansha 2. Mr. Ahmed Jehangir 3. Mr. Samad Habib |

The independent directors meets the criteria of independence under clause i (b) of the Code.

2. The directors 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 period no casual vacancy occurred on the board of the Management Company
5. The Management Company had prepared a 'Code of Conduct' and ensured that appropriate steps had been taken to disseminate it throughout the company along with its supporting policies and procedures.
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 Officer, other executive and non-executive directors, have been taken by the Board. No new appointment of Chief Executive Officer, other executive and non-executive directors were made during the year.
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. The minutes of the meetings were appropriately recorded and circulated.
9. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Accordingly, the Management Company is compliant with this requirement for the current year. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.
10. No new appointments of Chief Financial Officer and Company Secretary were made during the year. The Board has approved the remuneration and terms and conditions of employment, as determined by the Chief Executive Officer. Subsequent to the year end, the Management Company has appointed Head of Internal Audit who is also planned to be designated as the secretary to the Audit Committee in the upcoming Audit Committee meeting.
11. The Directors' Report of the fund for the year ended June 30, 2012 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The Directors, Chief Executive Officer 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 Management Company has complied with all the corporate and financial reporting requirements of the Code.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
STATEMENT OF THE COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2012**

15. The Board has formed an Audit Committee for the Management Company. It comprises of four members, three of whom are the directors of the Management Company. Two are non-executive directors and the Chairman of the Committee is an independent director.
16. 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.
17. The Board has formed an HR and Remuneration Committee. It comprises four members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. During the year, the Management Company has outsourced the internal audit function to Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants who are considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Management Company.
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 (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and units of the fund. The firm and all its partners are also in compliance with International Federation of Accountants guidelines on code of ethics as adopted by ICAP.
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 International Federation of Accountants guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities and Fund's unit, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the Code have been complied with towards which reasonable progress is being made by the company to seek compliance by the end of next accounting year.

On behalf of the Board

Yasir Qadri
Chief Executive Officer

Karachi: August 15, 2012

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
REVIEW REPORT TO THE UNIT HOLDERS ON THE
STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES
OF THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2012**



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Chartered Accountants
Sheikh Sultan Trust Building No. 2
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Karachi, 75530 Pakistan

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Review report to the Unit holders of Pakistan Capital Protected Fund (Fixed Income Securities) "the Fund" on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance ("Statement of Compliance") prepared by the Board of Directors of Arif Habib Investments Limited, ("the Management Company") of the Fund to comply with the Listing Regulations of Islamabad Stock Exchange Limited, 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 financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

Further, sub-regulation (x) of Listing Regulations 35 notified by the Islamabad Stock Exchange Limited requires the Management Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2012.

We draw attention to paragraph 10 of the annexed Statement of Compliance which explains that subsequent to year end the Management Company has appointed Head of Internal Audit who is also planned to be designated as Secretary to the Audit Committee in the upcoming Audit Committee meeting.

Date: 15 August 2012

Karachi

KPMG Taseer Hadi & Co.
KPMG Taseer Hadi & Co.
Chartered Accountants

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS
FOR THE YEAR ENDED JUNE 30, 2012**



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

We have audited the accompanying financial statements of **Pakistan Capital Protected Fund (Fixed Income Securities)** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2012, and the related income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year ended 30 June 2012, 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 approved accounting standards as applicable in Pakistan and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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.

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 2012, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS
FOR THE YEAR ENDED JUNE 30, 2012**



KPMG Taseer Hadi & Co.

Emphasis of matter

We draw attention to:

- a) Note 14 to the financial statements relating to provision for Workers' Welfare Fund (WWF) which refers to the pending outcome of the litigation regarding contribution to WWF in Honourable Sindh High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 0.866 million is not being maintained by the Fund.
- b) Note 1 to the financial statements, which state the maturity of the Fund on 15 August 2012. No adjustments, other than that mentioned above, is required in these financial statements, as the assets and liabilities are stated at values at which these are expected to be realized or settled.

Our opinion is not qualified in respect of above matters.

Other matters

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

Date: 15 August 2012

Karachi

**KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt**

FINANCIAL STATEMENTS

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2012**

| | Note | 2012 | 2011 |
|--|------|--------------------------|------------|
| | | (Rupees in '000) | |
| Assets | | | |
| <i>Capital protection segment</i> | | | |
| Term deposit receipts | 4 | 160,136 | 162,136 |
| Profit receivable | | 45,350 | 26,488 |
| | | 205,486 | 188,624 |
| <i>Investment segment</i> | | | |
| Balances with bank | 5 | 8,233 | 12,807 |
| Investments | 6 | 31,770 | 36,096 |
| Profit receivable | 7 | 218 | 858 |
| Deposits and other receivables | 8 | 350 | 2,028 |
| | | 40,571 | 51,789 |
| Preliminary expenses and floatation costs | 9 | 49 | 451 |
| Total assets | | 246,106 | 240,864 |
| Liabilities | | | |
| Payable to Arif Habib Investments Limited - Management Company | 10 | 341 | 292 |
| Payable to MCB Financial Services Limited - Trustee | 11 | 41 | 41 |
| Payable to Securities and Exchange Commission of Pakistan | 12 | 181 | 188 |
| Accrued expenses and other liabilities | 13 | 5,714 | 3,668 |
| Total liabilities | | 6,277 | 4,189 |
| Contingencies and commitments | | | |
| | 14 | | |
| Net assets | | 239,829 | 236,675 |
| <i>Unit holders' funds (as per statement attached)</i> | | 239,829 | 236,675 |
| | | <i>(Number of units)</i> | |
| <i>Number of units in issue</i> | | 23,463,878 | 21,439,398 |
| | | (Rupees) | |
| Net asset value per unit | | 10.22 | 11.04 |

The annexed notes 1 to 22 form an integral part of these financial statements.



Chief Executive Officer

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



Director

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2012**

| | <i>Note</i> | 30 June 2012 | 30 June 2011 |
|---|-------------|-------------------------|-----------------|
| (Rupees in '000) | | | |
| Income | | | |
| Income from term deposit receipts - capital protection segment | | 19,214 | 21,197 |
| Capital loss on sale of investments | | (405) | (69) |
| Income from term finance and sukuk certificates | | 346 | 5,265 |
| Income from commercial papers | | 585 | 922 |
| Income from government securities | | 1,753 | 1,225 |
| Profit on bank deposits | | 1,108 | 1,584 |
| Net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' | 6.4 | (238) | (559) |
| Provision against non-performing term finance certificates | 6.1.1 | (1,563) | - |
| Other income | | 388 | 1,235 |
| Total income | | <u>21,188</u> | <u>30,800</u> |
| Expenses | | | |
| Remuneration of Arif Habib Investments Limited - Management Company | 10.1 | 3,572 | 3,750 |
| Sindh sales tax on management fee | 10.2 | 571 | - |
| Remuneration of MCB Financial Services Limited - Trustee | 11 | 500 | 554 |
| Annual fee - Securities and Exchange Commission of Pakistan | 12 | 181 | 188 |
| Securities transaction cost | | 14 | 21 |
| Bank charges | | 10 | 33 |
| Fees and subscriptions | | 225 | 110 |
| Legal and professional charges | | 22 | 75 |
| Auditors' remuneration | 15 | 409 | 405 |
| Amortisation of preliminary expenses and floatation costs | | 402 | 401 |
| Printing and related cost | | 73 | 125 |
| Zakat and others expenses | | 2,118 | 2,595 |
| Total expenses | | <u>8,097</u> | <u>8,257</u> |
| Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed | | (208) | (2,144) |
| Net income for the year | | <u>12,883</u> | <u>20,399</u> |
| Other comprehensive income for the year | | | |
| Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed - transferred to Distribution Statement (refer note 3.4) | | (364) | - |
| Total comprehensive income for the year | | <u>12,519</u> | <u>20,399</u> |
| Earnings per unit | 16 | | |

The annexed notes 1 to 22 form an integral part of these financial statements.



Chief Executive Officer

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



Director

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED JUNE 30, 2012**

| | 30 June 2012 | 30 June 2011 |
|--|-------------------------|-----------------|
| | (Rupees in '000) | |
| Net assets at beginning of the year | 236,675 | 244,564 |
| <i>Contribution and redemption by unit holders:</i> | | |
| Issue of 2,976,864 bonus units (2011: 814,135) | 30,339 | 8,206 |
| Redemption of 952,384 units (2011: 2007,712) | (9,937) | (30,432) |
| | 20,402 | (22,226) |
| Net element of (income) / loss and capital (gains) / losses for the year included in prices of units issued less those in units redeemed | | |
| - amount representing accrued (income) / loss and realised capital (gains) / losses transferred to the Income Statement | 208 | 2,144 |
| - amount representing unrealised capital (gains) / losses - transferred to the Distribution Statement (refer note 3.4) | 364 | - |
| | 572 | |
| <i>Total comprehensive income for the year:</i> | | |
| Net income for the year (excluding net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' and capital losses on sale of investments) | 13,526 | 21,027 |
| Capital loss on sale of investments | (405) | (69) |
| Net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' | (238) | (559) |
| Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed amount representing unrealised capital gains - transferred to the Distribution Statement (refer note 3.4) | (364) | - |
| Net income for the year (including net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' and capital loss on sale of investments) | 12,519 | 20,399 |
| <i>Distributions:</i> | | |
| Final distribution of 1,803,605 (2010: 814,135) bonus units for the year ended 30 June 2011 at the rate of Re. 0.8564 (2010: 0.35) per unit - Date of distribution 4 July 2011 | (18,360) | (8,206) |
| Final distribution of 1,173,259 (2011: 1,803,605) bonus units for the year ended 30 June 2012 at the rate of Re. 0.5374 (2011: Re. 0.8564) per unit - Date of distribution 25 June 2012 | (11,979) | - |
| | (30,339) | (8,206) |
| Net assets at end of the year | 239,829 | 236,675 |
| | (Rupees) | |
| Net asset value per unit as at beginning of the year | 11.04 | 10.43 |
| Net asset value per unit as at end of the year | 10.22 | 11.04 |

The annexed notes 1 to 22 form an integral part of these financial statements.


Chief Executive Officer

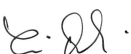
**For Arif Habib Investments Limited
(Management Company)**


Director

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2012**

| | 30 June 2012 | 30 June 2011 |
|---|-------------------------|-----------------|
| | (Rupees in '000) | |
| Undistributed income brought forward: | | |
| - Realised gains | 21,328 | 8,654 |
| - Unrealised gains | 958 | 1,439 |
| | 22,286 | 10,093 |
| Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed - transferred to Distribution Statement (refer note 3.4) | (364) | - |
| Net income for the year | 12,883 | 20,399 |
| <i>Distributions:</i> | | |
| Final distribution of 1,803,605 (2010: 814,135) bonus units for the year ended 30 June 2011 at the rate of Re. 0.8564 (2010: 0.35) per unit - Date of distribution 4 July 2011 | (18,360) | (8,206) |
| Final distribution of 1,173,259 (2011: 1,803,605) bonus units for the year ended 30 June 2012 at the rate of Re. 0.5374 (2011: Re. 0.8564) per unit - Date of distribution 25 June 2012 | (11,979) | - |
| | (30,339) | (8,206) |
| Undistributed income carried forward | 4,466 | 22,286 |
| Undistributed income carried forward: | | |
| - Realised gains | 6,180 | 21,328 |
| - Unrealised (losses) / gains | (1,714) | 958 |
| | 4,466 | 22,286 |

The annexed notes 1 to 22 form an integral part of these financial statements.


Chief Executive Officer

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


Director

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2012**

| | 30 June 2012 | 30 June 2011 |
|---|------------------|-----------------|
| | (Rupees in '000) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income for the year | 12,883 | 20,399 |
| Adjustments for non cash and other items: | | |
| Net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' | 238 | 559 |
| Amortisation of preliminary expenses and floatation costs | 402 | 401 |
| Net element of (income) / loss and capital (gains) / losses for the year included in prices of units issued less those in units redeemed | 208 | 2,144 |
| | <u>13,731</u> | <u>23,503</u> |
| (Increase) / decrease in assets | | |
| Term deposit receipts | 2,000 | 18,400 |
| Profit receivable in term deposit receipts | (18,862) | (18,509) |
| Investments | 4,088 | 214 |
| Profit receivable | 640 | 504 |
| Deposits and other receivables | 1,678 | (1,925) |
| Preliminary expenses and floatation cost | - | - |
| | <u>(10,456)</u> | <u>(1,316)</u> |
| Increase / (decrease) in liabilities | | |
| Payable to Arif Habib Investments Limited - Management Company | 49 | (1,201) |
| Payable to MCB Financial Services Limited - Trustee | - | - |
| Payable to Securities and Exchange Commission of Pakistan | (7) | 122 |
| Accrued expenses and other liabilities | 2,046 | 2,291 |
| | <u>2,088</u> | <u>1,212</u> |
| Net cash generated from operating activities | <u>5,363</u> | <u>23,399</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net payments used in sale and redemption of units | (9,937) | (30,432) |
| Net decrease in cash and cash equivalents during the year | <u>(4,574)</u> | <u>(7,033)</u> |
| Cash and cash equivalents at beginning of the year | 12,807 | 19,840 |
| Cash and cash equivalents at end of the year | <u>8,233</u> | <u>12,807</u> |

The annexed notes 1 to 22 form an integral part of these financial statements.



Chief Executive Officer

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



Director

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Capital Protected Fund - Fixed Income Securities ("the Fund") was established under a Trust Deed executed on 15 June 2009 between Arif Habib Investments Limited (a subsidiary of MCB Bank Limited) as Management Company and MCB Financial Services Limited as Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on 7 August 2009 in accordance with the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008. In conformity with circular 7 of 2009 dated March 6, 2009 issued by the SECP, the Fund has been assigned "Capital Protected" category. The Fund is listed on Islamabad Stock Exchange (Guarantee) Limited.

Formation of the Fund as open end fund was authorized by SECP on 7 August 2009. The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

Based on shareholders' resolutions of MCB-Asset Management Company and Arif Habib Investments Limited the two companies have merged as of 27 June 2011 through operation of an order from the SECP issued under Section 282L of the Companies Ordinance 1984 (Order through letter no. SCD/NBFC-II/ MCBAMCL & AHIL/271/2011 dated 10 June 2011). Arif Habib Investments Limited being a listed company is the surviving entity and in compliance of the State Bank of Pakistan's approval it is a subsidiary of MCB Bank Limited. However, subsequent to the completion of the merger the SECP issued an order postponing the effective date of the merger to 30 July 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated 27 June 2011). Since the merger had already taken place and the subsequent order of the SECP could not be complied with, the Company has sought a ruling by the honourable Sindh High Court. The Honourable Sindh High Court has held the SECP's subsequent order in abeyance and instructed the SECP to treat the companies as merged pending a final ruling. No hearing since then has taken place. Irrespective of the final ruling, the Fund's assets and NAV remain unaffected.

Since, the Fund is a capital protected fund it has an objective to pay back investors (with certain conditions) whole of their initial investment (net of Front end load) i.e. Rs. 10 per unit over the term of its life in the form of dividend or return of capital on its termination. In addition, the Fund has an objective to maximize the return by investing in fixed income instruments, money and debt market instruments to achieve the investment objective.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of AM2' (Positive Outlook) to the Management Company of the Fund. Currently, the management is awaiting for assignment of stability rating of the Fund from PACRA.

The Fund consists of two segments, Capital Protected Segment and an Investment Segment. The Capital Protected Segment aims at protecting investors capital by placing the assets of the segment in bank deposits having at least long term credit rating of AA- (Double A minus) or above at the time of placement. To achieve the objective the Fund has placed 81.85% of Fund property (net of loads and charges, if any) with Habib Metropolitan Bank Limited to ensure that these funds grow to become at least 100% of the total initial investment value (net of all expenses and taxes) at the time of maturity.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

The remaining assets of the Fund have been allocated to the Investment Segment that will be invested in fixed income instruments, money and debt market instruments with an objective of providing 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 Protected Segment.

The duration of the Fund is 30 (thirty) months from the last day of initial offering / launch period. The Fund will cease to operate on 15 August 2012 and shall stand liquidated. However, the management considers that the said dissolution of the Fund would not result in any adjustment to the carrying values of the assets and liabilities as stated in these financial statements for the reason that such values approximate their respective fair values.

Title to the assets of the Fund is held in the name of MCB Financial Services Limited as a trustee of the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) , the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the SECP. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.

2.2 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to Standards or new interpretations became effective. However, the amendments or interpretation did not have any material effect on the financial statements of the Fund.

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

The following standards, amendments and interpretations of approved accounting standards are only effective for annual periods beginning from the dates specified below. These standards are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements, other than increased disclosures in certain cases:

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1: Presentation of Financial Statements) effective for annual periods beginning on or after 1 July 2012.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) effective for annual periods beginning on or after 1 January 2014.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) effective for annual periods beginning on or after 1 January 2013.
- Annual Improvements 2009 - 2011 (effective for annual period beginning on or after 1 January 2013). The new cycle of improvements contain amendments to five standards. However, those amendments do not have any affect on the financial statements of the Fund.

2.4 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that certain financial assets are measured at fair value.

2.5 Functional and presentation currency

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

2.6 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about assumption and estimation uncertainties that have a significant risk of resulting in material adjustment within the next financial year as well as critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:

Investments stated at fair value and derivative financial instruments

The management company has determined fair value of certain investments by using quotations from active market valuation done by Mutual Fund Association of Pakistan and Financial Markets Association of Pakistan (Reuters). Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgements (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

Other assets

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except stated otherwise.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) Financial instruments as 'at fair value through profit or loss'

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

Financial instruments as 'at fair value through profit' or loss are measured at fair value, and changes therein are recognised in the Income Statement.

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

b) 'Available-for-sale'

'Available for sale' financial assets are non-derivative that are either designated in this category or not classified in any other category.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 'at fair value through profit or loss' or 'available for sale'.

d) Financial liabilities

Financial liabilities, other than those as 'at fair value through profit or loss', are measured at amortised cost using the effective interest method.

Recognition

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

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

Measurement

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

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets as 'at fair value through profit or loss' are recognised in the Income Statement. The financial instruments classified as loans and receivables are subsequently measured at amortized cost less provision for impairment, if any.

Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Fund until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Fund are included in the Income Statement.

Fair value measurement principles

The fair value of a security listed on a stock exchange, local or foreign as the case may be, and derivatives is valued at its last sale price on such exchange on the date on which it is valued or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date the security is valued at an amount neither higher than the closing ask price nor lower than the closing bid price.

Investment in debt securities are valued at the rates determined and notified by Mutual Fund Association of Pakistan (MUFAP) as per the methodology prescribed by SECP via Circular 1 of 2009 and Circular 3 of 2010. The circular also specifies a criteria for application of discretionary discount to yield of any debt security calculated by MUFAP and contain criteria for the provisioning of non-performing debt securities.

Investment in thinly and non-traded debt securities (including commercial papers) with maturity up to six months are valued at their amortized cost in accordance with the requirements of Circular 1 of 2009 issued by the SECP and are classified as loans and receivables.

Basis of valuation of Government Securities

The fair value of the investments in government securities is determined by reference to the quotations obtained from the PKRV sheet on the Reuters page.

Securities under repurchase/ resale agreements

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

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

Impairment

Financial assets not carried as 'at fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is any indication of impairment.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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A financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of assets and that loss events had an impact on the future cashflows of that assets and that can be estimated reliably.

An impairment loss in respect of financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cashflows discounted at the asset's original effective interest rate.

Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognised in income statement.

The Board of Directors of the Management Company has formulated a comprehensive policy for making provision against non performing investments in compliance with Circular 13 of 2009 issued by SECP.

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial assets expires or it transfers the right to receive the contractual cashflows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred on in which the Fund neither transferred does not retains substantially all the risks and rewards of ownership and does not retain control of the financial assets.

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

Offsetting of financial instruments

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

3.2 Unit holders' fund

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

3.3 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours on that date. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, 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.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
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Any back-end load charge levied on redemptions becomes property of the Fund and is recognised in Income Statement currently.

3.4 Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units repurchased

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

During the year, the Fund has revised the calculation for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised calculation, element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed to the extent that it is represented by income earned during the year is recognized in income statement and the remaining portion of element of income / (loss) and capital gains / (losses) held in separate reserve account at the end of an accounting period (whether gain or loss) is included in amount available for distribution to the unit holders.

The revised calculation, in the opinion of the management, would ensure that continuing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the calculation not been changed, the net income for the year ended 30 June 2012 would have been lower by Rs. 0.364 million

3.5 Provisions

Provisions are recognised in the balance sheet when the Fund has a legal or constructive obligation as a result of past event, 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 the obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represents expenditure incurred prior to the commencement of operations of the Fund. These costs are amortised over the life of the Fund commencing from 16 February 2010.

3.7 Net asset value per unit

The net asset value per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in issue.

3.8 Taxation

Current

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

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
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Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits.

However, the Fund intends to avail the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year. Accordingly, no deferred tax asset or liability or current tax has been recognised in these financial statements.

3.9 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets at fair value through profit or loss are included in the Income Statement in the period in which they arise.
- Income on reverse repurchase transactions, debt securities and government securities is recognised on an accrual basis using the effective interest rate method.
- Profit on bank deposit is recognised on time proportion basis taking in to account effective yield.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.10 Expenses

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

3.11 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

3.12 Other assets

Other assets are stated at cost less impairment losses, if any.

3.13 Proposed dividend and transfer between reserves

Dividends declared and transfers between reserves made 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 dividends are declared / transfers are made.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
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4. TERM DEPOSIT RECEIPTS

This represent a term deposit placed with Habib Metropolitan Bank at a mark-up rate of 11.95% (2011: 11.95%) per annum maturing on 15 August 2012. The said deposit has been placed by the Fund to ensure that these deposits are grown to become at least 100% of the total initial invested value.

5. BALANCES WITH BANK

This represents saving accounts maintained with Habib Metropolitan Bank, carrying mark-up at the rate ranging from 5% to 10.5% (2011: 5% to 10.5%) per annum.

6. INVESTMENTS

30 June 2012 **30 June 2011**
(Rupees in '000)

'At fair value through profit or loss' - held for trading

| | | | |
|--|-----|---------------|--------|
| - Fixed income and other debt securities | 6.1 | 11,101 | 16,681 |
| - Government securities | 6.2 | 20,669 | - |

Loan and receivables

| | | | |
|---------------------------------|--|---------------|---------------|
| - Commercial papers - unsecured | | - | 19,415 |
| | | 31,770 | 36,096 |

6.1 Fixed income and other debt securities - 'at fair value through profit or loss' - held for trading

Term Finance Certificates (TFCs) of Rs. 5,000 each.

| Name of the investee company | Profit / mark-up percentage | As at 30 June 2011 | Purchases during the year | Sales during the year | As at 30 June 2012 | Balance as at 30 June 2012 | | | Market value as a percentage of net assets | Market value as a percentage of total investments | Par value as a percentage of issued debt capital of investee company | |
|---|-----------------------------|--------------------|---------------------------|-----------------------|--------------------|------------------------------|---------------|-----------------------------|--|---|--|------|
| | | | | | | Cost | Market value | (Diminution) / appreciation | | | | |
| ----- (Number of certificates) ----- | | | | | | ----- (Rupees in '000) ----- | | | | | | |
| Pak Elektron Limited - Sukuk | 6.1.1 | 15.05% | 4,700 | - | 1,500 | 3,200 | 5,995 | 6,363 | 368 | 2.65 | 20.03 | 0.50 |
| Bank Alfalah Limited (IV) - Floating | | 14.51% | 500 | - | - | 500 | 2,498 | 2,635 | 137 | 1.10 | 8.29 | 2.00 |
| Escorts Investment Bank Limited | | 8.00% | 4,016 | - | - | 4,016 | 4,295 | 3,666 | (629) | 1.53 | 11.54 | 0.86 |
| | | | | | | | 12,788 | 12,664 | (124) | | | |
| Provision against non-performing exposure | | | | | | | - | (1,563) | - | | | |
| Total as at 30 June 2012 | | | | | | | 12,788 | 11,101 | (124) | | | |

6.1.1 During the year, owing to financial difficulties, Pakistan Elektron Limited has defaulted in the payment of coupons due on 28 December 2011 and 28 June 2012. In accordance with the requirements of Circular 1 of 2009, issued by the SECP, no further mark-up is being accrued on such investment from the date the coupon was due. Further, provision amounting to Rs. 1.563 million has been made in accordance with the provisioning policy approved by the Board of Directors of the Management Company.

Term Finance Certificates (TFCs) of Rs. 5,000 each.

| Name of the investee company | Profit / mark-up percentage | As at 30 June 2011 | Purchases during the year | Sales during the year | As at 30 June 2011 | Balance as at 30 June 2011 | | | Market value as a percentage of net assets | Market value as a percentage of total investments | Par value as a percentage of issued debt capital of investee company | |
|--|-----------------------------|--------------------|---------------------------|-----------------------|--------------------|------------------------------|---------------|-----------------------------|--|---|--|------|
| | | | | | | Cost | Market value | Appreciation / (diminution) | | | | |
| ----- (Number of certificates) ----- | | | | | | ----- (Rupees in '000) ----- | | | | | | |
| Pak Elektron Limited - Sukuk | | 14.04% | 4,700 | - | - | 4,700 | 7,338 | 8,284 | 946 | 3.50 | 22.95 | 0.61 |
| Bank Alfalah Limited (IV) - Floating | | 14.78% | 500 | - | - | 500 | 2,499 | 2,533 | 34 | 1.07 | 7.02 | 2.00 |
| Bank AL Habib Limited (III) | | 15.50% | 600 | - | 600 | - | - | - | - | - | - | - |
| Pakistan Mobile Communication Limited (IV) | | 13.71% | 6,800 | - | 6,800 | - | - | - | - | - | - | - |
| Escorts Investment Bank Limited | | 15.26% | - | 4,016 | - | 4,016 | 5,886 | 5,864 | (22) | 2.48 | 16.25 | 1.18 |
| Total as at 30 June 2011 | | | | | | | 15,723 | 16,681 | 958 | | | |

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

6.1.2 Significant terms and conditions of Term Finance Certificates outstanding as at 30 June 2012 are as follows:

| Name of security | Remaining principal (per TFC) | Mark-up rate (per annum) | Issue date | Maturity date |
|--------------------------------------|-------------------------------|--------------------------|-------------------|-------------------|
| Pak Elektron Limited - Sukuk | 2,143 | 1.75%+3 Month KIBOR | 28 September 2007 | 28 September 2012 |
| Bank Alfalah Limited (IV) - Floating | 4,995 | 2.50%+6 Month KIBOR | 02 December 2009 | 02 December 2017 |
| Escorts Investment Bank Limited * | 1,249 | 8% | 15 March 2007 | 15 September 2014 |

Significant terms and conditions of Term Finance Certificates outstanding as at 30 June 2011 are as follows:

| Name of security | Remaining principal (per TFC) | Mark-up rate (per annum) | Issue date | Maturity date |
|--------------------------------------|-------------------------------|--------------------------|-------------------|-------------------|
| Pak Elektron Limited - Sukuk | 2,143 | 1.75%+3 Month KIBOR | 28 September 2007 | 28 September 2012 |
| Bank Alfalah Limited (IV) - Floating | 4,997 | 2.50%+6 Month KIBOR | 2 December 2009 | 02 December 2017 |
| Escorts Investment Bank Limited * | 4,016 | 2.5%+6 Month KIBOR | 15 March 2007 | 15 March 2012 |

* During the year Escorts Investment Bank Limited has restructured its Term Finance Certificate issue dated 15 March 2007 via letter no. FDIBL/2561/2011 dated 27 October 2011. According to the restructured agreement the six monthly interest payments will start from 15 September 2012.

6.2 Government Securities - 'At fair value through profit or loss' - held for trading

| Issue Date | Face value | | | | As at 30 June 2012 | Balance as at 30 June 2012 | | | Market value | |
|---------------------------------|------------|-------------------|---------------------------|---------------------------------|--------------------|----------------------------|---------------|-------------|-------------------------------|-------------------------------------|
| | Tenor | As at 1 July 2011 | Purchases during the year | Sales / Matured during the year | | Cost | Market value | Diminution | as a percentage of net assets | as a percentage of total investment |
| ----- (Rupees in 000) ----- | | | | | | | | | | |
| Treasury bills | | | | | | | | | | |
| 19 April 2012 | 3 months | - | 2,000 | - | 2,000 | 1,993 | 1,993 | - | 0.83 | 6.27 |
| 28 October 2011 | 12 months | - | 19,000 | - | 19,000 | 18,703 | 18,676 | (27) | 7.79 | 58.79 |
| Total as at 30 June 2012 | | | | | | 20,696 | 20,669 | (27) | | |

6.3 Details of non-compliant investments with the investment criterion of assigned category

The Securities and Exchange Commission of Pakistan vide Circular no. 7 of 2009 dated 6 March 2009, required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. The Board of Directors of the management company has approved the category of the fund as "Capital Protected scheme", in accordance with the said Circular.

As per the offering document, the Fund is required to invest in securities having atleast investment grade rating (credit rating of BBB and above). However, as at 30 June 2012, the Fund is non-compliant with the following investments:

| Name of non-compliant investment | Type of investment | Outstanding face value | Value of investment before provision | Provision held, if any | Value of investment after provision | Percentage of net assets | Percentage of gross assets |
|----------------------------------|-------------------------------|------------------------|--------------------------------------|------------------------|-------------------------------------|--------------------------|----------------------------|
| | | | | | | % | % |
| Pakistan Elektron Limited | Investment in debt securities | 6,857 | 6,363 | (1,563) | 4,800 | 2.00 | 1.95 |
| Escorts Investment Bank Limited | Investment in debt securities | 5,016 | 3,666 | - | 3,666 | 1.53 | 1.49 |

At the time of purchase of above investments, the Fund was in compliance with aforementioned requirement.

6.4 Net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'

| | 30 June 2012 | 30 June 2011 |
|--|------------------|--------------|
| | (Rupees in '000) | |
| Fair value of investments | 31,770 | 16,681 |
| Less: Cost of investments | (33,484) | (15,723) |
| | (1,714) | 958 |
| Net unrealised appreciation in value of investments as 'at fair value through profit or loss' at beginning of the year | (958) | (1,439) |
| Add: Provision against non performing exposure | 1,563 | - |
| Realised on disposal during the year | 871 | (78) |
| | 1,476 | (1,517) |
| | (238) | (559) |

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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| 7. PROFIT RECEIVABLE | 2012 | 2011 |
|---|-------------------------|-------------|
| | (Rupees in '000) | |
| Profit receivable on bank deposits | 71 | 114 |
| Income accrued on term finance certificates | 147 | 744 |
| | <u>218</u> | <u>858</u> |

8. DEPOSITS AND OTHER RECEIVABLES

| | | | |
|---|------------|-------------------|--------------|
| Deposit with National Clearing Company of Pakistan Limited | <i>8.1</i> | 250 | 250.00 |
| Deposit with Central Depository Company of Pakistan Limited | <i>8.2</i> | 100 | 100 |
| Other receivables | | - | 1,678 |
| | | <u>350</u> | <u>2,028</u> |

8.1 This represents deposit with National Clearing Company of Pakistan Limited in respect of Bond Automated Trading System (BATS).

8.2 This represents deposit with Central Depository Company of Pakistan Limited on account of initial deposit for opening of investor account for electronic transfer of book-entry securities.

9. PRELIMINARY EXPENSES AND FLOATATION COSTS

| | | | |
|------------------------------------|--|------------------|------------|
| Opening balance | | 451 | 852 |
| Less: Amortisation during the year | | (402) | (401) |
| | | <u>49</u> | <u>451</u> |

**10. PAYABLE TO ARIF HABIB INVESTMENTS LIMITED -
MANAGEMENT COMPANY**

| | | | |
|---|-------------|-------------------|------------|
| Management fee | <i>10.1</i> | 294 | 292 |
| Sindh sales tax payable on management fee | <i>10.2</i> | 47 | - |
| | | <u>341</u> | <u>292</u> |

10.1 Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund. The Management Company has charged fee at the rate of 1.5% per annum of the average net asset of the Fund.

10.2 During the current year the Sindh Government has levied General Sales Tax (GST) at the rate of 16% on the remuneration of the Management Company through the enactment of Sindh Sales Tax on Services Act, 2011.

11. PAYABLE TO MCB FINANCIAL SERVICES LIMITED - TRUSTEE

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed. The following tariff structure as amended by the Trustee of the Fund vide letter no. MCB /FSL/OPS/A-1706/2010 is applicable based on the net assets of the Fund.

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| Average net asset value | Tariff per annum |
|---|---|
| On Net Assets up to Rs 100 million | Rs 0.2 million or 0.20% p.a. of the Net Assets, whichever is higher |
| On Net Assets up to Rs 200 million | Rs 0.4 million or 0.20% p.a. of the Net Assets, whichever is higher |
| On Net Assets up to Rs 250 million | Rs 0.5 million or 0.20% p.a. of the Net Assets, whichever is higher |
| On Net Assets exceeding Rs 250 million up to Rs 500 million | Rs 0.5 million plus 0.08% p.a. on amount exceeding Rs 250 million |
| On Net Assets exceeding Rs 500 million up to Rs 1,000 million | Rs 0.7 million plus 0.08% p.a. on amount exceeding Rs 500 million |
| On Net Assets exceeding Rs 1,000 million up to Rs 2,000 million | Rs 1.1 million plus 0.08% p.a. on amount exceeding Rs 1,000 million |
| On Net Assets exceeding Rs 2,000 million up to Rs 5,000 million | Rs 1.9 million plus 0.06% p.a. on amount exceeding Rs 2,000 million |
| On Net Assets exceeding Rs 5,000 million | Rs 3.7 million plus 0.05% p.a. on amount exceeding Rs 5,000 million |

12. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

As per Schedule II of the NBFC Regulations 2008, capital protected funds are required to pay, an amount equal to 0.075 percent of the average annual net assets of the Scheme, as annual fee to the SECP.

13. ACCRUED EXPENSES AND OTHER LIABILITIES

| | 2012 | 2011 |
|------------------------|-------------------------|---------------------|
| | (Rupees in '000) | |
| Auditors' remuneration | 270 | 341 |
| Professional fee | 102 | 150 |
| Zakat payable | 4,985 | 2,882 |
| Others | 357 | 295 |
| | <u>5,714</u> | <u>3,668</u> |

14. CONTINGENCIES AND COMMITMENTS

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for an adjudication.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
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Subsequent to the year ended 30 June 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However, on 14 December 2010 the Ministry filed its response against the Constitutional petition requesting the court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

Subsequent to 30 June 2011, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company believes that the Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company in these financial statements. The aggregate unrecognised amount of WWF as at 30 June 2012 amounted to Rs. 0.866 million. (NAV per unit: Re. 0.04)

15. AUDITORS' REMUNERATION

| | 30 June 2012 | 30 June 2011 |
|-----------------------------------|-------------------------|-----------------|
| | (Rupees in '000) | |
| Annual audit fee | 210 | 210 |
| Half yearly review | 125 | 125 |
| Other certifications and services | 60 | 60 |
| Out of pocket expenses | 14 | 10 |
| | <u>409</u> | <u>405</u> |

16. EARNINGS PER UNIT

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

17. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the NBFC Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. Since the management has distributed the income earned by the Fund during the year to the unit holders in the manner explained above, no provision for taxation has been made in these financial statements.

18. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

Related parties / Connected persons of the Fund include the Management Company, other collective investment schemes managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel and other associated undertakings.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
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The transactions with related parties / connected persons are in the normal course of business and at contracted rates.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

All other transactions with related parties /connected persons are in the normal course of business and are carried out on agreed terms.

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

| | 30 June 2012 | | 30 June 2011 | |
|---|--------------|------------------|--------------|------------------|
| | (Units) | (Rupees in '000) | (Units) | (Rupees in '000) |
| <u>Bonus units issued to:</u> | | | | |
| <i>Management Company</i> | | | | |
| Arif Habib Investments Limited | 17,861 | 182,038 | 4,245 | 42,780 |
| Other related parties | | | | |
| - Directors and executives of the management company | 1,976 | 20 | 13,970 | 154,224 |
| - Summit Bank | 1,440,321 | 14,680 | 342,329 | 3,451 |
| <u>Units held by:</u> | | | | |
| <i>Management Company</i> | | | | |
| Arif Habib Investments Limited | 144,362 | 1,475 | 126,502 | 1,397 |
| Other related parties | | | | |
| - Directors / officers and employees of the management company | 15,972 | 163 | 19,305 | 213 |
| - Summit Bank Limited | 11,641,736 | 118,979 | 10,201,415 | 112,616 |
| Transactions and balances with related parties / connected persons | | | | |
| <i>Arif Habib Investment Management Limited</i> | | | | |
| Opening | - | 292 | - | 1,493 |
| Remuneration for the year | - | 3,572 | - | 3,750 |
| Other payable | - | 47 | - | - |
| | - | 3,911 | - | 5,243 |
| Amounts paid during the year | - | (3,570) | - | (4,951) |
| Balance at the end of the year | - | 341 | - | 292 |
| <i>MCB Financial Services Limited - Trustee</i> | | | | |
| Balance at the beginning of the year | | | 41 | 41 |
| Remuneration for the year | | | 500 | 554 |
| Amounts paid during the year | | | (500) | (554) |
| Balance at end of the year | | | 41 | 41 |

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
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19. FINANCIAL RISK MANAGEMENT

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

Investment pertaining to Capital Protection Segment are made in Term Deposit Receipts with Habib Metropolitan Bank having a long term credit rating of "AA+" rated bank by reputable credit rating agency. Investment Segment invest the fund in fixed income instrument, money and debt market instrument with an objective of optimising return to the unit holders. Such investments are subject to varying degrees of financial risks such as:

- Market risk
- Credit risk and
- Liquidity risk

Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market prices, such as interest rates, equity prices and foreign exchange rate. The objective of market risk management is to manage market risk exposure within acceptable parameters, while optimising the return.

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

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

Currency risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds floating as well as fixed rate debt securities that expose the fund to cash flow and fair value interest rate risk due to fluctuations in prevailing levels of market interest rates.

The Fund manages fair value risk by investing primarily in floating rate term finance certificates, preferably with no cap and floor to insulate Fund from fair value interest rate risk.

As at 30 June 2012, the investment in term finance certificates and government securities exposed to interest rate risk is detailed in Note 6.1 and 6.2 respectively.

Sensitivity analysis for variable rate instruments

In case of 100 basis points increase / decrease in KIBOR on 30 June 2012, the net assets of the Fund would have been higher / lower by Rs. 0.089 million (2011: 0.228 million) with consequential effect on interest income for the period.

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

The composition of the Fund's investment portfolio and KIBOR rates is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2012 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates. The fluctuation in interest rate of 100 basis points is reasonably possible in current economic environment.

Sensitivity analysis for fixed rate instruments

In case of 100 basis points increase / decrease in rates announced by Financial Markets Association of Pakistan or Mutual Funds Association of Pakistan on 30 June 2012 with all other variables held constant, the net income for the year and net assets would be lower / higher by Rs. 0.072 million (2011: Nil).

The composition of the Fund's investment portfolio and rates announced by Financial Markets Association of Pakistan and Mutual Funds Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2012 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates. The fluctuation in interest rate of 100 basis points is reasonably possible in current economic environment.

Other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of change in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market. As at 30 June 2012 the Fund does not hold any investment exposed to price risk, accordingly there shall be no impact on the net assets of the Fund. Further, the Fund is expecting minimal price fluctuation on its investment in debt securities (i.e., from term finance certificates and government securities) for change in factors other than those arising from interest rate or currency risk.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It principally arises from balances with banks, receivable from sale of investment and deposits with central clearing companies. The credit exposures arises from investment in debt securities (before impairment) as defined in note 6.1 to these financial statements.

Credit risk management

It is the Fund's policy to enter into financial contracts with reputable, diverse and creditworthy counterparties and wherever possible or deemed necessary obtain collaterals in accordance with internal risk management policies and investment guidelines designed for credit risk management. However, for testing an investment for impairment the management does not consider the value of collateral or other credit enhancements. The Investment Committee closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

Exposure to credit risk

The Fund's maximum credit exposure (without taking into account collateral and other credit enhancement) at the balance sheet date is represented by the respective carrying amount of relevant financial asset i.e. balances with banks, deposits with central clearing companies, investment in debt securities and other receivables in Statement of Assets and Liabilities.

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed. Credit risk relating to unsettled transactions in securities is considered to be minimal as the Fund uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery using central clearing system.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Balances with banks

As at 30 June 2012, the Fund kept surplus liquidity with Habib Metropolitan Bank Limited having credit rating A1+ and AA+ short term and long term, respectively. The rating to the respective bank is assigned by reputable credit rating agencies. The rating is monitored by the Fund Manager and Investment Committee.

Investment in fixed income securities

Investment in treasury bills do not expose the Fund to credit risk as the counter party to the investment is the Government of Pakistan and management does not expect to incur any credit loss on such investments.

Investment in debt securities

Credit risk on debt investments is mitigated by investing primarily in investment grade rated investments and purchase certificate of investments or make placements with financial institutions having sound credit rating. Where the investment is considered doubtful / becomes non-performing as per the criteria specified in Circular 1 of 2009 issued by SECP, a provision is recognised as per the criteria specified therein and also in accordance with provisioning policy of the Fund approved by Board of Directors of the Management Company. The management does not take into account the collateral value while considering investment for impairment testing. Hence the collateral held is assumed to have zero financial effect in mitigating credit risk. The management regards the credit worthiness of the borrower more important than the value of collateral and would be used as force majeure in extremely difficult situation where recovery is appeared to be unlikely from customary measures like restructuring or negotiations.

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

| Debt Securities by rating category | 2012 | 2011 |
|---|-------------------|-------------|
| | Percentage | |
| AA | 23.74% | - |
| AA- | - | 15.18% |
| A+ | - | 49.66% |
| A | - | 35.15% |
| Non-performing | 43.24% | - |
| Non-investment grade | 33.02% | - |
| | 100% | 100% |

Advances, deposits and other receivables

Deposits are placed with National Clearing Company of Pakistan Limited (NCCPL) and Central Depository Company of Pakistan Limited (CDC) for the purpose of effecting transaction and settlement of listed securities. It is expected that all securities deposited with NCCPL and CDC will be clearly identified as being assets of the Fund, hence management believes that the Fund is not materially exposed to a credit risk with respect to such parties.

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.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Past due and impaired assets

None of the above financial assets were considered to be past due or impaired in 2012 and 2011 except for the exposures and the provisions there against as provided in note 6.1.1. For those assets that are not past due it is believed that the risk of default is minimal and the capital repayments will be made in accordance with the agreed terms and conditions. The management has not quantified the value of collaterals held against debt securities as management does not incorporate collaterals or other credit enhancements into its credit risk management nor it considers the value of collateral while testing investments for impairment.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations arising from its financial liabilities that are settled by delivering cash or other financial assets or that such obligations will have to be settled in a manner disadvantageous to the Funds. Liquidity risk also arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. Units of the Fund are redeemable at the holders' option based on the Fund's applicable redemption price calculated in accordance with the Fund's constitutive documents guidelines laid down by the SECP. Hence, unit holders' fund appearing in Statement of Assets and Liabilities represent the continuous obligation of the Fund for redemption by its holders. However, the Fund is a Capital Protected Fund with a back end load on redemption before the maturity date, hence the Fund does not anticipate significant redemptions.

Management of liquidity risk

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation. 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 up to 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

The Board of Directors of the Management Company is empowered to impose a redemption gate should redemption level exceed 10% of the net assets value of the Fund in any redemption period. The liquidity position of the Fund is monitored by the Fund Manager on daily basis and by the Investment Committee on quarterly basis. The aim of the review is to ascertain the amount available for investment and also ensure sufficient liquidity is maintained to meet redemption requests by analysing the historical redemption requests received by the management company.

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.

| | 30 June 2012 | | | |
|--|-----------------------------------|--|-------------------------------|--------------|
| | Up to three months | More than three months and up to one year | More than one year | Total |
| | ------(Rupees in '000) ----- | | | |
| Payable to Arif Habib Investments Limited - Management Company | 341 | - | - | 341 |
| Payable to MCB Financial Services Limited - Trustee | 41 | - | - | 41 |
| Payable to Securities and Exchange Commission of Pakistan | 181 | - | - | 181 |
| Accrued expenses and other liabilities | 729 | - | 4,985 | 5,714 |
| | 1,292 | - | 4,985 | 6,277 |

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

| | 30 June 2011 | | | Total |
|---|------------------------------|---|-----------------------|--------------|
| | Up to three months | More than three months and up to one year | More than one year | |
| | ----- (Rupees in '000) ----- | | | |
| Payable to Arif Habib Investments Limited - Management Company | 292 | - | - | 292 |
| Payable to MCB Financial Services Limited - Trustee | 41 | - | - | 41 |
| Payable to Securities and Exchange Commission of Pakistan | 188 | - | - | 188 |
| Accrued expenses and other liabilities | 786 | - | 2,882 | 3,668 |
| | <u>1,307</u> | <u>-</u> | <u>2,882</u> | <u>4,189</u> |

The table above shows the undiscounted cashflows of the Fund's financial liabilities on the basis of their earliest possible contractual maturity or settlement.

Unit holders' fund risk management

The Fund's capital is represented by redeemable units. The Fund is required by the NBFC Regulations 2008, to maintain minimum fund size to Rs. 100 million by 1 July 2012. The units issued by the Fund provides an investor with the right to require redemption for cash at a value proportionate to the unit holder's share in the Fund's net assets at the redemption date.

The Fund's objective in managing the unit holder's funds are to ensure a stable base to maximise returns to all investors and to manage liquidity risk arising from redemption.

In accordance with the risk management policies, 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.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. Valuation
- Level 2: techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant unobservable inputs.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

30 June 2012

Level 2 Level 3
(Rupees in '000)

'At fair value through profit or loss'

Held for trading
- Fixed income and other debt securities

| | |
|---------------|--------------|
| 23,304 | 8,466 |
|---------------|--------------|

30 June 2011

'At fair value through profit or loss'

Held for trading
- Fixed income and other debt securities

| | |
|--------------|---------------|
| 2,533 | 14,148 |
|--------------|---------------|

21. SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding pattern of unit holding, list of top ten brokers, attendance at meetings of Board of Directors of the management company and members of the Investment Committee and other funds managed by the fund manager are as follows:

21.1 Pattern of unit holding:

Unit holding pattern of the fund as at 30 June 2012 is as follows:

| Category | Number of Unit Holders | Investment amount (Rupees in '000) | Percentage of total investment (%) |
|-----------------------------------|------------------------------|--|---|
| Individuals | 38 | 81,331 | 33.91% |
| Listed company | 1 | 14,047 | 5.86% |
| Associate companies and directors | 2 | 120,454 | 50.22% |
| Provident fund | 2 | 23,997 | 10.01% |
| | 43 | 239,829 | 100% |

Unit holding pattern of the fund as at 30 June 2011 is as follows:

| Category | Number of Unit Holders | Investment amount (Rupees in '000) | Percentage of total investment (%) |
|-----------------------------------|------------------------------|--|---|
| Individuals | 47 | 86,652 | 36.61% |
| Listed company | 1 | 13,296 | 5.62% |
| Associate companies and directors | 2 | 114,012 | 48.17% |
| Provident fund | 2 | 22,715 | 9.60% |
| | 52 | 236,675 | 100% |

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

21.2 Top ten brokers / dealers by percentage of commission paid:

| Broker name | 2012 (Percentage) | 2011 |
|--------------------------------------|----------------------|--------|
| KASB Securities Limited | 90.820% | - |
| Invisor Securities (Private) Limited | 9.180% | - |
| IGI Finex Securities Limited | - | 74.48% |
| JS Global Capital Limited | - | 20.97% |
| ICON Securities (Private) Limited | - | 4.55% |

21.3 Attendance at meetings of Board of Directors:

During the year, nine board meetings were held on 4 July 2011, 8 August 2011, 10 September 2011, 22 September 2011, 26 October 2011, 27 January 2012, 29 March 2012, 27 April 2012 and 25 June 2012. Information in respect of attendance by Directors in the meetings is given below:

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

| Name of Director | Designation | Number of meetings | | | Meetings not attended |
|--------------------------|--|--------------------|----------|---------------|---|
| | | Held | Attended | Leave Granted | |
| Mr. Mian Mohammad Mansha | Chairman | 9 | 4 | 5 | 89th, 90th, 93rd, 96th and 97th meeting |
| Mr. Nasim Beg | Executive Vice Chairman | 9 | 9 | 0 | |
| Mr. Yasir Qadri | Chief Executive Officer | 9 | 9 | 0 | |
| Dr. Syed Salman Ali Shah | Director | 9 | 8 | 1 | 92nd meeting |
| Mr. Haroun Rashid | Director / Chairman Audit Committee | 9 | 6 | 3 | 91st, 92nd and 95th meeting |
| Mr. Ahmed Jahangir | Director | 9 | 7 | 2 | 91st and 92nd meeting |
| Mr. Samad A. Habib | Director | 9 | 6 | 3 | 89th, 91st and 96th meeting |
| Mr. Mirza Mehmood Ahmed | Director | 9 | 7 | 2 | 89th and 97th meeting |
| Mr. M. Saqib Saleem | Chief Financial Officer & Company Secretary | 9 | 9 | 0 | |

21.4 Investment committee:

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

| Name | Designation | Qualification | Experience in years |
|----------------------|-------------------------|------------------------|---------------------|
| Mr. Yasir Qadri | Chief Executive Officer | MBA | 17 Years |
| Mr. Kashif Rafi | SVP - Investments | MBA, CFA (Level I) | 11 Years |
| Mr. Muhammad Asim | VP - Head of Equities | MBA & CFA | 9 Years |
| Mr. Syed Akbar Ali | VP - Head of Research | MBA & CFA | 7 Years |
| Mr. Mohsin Pervaiz | VP - Investments | MBA, CFA (Level I) | 11 Years |
| Mr. Syed Sheeraz Ali | Fund Manager | BS (Actuarial Science) | 3 Years |

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

21.5 Other Funds managed by the Fund Manager:

Pakistan Cash Management Fund under the management of Arif Habib Investments Limited.

22. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on **August 15, 2012** by the Board of Directors of the Management Company.



Chief Executive Officer

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



Director

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
PATTERN OF HOLDING AS PER REQUIREMENT OF
CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2012**

| Category | Number of Unit Holders | Number of Units |
|--|---------------------------|--------------------|
| Associated Company, Undertakings, and Related Parties | | |
| Arif Habib Investments Limited | 1 | 144,363 |
| Summit Bank Limited | 1 | 11,641,736 |
| | 2 | 11,786,099 |
| Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds. | | |
| Director, CEO and their spouses and minor children | | |
| NASIM BEG | | |
| Executives | | |
| Trust | | |
| | 2 | 2,348,047 |
| Corporate | | |
| | 1 | 1,374,466 |
| Individuals | | |
| | 38 | 7,955,267 |
| | 43 | 23,463,878 |

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
PATTERN OF UNIT HOLDING BY SIZE
FOR THE YEAR ENDED JUNE 30, 2012

| No. of Unit Holders | Units Holdings | Total Units Held |
|---------------------|--|-------------------|
| 6 | (SHAREHOLDING FROM 1.0000 TO 5000.0000) | 7,509.97 |
| 3 | (SHAREHOLDING FROM 10001.0000 TO 15000.0000) | 34,361.66 |
| 2 | (SHAREHOLDING FROM 15001.0000 TO 20000.0000) | 33,121.80 |
| 1 | (SHAREHOLDING FROM 20001.0000 TO 25000.0000) | 22,907.77 |
| 1 | (SHAREHOLDING FROM 25001.0000 TO 30000.0000) | 28,407.45 |
| 1 | (SHAREHOLDING FROM 30001.0000 TO 35000.0000) | 34,361.66 |
| 1 | (SHAREHOLDING FROM 45001.0000 TO 50000.0000) | 45,815.54 |
| 5 | (SHAREHOLDING FROM 55001.0000 TO 60000.0000) | 286,347.14 |
| 2 | (SHAREHOLDING FROM 65001.0000 TO 70000.0000) | 137,446.63 |
| 1 | (SHAREHOLDING FROM 80001.0000 TO 85000.0000) | 80,177.20 |
| 5 | (SHAREHOLDING FROM 110001.0000 TO 115000.0000) | 572,694.27 |
| 1 | (SHAREHOLDING FROM 140001.0000 TO 145000.0000) | 144,362.65 |
| 1 | (SHAREHOLDING FROM 225001.0000 TO 230000.0000) | 229,077.71 |
| 2 | (SHAREHOLDING FROM 285001.0000 TO 290000.0000) | 572,694.27 |
| 1 | (SHAREHOLDING FROM 340001.0000 TO 345000.0000) | 343,616.56 |
| 1 | (SHAREHOLDING FROM 540001.0000 TO 545000.0000) | 544,286.82 |
| 4 | (SHAREHOLDING FROM 570001.0000 TO 575000.0000) | 2,290,777.09 |
| 1 | (SHAREHOLDING FROM 800001.0000 TO 805000.0000) | 801,771.98 |
| 1 | (SHAREHOLDING FROM 1370001.0000 TO 1375000.0000) | 1,374,466.26 |
| 1 | (SHAREHOLDING FROM 1945001.0000 TO 1950000.0000) | 1,947,160.53 |
| 1 | (SHAREHOLDING FROM 2290001.0000 TO 2295000.0000) | 2,290,777.09 |
| 1 | (SHAREHOLDING FROM 11640001.0000 TO 11645000.0000) | 11,641,736.27 |
| 43 | Total : | 23,463,878 |

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
PERFORMANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2012**

| | PCPF | PCPF | PCPF |
|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | June 30, 2012 (Rupees in '1000) | June 30, 2011 (Rupees in '1000) | June 30, 2010 (Rupees in '1000) |
| Net Assets | 239,829 | 236,675 | 244,564 |
| Net Income | 12,883 | 20,399 | 10,093 |
| Net Asset Value per Unit | 10.22 | 11.04 | 10.43 |
| Final distribution per Unit | 0.54 | 0.86 | 0.35 |
| Distribution date-final | June 25, 2012 | July 4, 2011 | July 5, 2010 |
| Year end offer price per unit | | - | - |
| Year end repurchase price per unit | 9.91 | 10.48 | 9.91 |
| Highest repurchase price per unit | 10.43 | 10.48 | 9.91 |
| Lowest repurchase price per unit | 9.87 | 9.58 | 9.50 |

(Percentage)

| | | | |
|--------------------------------------|----------------|-------------|--------------|
| Total return of the Fund | 5.67 | 9.60 | 11.64 |
| Capital growth | 0.39 | 1.00 | 2.18 |
| Income Distribution | 5.28 | 8.60 | 9.46 |
| Average annual return | | | |
| One Year | 5.67 | 9.60 | 11.64 |
| Since inception | 3.21 | 10.40 | 11.64 |
| Waeighted average portfolio duration | 85 days | 336 days | 580 days |

Disclaimer

The past performance is not necessarily indicative of future performance and unit prices and investments and returns may go down, as well as up.