

RATED AM2- (AM TWO MINUS) BY PACRA

Annual Report 2010



Annual Report 2010

SHAPING INVESTMENTS

SHAPING INVESTMENTS



Print Station

Contents

Vision and Mission Statement	03
Welcome to MCB Asset Management Company	04
MCB Dynamic Cash Fund	06
Organization	07
Director's Report	09
Annexure	15
Fund Managers Report	16
Statement of Compliance with the Code of Corporate Governance	21
Review Report to the Unit Holders on Statement of Compliance with best Practice of Code of Corporate Governance	23
Report of the Trustee	24
Auditors' Report to the Unit Holders Funds	25
Financial Statements	27
Statement of Assets and Liabilities	28
Income Statement	29
Distribution Statement	30
Statement of Movement in Unit Holders Funds	31
Cash Flow Statement	32
Notes to the Financial Statements	33
MCB Dynamic Stock Fund	54
Organization	55
Director's Report	57
Annexure	62
Fund Managers Report	63
Statement of Compliance with the Code of Corporate Governance	68
Review Report to the Unit Holders on Statement of Compliance with best Practice of Code of Corporate Governance	70
Report of the Trustee	71
Auditors' Report to the Unit Holders Funds	72
Financial Statements	74
Statement of Assets and Liabilities	75
Income Statement	76
Distribution Statement	77
Statement of Movement in Unit Holders Funds	78
Cash Flow Statement	79
Notes to the Financial Statements	80
MCB Dynamic Allocation Fund	97
Organization	98
Director's Report	100
Annexure	105
Fund Managers Report	106
Statement of Compliance with the Code of Corporate Governance	111
Review Report to the Unit Holders on Statement of Compliance with best Practice of Code of Corporate Governance	113
Report of the Trustee	114
Auditors' Report to the Unit Holders Funds	115
Financial Statements	117
Statement of Assets and Liabilities	118
Income Statement	119
Distribution Statement	120
Statement of Movement in Unit Holders Funds	121
Cash Flow Statement	122
Notes to the Financial Statements	123

MCB Cash Management Optimizer	140
Organization	141
Director's Report	143
Annexure	148
Fund Managers Report	149
Statement of Compliance with the Code of Corporate Governance	153
Review Report to the Unit Holders on Statement of Compliance with best Practice of Code of Corporate Governance	155
Report of the Trustee	156
Auditors' Report to the Unit Holders Funds	157
Financial Statements	159
Statement of Assets and Liabilities	160
Income Statement	161
Distribution Statement	162
Statement of Movement in Unit Holders Funds	163
Cash Flow Statement	164
Notes to the Financial Statements	165
MCB Sarmaya Mehfooz Fund 1	178
Organization	179
Director's Report	181
Annexure	185
Fund Managers Report	186
Statement of Compliance with the Code of Corporate Governance	189
Review Report to the Unit Holders on Statement of Compliance with best Practice of Code of Corporate Governance	191
Report of the Trustee	192
Auditors' Report to the Unit Holders Funds	193
Financial Statements	195
Statement of Assets and Liabilities	196
Income Statement	197
Distribution Statement	198
Statement of Movement in Unit Holders Funds	199
Cash Flow Statement	200
Notes to the Financial Statements	201



Vision

To develop trustworthy relationships with our investors by working closely with them to understand their financial requirements and help them in achieving their long-term objectives and short-term needs through our advisory and fund management services.



Mission

To achieve leadership position in the asset management industry by offering an innovative and extensive portfolio of investment products. We aim to provide superior returns to our clients and help them manage their money more efficiently through our dedicated professional staff, extensive distribution network and state of the art technology platform.

Welcome to MCB Asset Management Company Limited

MCB Asset Management Company (MCB AMC), a wholly owned subsidiary of MCB Bank, is a public limited unlisted company. It has been licensed by SECP to undertake asset management and Investment Advisory services. Rising from the legacy of trust and reliability associated with MCB Franchise, our aim is to provide rewarding investment advisory and fund management services.

MCB AMC is driven by the vast experience of highly reputed MCB group and run by committed professional advisors. Based on your existing relationship with MCB franchise, our asset management business is an addition in the product portfolio giving you another avenue to enjoy tax efficient investments.

Good investments are about calmly avoiding minefields. This paired with reliability is what we aim to offer through our products - MCB Dynamic Cash Fund, MCB Dynamic Stock Fund, MCB Dynamic Allocation Fund, MCB Cash Management Optimizer Fund and MCB Sarmaya Mehfooz Fund-1. Through these open-end listed funds we aim to provide; performance, peace of mind and diversification.

We can proudly claim to be the fastest growing asset manager in the country. The Management quality rating of the company is upgraded by a notch to AM2-(AM TWO MINUS) by PACRA in short span of 3 years. We are striving our level best to achieve more by focusing on good controls, risk management, governance and by providing quality services to investors.

»» The MCB Advantage

MCB Asset Management intends to become your reliable friend, a dynamic partner who makes sure your investments and savings are managed efficiently across asset classes, giving financial well-being a sense of certainty and providing solutions as per your unique requirements. So, if you wish to experience a whole new way of looking at asset management, look at us.

The diversity, experience and insight of the MCB Asset Management team ensure an uncompromised and dynamic service. The MCB Asset Management Advantage is built on these defining pillars:

- »» Fund Management
- »» Marketing and Sales
- »» Customer Support

Our dedicated and professional teams of analysts and fund managers keep an eye out for the best opportunities in the market. Their experience, combined with the rigorous investment selection tools, trading technologies and a thorough understanding of domestic markets, help us deliver a better value to our investors.

Traders at work

>> Retail Sales and Institutional Sales Team

Our dedicated retail, sales and institutional sales team provide personalized services and cater to your unique service requirement. MCB AMC has the largest retail network of any AMC in Pakistan. Our trained investment advisors are waiting in these outlets to take care of your investment needs. Our sales team is only a call or an e-mail away to provide agile and dedicated attention to each and every client - made possible by our dedicated Call Centre and dynamic website. For institutional clients, we have dedicated sales teams to look after their needs in Karachi, Lahore and Islamabad/Rawalpindi.

>> Customer Support Service

When a new client walks in the door, it marks the beginning of an enduring relationship for us. We invest an enormous amount of time getting to know our clients, understanding their values and sharing their goals. For us, this is the best investment we'll ever make.

MCB Asset Management staff is one call away at our dedicated call centre. You can call us at 111-622-262 and get instantly connected to our customer service representative for product information, balance inquiry and any other queries that you may have.

You can also visit our website at: www.mcbamc.com.pk. Here you will find detailed and up-to-date information about our products and offerings along with helpful guides on investments and savings for various types of investors.

Our Call Center

Over the past year, MCB AMC's team has laid the foundation for a rewarding and exciting partnership with its valued clients. We're grateful to our investors for their support and affirm our commitment to offer even better products and services to them. Together, we are moving forward to raise the bar for the entire fund management industry in Pakistan. We bow our heads to Almighty and pray for the continued success and prosperity of our clients, our company and our country.

Organization

Management Company

MCB Asset Management Company Limited
8th Floor, Techno City Corporate Tower,
Hasrat Mohani Road, Karachi.
T 92 21 32276900-907
F 92 21 32276908

Board of Directors

Mian Mohammad Mansha / Chairman
Ali Munir
Mohammad Usman Ali Usmani
S. Waliullah Shah
Ahmed Jahangir
Haroun Rashid
Samir Iqbal Saigol
Yasir Qadri / Chief Executive Officer

Audit Committee

Ali Munir / Chairman
S. Waliullah Shah / Member
Ahmed Jahangir / Member

Chief Financial Officer & Company Secretary

Muhammad Saqib Saleem

Trustee

Central Depository Company of Pakistan Limited
CDC House, 99-B, Block 'B', S.M.C.H.S.
Main Shara-e-Faisal Karachi-74400

Auditors

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

Legal Adviser

Bawany & Partners,
Room No. 404, 4th Floor, Beaumont Plaza
Beaumont Road, Civil Lines, Karachi.

Bankers

MCB Bank Limited
Bank Al Habib Limited
Allied Bank Limited
NIB Bank Limited
Bank Alfalah Limited
United Bank Limited
Habib Metropolitan Bank Limited
Standard Chartered Bank Limited
Citi Bank N.A.
Faysal Bank Limited

Transfer Agent

MCB Asset Management Company Limited
8th Floor, Techno City Corporate Tower,
Hasrat Mohani Road, Karachi.
T 92 21 32276900-907
F 92 21 2276908
E info@mcbamc.com.pk
W www.mcbamc.com.pk

Directors' Report

For the MCB Dynamic Cash Fund under management of
MCB Asset Management Company Limited

The board of Directors of MCB Asset Management Company Limited, the Management Company of MCB Dynamic Cash Fund (MCB DCF), is pleased to present the fourth Annual Report on the affairs of MCB DCF for the year ending June 30, 2010.

MCB Asset Management Company Limited continued improving its position amongst the top asset management companies in the country where during a very short history of three and a half years, the company sailed through the most turbulent and rapidly changing economic conditions of the country. The outgoing year brought some recovery to the overall economic environment where MCB AMC managed to out-perform the industry growth. The total assets under management by MCB AMC rose to PKR 14.2 billion as on June 30, 2010 compared to PKR 10.8 billion as on June 30, 2009.

Economy and Money Market Overview

Despite several economic pressures during the period, the year under review (July '09-June '10) was by far a better year for the economy and capital markets as compared to that of last year. Except for fiscal account issues, other key macroeconomic indicators depicted a positive trend during the period. The State Bank of Pakistan maintained its relaxed monetary policy stance during the year and cut its policy discount rate cumulatively by 150 bps. Hence, the benchmark one month KIBOR remained in a relatively lower region owing to relatively better liquidity and cut in policy discount rates during the year under review. One month KIBOR closed the year at 12.2% as compared to 13.0% by the end of last year. The growth momentum of the economy, on the other hand, has also improved in FY10 with Gross Domestic Product registering an increase of 4.1% for FY10, owing to a sizeable improvement in manufacturing and services sectors.

Higher crude oil and commodities prices, which were the main reason behind higher external account deficits during the last couple of years, could not continue their upward movement owing to global economic slowdown and remained largely under-control. Stable commodities prices have also helped in keeping a check on inflationary pressures along with supporting the country's balance of payment position. Country's foreign exchange reserves touched a record-high level of US\$ 16.8 billion in Jun'10 courtesy a) lower trade deficit, b) record high workers' remittances of US\$ 8.9 billion and c) higher foreign inflows from the US and donors agencies.

CPI Inflation remained largely under control during the year with an average of 11.7% for FY10. Inflation, though, was relatively lower at 10.3% during the first half of the period under-review, second half remained on a higher side with average inflation of 13.1% amid food inflation and power tariff & fuel adjustments. In addition to resurgence in inflationary pressures during the latter part of the year, fiscal slippages have remained a major cause of concern for the country's economic managers as they continued to affect the overall liquidity and interest rates scenario.

During FY10, key monetary indicators have also been better as compared to that of last year with money supply (M2) posting a growth of 12.5%. Although Net Domestic Asset (NDA) growth has been a key contributor behind M2 growth during this year as well, decent growth in Net Foreign Assets (NFA) has been encouraging as it was net negative during the last year.

Better liquidity in the system coupled with successive cuts in the policy DR has kept money market rates in a lower region during the year. Rising risk aversion and significant credit demand by the government had made government papers a very attractive investment vehicle for the investors. Moreover, Term Finance Certificates (TFC) market has gained some liquidity during the year and trading activities were witnessed during most part of the year in some good quality TFCs.

Future outlook

Citing resurgence in inflationary pressures and fiscal imbalances as key challenges for FY11, the central bank decided to increase its policy discount rate by 50 bps to 13.0% in its Jul'10 monetary policy review. Devastations caused by floods are likely to affect the country's economic indicators adversely, including GDP growth, inflation and fiscal deficit. Considering flood-related shocks and lack of clarity on foreign inflows, the SBP would maintain a cautious monetary stance going forward. We, however, believe that the materialization of expected foreign inflows should bode well for the domestic liquidity, which could, in turn, bring down interest rates and hence rejuvenate economic growth.

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

Fund's Performance

The net assets of the fund were around PKR 6.0 billion as on June 30, 2010. The investment objective of the fund is to provide an attractive return to short term investors or investors with very low appetite for risk while taking into account the capital security and liquidity considerations. The fund is benchmarked against 1-month KIBOR. Your fund, through active management and carefully selected trading positions was able to yield an annualized return of 11.0% during the period under review which was lower than the Fund's benchmark return of 12.2% during the same period. The relative under-performance was due to various factors including an adjustment of accumulated provision for WWF.

The overall liquidity situation remained relatively better during the fiscal year under-review as compared to that of last year. Your fund continued to deploy assets cautiously, without aggressively chasing available instruments, and has given a strong focus on the credit quality of the instruments. Considering the risk-return profile of government papers, your fund increased its exposure significantly towards government papers while maintaining sizeable allocations towards TFCs and TDRs. Although your fund maintained decent exposure towards government papers throughout the year, it managed its portfolio's duration actively to take advantage of the fast changing interest rate scenario.

In addition, the portfolio return continued its upward movement during the period while at the same time maintaining the exposure to interest rate risk on the lower side. The Fund yields for the period under review remained as follows:

Performance Information (%)	MCB DCF	Benchmark
Last three Months Return	10.0%	12.0%
Last twelve Months Return	11.0%	12.2%
Since Inception (March 01, 2007)	10.1%	11.5%

Update on Provision for Workers' Welfare Funds':

The amendments made through Finance Act, 2008 to the Workers' Welfare Fund (WWF) Ordinance, 1971, brought Mutual Funds in the embed of the said Ordinance. Previously the Management Company, based on the legal advise obtained through Mutual Funds Association of Pakistan (MUFAP), was of the view that Collective Investment Schemes (CIS) were not establishments and therefore, WWF will not be applicable to such schemes and in addition to this MUFAP, on behalf CIS also filed a Constitutional Petition in Sindh High Court challenging the applicability of WWF to the CIS. However, after the court order dispensing the filed petition, your Fund has recorded the entire liability and started accruing the provision on daily basis. As a matter of extreme importance and in the interest of unit holders many efforts were made for clarity on applicability of WWF on CIS.

As result of these efforts, Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, through their letter nos. WWF (A – II)11.(5)/2010 dated July 8, 2010 and July 15, 2010, have clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy.

As mentioned in Note 13 to the Financial Statement, on the basis of clarification letter from Ministry of Labour & Manpower, Workers' Welfare Fund, both the Auditors and MUFAP sought opinion from legal advisors resulting in conflicting views. MUFAP's counsel recommending that after clarification received from the Ministry, Mutual Funds are no longer required to record provision in respect of WWF, whereas most of the auditors have expressed a qualified opinion based on the advice from their legal counsel.

Because of ambiguity created based on conflicting opinions by lawyers and as a matter of abundant caution and prudence, the Management Company of the Fund has decided to recognize the provision for WWF in these financial statements.

Units in issue

During the year, units worth Rs. 12.804 billion (including 604.508 million bonus units) were issued and units with a value of Rs. 16.364 billion were redeemed. As on 30 June 2010, the NAV of the Fund was Rs. 103.4194 per unit.

Income Distribution

During the year your fund earned a net income of Rs.738.141 million out of which Rs 540.745 million were distributed as interim payout on October 09, 2009 (i.e Rs. 2 per unit), January 22, 2010 (i.e Rs. 2.5 per unit), April 22, 2010 (i.e Rs. 2.8 per unit) and remaining is distributed subsequent to year end (i.e. Rs. 2.4194 per unit).

Code of Corporate Governance

The Management Company of MCB DCF is committed to observing the Code of Corporate Governance prescribed for listed companies.

1. The financial statements, prepared by the Management Company present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holders' fund. Proper books of account of the Fund have been maintained.
2. Appropriate accounting policies have been consistently applied in preparation of financial statements, except as mentioned in note 2.2, and accounting estimates are based on reasonable and prudent judgment.
3. International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements.
4. The system of internal control is sound in design and has been effectively implemented and monitored.
5. There is no significant doubt upon the Fund's ability to continue as a going concern.
6. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
7. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
8. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company.
9. In accordance with the requirements of Code of Corporate Governance, the Directors of Management Company have developed and signed the "Statement of Ethics and Business Practices".
10. Key financial data is summarized in the Fund Manager Report included in this annual Report.
11. The detailed pattern of unit holding, as required by the Companies Ordinance, 1984 and the Code of Corporate Governance, is annexed.

12. Four meetings of the Board of Directors of MCB Asset Management Company Limited were held during the year under review. The attendance of all directors is appended below:

Name	Designation	Meetings		
		Total	Attended	Leave Granted
Mian Mohammad Mansha	Chairman	04	04	-
Mr. Ali Munir	Director	04	02	02
Mr. Usman Ali Usmani	Director	04	04	-
Mr. Atif Aslam Bajwa	Director	04	02	02
Mr. Ahmed Jehangir	Director	04	04	-
Mr. S. Waliullah Shah	Director	04	04	-
Mr. Samir Saigol *	Director	02	02	-
Mr. Haroon Rashid *	Director	02	02	-
Mr. Yasir Qadri	CEO	04	04	-

* Appointed during the year

13. During the year under review following trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary and their spouses and minor children, including those disclosed in note # 19 to the financial statements:

Name	Designation	Units	
		Purchased (Including Bonus units)	Redeemed
Ali Munir	Director	51,284	51,284
Mr. Yasir Qadri	CEO	18,927	5,408
Mr. Muhammad Saqib Saleem	CFO / Company Secretary	-	-
Mrs. Saqib Saleem	Spouse	4	55

Auditors

The fund's external auditors, Messers A.F. Ferguson & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2011. The audit committee of the Board has recommended reappointment of A.F. Ferguson & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2011.

Acknowledgements

The Board takes this opportunity to thank its valued unit-holders and investors for their confidence and patronage. In addition, we would like to acknowledge the Securities and Exchange Commission of Pakistan (SECP), State Bank of Pakistan (SBP) and Central Depository Company of Pakistan (Trustee) for their continued support, guidance and cooperation. The Board also would like to take this opportunity to express its appreciation to the employees of MCB Asset Management Company for their dedication, commitment, enthusiasm and hard work for the Company.

For and on behalf of the Board

Yasir Qadri
Chief Executive Officer

Karachi: September 07, 2010

Annexure

	Number of Unit Holders	Units Held
Associated Company, undertakings and related parties		
Adamjee Insurance Company Limited	1	7,007,586
Adamjee Life Assurance Company Limited	1	1,012,675
MCB Bank Limited	1	3,332,230
Adamjee Life Assurance Company Limited Conventional Business	1	60,312
MCB Asset Management Company Limited	1	2,534,882
MCB Employees Provident Fund (Pak Staff)	1	666,446
MCB Employees Pension Fund	1	666,446
Adamjee Insurance Company Limited Employees Provident Fund	1	173,911
MCB AMC Staff Provident Fund	1	11,672
D.G. Khan Cement Company Limited Employees Provident Fund Trust	1	2,005
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarbas and Mutual Funds.		
	10	13,384,879
Director, CEO and their spouses and minor children		
Yasir Qadri	1	36,833
Executives		
	7	11,313
Trust		
	51	2,956,394
Corporate		
	24	9,639,040
Individuals		
	1674	15,843,662
Others		
	10	388,807
	1787	57,729,092

Fund Manager's Report

For the MCB Dynamic Cash Fund under management of
MCB Asset Management Company Limited

Fund Type and Category

MCB Dynamic Cash Fund (MCB DCF) is an Open-End Income Scheme, for which SECP categorization is in process.

Benchmark

The benchmark for MCB DCF is 1-month KIBOR.

Investment Objective

To provide an attractive return to short term investors or investors with a very low appetite for risk while taking into account capital security and liquidity considerations.

The Fund achieved its objective by posting a decent return while minimizing risk. The Fund, however, under-performed its benchmark during the year under review owing to an adjustment of accumulated WWF since July 1, 2008.

Investment Strategy

The Fund, through active management, will aim to provide optimum returns for its Unit Holders by investing primarily in money market and short term instruments. The Fund may also invest a portion of the Fund in medium term assets in order to provide higher returns to Unit Holders.

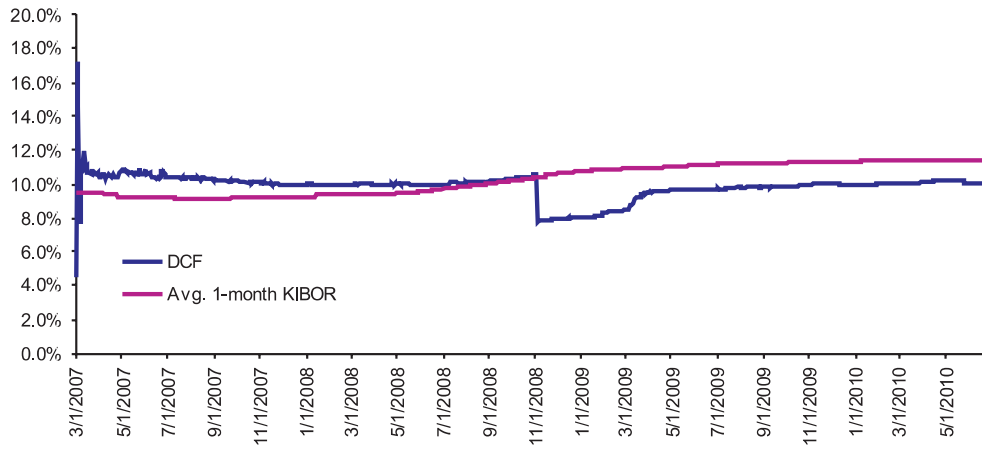
Manager's Review

The Fund was able to generate an annualized return of 11.0% during the year under review, which was lower than the Fund's benchmark return of 12.2% during the same period. Since inception, the Fund's return was 10.1% as compared to its benchmark return of 11.5%. The Fund, however, under-performed its benchmark during the year under review owing to an adjustment of accumulated WWF since July 1st, 2008, while since inception, performance was affected due to one-off hit of 4% due to SECP directives on TFC's portfolio last year.

The Fund remained committed towards credit quality of the portfolio and hence deployed its assets cautiously. During the year, the Fund emphasized heavily on the government papers owing to better risk-return proposition while maintaining a decent exposure in some good quality TFCs. During the period under review, the Fund also capitalized on attractive TDRs opportunities whenever available in order to enhance the Fund's returns.

The Fund's net assets have declined by PKR 3.5 billion to PKR 6.0 billion during FY10 mainly owing to conversions by investors towards our money market fund, MCB Cash Management Optimizer (CMOP), which during its first year of operation capitalized on the investors' appetite for a well-managed money market fund and grew significantly in size. MCB DCF generated return through investment in Government papers, TFCs, money market placements and TDRs.

Return vs. Benchmark



Review of Macro-economy and Asset Class

Fiscal Year 2009-10 was by far a better year for the economy and capital markets as compared to that of last year. Barring fiscal side, most of the key macroeconomic indicators showed a positive trend during the period. Considering improvement in macro-indicators, coupled with a need for growth stimulus, the State Bank of Pakistan maintained its relaxed monetary policy stance by cumulatively cutting policy discount rate by 150 bps during the year. Monetary side of the economy also remained relatively better as compared to last year with Money Supply (M2) growth of 12.5%, which was contributed by growth in both Net Domestic Assets (NDA) and Net Foreign Assets (NFA). Resultant better liquidity situation in the market coupled with a declining trend in discount rate pushed money market rates downwards during the period under review. 1-month KIBOR was averaged around 12.2%, 94 bps lower on a YoY basis, and closed the year also at 12.2%. Moreover, 1-year PKRV also averaged lower at 12.2%, down by 78 bps on a YoY basis.

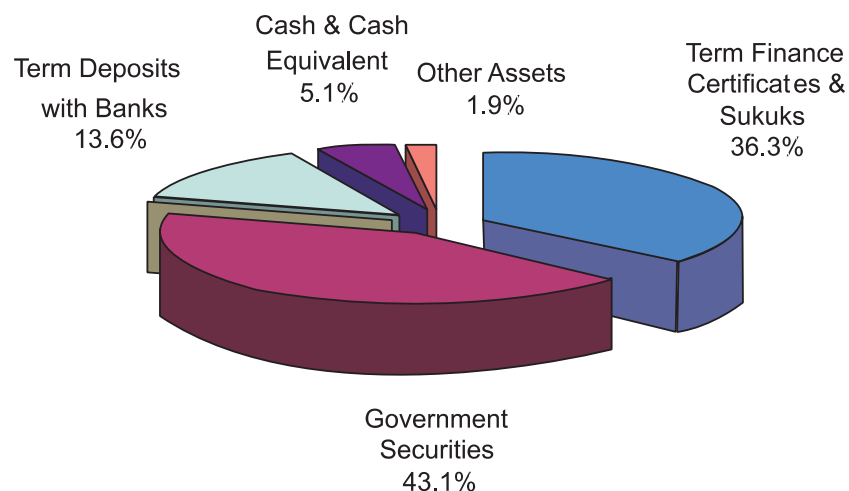
Unlike the previous year, the external account witnessed significant improvement with current account deficit (CAD) of US\$ 3.5 billion during the year, which was largely contributed by lower trade deficit, logistic support flows from the US and record-high workers' remittances. Relatively lower current account deficit coupled with decent flows from donor agencies resulted in a positive balance of payment position thereby improving the Foreign exchange reserves and taking pressure off the exchange rate. Stable commodities prices also kept inflation under-control with average FY10 YoY CPI inflation at 11.7%.

The country's growth trajectory remained satisfactory during the year with FY10 posting a real GDP growth of 4.1%. Fiscal account, on the other hand, remained a concerning issue for the economy as it continued to put pressures on the liquidity and interest rate scenario of the system. Significant credit demand by the government coupled with a better credit quality had made government securities a very attractive investment vehicle for the investors. Owing to improved liquidity towards the latter part of the year, investors also took interest in term finance certificates (TFCs) and hence, decent trading activities were witnessed in some good quality TFCs.

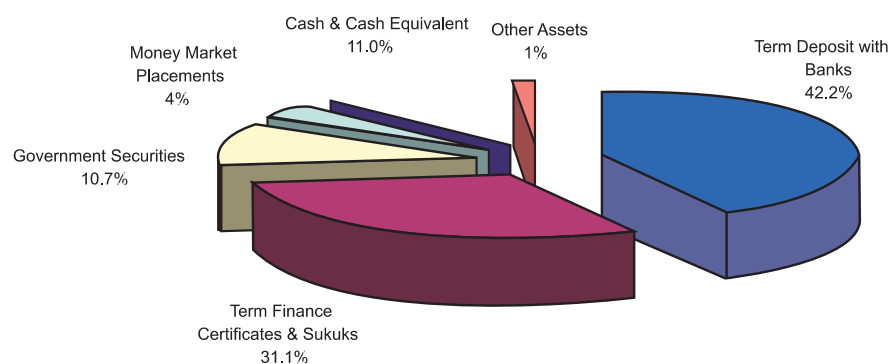
Future Outlook

Fiscal imbalances have remained a cause of concern for the economic managers during FY10 and are expected to remain so during FY11 as well amid devastating floods in the country. Floods are likely to take a toll on the key macroeconomic indicators including inflation, GDP growth, fiscal deficit and external account deficit. The State Bank of Pakistan had already changed its monetary policy stance towards tightening in Jul'10 policy by raising 50 bps in policy discount rate to 13% on the back of resurgence in inflation as well as rising fiscal imbalances. We believe that the central bank would remain cautious towards its monetary stance post floods, and clarity on the damage and funding needs would emerge in Oct'10 after the release of joint damage assessment report to be published by the WB and ADB. In our opinion, timely materialization of the committed foreign flows would hold the key in dictating the interest rates direction going forward.

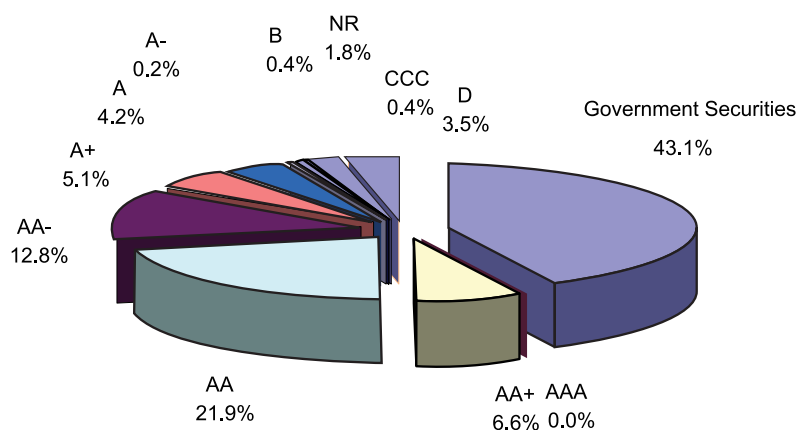
Asset Allocation as on June 30, 2010 (% of total assets)



Asset Allocation as on June 30, 2009 (% of total assets)



Asset Quality as on June 30, 2010 (% of total assets)



Performance Table

Performance Information	2010	2009	2008	2007
Total Net Assets Value – Rs. in million	5,970.309	9,487.169	12,897	9,144
Net Assets value per unit – Rupees	103.4194	103.17	106.46	103.38
Highest offer price per unit	106.2858	105.13	108.09	103.38
Lowest offer price per unit	100.0713	97.14	100.17	100.00
Highest Redemption price per unit	104.6915	105.13	108.09	103.38
Lowest Redemption price per unit	100.0713	97.14	-	-
Distribution per unit (interim) – Rs. (08-Oct-10)	2	3.17	-	-
Net Assets Value before distribution	102.9710	103.17	-	-
Net Assets Value after distribution	100.9710	100	-	-
Distribution per unit (interim) – Rs. (23-Jan-10)	2.5	3	-	-
Net Assets Value before distribution	104.0726	103.91	-	-
Net Assets Value after distribution	101.5726	101.08	-	-
Distribution per unit (interim) – Rs. (22-Apr-10)	2.8	3	-	-
Net Assets Value before distribution	104.6915	105.13	-	-
Net Assets Value after distribution	101.8915	102.17	100.17	100.01
Distribution per unit (Annual) – Rs. (30-Jun-10) *	2.4194	-	6.46	3.38
Net Assets Value before distribution	103.4194	-	106.46	103.38
Net Assets Value after distribution	101.0000	-	100.00	100.00
Average Annual Return - %				
One year (inception date Mar 01, 2007)	11.0	9.36	9.80	10.1
Two year (inception date Mar 01, 2007)	10.7	10.03	9.95	N/a
Three year (inception date Mar 01, 2007)	11.1	10.3	N/a	N/a
Net Income loss for the year / period – Rs. in million	738.141	926.406	1,247.935	298.948
Income Distribution – Rs. in million	680.414	926.406	1247.935	298.948
Accumulated Capital Growth – Rs. in million	57.726	-	-	-
Weighted average Portfolio Duration (years)	2.37	2.48	2.1	2.9

* The income distribution is related to the year ended June 30, 2010, but recorded and distributed on July 01, 2010.

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

Note: For Details of Non-compliant portfolio refer note 17 to the financial Statements.

Unit Holding by Size

<u>Units Range</u>	<u>Nos. of Unit Holders</u>	<u>Units Held</u>
1 – 10,000	1,388	3,726,416
10,001 – 100,000	352	9,404,612
100,001– 1,000,000	37	11,807,634
1,000,001 – onwardas	10	32,790,423
Total	1,787	57,729,092

Mr. Kashif Rafi
Fund Manager

Karachi: September 07, 2010

Statement of Compliance with the best practices of Code of Corporate Governance

For The Year Ended 30 June 2010

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in Chapter XI Regulation No. 35 of Listing Regulations of Lahore 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. MCB Dynamic Cash Fund is an open end mutual fund and is listed at the Lahore Stock Exchange. The Fund being a unit trust scheme does not have its own board of directors. The Board of Directors of MCB Asset Management Company Limited, the Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of non-executive directors. All the directors, except the Chief Executive Officer are non-executive directors.
2. The existing 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 NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year under review one casual vacancy occurred on the Board which was duly filled in by the appointment of another director subsequent to the year ended June 30, 2010.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices' for the Fund which has been signed by all the directors and employees of the Management Company.
6. The Management Company has developed a Vision / Mission statement, overall corporate strategy and significant policies for the Fund that have been approved by the Board. A complete record of particulars of significant policies along with the dates on which these 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 terms and conditions of employment of the Chief Executive Officer, Chief Financial Officer and the Company Secretary have been taken by the Board.
8. The related party transactions are placed before the audit committee and approved by the board of directors on a quarterly basis with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
9. The meetings of the Board were presided over by the Chairman and in his absence by the director elected by the Board 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.

10. The Directors have been provided with the copies of the NBFC (Establishment and Regulation) Rule, 2003, Non-Banking Finance Companies and Notified Entities Regulations, 2008, Companies Ordinance, 1984, Listing Regulations, Code of Corporate Governance, Prudential Regulations, Company's Memorandum and Articles of Association and all other relevant rules and regulations and hence are conversant with the relevant laws applicable to the Company and the funds and are aware of their duties and responsibilities.
11. The directors' report relating to the Fund for the year ended June 30, 2010 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 the Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The directors, CEO, and executives do not hold any interest in the units of the Fund other than those disclosed in the note 19 to financial statements.
14. The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee.
16. The meetings of the Audit Committee were held once in every quarter and prior to the approval of interim and final results of the Fund and as required by the Code. The terms of reference of Audit Committee have been approved in the meeting of the Board of Directors and the Committee has been advised to ensure compliance with those terms of reference.
17. The Management Company has outsourced the internal audit function of the Company to M/s Ford Rhodes Sidat Hyder & Co. Chartered Accountants, Karachi, for the period from April 01, 2010 to June 30, 2010, who are considered suitably qualified and experienced for the purpose and well conversant with the policies and procedures of the Fund. For the period July 01, 2009 to March 31, 2010, the management company had its own internal audit function of the fund, which has suitably qualified and experienced people for the purpose and well conversant with the policies and procedure of the fund.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Management Company or units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

Yasir Qadri
Chief Executive Officer
Karachi: September 07, 2010

Review report to the unit holders on the statement of compliance with the best practices of the Code of Corporate Governance

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

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

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

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

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

A.F. Ferguson & Co.

Chartered Accountants

Karachi

Dated: September 07, 2010

Trustee Report to the unit holders

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

The MCB Dynamic Cash Fund (Fund), an open-end fund was established under a trust deed dated November 09, 2006, executed between MCB Asset Management Company Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the trustee.

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

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

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

Karachi: October 21, 2010

Independent auditors' report to the unit holders

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

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

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

Opinion

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

Other matters

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

A. F. Ferguson & Co.
Chartered Accountants
Engagement Partner: Salman Hussain
Karachi
Dated: September 07, 2010

>> FINANCIAL STATEMENT

MCB DYNAMIC CASH FUND STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2010

	Note	2010	2009
(Rupees in '000)			
ASSETS			
Balances with banks	4	328,095	1,046,643
Investments	5	5,659,187	8,128,539
Dividend and other receivables	6	73,743	339,964
Receivable against sale of investments		174,249	-
Security deposits and prepayments	7	3,834	3,725
Preliminary expenses and floatation costs	8	3,828	6,130
Total assets		6,242,936	9,525,001
LIABILITIES			
Payable to MCB Asset Management Company Limited - Management Company	9	7,030	7,838
Payable to the Central Depository Company of Pakistan Limited	10	551	866
Annual fee payable to the Securities and Exchange Commission of Pakistan	11	6,229	9,992
Payable against redemption of units		15,348	2,884
Payable against purchase of investments		205,583	-
Accrued expenses and other liabilities	12	37,886	16,252
Total liabilities		272,627	37,832
NET ASSETS		5,970,309	9,487,169
Unit holders' fund (as per statement attached)		5,970,309	9,487,169
CONTINGENCIES AND COMMITMENTS			
	15		
(Number of units)			
NUMBER OF UNITS IN ISSUE		57,729,092	91,954,307
(Rupees)			
NET ASSET VALUE PER UNIT	3.9	103.42	103.17

The annexed notes 1 to 30 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC CASH FUND INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
(Rupees in '000)			
INCOME			
Capital gain / (loss) on sale of investments		82,130	(103,121)
Income from spread transactions		-	14,743
Income from continuous funding system (CFS) transactions		-	87,953
Profit on bank deposits and term deposit receipts		190,010	760,819
Income from money market placements		109,704	192,698
Income from term finance certificates		395,828	561,062
Income from government securities		291,861	35,689
		1,069,533	1,549,843
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	5.1.6	(33,304)	(231,250)
Total income		1,036,229	1,318,593
EXPENSES			
Remuneration of MCB Asset Management Company Limited - Management Company		124,589	144,143
Remuneration of Central Depository Company of Pakistan Limited - Trustee		9,306	12,422
Annual fee - Securities and Exchange Commission of Pakistan	11	6,229	9,992
Financial charges		281	169
Brokerage and settlement charges		2,861	8,501
Amortisation of preliminary expenses and floatation costs	8.1	2,302	2,302
Auditors' remuneration	16	996	757
Bank charges		348	23
Provision / (Reversal of provision) against debt securities	5.2	(21,751)	150,393
Other expenses		763	2,156
Total expenses		125,924	330,858
Net income from operating activities		910,305	987,735
Element of (loss) / income and capital (losses) / gains included in the prices of units issued less those in units redeemed		(138,194)	(61,329)
Provision for Workers' Welfare Fund	13	33,970	-
Net income for the year before taxation		738,141	926,406
Taxation	3.8	-	-
Net income for the year after taxation		738,141	926,406
Other comprehensive income for the year		-	-
Total comprehensive income for the year		738,141	926,406
Earnings per unit	3.13		

The annexed notes 1 to 30 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC CASH FUND DISTRIBUTION STATEMENT

FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	(Rupees in '000)	
Undistributed income brought forward		
- Realised income	504,099	784,002
- Unrealised loss	(212,367)	(1,896)
	291,732	782,106
Final distribution for the year ended June 30, 2008 at Rs 6.4558 per unit (Date of distribution July 04, 2008)		
- Cash distribution	-	(210,996)
- Bonus distribution	-	(571,110)
Final distribution for the year ended June 30, 2009 at Rs 3.1726 per unit (Date of distribution July 02, 2009)		
- Cash distribution	(97,116)	-
- Bonus distribution	(194,616)	-
Interim distributions during the year ended June 30, 2009:		
Rs 3.4867 per unit (Date of distribution October 27, 2008)		
- Cash distribution	-	(85,123)
- Bonus distribution	-	(258,370)
Rs 2.9373 per unit (Date of distribution May 26, 2009)		
- Cash distribution	-	(94,800)
- Bonus distribution	-	(196,381)
Interim distributions during the year ended June 30, 2010:		
Rs 2 per unit (Date of distribution October 9, 2009)		
- Cash distribution	(58,242)	-
- Bonus distribution	(180,536)	-
Rs 2.50 per unit (Date of distribution January 22, 2010)		
- Cash distribution	(38,902)	-
- Bonus distribution	(98,936)	-
Rs 2.80 per unit (Date of distribution April 22, 2010)		
- Cash distribution	(33,709)	-
- Bonus distribution	(130,420)	-
Net income for the year after taxation	738,141	926,406
Undistributed income carried forward	197,396	291,732
Realised income	386,170	504,099
Unrealised loss	(188,774)	(212,367)
	197,396	291,732

The annexed notes 1 to 30 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC CASH FUND STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND

FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	(Rupees in '000)	
Net assets at beginning of the year	9,487,169	12,896,891
Issue of 119,318,163 units (2009: 223,758,969 units)	12,199,120	22,776,547
Issue of 1,946,176 bonus units relating to the year ended June 30, 2009 (2008: 5,711,097 units)	194,616	571,110
Issue of 4,042,029 interim bonus units (2009: 4,483,169 units)	409,892	454,752
Redemption of 159,531,583 units (2009: 263,146,751 units)	(16,364,346)	(26,783,086)
	(3,560,718)	(2,980,677)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	138,194	61,329
Net unrealised diminution on re-measurement of investment classified as 'financial assets at fair value through profit or loss'	(33,304)	(217,859)
Other net operating income	771,445	1,144,265
Net income for the year	738,141	926,406
Final distribution for the year ended June 30, 2009 at Rs 3.1726 per unit (2008 on July 04, 2008 at Rs. 6.4558 per unit)		
- Cash distribution	(97,116)	(210,996)
- Bonus distribution	(194,616)	(571,110)
Interim distributions during the year ended June 30, 2010		
On October 9, 2009 (2008 on October 27, 2008 at Rs 3.4867 per unit)		
- Cash distribution	(58,242)	(85,123)
- Bonus distribution	(180,536)	(258,370)
On January 22, 2010 (On May 26, 2009 at Rs 2.9373 per unit)		
- Cash distribution	(38,902)	(94,800)
- Bonus distribution	(98,936)	(196,381)
On April 21, 2010 (2009:nil)		
- Cash distribution	(33,709)	-
- Bonus distribution	(130,420)	-
	5,970,309	9,487,169

The annexed notes 1 to 30 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC CASH FUND CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
Note	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year before taxation	738,141	926,406
Adjustments for non - cash charges and other items		
Capital loss / (gain) on sale of investments	(82,130)	81,348
Income from spread transactions	-	(14,743)
Income from continuous funding system (CFS) transactions	-	(87,953)
Profit on bank deposits and term deposits receipts	(190,010)	(760,819)
Income from money market placements	(109,704)	(192,698)
Income from term finance certificates	(395,828)	(561,062)
Income from government securities	(291,861)	(525)
Financial charges	281	169
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	33,304	217,859
Amortisation of preliminary expenses and floatation costs	2,302	2,302
	(295,505)	(389,716)
Element of loss / (income) and capital losses / (gains) included in the prices of units issued less those in units redeemed	138,194	61,329
(Increase) / decrease in assets		
Receivable against Continuous Funding System (CFS) transactions	-	2,843,117
Investments	164,317	877,256
Other receivables	124,444	374,407
Security deposits and prepayments	(109)	614
	288,652	4,095,394
Increase / (decrease) in liabilities		
Payable to MCB Asset Management Company Limited - Management Company	(808)	(6,946)
Payable to the Central Depository Company of Pakistan Limited	(315)	(383)
Annual fee payable to Securities and Exchange Commission of Pakistan	(3,763)	(2,158)
Accrued and other liabilities	21,634	(14,610)
	16,748	(24,097)
	148,089	3,742,910
Dividend income received on shares held under spread transaction	-	4,622
Mark-up received on term finance certificates	447,147	530,805
Income received on CFS transactions	-	104,256
Profit received on bank deposits	273,548	711,044
Income received from money market placements	121,858	206,055
Income received from government securities	286,627	876
Financial charges paid	(281)	(169)
Net cash inflow from / (outflow on) operating activities	1,276,988	5,300,399
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts from issue of units	12,199,120	22,776,547
Net payments on redemption of units	(16,351,882)	(26,780,202)
Cash distribution	(227,969)	(390,919)
Net cash (outflow on) / inflow from financing activities	(4,380,731)	(4,394,574)
Net increase / (decrease) in cash and cash equivalents during the year	(3,103,743)	905,825
Cash and cash equivalents at the beginning of the year	4,554,643	3,648,818
Cash and cash equivalents at the end of the year	1,450,900	4,554,643

18

The annexed notes 1 to 30 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC CASH FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

1 LEGAL STATUS AND NATURE OF BUSINESS

MCB Dynamic Cash Fund (the Fund) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and was approved as an investment scheme by the Securities and Exchange Commission of Pakistan (SECP) on December 12, 2006. It was constituted under a Trust Deed dated November 9, 2006, amended by a Supplemental Trust Deed dated January 21, 2007 between MCB Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited as the Trustee, also incorporated under the Companies Ordinance, 1984.

The Management Company of the Fund has been licensed to act as Asset Management Company under the NBFC Rules 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.

The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units of the Fund are transferable and can also be redeemed by surrendering to the Fund. The units are listed on the Lahore Stock Exchange.

The Fund invests primarily in money market and other short-term instruments which includes short-term corporate debt and government securities, repurchase agreements, spread transactions and transactions under continuous funding system. The Fund may also invest a portion of the fund in medium term assets in order to provide higher return to the unit holders.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of AM2- "AM TWO MINUS" to the Management Company and a rating of '3-Star-normal' to the Fund.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of 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) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.2 Changes in accounting policies and disclosure arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year.

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

The Fund has applied IAS 1 (Revised) during the current year, and has accordingly changed its accounting policy to comply with the new requirements of this IAS. The Fund has elected to show elements of comprehensive income in one performance statement - statement of comprehensive income (Income Statement). The change in presentation has not affected the values of the net assets of the Fund for either the current or any of the prior periods and there is no impact on the earnings per share.

- b) International Financial Reporting Standard (IFRS) 7 (amendment) 'Financial instruments: Disclosures' (effective from January 1, 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures, but does not have an impact on the Fund's financial position or performance.

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

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

- a) IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of this amendment did not have a significant impact on the Fund's financial statements.
- b) IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation'. The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. One of the particular feature is that apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity. In this connection, Regulation 63 of the NBFC Regulations mandates the payment of 90% of the Fund's income for the year as dividend, therefore the amendment has not changed the classification of units in the financial statements.
- c) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access of goods or receipt of services. This amendment is not expected to have a significant effect on the Fund's financial statements.

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

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

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

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

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

2.5 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The area where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies was primarily classification and valuation of investments (note 3.2 and 5).

2.6 Accounting convention

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

2.7 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the Fund's functional and presentation currency.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as explained in note 2.2 to the financial statements.

3.1 Cash and cash equivalents

Cash and cash equivalents include demand deposits with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

3.2 Financial assets

3.2.1 Classification

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

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading in the 'Financial assets at fair value through profit or loss' category.

b) Available for sale

These are non-derivative financial assets that are intended to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in prices. Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

c) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

3.2.2 Regular way contracts

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

3.2.3 Initial recognition and measurement

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

Loans and receivables are initially recognised at fair value plus transaction cost.

3.2.4 Subsequent measurement

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

a) Basis of valuation of debt securities

Investment in term finance certificates and sukuks are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no. 1/2009 dated January 06, 2009. Under the said directive, investment in term finance certificates and sukuk bonds are valued on the basis of traded, thinly traded and non traded securities. Accordingly, investment in debt securities have been valued at the rates determined and announced by Mutual Funds Association of Pakistan (MUFAP) based on the methodology prescribed in the said circular.

b) Basis of valuation of government securities

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

Net gains and losses arising on changes in the fair value of financial assets carried at fair value through profit or loss are taken to the income statement.

From July 1, 2009 net gains and losses arising on changes in the fair value of available for sale financial assets are taken to the 'Statement of Comprehensive Income' until these are derecognised or impaired. At this time, the cumulative gains or losses previously recognised in the 'statement of comprehensive income' is transferred to the income statement. Previously, net gains and losses arising on changes in the fair value of available for sale financial assets were taken to the 'statement of unitholders fund' until they were derecognised or impaired at which time the cumulative gains or losses recognised in the statement of unitholders fund was transferred to the income statement.

Loans and receivables are carried at amortised cost.

3.2.5 Impairment

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income is reclassified from the Statement of Comprehensive income to the income statement.

For financial assets classified as 'loans and receivables', a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is determined based on the provisioning criteria specified by SECP.

As allowed under circular No. 13 of 2009 issued by SECP, the management may also make provision against non-performing debt securities over and above the minimum provision requirement specified in the SECP circular, in accordance with a provisioning policy approved by the Board of Directors and disseminated by the management company on its website.

3.2.6 Derecognition

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

3.2.7 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of assets and liabilities 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.

3.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

3.4 Derivatives

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

3.5 Securities under repurchase / resale agreements

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

All reverse repo / continuous funding system transactions are accounted for on the settlement date.

3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from March 1, 2007, in accordance with the requirements set out in the Trust Deed of the Fund.

3.7 Provisions

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

3.8 Taxation

The income of the Fund is exempt from Income Tax as per clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders.

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

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

3.9 Net asset value per unit

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

3.10 Issue and redemption of units

Units issued are recorded at the offer price of the day on which cleared funds are received in the Trustee bank accounts during business hours. The offer price represents the net asset value per unit as of the close of the business day.

Units redeemed are recorded at the redemption price announced as of the close of the business day on which a correctly filled-in redemption form is submitted within the business hours. The redemption price represents the net asset value per unit as of the close of the business day.

3.11 Proposed distributions

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

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

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

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

3.13 Earnings per unit

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

3.14 Foreign currency translation

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

3.15 Revenue recognition

- Mark-up on term finance certificates, government securities, letter of placements, commercial paper, certificates of deposits and term deposits is recognised on an accrual basis.
- Profit on bank deposits is recognised on an accrual basis.
- Income on reverse repurchase transactions and CFS transactions are recognised on an accrual basis.
- Realised capital gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Dividend income is recognised when the right to receive the payment is established.
- Income from spread transactions, unrealised gains or losses arising on revaluation of investments classified as 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

4	BALANCES WITH BANKS	Note	2010	2009
			Rupees in '000	
	In current accounts		-	15
	In deposit accounts	4.1	328,095	1,046,628
			328,095	1,046,643

4.1 These carry mark-up at rates ranging between 5.00% to 10.5% per annum (2009: 5.00% to 14% per annum).

5	INVESTMENTS	Note	2010	2009
			Rupees in '000	
	Financial assets at fair value through profit or loss	5.1	4,829,187	3,745,539
	Loans and receivables	5.2	830,000	4,383,000
			5,659,187	8,128,539
5.1	Financial assets at fair value through profit or loss			
	Listed debt securities	5.1.1	1,333,526	1,471,446
	Unlisted debt securities	5.1.2.1	874,939	1,260,161
	Government securities	5.1.5	2,620,722	1,013,932
			4,829,187	3,745,539

5.1.1 Listed debt securities - term finance certificates

Certificates have a face value of Rs 5,000 each unless stated otherwise in 5.1.4

Name of investee company	Number of Certificates			Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2009	Purchased during the year	Disposed during the year	As at June 30, 2010	Cost	Market value		

—Rupees in '000—

Commercial banks

Allied Bank Limited (December 6, 2006, issue)	-	13,300	-	13,300	66,105	63,134	(2,971)	1.06	1.12
Allied Bank Limited II	-	25,000	25,000	-	-	-	-	-	-
Askari Bank Limited (February 4, 2005, issue)	-	10,850	4,920	5,930	28,808	28,989	181	0.49	0.51
Askari Bank Limited (November 18, 2009, issue)	-	42,000	-	42,000	209,658	206,669	(2,989)	3.46	3.65
Bank Al Habib Limited	11,000	10,204	21,204	-	-	-	-	-	-
Faysal Bank Limited	7,515	-	-	7,515	35,680	36,179	499	0.61	0.64
NIB Bank Limited	79,997	3,000	22,600	60,397	279,046	289,723	10,677	4.85	5.12
Royal Bank of Scotland	300	-	-	300	1,105	1,115	10	0.02	0.02
Soneri Bank Limited	4,000	-	-	4,000	19,270	19,204	(66)	0.32	0.34
United Bank Limited (February 14, 2008, issue)	49,000	147,944	162,044	34,900	160,416	165,765	5,349	2.78	2.93
United Bank Limited (September 8, 2006, issue)	20,000	1,000	6,000	15,000	72,425	73,889	1,464	1.24	1.31
United Bank Limited II	-	200	200	-	-	-	-	-	-

Fertilizer

Engro Chemical Pakistan Limited (November 30, 2007, issue)	55,465	33,443	88,746	162	769	793	24	0.01	0.01
Engro Chemical Pakistan Limited (December 17, 2009, issue)	-	40,000	-	40,000	199,960	198,888	(1,072)	3.33	3.51
Pak Arab Fertilizer Company Limited	21,475	48,148	69,623	-	-	-	-	-	-

Leasing Companies

Orix Leasing Pakistan Limited	-	26,900	26,900	-	-	-	-	-	-
Saudi Pak Leasing Company Limited	10,000	-	-	10,000	24,490	27,283	2,793	0.46	0.48

Technology & Communication

World Call Telecom Ltd.	54,000	-	13,000	41,000	194,989	191,914	(3,075)	3.21	3.39
-------------------------	--------	---	--------	--------	---------	---------	---------	------	------

Investment Bank

Jahangir Siddiqui and Company Limited (September 30, 2005, issue)	8,000	-	-	8,000	27,900	29,981	2,081	0.50	0.53
---	-------	---	---	-------	--------	--------	-------	------	------

Total - 2010 320,752 401,989 440,237 282,504 1,320,621 1,333,526 12,905 22.34 23.56

Total - 2009 279,021 352,293 310,562 320,752 1,597,798 1,498,914 (98,884) 15.81 18.47

5.1.2 Unlisted debt securities - term finance certificates and other securities

Certificates have a face value of Rs 5,000 each unless stated otherwise in 5.1.4

Name of investee company	Number of Certificates			Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment	
	As at July 1, 2009	Purchased during the year	Disposed during the year	As at June 30, 2010	Cost	Market value			Appreciation / (diminution)
— Rupees in '000 —									
Bank Al Habib Limited	-	8,747	8,747	-	-	-	-	-	
Bank Al Habib Limited TFC	-	25,000	20,100	4,900	24,480	25,061	581	0.42	
Bank Alfalah Limited TFC (June 15, 2009 issue)	-	40,000	-	40,000	199,960	187,929	(12,031)	3.15	
Engro Chemical Pakistan Limited - Perpetual	80,000	-	28,321	51,679	224,799	230,587	5,788	3.86	
Engro Chemical Pakistan Limited - Sukuk	22,000	10,000	30,600	1,400	6,807	6,860	53	0.11	
Jahangir Siddiqui Company Limited	24,000	-	-	24,000	109,686	117,017	7,331	1.96	
JDW Sugar Mills Limited	18,000	-	3,000	15,000	59,585	62,389	2,804	1.04	
KASHF Foundation TFC	14,000	-	-	14,000	7,504	9,983	2,479	0.17	
Maple Leaf Cement Factory Limited I	71,000	-	-	71,000	319,385	266,137	(53,248)	4.46	
Maple Leaf Cement Factory Limited II	-	2,662	-	2,662	13,310	13,310	-	0.22	
New Allied Electronics Industries (Pvt) Limited	10,400	-	-	10,400	24,904	24,904	-	0.42	
New Allied Electronics Industries Pvt. Limited - Sukuk	112,000	-	-	112,000	35,234	35,234	-	0.59	
Orix Leasing Pakistan Limited PPTFC	1,000	-	1,000	-	-	-	-	-	
Pak American Fertilizers Ltd - Sukuk	-	7,000	7,000	-	-	-	-	-	
Pakistan Mobile Company Limited (October 1, 2007)	13,000	29,000	42,000	-	-	-	-	-	
Security Leasing Corporation Limited Sukuk	5,000	-	-	5,000	9,082	10,986	1,904	0.18	
Security Leasing Corporation Limited PPTFC	10,000	-	-	10,000	12,207	13,184	977	0.22	
Sui Southern Gas Company Limited.	26,000	-	26,000	-	-	-	-	-	
Total - 2010	406,400	122,409	166,768	362,041	1,046,943	1,003,581	(43,362)	17	18
Total - 2009	393,000	72,000	58,600	406,400	1,525,840	1,383,086	(142,754)	14.58	17.00

* Carrying value before provision. Provision details are specified in note 5.1.3.

	Note	2010 (Rupees in '000)
5.1.2.1 Market value of unlisted debt securities	5.1.2	1,003,581
Less: Provision against unlisted debt securities	5.1.3	128,642
		874,939
5.1.3 Particulars of provision against debt securities		
New Allied Electronics Industries (Private) Limited - term finance certificates		24,904
New Allied Electronics Industries (Private) Limited - sukuk bonds		35,234
	5.1.3.1	60,138
Maple Leaf Cement Factory Limited - sukuk bonds	5.1.3.2	55,194
Maple Leaf Cement Factory Limited II	5.1.3.3	13,310
		68,504
		128,642

5.1.3.1 This represents provision against privately placed term finance certificates (TFC) and sukuk bonds of the investee company. The Fund did not receive the principal and profit payments of term finance certificates due on November 15, 2008, February 15, 2009, May 15, 2009, August 15, 2009, November 15, 2009, February 15, 2010 and May 15, 2010. The principal and profit payments of sukuk bonds which were due on October 25, 2008, January 25, 2009, April 25, 2009, July 25, 2009, October 25, 2009, January 25, 2010 and April 25, 2010 were also not received by the Fund.

Therefore, the management has recognised impairment loss amounting to Rs 60.138 million till June 30, 2009 which represents the full amount of the Fund's investment in TFC and sukuk, in accordance with the comprehensive provisioning policy duly approved by the Board of Directors. In addition, the income accrued on these term finance certificates and sukuk bonds has also been reversed by the management.

5.1.3.2 This represents investment in privately placed sukuk bonds with a term of six years. On the scheduled redemption date, profit redemption of Rs. 26.620 million was not received by the Fund. The Fund has recognised a total deficit of Rs 143.906 million on this investment as follows:

- through unrealised diminution in the value of investment
- through provision (including Rs 1.909 million charged to income in the current year)

Rupees in '000
88,712
55,194
143,906

In addition to the above provision, the income accrued on these sukuk bonds has also been reversed by the management. The sukuk has been restructured on March 30, 2010. As part of a restructuring arrangement, a new sukuk bond II amounting to Rs. 13.310 million was issued which represents 50% of the mark-up due amount while balance amount of investment was paid in cash.

5.1.3.3 This represents second issue of sukuk by Maple Leaf Cement Factory Limited under a restructuring agreement with a face value of Rs 13.310 million. As this issue represents overdue mark-up (note 5.1.3.2), it has fully provided and income accrued on this issue has also been suspended.

5.1.4 Significant terms and conditions of term finance certificates outstanding at the year end are as follows:

Name of security	Number of certificates	Face value / Redemption value (Rupees)	Mark-up rate (Per annum)	Maturity	Secured / unsecured	Rating
Listed debt securities						
Allied Bank Limited (December 6, 2006, issue)	13,300	4,993	6 month KIBOR+1.9%	December 6, 2014	Unsecured	AA-
Askari Bank Limited (February 4, 2005, issue)	5,930	4,990	6 month KIBOR+1.5%	February 4, 2013	Unsecured	AA-
Askari Bank Limited (November 18, 2009, issue)	42,000	4,999	6 month KIBOR+2.5%	November 18, 2019	Unsecured	AA-
Engro Chemical Pakistan Limited (November 30, 2007, issue)	162	4,995	6 month KIBOR+1.55%	November 30, 2015	Secured	AA
Engro Chemical Pakistan Limited (December 17, 2009, issue)	40,000	4,999	6 month KIBOR+2.4%	December 17, 2016	Secured	AA
Faysal Bank Limited	7,515	4,995	6 month KIBOR+1.4%	November 12, 2014	Unsecured	AA-
Jahangir Siddiqui Company Limited (September 30, 2005, issue)	8,000	3,746	6 month KIBOR+1.75%	September 30, 2010	Unsecured	AA+
NIB Bank Limited	60,397	4,996	6 month KIBOR+1.15%	March 5, 2016	Unsecured	A+
Royal Bank of Scotland	300	3,744	6 month KIBOR+1.9%	February 10, 2013	Unsecured	AA-
Saudi Pak Leasing Company Limited	10,000	3,749	6 month KIBOR+1.5%	March 13, 2013	Secured	B
Soneri Bank Limited	4,000	4,990	6 month KIBOR+1.6%	May 5, 2013	Unsecured	A+
United Bank Limited (February 14, 2008, issue)	34,900	4,996	6 month KIBOR+0.85%	February 14, 2018	Unsecured	AA
United Bank Limited (September 8, 2006, issue)	15,000	4,993	6 month KIBOR+1.7%	September 8, 2014	Unsecured	AA
World Call Telecom Ltd.	41,000	4,997	6 month KIBOR+1.6%	October 7, 2013	Secured	A
Unlisted debt securities						
Bank Al Habib Limited TFC	4,900	4,996	15.05%	June 15, 2017	Unsecured	AA
Bank Alfalah Limited TFC	40,000	4,999.00	6 month KIBOR+2.5%	December 2, 2017	Unsecured	AA-
Engro Chemical Pakistan Limited - Perpetual	51,679	5,000	6 month KIBOR+1.7%	March 18, 2018		AA
Engro Chemical Pakistan Limited - Sukuk	1,400	5,000	6 month KIBOR+1.5%	September 6, 2015		AA+
Jahangir Siddiqui Company Limited (July 4, 2007)	24,000	4,995	6 month KIBOR+1.7%	July 4, 2013	Secured	AA+
JDW Sugar Mills Limited	15,000	4,444.00	3 month KIBOR+1.25%	June 23, 2014	Secured	A
KASHF Foundation TFC	14,000	714	3 month KIBOR+2.45%	November 5, 2010	Secured	A-
Maple Leaf Cement Factory Limited I	71,000	4,375	3 month KIBOR+1.7%	December 3, 2013	Secured	D
Maple Leaf Cement Factory Limited II	2,662	5,000	3 month KIBOR+1%	December 3, 2013	Secured	D
New Allied Electronics Industries (Pvt) Limited	10,400	1,667	3 month KIBOR+3%	May 15, 2011	Secured	Non-performing
New Allied Electronics Industries Pvt. Limited - Sukuk	112,000	2,813	3 month KIBOR+2.6%	July 27, 2012	Unlisted	Non-performing
Security Leasing Corporation Limited Sukuk Certificates	5,000	2,929	First 18 months @ 6%, from 19 months onwards @ 1 month KIBOR	March 18, 2014	Secured	CCC
Security Leasing Corporation Limited TFC	10,000	1,757	First 18 months @ 6%, from 19 months onwards @ 1 month KIBOR	March 28, 2014	Secured	CCC

5.1.4.4 The Term Finance Certificates and Sukuk bonds held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage / pledge of fixed assets of the issuer.

5.1.5 Investment in government securities

Name of investee company	Face Value				Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment	
	As at July 1, 2009	Purchased during the year	Disposed during the year	Matured during the year	As at June 30, 2010	Cost	Market value			
Rupees in '000'										
Treasury Bills - 1 year	1,075,000	8,151,000	6,987,000	1,595,000	644,000	611,202	609,886	(1,316)	10.22	10.78
Treasury Bills - 6 months	40,000	4,677,000	2,637,000	430,000	1,650,000	1,619,646	1,618,131	(1,515)	27.10	28.59
Treasury Bills - 3 months	-	3,934,000	3,639,000	-	295,000	292,821	292,805	(16)	0.05	0.05
National Saving Bonds	-	100,000	100	-	99,900	99,900	99,900	-	0.02	0.02
Total	1,115,000	16,862,000	13,263,100	2,025,000	2,589,000	2,623,569	2,620,722	(2,847)	37.37	39.42

	Note	2010 (Rupees in '000)	2009
5.1.6 Net unrealised diminution on re-measurement of investments classified as financial 'assets at fair value through profit or loss'			
Cost of investment	5.1.1, 5.1.2 & 5.1.5	4,991,133	4,127,182
Market value of investment	5.1.1, 5.1.2 & 5.1.5	4,957,829	3,895,932
		(33,304)	(231,250)
5.2 Movement in provision against debt securities			
Opening balance		150,393	-
Charge for the year		15,219	150,393
Less: Reversal of provision		36,970	-
Charge for the year - net		(21,751)	150,393
Closing balance		128,642	150,393

5.3 Loans and receivables

Particulars	Profit / mark-up rate	Maturity date	Closing balance as at June 30, 2010	Value as a percentage of net assets	Value as percentage of investments
(Rupees in '000)					
Term deposit receipts	12.5% - 12.6%	At various dates by August 10, 2010	830,000	13.90	14.67
Total - 2010			830,000	13.90	14.67
Total - 2009			4,383,000	46.20	53.92

	2010 (Rupees in '000)	2009
6 DIVIDEND AND OTHER RECEIVABLES		
Profit on term deposits	2,054	84,551
Profit on savings deposits	855	1,896
Income accrued on term finance certificates	65,044	116,363
Profit receivable on money market placements	-	12,154
Profit receivable on government securities	5,234	-
Advances against Pre-IPO investment	-	125,000
Others	556	-
	73,743	339,964
7 SECURITY DEPOSITS AND PREPAYMENTS		
Security deposits with		
- National Clearing Company of Pakistan Limited	3,500	3,500
- Central Depository Company of Pakistan Limited	200	200
Prepayments	134	25
	3,834	3,725
8 PRELIMINARY EXPENSES AND FLOATATION COSTS		
Preliminary expenses and floatation costs incurred	11,510	11,510
Less: accumulated amortisation	7,682	5,380
Closing balance	3,828	6,130

8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. This expenditure is being amortised over a period of five years commencing from March 1, 2007.

	Note	2010 (Rupees in '000)	2009
9 PAYABLE TO MCB ASSET MANAGEMENT COMPANY LIMITED - MANAGEMENT COMPANY			
Management fee	9.1	7,030	7,838

9.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. In the current year, the Management Company has charged remuneration at a rate of 1.5 percent.

10 PAYABLE TO THE CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

	Note	2010 (Rupees in '000)	2009
Remuneration payable	10.1	551	866
		551	866

10.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed and Offering Documents as per the tariff specified therein, based on the daily net asset value of the Fund. As per the Trust Deed and Offering Document the tariff structure applicable to the Fund in respect of trustee fee as at June 30, 2010 is as follows:

Amount of funds under management (average NAV)	Tariff per annum
Upto Rs 1,000 million	Rs 0.7 million or 0.20% per annum of NAV whichever is higher.
On an amount exceeding Rs 1,000 million	Rs 2 million plus 0.10% per annum of NAV exceeding Rs 1,000 million.

The remuneration is paid to the Trustee monthly in arrears.

11 ANNUAL FEE PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the NBFC Regulations, the Fund is required to pay as an annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund.

12 ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2010 (Rupees in '000)	2009
Auditors' remuneration		450	442
Withholding tax payable		-	39
Sales Load payable		3,013	-
Dividend payable on CFS transactions		-	15,380
Provision for Workers' Welfare Fund	13	33,970	-
Others		453	391
		37,886	16,252

13 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund (WWF) Ordinance, 1971, whereby the definition of "industrial establishment" was amended to include therein, any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 (Ordinance of 1969) applies. Management Company of the Fund, based on a legal advice obtained through Mutual Funds Association of Pakistan (MUFAP) was of a firm view that Collective Investment Scheme (CIS) were not establishments and therefore, the WWF Ordinance should not be applicable to such schemes. The MUFAP had also filed a constitutional petition in the High Court of Sindh (the Court) on behalf of the members, challenging the applicability of WWF to the CIS. The said petition was dismissed by the Court vide its order dated May 25, 2010 on the main ground that the MUFAP (Petitioner) could not be held entitled to maintain a petition in respect of its members as it was not the aggrieved party. The Judgment recognises that the Trusts are covered by the scope of the definition of commercial establishment as contained in Ordinance of 1969 and, therefore, mutual funds and other funds appear to be covered unless it can be established that they fall within the scope of exemption set out in Section 5 (1)(iii) of the Ordinance of 1969 i.e. the Trusts not run for profit or in the course of business does not make any profit This could be examined when the aggrieved parties directly approached the Court for redressal.

In the meantime, clarification has been obtained by the MUFAP from the Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, which, through their letter nos. WWF (A - II)11.(5)/2010 dated July 8, 2010 and July 15, 2010, has clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy.

Various legal opinions are available on this matter. Some legal advisors are of the view that this levy is not applicable on CIS and therefore provision is not required to be created while there is also a contrary view according to which this levy has become applicable on the fund and the letter issued by the Ministry of Labour & Manpower, Government of Pakistan has no legal significance.

Because of ambiguity created based on conflicting opinions by lawyers and as a matter of abundant caution the Management Company of the Fund has decided to recognize a provision for WWF in these financial statements. WWF liability charged in these financial statements amounts to Rs 33.970 million as follows:

	(Rupees in '000)
Current Year	15,442
Prior Year	18,528
	33,970

14 FINANCIAL INSTRUMENTS BY CATEGORY

	As at June 30, 2010		
	Loans and receivables	Assets at fair value through profit or loss	Total
	Rupees in '000		
Assets			
Balances with banks	328,095	-	328,095
Investments	830,000	4,829,187	5,659,187
Dividend and other receivables	73,743	-	73,743
Receivable against sale of investments	174,249	-	174,249
Security deposits	3,700	-	3,700
	1,409,787	4,829,187	6,238,974

	As at June 30, 2010		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	Rupees in '000		
Liabilities			
Payable to MCB Asset Management Company Limited - Management Company	-	7,030	7,030
Payable to the Central Depository Company of Pakistan Limited	-	551	551
Payable against redemption of units	-	15,348	15,348
Payable against purchase of investments	-	205,583	205,583
Accrued expenses and other liabilities	-	3,916	3,916
	-	232,428	232,428

	As at June 30, 2009		
	Loans and receivables	Assets at fair value through profit or loss	Total
	Rupees in '000		
Assets			
Balances with banks	1,046,643	-	1,046,643
Receivable against Continuous Funding System (CFS) transactions	-	-	-
Investments	4,383,000	3,745,539	8,128,539
Dividend and other receivables	339,964	-	339,964
Receivable against sale of investments	-	-	-
Security deposits	3,700	-	3,700
	5,773,307	3,745,539	9,518,846

	As at June 30, 2009		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	Rupees in '000		
Liabilities			
Payable to MCB Asset Management Company Limited - Management Company	-	7,838	7,838
Payable to the Central Depository Company of Pakistan Limited	-	866	866
Payable against redemption of units	-	2,884	2,884
Payable against purchase of investments	-	-	-
Accrued and other liabilities	-	16,213	16,213
	-	27,801	27,801

15 CONTINGENCIES AND COMMITMENTS

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

16 AUDITOR'S REMUNERATION

	2010	2009
	(Rupees in '000)	
Annual audit fee	300	300
Half yearly review fee	175	175
Other certifications	450	200
Out of pocket expenses	71	82
	996	757

17 COMPLIANCE WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. MCB Asset Management Company Limited (Management Company) classified MCB Cash Fund (the Fund) as 'Income Scheme' in accordance with the said circular. As at June 30, 2010, the Fund is compliant with all the requirements of the said circular except for clause 9 (v) which requires that the rating of any security in the portfolio shall not be lower than investment grade:

Category of non-compliant investment	Type of Investment / Name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
Rupees in '000'						
Investment in Debt securities (note 17.1)						
	a) Maple Leaf Cement Factory Limited I	266,137	55,194	210,943	3.53%	3.38%
	b) Maple Leaf Cement Factory Limited II	13,310	13,310	-	0.00%	0.00%
	c) New Allied Electronics Industries (Pvt) Limited	24,904	24,904	-	0.00%	0.00%
	d) New Allied Electronics Industries Pvt. Limited - Sukuk	35,234	35,234	-	0.00%	0.00%
	e) Security Leasing Corporation Limited Sukuk Certificates	10,986	-	10,986	0.18%	0.18%
	f) Security Leasing Corporation Limited TFC	13,184	-	13,184	0.22%	0.21%
	g) Saudi Pak Leasing Company Limited	27,283	-	27,283	0.46%	0.44%

17.1 At the time of purchase, the TFCs and Sukuks were in compliance with the aforementioned circular. However, they subsequently defaulted or were downgraded to non investment grade.

18 CASH AND CASH EQUIVALENTS

Balances with banks
Term deposit receipts
Treasury bills

	2010	2009
	(Rupees in '000)	
	328,095	1,046,643
	830,000	3,508,000
	292,805	-
	1,450,900	4,554,643

19 TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES

19.1 Connected persons of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, the Trustee, directors and key management personnel and other associated undertakings.

19.2 The transactions with connected persons are in the normal course of business and at contracted rates.

19.3 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.

19.4 Details of transactions with connected persons are as follows:

MCB Bank Limited

Profit received on deposit accounts
Distribution of 323,945 bonus units (2009: 342,324)
Bank charges
Financial charges paid

	2010	2009
	(Rupees in '000)	
	5,572	98,064
	32,745	34,492
	38	3
	-	169

MCB Asset Management Company Limited

Remuneration of management company
Issue of 2,915,954 units (2009: 1,631,690)
Redemption of 4,216,157 units (2009: 1,459,260)
Distribution of 318,241 bonus units (2009: 387,877)

	124,589	144,143
	299,159	165,346
	431,540	149,000
	32,142	39,091

MCB Employees Provident Fund

Distribution of 64,789 bonus units (2009: 68,465)

	6,549	6,898
--	-------	-------

MCB Employees Foundation

Distribution of 14,548 bonus units (2009: 33,945)
Redemption of 205,568 units (2009: 125,786)

	1,466	3,417
	21,207	12,909

	2010	2009
	(Rupees in '000)	
MCB Employees Pension Fund		
Distribution of 64,789 bonus units (2009: 68,465)	6,549	6,989
Central Depository Company of Pakistan Limited		
Redemption of units: Nil (2009: 1,123,364)	-	114,487
Distribution of bonus units: Nil (2009: 81,839)	-	8,197
Remuneration and settlement charges for the year	9,314	12,633
Central Depository Company of Pakistan Limited-Gratuity Fund		
Distribution of bonus units: Nil (2009: 2,212)	-	221
Redemption of units: Nil (2009: 36,479)	-	3,697
Central Depository Company of Pakistan Limited-Provident Fund		
Distribution of bonus units: Nil (2009: 1,264)	-	126
Redemption of units: Nil (2009: 20,845)	-	2,112
Adamjee Insurance Company Limited		
Issue of units of 30,916,098 units (2009: 41,820,917)	3,150,000	4,250,000
Redemption of 36,100,999 units (2009: 31,451,809)	3,701,181	3,209,493
Distribution of 1,032,638 bonus units (2009: 790,740)	104,122	80,214
Adamjee Insurance Company Limited - Employees Provident Fund		
Issue of 247,933 units (2009: Nil)	25,000	-
Redemption of 754,771 units (2009: Nil)	77,757	-
Distribution of 35,772 bonus units (2009: 60,730)	3,605	6,119
D.G Khan Cement Company Limited Employees Provident Fund Trust		
Issue of units: Nil (2009: 113)	-	11
Redemption of units: Nil (2009: 113)	-	11
Distribution of 195 bonus units (2009: 206)	20	21
First Women Bank Limited		
Redemption of units: Nil (2009: 190,166)	-	19,422
The Hub Power Company Limited - Staff Provident Fund		
Issue of units: Nil (2009: 19,860)	-	2,000
Redemption of units: Nil (2009: 20,450)	-	1,990
Distribution of units: Nil(2009: 590 bonus units)	-	59
MCB AMC Staff Provident Fund		
Issue of 11,671 units (2009: Nil)	1,200	-
Adamjee Life Assurance Company Limited		
Issue of 2,860,064 units (2009: Nil)	292,910	-
Redemption of 2,862,948 units (2009: Nil)	295,552	-
Distribution of bonus units: 88,160 (2009: Nil bonus units)	8,894	-
Key management personnel		
Issue of 107,939 units (2009: 174,544)	10,975	17,811
Redemption of 126,503 units (2009: 151,238)	12,903	15,261
Bonus distribution of 7,845 units (2009: 6,278)	793	634
19.5 Amount outstanding as at year end	2010	2009
	(Rupees in '000)	
MCB Bank Limited		
Bank balance	268,853	53,734
Profit receivable on deposit accounts	346	1,724
3,332,230 units held as at June 2010 (2009: 3,008,285)	344,617	310,373
MCB Asset Management Company Limited		
Remuneration payable to management company	7,030	7,838
2,534,882 units held as at June 30, 2010 (2009: 3,514,747)	262,156	362,626
Adamjee Insurance Company Limited		
7,007,586 units held as at June 30, 2010 (2009: 11,159,848)	724,720	1,151,391
Adamjee Insurance Company Limited - Employees Provident Fund		
173,911 units held as at June 30, 2010 (2009: 533,683)	17,986	55,061

	2010	2009
	(Rupees in '000)	
MCB Employees Provident Fund 666,446 units held as at June 30, 2010 (June 2009: 601,657)	68,923	62,075
MCB Employees Pension Fund 666,446 units held as at June 30, 2010 (June 2009: 533,192)	68,923	62,075
MCB AMC Staff Provident Fund 11,672 units held as at June 30, 2010 (June 2009: NIL)	1,207	-
MCB Employees Foundation Units held as at June 30, 2010: Nil (2009: 191,019)	-	19,708
D.G Khan Cement Company Limited Employees Provident Fund Trust 2005 units held as at June 30, 2010 (2009: 1,810)	207	187
Adamjee Life Assurance Company Limited 1,072,987 units held as at June 30, 2010 (2009: NIL)	110,968	-
Key management personnel 48,146 units held as at June 30, 2010 (2009: 62,352)	4,979	6,433
Central Depository Company of Pakistan Limited Security Deposit	200	200
Remuneration and settlement charges payable	551	866

20 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

20.1 Details of members of the investment committee of the Fund are as follow:

2010				
	Designation	Experience in years	Qualification	
1	Mr. Yasir Qadri	Chief Executive	15	MBA
2	Mr. Kashif Rafi	Fund Manager - Fixed Income	9	MBA & CFA level I
3	Mr. Muhammad Asim	Fund Manager - Equity Funds	7	MBA & CFA
4	Mr. Shahab Farooq	Head of research	8	MBA
5	Mr. Syed Akbar Ali	Senior Research Analyst	5	MBA & CFA level II

20.2 Mr. Kashif Rafi is the Fund Manager. He is also the fund manager of MCB Cash Management Optimizer and MCB Dynamic Allocation Fund.

21 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

	2010 (Percentage)	
1	IGI Finex Securities Limited	20.73
2	Invest Capital Investment Bank Limited	19.66
3	JS Global Capital Limited	18.25
4	KASB Securities Limited	12.34
5	Global Securities Pakistan Limited	10.18
6	Invisor Securities (Private) Limited	5.02
7	Atlas Capital Markets (Private) Limited(ATLAS)	4.13
8	Al Falah Securities (Private) Limited	4.06
9	BMA Capital Management Company Limited	2.03
10	First Capital Securities Limited	1.79

	2009 (Percentage)	
1	Global Securities Pakistan Limited	13.02
2	Invest Capital Investment Bank Limited	12.05
3	Jahangir Siddiqui Capital Markets Limited	11.22
4	Akhail Capital Management (Private) Limited	9.62
5	AMZ Securities (Private) Limited	7.85
6	Invisor Securities (Private) Limited	5.65
7	FDM Capital Securities (Private) Limited	3.83
8	Pearl Securities (Private) Limited	3.69
9	Alfalsh Securities (Private) Limited	3.59
10	Foundation Securites (Private) Limited	3.28

22 PATTERN OF UNIT HOLDINGS

Category	June 30, 2010			
	Number of unit holders	Number of units held	Net asset value of the amount invested	Percentage of total investment
			Rupees '000'	
Individuals	1,682	15,891,802	1,643,521	27.53%
Associated companies / Directors	10	15,468,164	1,599,708	26.79%
Insurance companies	3	1,296,689	134,103	2.25%
Banks / DFIs	7	12,088,190	1,250,154	20.94%
NBFCs	-	-	-	0.00%
Retirement funds	51	2,868,341	296,642	4.97%
Public limited companies	5	5,901,267	610,306	10.22%
Others	29	4,214,640	435,876	7.30%
	1,787	57,729,092	5,970,309	100%

Category	June 30, 2009			
	Number of unit holders	Number of units held	Net asset value of the amount invested	Percentage of total investment
			Rupees '000'	
Individuals	1,631	12,017,740	1,239,902	13.07%
Associated companies / Directors	9	19,636,021	2,025,899	21.35%
Insurance companies	7	5,064,535	522,521	5.51%
Banks / DFIs	11	33,190,127	3,424,312	36.09%
NBFCs	1	656,322	67,714	0
Retirement funds	37	4,282,627	441,850	4.66%
Public limited companies	8	7,009,100	723,147	7.62%
Others	41	10,097,835	1,041,824	10.98%
	1,745	91,954,307	9,487,169	100%

23 ATTENDANCE OF MEETING OF BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

The 16th, 17th, 18th, and 19th Board meetings were held on July 01, 2009, October 09, 2009, February 23, 2010 and April 22, 2010 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of persons	Number of meetings held	Number of Meetings			Meetings not attended
		Attendance required	Attended	Leave granted	
1 Mr. Mian Muhammad Mansha	4	4	4	-	
2 Mr. Atif Aslam Bajwa	4	4	2	2	17th & 19th meeting
3 Mr. Ali Munir	4	4	2	2	17th & 19th meeting
4 Mr. Usman Ali Usmani	4	4	4	-	
5 Mr. Ahmed Jehangir	4	4	4	-	
6 Mr. Waliullah Shah	4	4	4	-	
7 Mr. Samir Saigol *	4	2	2	-	
8 Mr. Haroun Rashid *	4	2	2	-	
9 Mr. Yasir Qadri (Chief Executive Officer)	4	4	4	-	
10 Mr. Saqib Saleem (CFO & Company Secretary)	4	4	4	-	

* Directors appointed during the year and only two meetings of the Board were held after their appointment.

24 FINANCIAL RISK MANAGEMENT

The Fund primarily invests in a portfolio of money market investments such as investment-grade debt securities, government securities, spread transactions, continuous funding system transactions and investments in other money market instruments. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

24.1 Market risk

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

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

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

24.1.1 Currency risk

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

24.1.2 Interest rate risk

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

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing term finance certificates exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on the last repricing date of these term finance certificates, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 4.677 million (2009: Rs 7.55 million).

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2010, the Fund holds treasury bills (2008: Pakistan Investment Bonds) which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by Financial Market Association of Pakistan (FMAP) on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be lower by Rs 5.25 million (2009: Rs 7.47 million). In case of 100 basis points decrease in rates announced by FMAP on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be higher by Rs 5.29 million (2009: Rs 7.58 million).

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

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

June 30, 2010					
Yield / effective interest rate (%)	Total	Exposed to Yield/Interest rate risk			Not exposed to yield / interest risk
		Upto three months	More than three months and upto one year	More than one year	

Rupees in '000

On-balance sheet financial instruments

Financial Assets

Balances with banks	5.00 - 10.50	328,095	328,095	-	-	-
Investments						
Financial assets at fair value through profit or loss - net						
- Listed debt securities	13.14-14.75	1,333,526	1,333,526	-	-	-
- Unlisted debt securities	6.00-15.50	874,939	874,939	-	-	-
- Government securities	9.17-12.29	2,620,722	2,620,722	-	-	-
Loans and receivables						
- Term deposit receipts	12.5-12.6	830,000	830,000	-	-	-
Dividend and other receivables		73,743	-	-	-	73,743
Receivable against sale of investments		174,249	-	-	-	174,249
Security deposits		3,700	-	-	-	3,700
		6,238,974	5,987,282	-	-	251,692

Financial Liabilities

Payable to MCB Asset Management Company Limited - Management Company		7,030	-	-	-	7,030
Payable to the Central Depository Company of Pakistan Limited		551	-	-	-	551
Payable against redemption of units		15,348	-	-	-	15,348
Payable against purchase of investments		205,583	-	-	-	205,583
Accrued and other liabilities		3,916	-	-	-	3,916
		232,428	-	-	-	232,428

On-balance sheet gap

		6,006,546	5,987,282	-	-	19,264
--	--	-----------	-----------	---	---	--------

Off-balance sheet financial instruments

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

June 30, 2009

Yield / effective interest rate (%)	Total	Exposed to Yield/Interest rate risk			Not exposed to yield / interest risk
		Upto three months	More than three months and upto one year	More than one year	

Rupees in '000

On-balance sheet financial instruments

Financial Assets

Balances with banks	5.00 - 14.00	1,046,643	1,046,643	-	-	-
Receivable against Continuous Funding System (CFS) transactions	-	-	-	-	-	-
Investments						
Financial assets at fair value through profit or loss - net						
- Listed debt securities	13.65 - 16.54	1,471,446	1,471,446	-	-	-
- Unlisted debt securities	13.01 - 17.38	1,260,161	1,260,161	-	-	-
- Government securities	12.16 - 12.83	1,013,932	1,013,932	-	-	-
Loans and receivables						
- Term deposit receipts	13.1 - 15.00	4,008,000	3,508,000	500,000	-	-
- Letter of placements	13.00	375,000	375,000	-	-	-
Dividend and other receivables		339,964	125,000	-	-	214,964
Receivable against sale of investments		-	-	-	-	-
Security deposits		3,700	-	-	-	3,700
		9,518,846	8,800,182	500,000	-	218,664

Financial Liabilities

Payable to MCB Asset Management Company Limited - Management Company		7,838	-	-	-	7,838
Payable to the Central Depository Company of Pakistan Limited		866	-	-	-	866
Payable against purchase of investments		2,884	-	-	-	2,884
Accrued and other liabilities		16,213	-	-	-	16,213
		27,801	-	-	-	27,801

On-balance sheet gap

		9,491,045	8,800,182	500,000	-	190,863
--	--	-----------	-----------	---------	---	---------

Off-balance sheet financial instruments

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

24.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Fund is not exposed to equity securities price risk as the Fund does not hold any equity securities as at June 30, 2010.

24.2 Credit risk

Credit risk represents the risk of a loss if the counterparties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in term finance certificates, loans and receivables and balances with banks. The credit risk on liquid fund is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies and investment guidelines (approved by Investment Committee) require the Fund to invest in debt securities that have been rated as investment-grade by a well known rating agency.

The analysis below summarises the credit quality of the Fund's investment in term finance certificates, term deposit receipts and government securities as at June 30, 2010 and June 30, 2009:

Investments by rating category	June 30, 2010	June 30, 2009
Government Securities	46%	32%
AAA, AAA-, AAA+	0%	14%
AA, AA-, AA+	39%	37%
A, A-, A+	10%	15%
BBB, BBB+, BBB-	0.57%	1%
B, B+, B-	0%	0%
CCC	0.43%	0%
Non - performing, Unrated	4%	1%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2009 is the carrying amount of the financial assets.

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 concentration of credit risk.

24.3 Liquidity risk

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

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

The Fund has the ability to borrow in the short term to ensure settlement. During the current year, the Fund availed the maximum borrowing of Rs 466 million (2009: Rs 213 million). However, as at June 30, 2010, the Fund has no borrowing outstanding. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Funds. The facility would bear interest at commercial rates.

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

The table below analyzes 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.

June 30, 2010					
Total	Upto three months	Over three months and upto one year	Over one year		
(Rupees in '000)					
Liabilities					
Payable to MCB Asset Management Company Limited - Management Company	7,030	7,030	-	-	
Payable to the Central Depository Company of Pakistan Limited - Trustee	551	551	-	-	
Payable against redemption of units	15,348	15,348	-	-	
Payable against purchase of investments	205,583	205,583	-	-	
Accrued and other liabilities	3,916	3,916	-	-	
Total liabilities	232,428	232,428	-	-	

June 30, 2009					
Total	Upto three months	Over three months and upto one year	Over one year		
(Rupees in '000)					
Liabilities					
Payable to MCB Asset Management Company Limited - Management Company	7,838	7,838	-	-	
Payable to the Central Depository Company of Pakistan Limited - Trustee	866	866	-	-	
Payable against purchase of investments	2,884	2,884	-	-	
Accrued and other liabilities	16,213	16,213	-	-	
Total liabilities	27,801	27,801	-	-	

25 UNIT HOLDERS' FUND RISK MANAGEMENT

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

The Fund has no restrictions on the subscription and redemption of units. There is no specific capital requirement which is applicable to the fund.

The Fund's objectives when managing unit holders' funds are to safeguard its ability to continue as a going concern so that it can continue to provide returns for units holders and to maintain a strong base of assets to meet unexpected losses or opportunities.

In accordance with the risk management policies as stated in note 24, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by short-term borrowings or disposal of investments when necessary.

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradeable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book values as the items are either short term in nature or periodically repriced.

According to the amendments to International Financial Reporting Standards 7, Financial Instruments : Disclosure - Improving disclosures about financial instruments, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

	As at June 30, 2010			
	Level 1	Level 2	Level 3	Total
ASSETS	Rupees in '000			
Investments	1,333,526	3,284,718	210,943	4,829,187

27 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified wherever necessary for the purpose of comparison. The following has been reclassified and disclosed in the Income Statement.

Discount on government securities amounting to Rs 21.773 million has been reclassified from 'capital gain/(loss) on sale of investments' to 'Income from government securities'.

28 GENERAL

Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

29 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in its meetings held on July 01, 2010 has proposed a final distribution in respect of the year ended June 30, 2010 of Rs 2.4194 per unit (2009: Rs 3.1726 per unit) amounting to Rs 139.670 million (2009: Rs 291.732 million) . The financial statements for the year ended June 30, 2010 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

30 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 07, 2010 by the Board of Directors of the management company.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

Organization

Management Company

MCB Asset Management Company Limited
8th Floor, Techno City Corporate Tower,
Hasrat Mohani Road, Karachi.
T 92 21 32276900-907
F 92 21 32276908

Board of Directors

Mian Mohammad Mansha / Chairman
Ali Munir
Mohammad Usman Ali Usmani
S. Waliullah Shah
Ahmed Jahangir
Haroun Rashid
Samir Iqbal Saigol
Yasir Qadri / Chief Executive Officer

Audit Committee

Ali Munir / Chairman
S. Waliullah Shah / Member
Ahmed Jahangir / Member

Chief Financial Officer & Company Secretary

Muhammad Saqib Saleem

Trustee

Central Depository Company of Pakistan Limited
CDC House, 99-B, Block 'B', S.M.C.H.S.
Main Shara-e-Faisal Karachi-74400

Auditors

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

Legal Adviser

Bawany & Partners,
Room No. 404, 4th Floor, Beaumont Plaza
Beaumont Road, Civil Lines, Karachi.

Bankers

MCB Bank Limited
Allied Bank Limited
NIB Bank Limited
Bank Alfalah Limited
Standard Chartered Bank Limited
Faysal Bank Limited

Transfer Agent

MCB Asset Management Company Limited
8th Floor, Techno City Corporate Tower,
Hasrat Mohani Road, Karachi.
T 92 21 32276900-907
F 92 21 2276908
E info@mcbamc.com.pk
W www.mcbamc.com.pk

Directors' Report

For the MCB Dynamic Stock Fund under management of
MCB Asset Management Company Limited

The Board of Directors of MCB Asset Management Company Limited, the Management Company of MCB Dynamic Stock Fund (MCB DSF), is pleased to present the fourth Annual Report on the affairs of MCB DSF, for the year ended June 30, 2010.

MCB Asset Management Company Limited continued improving its position amongst the top asset management companies in the country where during a very short history of three and a half years, the company sailed through the most turbulent and rapidly changing economic conditions of the country. The outgoing year brought some recovery to the overall economic environment where MCB AMC managed to out-perform the industry growth. The total assets under management by MCB AMC rose to PKR 14.2 billion as on June 30, 2010 compared to PKR 10.8 billion as on June 30, 2009.

MARKET OVERVIEW

During the year under review, the benchmark KSE-30 Index posted a return of 26.2%, which could have been much higher considering 4Q FY10 return of -9% due to deteriorating political and law & order situation. The long-awaited foreign inflows from the friendly countries and other donor agencies did not materialize as expected during the period under review and hence could not rejuvenate the economy much. The equities market, on the other hand, rallied during most part of the year under review on the back of significant inflow of foreign portfolio investment as the improvement in the global markets liquidity has started to flow into emerging markets as well as frontier markets due to their relatively attractive valuations.

Except for fiscal side issues, most of the key macroeconomic indicators continued showing an improving trend during the period with external account balance improving, foreign exchange reserves building-up and YoY CPI inflation declining. Given improvement in key macro indicators, the SBP decided to relax its monetary policy stance further and hence cut its policy discount rates cumulatively by 150 bps during the year under review.

CPI inflation although remained contained during the first half of the year under review, it started to increase significantly during the second half amid rising commodities prices and fuel & electricity tariff adjustments. Economic growth also improved reasonably well during the period under review with real GDP registering a growth of 4.1% during FY10.

FUTURE OUTLOOK

Materialization of expected foreign inflows from friendly countries and donor agencies, resolution of circular debt as well as increased fiscal discipline are likely to be the key triggers for stock market performance going forward. Real economy though has been a major source of concern, initial signs of pick-up in real economy, as depicted by an improving trend in corporate earnings, are likely to improve investors' confidence going forward. However worst flooding in 80 years after heavy monsoon rain hits Pakistan and turned into a 'major humanitarian crisis' of the world. Reconstruction cost is likely to run into billions of

dollars, burdening an economy that was already fragile and vulnerable to external shocks. The flood will have serious repercussions on the economic growth, inflationary pressures and fiscal deficit. The budget deficit was already on track to touch 5.0% of GDP before the crisis and now it could widen further as a result of floods. Concerns about economic impact of floods are expected to keep a pressure on the Pakistan's capital markets; however, positive sentiments would largely be dependent on the improvement in macroeconomic indicators, which in turn, depend on the materialization of the committed aids and soft loans by friendly countries and donor agencies.

FUND PERFORMANCE

The investment objective of the fund is to provide long term capital appreciation through a research-based selection of a combination of value and growth stocks. Overall the fund maintained a balanced strategy throughout the year focusing on a mix of value and growth stocks with a major exposure in energy, banks and fertilizer sectors. The fund remained committed towards its philosophy of top-down investment approach, where macroeconomic factors play a critical role in setting the overall strategy of the fund.

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

Performance Information (%)	MCB DSF	Benchmark
Last three Months Return	0.8 %	3.4 %
Last twelve Months Return	27.3 %	26.2 %
Since Inception (March 01, 2007)	19.3 %	(32) %

Update on Provision for Workers' Welfare Funds

The amendments made through Finance Act, 2008 to the Workers' Welfare Fund (WWF) Ordinance, 1971, brought Mutual Funds in the embed of the said Ordinance. Previously, the Management Company, based on the legal advise obtained through Mutual Funds Association of Pakistan (MUFAP), was of the view that Collective Investment Schemes (CIS) were not establishments and therefore, WWF will not be applicable to such schemes and in addition to this MUFAP, on behalf of CIS also filed a Constitutional Petition in Sindh High Court challenging the applicability of WWF to the CIS. However, after the court order dispensing the filed petition, your Fund has recorded the entire liability and started accruing the provision on daily basis. As a matter of extreme importance and in the interest of unit holders many efforts were made for clarity on applicability of WWF on CIS.

As result of these efforts, Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, through their letter nos. WWF (A – II)11. (5)/2010 dated July 8, 2010 and July 15, 2010, have clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy.

As mentioned in Note 13 to the Financial Statement, on the basis of clarification letter from Ministry of Labour & Manpower, Workers' Welfare Fund, both the Auditors and MUFAP sought opinion from legal advisors resulting in conflicting views. MUFAP's counsel recommending that after clarification received from the Ministry, Mutual Funds are no longer required to record provision in respect of WWF, whereas most of the auditors have expressed a qualified opinion based on the advice from their legal counsel.

Because of ambiguity created based on conflicting opinions by lawyers and as a matter of abundant caution and prudence, the Management Company of the Fund has decided to recognize the provision for WWF in these financial statements.

Units in issue

During the year, units worth Rs. 369.817 million were issued and units with a value of Rs. 531.823 million were redeemed. As on 30 June 2010 the NAV of the Fund was Rs. 96.6847 per unit.

Income Distribution

During the year your fund earned a net income of Rs. 139.570 million out of which Rs. 125.613 million is distributed subsequent to year end (i.e. Rs. 18.6601 per unit).

Code of Corporate Governance

The Management Company of MCB DSF is committed to observe the Code of Corporate Governance prescribed for listed companies.

1. The financial statements, prepared by the Management Company present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holders' fund. Proper books of account of the Fund have been maintained.
2. Appropriate accounting policies have been consistently applied in preparation of financial statements, except as mentioned in note 2.2, and accounting estimates are based on reasonable and prudent judgment.
3. International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements.
4. The system of internal control is sound in design and has been effectively implemented and monitored.
5. There is no significant doubt upon the Fund's ability to continue as a going concern.
6. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
7. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.

8. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company.
9. In accordance with the requirements of Code of Corporate Governance, the Directors of Management Company have developed and signed the "Statement of Ethics and Business Practices".
10. Key financial data is summarized in the Fund Manager Report included in this annual Report.
11. The detailed pattern of unit holding, as required by the Companies Ordinance, 1984 and the Code of Corporate Governance is annexed.
12. Four meetings of the Board of Directors of MCB Asset Management Company Limited were held during the year under review. The attendance of all directors is appended below:

Name	Designation	Meetings		
		Total	Attended	Leave Granted
Mian Mohammad Mansha	Chairman	04	04	-
Mr. Ali Munir	Director	04	02	02
Mr. Usman Ali Usmani	Director	04	04	-
Mr. Atif Aslam Bajwa	Director	04	02	02
Mr. Ahmed Jehangir	Director	04	04	-
Mr. S. Waliullah Shah	Director	04	04	-
Mr. Samir Saigol *	Director	02	02	-
Mr. Haroon Rashid *	Director	02	02	-
Mr. Yasir Qadri	CEO	04	04	-

* Appointed during the year

13. During the year under review following trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary and their spouses and minor children, including those disclosed in note # 20 to the financial statements:

Name	Designation	Units Purchased (Including Bonus units)	Units Redeemed
Ali Munir	Director	-	-
Mr. Yasir Qadri	CEO	1,403	17,314
Mr. Muhammad Saqib Saleem	CFO / Company Secretary	3,168	3,168
Ms. Bushra Saqib	Spouse	133.2669	-

Auditors

The fund's external auditors, Messers A.F. Ferguson & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2011. The audit committee of the Board has recommended reappointment of A.F. Ferguson & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2011.

Acknowledgements

The Board takes this opportunity to thank its valued unit-holders and investors for their confidence and patronage. In addition, we would like to acknowledge the Securities and Exchange Commission of Pakistan (SECP), State Bank of Pakistan (SBP) and Central Depository Company of Pakistan (Trustee) for their continued support, guidance and cooperation. The Board also would like to take this opportunity to express its appreciation to the employees of MCB Asset Management Company for their dedication, commitment, enthusiasm and hard work for the Company.

For and on behalf of the Board

Yasir Qadri
Chief Executive Officer

Karachi: September 07, 2010

Annexure

	Number of Unit Holders	Units Held
Associated Company, undertakings and related parties		
MCB Bank Limited	1	833,874
MCB Employees Provident Fund (Pak Staff)	1	804,959
MCB Employees Pension Fund	1	616,862
D.G. Khan Cement Company Limited Employees Provident Fund Trust	1	13,629
MCB AMC Staff Provident Fund	1	6,970
Nishat Mills Limited Employees Provident Fund Trust	1	5,234
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarbas and Mutual Funds.		
	3	596,446
Director, CEO and their spouses and minor children		
Yasir Qadri	1	2,985
Executives		
	4	1,573
Trust		
	10	1,408,040
Corporate		
	3	45,082
Individuals		
	411	773,394
Others		
	1	4,316.78
Unit holding more than ten percent		
The Bank of Punjab	1	1,618,286
	440	6,731,650

Fund Manager's Report

For the MCB Dynamic Stock Fund under management of
MCB Asset Management Company Limited

Fund Type and Category

MCB Dynamic Stock Fund (MCB DSF) is an Open-End Equity Scheme, for which SECP categorization is in process.

Benchmark

The Benchmark of the Fund is KSE-30 Index.

Investment Objective

MCB Dynamic Stock Fund is an Open-end Equity Scheme and its objective is to provide long term capital appreciation.

The Fund posted a positive return during the year which is in line with the overall equities market performance, the Fund achieved its objective of long-term capital appreciation by out-performing its benchmark during the year and since inception of the fund, through diversification and active fund management.

Investment Strategy

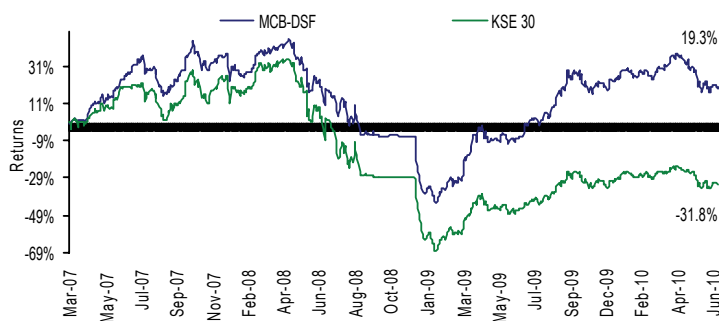
The Fund will aim to achieve the above objective by investing primarily in equities listed on the stock exchanges. From time to time, the Fund may also invest in equity related, hybrid or debt securities or short to medium term fixed income securities or other low risk assets when it has a bearish view on equity markets.

Manager's Review

During the year under review, the NAV per unit of MCB Dynamic Stock Fund has increased by 27.3% as compared to the benchmark KSE-30 Index return of 26.2%, resulting in an out performance of 1.1% by the Fund. During the major part of the year, the Fund maintained a defensive strategy by focusing on relatively insulated and high dividend yielding stocks from Oil & Gas, Electricity and Chemical sectors.

The Fund started the year with an equity allocation of 90% which was gradually enhanced and average allocation for the first half of the year was remained around 91%. The Fund's return during the first half was 32.2% against the benchmark's return of 30.1%, an out-performance of 2.1%. A sizeable growth in the local bourses was driven primarily by significant foreign inflows during the period, which was then also complemented by the local players amid improvement in some key macroeconomic indicators.

Return vs. Benchmark



Average equity allocation of the Fund during the second half was around 91% while the focus remained on defensive stocks. The Fund's return during the second half stood at -3.7% against the benchmark's return of -3.0%, an under-performance of 0.7%. Foreign investors continued to be the major buyers at the local bourses even during the second half while the local investors lately chose to stay on the sidelines until clarity on the key regulatory issue of 'Capital Gains Tax' (CGT) emerged.

Since inception, return of the Fund was 19.3% as compared to the benchmark's return of -32.0%, an out-performance of 51.3%. The Fund's Net Assets increased by 1.2% from Rs.643 Million at the beginning of the year to Rs.651 Million as on June 30, 2010. The rise in net assets of the fund is primarily attributable to positive returns of the local stock exchanges. Number of units outstanding decreased by 20% from 8.47 million at the beginning of the year to 6.73 million units as on June 30, 2010.

Market Overview and Outlook

Macro-economic indicators in developed economies continued to suggest that the recovery is slowing and that the second half of 2010 will post slower growth than the first. However, some developed economies have been showing signs of economic turnaround. Belying earlier apprehensions, Europe has demonstrated remarkable resilience in the face of the sovereign debt pressures that severely threatened the recovery a few months ago. China, after showing some signs of slowdown in the second quarter of 2010, appears to have bounced back, with industrial production and trade statistics reviving sharply.

Domestic equities market rallied mainly during the earlier part of the year under review on the back of significant inflow of foreign portfolio investment as the improvement in the global markets liquidity has started to flow into emerging markets as well as frontier markets due to their relatively attractive valuations. In addition to the global liquidity scenario, some of the key macroeconomic indicators have also shown marked improvement over the previous year, except for fiscal account. YoY CPI inflation although remained contained during the first half of the year under review with an average of 10.3%, it showed significant resurgence during the second half with an average of 13.1% and hence compelled the central bank to keep a check on its relaxed monetary stance, which was clearly visible during the initial half. The State Bank of Pakistan cumulatively cut 150 bps in its policy discount rate during the year, all of which came during the first half of the year under review.

External account position was in complete contrast to that of last couple of years with a current account deficit of US\$ 3.5 billion, only 2% of the GDP size. Improvement in the external CAD was due to lower trade deficit, higher flows under logistic support and record-high workers' remittances. Better current account position coupled with decent flows from the donor agencies kept the Forex reserves at higher level and it ended the year at record-high level of US\$ 16.8 billion.

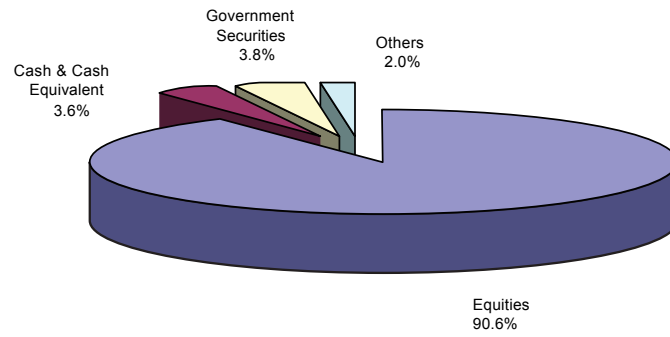
The economy took a recovery path in terms of Gross Domestic Product (GDP) and posted a real GDP growth of 4.1% during FY10 courtesy better manufacturing and services sectors performance. However fiscal imbalances continued to haunt the economic managers as they affect the overall liquidity and interest rate outlook. The fiscal issues would continue to be the critical factor for the central bank in terms of monetary policy stance.

Foreign investors have been the net buyers during most part of the year under review due to the signs of macroeconomic and political stability in the country. Continued support of the IMF and other donor agencies kept the foreigners' view positive on Pakistan's economy and capital markets. As a result, there has been a significant decline in the yield of Pakistan's Eurobonds and Credit Default Swap (CDS) during the earlier part of the year. Local investors, on the other hand, took a cautious stance especially during the second half of the year under review owing to absence of margin product, imposition of capital gains tax and gradual deterioration in some key macro indicators

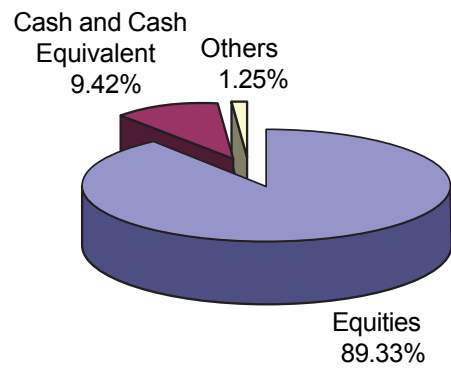
The government finally introduced the 'Capital Gain Tax' (CGT) on securities in FY11 budget with effect from July 1st 2010. The Capital Gains Tax was to be charged @ 10% on securities held for less than 6-months and @ 7.5% on securities held for period between 6-months to 12-months. Moreover, securities purchased before 30th June 2010 but coming under either of the two holding period brackets would also be charged according to their respective tax rates. The SECP has also taken steps towards the launch of a new financing product for which it lately approved the concept paper with additional risk mitigating measures. Positive news flow regarding the leverage product is expected to be the key driver for the market going forward.

Devastations caused by floods are likely to affect the country's key economic indicators adversely, including GDP growth, Inflation, fiscal and external account deficit. Considering flood-related shocks and lack of clarity on foreign inflows, the SBP is likely to maintain a cautious monetary stance going forward. Reconstruction cost is likely to run into billions of dollars, burdening an economy that was already fragile and vulnerable to external shocks. We, however, believe that the materialization of expected foreign inflows would hold the key in terms of the overall domestic liquidity and interest rate outlook.

Asset Allocation as on June 30, 2010 (% of total assets)



Asset Allocation as on June 30, 2009 (% of total assets)



Performance Table

Performance Information	2010	2009	2008	2007
Total Net Assets Value – Rs. in million	650.847	642.998	863.374	958.766
Net Assets value per unit – Rupees	96.6847	75.95	95.27	131.96
Highest offer price per unit	114.16	97.36	137.81	135.35
Lowest offer price per unit	79.41	47.88	95.54	101.83
Highest Redemption price per unit	111.31	94.92	134.37	131.96
Lowest Redemption price per unit	77.42	46.68	93.54	99.29
Distribution per unit (annual)* – Rs.	18.6601	-	-	25.00
Net Assets Value before distribution	96.6847	N/a	N/a	131.96
Net Assets Value after distribution	78.0246	N/a	N/a	106.96
Average Annual Return - %				
One year (inception date March 01, 2007)	27.3	20.28	(10.82)	31.96
Two year (inception date March 01, 2007)	(1.5)	(28.99)	17.54	N/a
Three year (inception date March 01, 2007)	19.3	(6.30)	N/a	N/a
Net Income / (loss) for the year / period – Rs. in million	139.570	(163.586)	(105.942)	232.230
Income Distribution – Rs. in million	125.613	-	-	181.634
Accumulated Capital Growth – Rs. in million	-	-	-	50.596

* The income distribution is related to the year ended June 30, 2007 and June 30, 2010, but recorded and distributed on July 07, 2007 and July 01, 2010 respectively.

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

Unit Holding by Size

<u>Units Range</u>	<u>Nos. of Unit Holders</u>	<u>Units Held</u>
1 – 10,000	414	447,491
10,001 – 100,000	16	514,108
100,001 – 1,000,000	9	4,151,764
1,000,001 – onwards	1	1,618,287
Total	440	6,731,650

Mr. Kashif Rafi
Fund Manager

Karachi: September 07, 2010

Statement of Compliance with the best practices of Code of Corporate Governance

For The Year Ended 30 June 2010

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in Chapter XI Regulation No. 35 of Listing Regulations of Lahore 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. MCB Dynamic Stock Fund is an open end mutual fund and is listed at the Lahore Stock Exchange. The Fund being a unit trust scheme does not have its own board of directors. The Board of Directors of MCB Asset Management Company Limited, the Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of non-executive directors. All the directors, except the Chief Executive Officer are non-executive directors.
2. The existing 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 NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year under review one casual vacancy occurred on the Board which was duly filled in by the appointment of another director subsequent to the year ended June 30, 2010.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices' for the Fund which has been signed by all the directors and employees of the Management Company.
6. The Management Company has developed a Vision / Mission statement, overall corporate strategy and significant policies for the Fund that have been approved by the Board. A complete record of particulars of significant policies along with the dates on which these 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 terms and conditions of employment of the Chief Executive Officer, Chief Financial Officer and the Company Secretary have been taken by the Board.
8. The related party transactions are placed before the audit committee and approved by the board of directors on a quarterly basis with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
9. The meetings of the Board were presided over by the Chairman and in his absence by the director elected by the Board 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.

10. The Directors have been provided with the copies of the NBFC (Establishment and Regulation) Rule, 2003, Non- Banking Finance Companies and Notified Entities Regulations, 2008, Companies Ordinance, 1984, Listing Regulations, Code of Corporate Governance, Prudential Regulations, Company's Memorandum and Articles of Association and all other relevant rules and regulations and hence are conversant with the relevant laws applicable to the Company and the funds and are aware of their duties and responsibilities.
11. The directors' report relating to the Fund for the year ended June 30, 2010 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 the Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The directors, CEO, and executives do not hold any interest in the units of the Fund other than those disclosed in the note 20 to financial statements.
14. The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee.
16. The meetings of the Audit Committee were held once in every quarter and prior to the approval of interim and final results of the Fund and as required by the Code. The terms of reference of Audit Committee have been approved in the meeting of the Board of Directors and the Committee has been advised to ensure compliance with those terms of reference.
17. The Management Company has outsourced the internal audit function of the Company to M/s Ford Rhodes Sidat Hyder & Co. Chartered Accountants, Karachi, for the period from April 01, 2010 to June 30, 2010, who are considered suitably qualified and experienced for the purpose and well conversant with the policies and procedures of the Fund. For the period July 01, 2009 to March 31, 2010, the management company had its own internal audit function of the fund, which has suitably qualified and experienced people for the purpose and well conversant with the policies and procedure of the fund.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Management Company or units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

Yasir Qadri
Chief Executive Officer
Karachi: September 07, 2010

Review report to the unit holders on the statement of compliance with the best practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of MCB Asset Management Company Limited (the Management Company) of **MCB Dynamic Stock Fund** (the Fund) to comply with the Listing Regulation No. 35 (Chapter XI) of the Lahore Stock Exchange where the Fund is listed.

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

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

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

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

A.F.Ferguson & Co.
Chartered Accountants
Karachi
Dated: September 07, 2010

Trustee Report to the unit holders

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

The MCB Dynamic Stock Fund (the Fund), an open-end fund was established under a trust deed dated November 10, 2006, executed between MCB Asset Management Company Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

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

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

Muhammad Hanif Jakhura

Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: October 21, 2010

Independent auditors' report to the unit holders

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

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

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

Opinion

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

Other matters

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

A. F. Ferguson & Co.
Chartered Accountants
Engagement Partner: Salman Hussain
Karachi
Dated: September 07, 2010

>> FINANCIAL STATEMENT

MCB DYNAMIC STOCK FUND STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2010

	Note	2010 (Rupees in '000)	2009
ASSETS			
Bank balances	4	23,858	61,104
Investments	5	619,813	579,272
Dividend and other receivables	6	2,006	2,688
Receivable against sale of investments		6,784	-
Security deposits and prepayments	7	3,700	3,722
Preliminary expenses and floatation costs	8	1,060	1,698
Total assets		657,221	648,484
LIABILITIES			
Payable to the Management Company	9	1,668	2,066
Payable to the Trustee	10	116	107
Annual fee payable to the Securities and Exchange Commission of Pakistan	11	678	578
Payable against purchase of investments		-	1,811
Accrued and other liabilities	12	3,912	924
Total liabilities		6,374	5,486
NET ASSETS		650,847	642,998
Unit holders' fund (as per statement attached)		650,847	642,998
CONTINGENCIES AND COMMITMENTS			
	13		
		(Number of units)	
NUMBER OF UNITS IN ISSUE		6,731,650	8,465,983
		(Rupees)	
NET ASSET VALUE PER UNIT	3.8	96.68	75.95

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC STOCK FUND INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 (Rupees in '000)	2009
INCOME			
Capital gain / (loss) on sale of investments		206,930	(208,682)
Income from government securities		344	-
Dividend income		36,770	27,337
Profit on Pakistan Investment Bond		-	8
Profit on bank deposits and term deposit receipts	15	5,118	11,885
		249,162	(169,452)
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'		(36,824)	20,739
		212,338	(148,713)
EXPENSES			
Remuneration of the Management Company		18,065	10,874
Remuneration of the Trustee		1,427	1,189
Annual fee - Securities and Exchange Commission of Pakistan		678	578
Brokerage, capital value tax and settlement charges		7,555	4,091
Amortisation of preliminary expenses and floatation costs	8	638	638
Auditors' remuneration	16	570	447
Bank charges		47	4
Other expenses		654	781
		29,634	18,602
Net income / (loss) from operating activities		182,704	(167,315)
Element of (loss) / income and capital (losses) / gains included in the prices of units issued less those in units redeemed		(40,285)	3,729
Provision for Workers' Welfare Fund	18	(2,849)	-
Net income / (loss) for the year before taxation		139,570	(163,586)
Taxation	19	-	-
Net income / (loss) for the year after taxation		139,570	(163,586)
Other comprehensive income for the year		-	-
Total comprehensive income / (loss) for the year		139,570	(163,586)
Earning per unit	3.12		

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC STOCK FUND DISTRIBUTION STATEMENT

FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	(Rupees in '000)	
Accumulated loss brought forward		
Realised (loss) / income	(215,315)	8,378
Unrealised income / (loss)	11,707	(51,219)
	(203,608)	(42,841)
Element of income and capital gains included in the prices of units issued less those in units redeemed - amount that forms part of the unit holders' fund	41,711	2,819
Net income / (loss) for the year after taxation	139,570	(163,586)
Accumulated (loss) carried forward	(22,327)	(203,608)
Accumulated loss comprising:		
Realised income / (loss)	18,786	(215,315)
Unrealised (loss) / income	(41,113)	11,707
	(22,327)	(203,608)

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC STOCK FUND STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND

FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	(Rupees in '000)	
Net assets at the beginning of the year	642,998	863,373
Issue of 3,625,401 units (2009: 4,009,294 units)	359,817	290,100
Redemption of 5,359,734 units (2009: 4,605,368 units)	(531,823)	(343,160)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(172,006)	(53,060)
- amount representing (income) / loss and capital (gains) / losses - transferred to income statement	40,285	(3,729)
- amount representing income that form part of unit holders' fund - transferred to distribution statement	(41,711)	(2,819)
	(1,426)	(6,548)
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing unrealised income	41,711	2,819
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	(36,824)	20,739
Capital gain / (loss)	206,930	(208,682)
Other operating (loss) / income	(30,536)	24,357
Net income / (loss) for the year	139,570	(163,586)
Net assets as at the end of the year	650,847	642,998

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC STOCK FUND CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2010

Note	2010 (Rupees in '000)	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss) for the year before taxation	139,570	(163,586)
Adjustments for non-cash charges and other items:		
Capital (gain) / loss on sale of investments	(206,930)	208,682
Income from government securities	(344)	-
Dividend income	(36,770)	(27,337)
Net unrealised (appreciation) / diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	36,824	(20,739)
Amortisation of preliminary expenses and floatation costs	638	638
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed	40,285	(3,729)
	(26,727)	(6,071)
(Increase) / decrease in assets		
Investments - net	145,964	(283,345)
Profit receivable	(81)	1,022
Security deposits and prepayments	22	(110)
	145,905	(282,433)
Increase / (decrease) in liabilities		
Payable to the Management Company	(398)	(469)
Payable to the Trustee	9	(48)
Annual fee payable to the Securities and Exchange Commission of Pakistan	100	(406)
Payable against redemption of units	-	(352)
Accrued and other liabilities	2,988	(155)
	2,699	(1,430)
Dividend received	121,877	(289,934)
Net cash inflow / (outflow) from operating activities	37,533	29,579
	159,410	(260,355)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipt from issue of units	359,817	290,100
Net payments on redemption of units	(531,823)	(343,160)
Net cash outflow on financing activities	(172,006)	(53,060)
Net (decrease) in cash and cash equivalents during the year	(12,596)	(313,415)
Cash and cash equivalents at the beginning of the year	61,104	374,519
Cash and cash equivalents at the end of the year	48,508	61,104

17

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC STOCK FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

1 LEGAL STATUS AND NATURE OF BUSINESS

MCB Dynamic Stock Fund (The Fund) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and was approved as an investment scheme by the Securities and Exchange Commission of Pakistan (SECP) on December 12, 2006. It was constituted under a Trust Deed dated November 10, 2006 amended by a Supplemental Trust Deed dated January 21, 2007 between MCB Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited as the Trustee, also incorporated under the Companies Ordinance, 1984.

The Management Company of the Fund has been licensed to act as Asset Management Company under the NBFC Rules 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.

The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units of the Fund can be transferred to / from the funds managed by the management company and can also be redeemed by surrendering to the Fund. The units are listed on the Lahore Stock Exchange.

The principal activity of the Fund is to make investments in securities listed on the stock exchanges. The Fund is an equity fund and its objective is to provide long term capital appreciation.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of AM2- "positive outlook" to the Management Company and a rating of '4-Star-normal' to the Fund.

2 BASIS OF PREPARATION

2.1 Statement Of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of 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) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.2 Changes in accounting policies and disclosures arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year

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

The Fund has applied IAS 1 (revised) from July 1, 2009, and has elected to present one performance statement. As a result non-owner changes in equity which were previously credited directly in the statement of movement in unit holders' fund are now shown as other comprehensive income in the performance statement (referred to as income statement in these financial statements). The change in the presentation has not affected the values of the net assets of the Fund for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented. The adoption of this standard has only resulted in increase in certain disclosures.

- b) IFRS 7 (amendment) 'Financial instruments: Disclosures'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment has resulted in certain additional disclosures but does not have an impact on the Fund's financial position or performance.

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

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

- a) IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation'. The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. Keeping in view the requirements set out in the Non-Banking Finance Companies and Notified Entities Regulations, 2008 the adoption of this amendment did not impact the classification of units in the financial statements of the Fund.
- b) IAS 39 (amendment), 'Financial instruments: Recognition and measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of the amendment did not have a significant impact on the Fund's financial statements.

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

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

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

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

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

2.5 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. The estimates, judgments and associated assumptions are based on the management's experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgement was exercised in application of accounting policies principally relate to classification and valuation of financial assets (note 3.1).

2.6 Accounting Convention

These financial statements have been prepared under the historical cost convention except for investments classified as 'financial asset at fair value through profit or loss' which are carried at fair value.

2.7 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the functional and presentation currency of the Fund.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below:

3.1 Financial assets

3.1.1 Classification

The Fund classifies its financial assets in the following categories: (a) at fair value through profit or loss and (b) loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading in the 'Financial assets at fair value through profit or loss' category.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

3.1.2 Regular way contracts

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

3.1.3 Initial recognition and measurement

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

3.1.4 Subsequent measurement

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

a) Basis of valuation of government securities

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

b) Basis of valuation of equity securities

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

Net gains and losses arising on changes in the fair value of financial assets carried at fair value through profit or loss are taken to the Income Statement.

Subsequent to initial recognition financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method.

3.1.5 Impairment

The Fund assesses at each balance sheet date whether there is objective evidence that the financial asset or a group of financial assets is impaired. If any such indication exists, the recoverable amount of such asset or group of assets is estimated and impairment losses are recognised in the income statement.

3.1.6 Derecognition

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

3.1.7 Offsetting of financial assets and liabilities

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

3.2 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances and short term highly liquid investments with original maturities of three months or less.

3.3 Derivatives

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured at its fair value. Derivatives with positive market value (unrealised gain) are included in other assets and derivatives with negative market value (unrealised loss) are included in other liabilities. The resultant gains and losses are included in the income statement.

3.4 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

3.5 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from March 1, 2007, as per the requirements of the Trust Deed of the Fund.

3.6 Provisions

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

3.7 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the second schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders. Accordingly, no tax liability has been recorded for the current year.

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

3.8 Net asset value per unit

The net asset value per unit disclosed on the statement of assets and liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the end of the year.

3.9 Issue and redemption of units

Units issued are recorded at the offer price of the day on which funds are received in the Trustee bank accounts during business hours. The offer price represents the net asset value per unit as of the close of the business day on which funds are received plus the allowable sales load.

Units redeemed are recorded at the redemption price announced as of the close of the business day on which a correctly filled in redemption form is submitted within business hours. The redemption price represents the net asset value per unit as of the close of the business day.

3.10 Proposed distributions

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

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

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

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

3.12 EARNING PER UNIT

Earning per unit has not been disclosed as in the opinion of the management determination of cumulative weighted average number of outstanding units for calculating earning per unit is not practicable.

3.13 Revenue recognition

- Dividend income on equity securities is recognised when the right to receive dividend is established.
- Gains or losses on sale of securities and unrealised gains or losses arising on revaluation of securities classified as 'Financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.
- Profit on bank deposits and term deposit receipts is recognised on an accrual basis.

4	BANK BALANCES	Note	2010	2009
			(Rupees in '000)	
	In current accounts		41	41
	In saving accounts	4.1	<u>23,817</u>	<u>61,063</u>
			<u>23,858</u>	<u>61,104</u>

4.1 These carry mark-up at rates ranging between 5% to 10.5% per annum (2009: 5% to 6.5% per annum)

5	INVESTMENTS	Note	2010	2009
			(Rupees in '000)	
	Financial assets at fair value through profit or loss - 'held for trading'			
	Listed equity securities	5.1	595,163	579,272
	Government securities	5.2	<u>24,650</u>	<u>-</u>
			<u>619,813</u>	<u>579,272</u>

	2010	2009
	(Rupees in '000)	
20.4 Details of the transactions with the connected persons during the year are as follows:		
Adamjee insurance Company Limited		
Dividend income received	289	-
Hub Power Company Limited		
Dividend income received	4,820	4,390
The Bank of Punjab		
Redemption of units: 189,353 (2009: Nil)	18,219	-
MCB Asset Management Company Limited		
Remuneration of the Management Company	18,065	10,874
Sales load	10	357
Preliminary expenses and floatation costs	638	638
MCB Asset Management Company Limited Staff provident fund		
Issue of units: 3,830 (2009: Nil)	400	-
MCB Bank Limited		
Mark-up received	1,320	9,216
Dividend income received	1,398	1,015
Redemption of units: 2,200,000 (2009: Nil)	225,259	-
Sales load	569	1,231
Nishat Mills Limited		
Dividend income received	1,000	1,788
Central Depository Company of Pakistan Limited		
Remuneration of the Trustee for the year	1,427	1,189
CDC settlement charges	129	95
Key management personnel		
Issue of 14,237 units (2009: 57,898 units)	1,396	4,112
Redemption of 36,914 units (2009: 37,109 units)	3,246	2,701
20.5 Amount outstanding as at the year end		
MCB Asset Management Company Limited		
Management fee payable	1,668	771
Sales load payable	-	1
MCB Bank Limited		
Bank balances	17,615	42,995
Profit receivable on bank balances	211	298
833,874 units held (2009: 3,033,874 units)	80,623	230,425
150,867 shares held by the Fund as at June 30, 2010 (2009: 297,040 shares)	29,297	46,050
Sales load payable	15	1,231
Adamjee insurance Company Limited		
Shares held by the Fund as at June 30, 2010: Nil (2009: 35,000 shares)	-	2,940
Hub Power Company Limited		
Shares held by the Fund as at June 30, 2010: 2,017,265 (2009: 2,328,703 shares)	64,472	63,085
D. G. Khan Cement Company Limited		
Shares held by the Fund as at June 30, 2010: 125,000 (2009: Nil)	2,952	-
D. G. Khan Cement Company Limited Employees Provident Fund Trust		
13,629 units held (2009: 13,629 units)	1,318	1,035
The Bank of Punjab		
1,618,287 units held (2009: 1,807,640 units)	156,463	137,392
Nishat Mills Limited		
Shares held by the Fund as at June 30, 2010: 565,757 (2009: 133,150 shares)	24,395	5,035
Nishat Mills Limited Employees Provident Fund		
5,234 units held (2009: 5,234 units)	506	398

16	AUDITORS' REMUNERATION	Note	2010	2009
			(Rupees in '000)	
	Audit fee		250	200
	Half yearly review fee		175	125
	Other certification		100	100
	Out of pocket expenses		45	22
			570	447
17	CASH AND CASH EQUIVALENTS			
	Bank balances	4	23,858	61,104
	Treasury bill	5.2	24,650	-
			48,508	61,104

18 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund (WWF) Ordinance, 1971, whereby the definition of "industrial establishment" was amended to include therein, any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 (Ordinance of 1969) applies. Management Company of the Fund, based on a legal advice obtained through Mutual Funds Association of Pakistan (MUFAP) was of a firm view that Collective Investment Scheme (CIS) were not establishments and therefore, the WWF Ordinance should not be applicable to such schemes. The MUFAP had also filed a constitutional petition in the High Court of Sindh (the Court) on behalf of the members, challenging the applicability of WWF to the CIS. The said petition was dismissed by the Court vide its order dated May 25, 2010 on the main ground that the MUFAP (Petitioner) could not be held entitled to maintain a petition in respect of its members as it was not the aggrieved party. The Judgment recognises that the Trusts are covered by the scope of the definition of commercial establishment as contained in Ordinance of 1969 and, therefore, mutual funds and other funds appear to be covered unless it can be established that they fall within the scope of exemption set out in Section 5 (1)(iii) of the Ordinance of 1969 i.e. the Trusts not run for profit or in the course of business does not make any profit This could be examined when the aggrieved parties directly approached the Court for redressal.

In the meantime, clarification has been obtained by the MUFAP from the Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, which, through their letter nos. WWF (A – II)11.(5)/2010 dated July 8, 2010 and July 15, 2010, has clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy.

Various legal opinions are available on this matter. Some legal advisors are of the view that this levy is not applicable on CIS and therefore provision is not required to be created while there is also a contrary view according to which this levy has become applicable on the fund and the letter issued by the Ministry of Labour & Manpower, Government of Pakistan has no legal significance.

Because of ambiguity created based on conflicting opinions by lawyers and as a matter of abundant caution the Management Company of the Fund has decided to recognize a provision for WWF in these financial statements.

19 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded any tax liability in respect of income relating to the current year as the management company intends to distribute at least 90 percent of the Fund's accounting income for the year as reduced by capital gains (whether realised or unrealised) to its unit holders.

20 TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES

- 20.1** Connected persons of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, the Trustee, directors and key management personnel of the management company and other associated undertakings.
- 20.2** The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 20.3** 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.

12 ACCRUED AND OTHER LIABILITIES	2010	2009
	(Rupees in '000)	
Auditors' remuneration	350	250
Brokerage payable	258	192
Dividend payable	41	41
Provision for Workers' Welfare Fund	2,849	-
Others	414	441
	3,912	924

13 CONTINGENCIES AND COMMITMENTS

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

14 FINANCIAL INSTRUMENTS BY CATEGORY

	2010	
	Loans and receivables	Assets at fair value through profit or loss
	Rupees in '000	
Assets		
Bank balances	23,858	-
Investments	-	619,813
Dividend and other receivables	2,006	-
Receivable against sale of investments	6,784	-
Security deposits	3,700	-
	36,348	619,813

	2010	
	Liabilities at fair value through profit or loss	Other financial liabilities
	Rupees in '000	
Liabilities		
Payable to MCB Asset Management Company Limited - Management Company	-	1,668
Payable to Central Depository Company of Pakistan Limited	-	116
Accrued and other liabilities	-	1,063
	-	2,847

	2009	
	Loans and receivables	Assets at fair value through profit or loss
	Rupees in '000	
Assets		
Bank balances	61,104	-
Investments	-	579,272
Dividend and other receivables	2,688	-
Security deposits	3,700	-
	67,492	579,272

	2009	
	Liabilities at fair value through profit or loss	Other financial liabilities
	Rupees in '000	
Liabilities		
Payable to MCB Asset Management Company Limited - Management Company	-	2,066
Payable to Central Depository Company of Pakistan Limited	-	107
Payable against purchase of investments	-	1,811
Accrued and other liabilities	-	924
	-	4,908

15 PROFIT ON BANK DEPOSITS AND TERM DEPOSIT RECEIPTS	Note	2010	2009
		(Rupees in '000)	
Profit on saving deposits		5,118	10,745
Profit on term deposit receipts		-	1,140
		5,118	11,885

	2010	2009
	(Rupees in '000)	
6 DIVIDEND AND OTHER RECEIVABLES		
Dividend receivable	1,627	2,390
Income accrued on saving deposits	379	298
	2,006	2,688

7 SECURITY DEPOSITS AND PREPAYMENTS		
Security deposits with		
- National Clearing Company of Pakistan Limited	3,500	3,500
- Central Depository Company of Pakistan Limited	200	200
Prepaid CDC Eligibility Fee	-	22
	3,700	3,722

8 PRELIMINARY EXPENSES AND FLOATION COSTS		
Opening balance	1,698	2,336
Less: amortisation during the year	638	638
Closing balance	1,060	1,698

8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. This expenditure is being amortised over a period of five years commencing from March 1, 2007.

		2010	2009
	Note	(Rupees in '000)	
9 PAYABLE TO THE MANAGEMENT COMPANY			
Management fee	9.1	1,668	771
Sales load	9.2	-	1,295
		1,668	2,066

9.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. In the current year, the Management Company has charged remuneration at a rate of 1.5 percent from July 1, 2009 to October 15, 2009 and at a rate of 3 percent from October 16, 2009 to June 30, 2010 (2009: 3 percent from July 1, 2008 to August 31, 2008 and at a rate of 1.5 percent from September 1, 2008 to June 30, 2009) of the average annual net assets of the Fund.

9.2 Sales load payable comprises of Rs Nil (2009: 1 thousand) payable to the Management Company and Rs Nil (2009: Rs 1,294 thousand) payable to distribution agents of the Fund.

		2010	2009
	Note	(Rupees in '000)	
10 PAYABLE TO THE TRUSTEE			
Trustee fee	10.1	111	103
CDC settlement charges		5	4
		116	107

10.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed and Offering Document as per the tariff specified therein, based on the daily net asset value of the Fund.

As per the Trust Deed and Offering Document, the tariff structure applicable to the Fund in respect of the trustee fee for the year ended June 30, 2010 is as follows:

Amount of funds under management (average NAV)	Tariff per annum
Upto Rs 1,000 million	Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher
On an amount exceeding Rs 1,000 million	Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million

The remuneration is paid to the Trustee monthly in arrears.

11 ANNUAL FEE PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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

Name of investee company	Number of shares					Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment	Percentage of paid up capital of investee company held
	As at July 1, 2009	Purchased during the year	Bonus / right shares	Disposed of during the year	As at June 30, 2010	Cost	Market value	Appreciation / (diminution)			

————(Rupees in'000')————

Non life insurance

Adamjee Insurance Company Limited	35,000	723,377	6,500	764,877	-	-	-	-	-	-	-
IGI Insurance Limited	-	24,319	-	24,319	-	-	-	-	-	-	-
						-	-	-	-	-	-

Oil and Gas

Attock Refinery Limited	-	220,000	-	220,000	-	-	-	-	-	-	-
National Refinery Limited	-	63,343	-	63,343	-	-	-	-	-	-	-
Mari Gas Company Limited	-	70,798	-	-	70,798	11,234	9,160	(2,074)	1.41	1.48	0.10%
Attock Petroleum Limited	103,900	262,231	-	199,424	166,707	58,365	48,303	(10,062)	7.42	7.79	0.29%
Oil & Gas Development Company Limited	759,600	1,111,771	-	1,755,738	115,633	15,063	16,384	1,321	2.52	2.64	0.00%
Pakistan Oilfields Limited	392,140	704,073	-	825,375	270,838	61,772	58,474	(3,298)	8.98	9.43	0.11%
Pakistan Petroleum Limited	143,202	715,319	46,565	564,885	340,201	62,312	62,638	326	9.62	10.11	0.03%
Pakistan State Oil Company Limited	54,800	619,885	-	534,460	140,225	41,420	36,486	(4,934)	5.61	5.89	0.08%
						250,166	231,445	(18,721)	35.56	37.34	

Personal goods

Amtex Limited	-	300,000	-	300,000	-	-	-	-	-	-	-
Service Industries Limited	-	15,100	-	-	15,100	4,530	3,420	(1,110)	0.53	0.55	0.13%
Nishat (Chunian) Limited	-	1,100,000	-	1,100,000	-	-	-	-	-	-	-
Nishat Mills Limited	133,150	1,491,614	361,641	1,420,648	565,757	31,707	24,395	(7,312)	3.75	3.94	0.16%
						36,237	27,815	(8,422)	4.28	4.49	

Tobacco

Pakistan Tobacco Company Limited	231,700	17,093	-	129,984	118,809	9,007	12,357	3,350	1.90	1.99	0.05%
						9,007	12,357	3,350	1.90	1.99	

Industrial Transportation

Pakistan International Container Terminal Limited	-	20,926	-	20,926	-	-	-	-	-	-	-
						-	-	-	-	-	-

Total - 2010

631,958 595,163 (36,795) 91.44 96.02

Total - 2009

558,533 579,272 20,739 90.08 100.00

* The face value of shares held of Thal limited is Rs. 5/-

5.1.1 Investments include shares with market value aggregating to Rs 43.498 million that have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of Fund's trades in terms of Circular no. 11 dated October 23, 2007 issued by SECP.

5.2 Investment in government securities

Name of security	Face Value					Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2009	Purchased during the year	Disposed of during the year	Matured during the year	As at June 30, 2010	Carrying value	Market value	Appreciation / (diminution)		

————(Rupees in'000')————

Treasury Bill - 3 months	-	25,000,000	-	-	25,000,000	24,679	24,650	(29)	3.79	3.98
Total - 2010						24,679	24,650	(29)	3.79	3.98
Total - 2009						-	-	-	-	-

5.1 Financial assets at fair value through profit or loss - held for trading

Listed equity securities

Name of investee company	Number of shares					Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment	Percentage of paid up capital of investee company held
	As at July 1, 2009	Purchased during the year	Bonus / right shares	Disposed of during the year	As at June 30, 2010	Cost	Market value	Appreciation / (diminution)			

(Rupees in'000')

Unless stated otherwise, the holdings are in ordinary shares of Rs. 10 each.

Auto Mobile & Parts

Agriauto Industries Limited	-	227,600	-	-	227,600	14,173	15,704	1,531	2.41	2.53	1.58%
Atlas Battery Limited	-	13,350	-	13,350	-	-	-	-	-	-	-
Indus Motor Company Limited	-	197,129	-	145,853	51,276	12,306	13,454	1,148	2.07	2.17	0.07%
						<u>26,479</u>	<u>29,158</u>	<u>2,679</u>	<u>4.48</u>	<u>4.70</u>	

Banks

Allied Bank Limited	-	368,841	-	368,841	-	-	-	-	-	-	-
Arif Habib Bank Limited	-	323,537	-	323,537	-	-	-	-	-	-	-
Askari Bank Limited	-	568,182	113,636	681,818	-	-	-	-	-	-	-
Bank Alfalah Limited	1,495,850	2,810,000	-	3,898,943	406,907	5,136	3,849	(1,287)	0.59	0.62	0.03%
Bank Al Habib Limited	-	99,000	-	9,000	90,000	2,893	2,835	(58)	0.44	0.45	0.01%
Faysal Bank Limited	-	300,000	-	300,000	-	-	-	-	-	-	-
Habib Bank Limited	14,400	276,974	86	154,307	137,153	15,051	13,338	(1,713)	2.05	2.15	0.01%
MCB Bank Limited	297,040	643,454	8,731	798,358	150,867	29,949	29,297	(652)	4.50	4.73	0.02%
Meezan Bank Limited	-	150,000	-	125,000	25,000	430	364	(66)	0.06	0.06	0.00%
National Bank of Pakistan	281,560	1,513,020	6,250	1,660,460	140,370	9,854	8,998	(856)	1.38	1.45	0.01%
The Bank of Punjab	-	50,000	-	50,000	-	-	-	-	-	-	-
United Bank Limited	444,000	1,157,260	41,300	1,110,246	532,314	27,143	28,857	1,714	4.43	4.66	0.04%
						<u>90,456</u>	<u>87,538</u>	<u>(2,918)</u>	<u>13.45</u>	<u>14.12</u>	

Chemicals

Engro Corporation Limited	379,685	1,034,330	19,104	1,203,814	229,305	41,148	39,803	(1,345)	6.12	6.42	0.07%
Fatima Fertilizers Limited	-	5,581	-	5,581	-	-	-	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	350,000	2,858,053	-	2,502,150	705,903	21,893	18,382	(3,511)	2.82	2.97	0.08%
Fauji Fertilizer Company Limited	666,462	458,235	-	795,526	329,171	32,226	33,928	1,702	5.21	5.47	0.05%
ICI Pakistan Limited	-	52,200	-	52,200	-	-	-	-	-	-	-
Lotte Pakistan PTA	-	100,000	-	100,000	-	-	-	-	-	-	-
						<u>95,267</u>	<u>92,113</u>	<u>(3,154)</u>	<u>14.15</u>	<u>14.86</u>	

Construction & Materials

Attock Cement Pakistan Limited	336,700	19,100	-	355,800	-	-	-	-	-	-	-
Dera Ghazi Khan Cement Limited	-	875,736	-	750,736	125,000	3,142	2,952	(190)	0.45	0.48	0.03%
Lucky Cement Limited	293,500	1,782,262	-	1,926,310	149,452	11,161	9,287	(1,874)	1.43	1.50	0.05%
						<u>14,303</u>	<u>12,239</u>	<u>(2,064)</u>	<u>1.88</u>	<u>1.98</u>	

Electricity

HUB Power Company Limited	2,328,703	3,248,086	-	3,559,524	2,017,265	69,659	64,472	(5,187)	9.91	10.40	0.17%
Kot Addu Power Company Limited	840,000	344,597	-	1,121,632	62,965	2,674	2,628	(46)	0.40	0.42	0.01%
Nishat Power Limited	-	1,059,006	-	394,738	664,268	6,824	6,603	(221)	1.01	1.07	0.19%
						<u>79,157</u>	<u>73,703</u>	<u>(5,454)</u>	<u>11.32</u>	<u>11.89</u>	

Fixed Line Telecommunication

Pakistan Telecommunication Company Limited	827,900	3,653,750	-	3,906,885	574,765	11,344	10,231	(1,113)	1.57	1.65	0.02%
						<u>11,344</u>	<u>10,231</u>	<u>(1,113)</u>	<u>1.57</u>	<u>1.65</u>	

General Industries

Packages Limited	-	151,952	-	151,952	-	-	-	-	-	-	-
Tri-Pack Films Limited	-	53,275	-	53,275	-	-	-	-	-	-	-
Thal Limited *	-	183,567	11,964	-	195,531	19,542	18,564	(978)	2.85	3.00	0.76%
						<u>19,542</u>	<u>18,564</u>	<u>(978)</u>	<u>2.85</u>	<u>3.00</u>	

	2010	2009
	(Rupees in '000)	
MCB Asset Management Company Limited Staff Provident Fund 6,969 units held (2009: 3,139 units)	674	238
MCB Employees Provident Fund 804,959 units held (2009: 804,959 units)	77,827	61,137
MCB Employees Pension Fund 616,862 units held (2009: 616,862 units)	59,641	46,851
Central Depository Company of Pakistan Limited		
Trustee fee payable	111	103
CDC settlement charges payable	5	4
Security deposit	200	200
Key management personnel 4,558 units held (2009: 27,235 units)	441	2,068

21 PARTICULARS OF THE INVESTMENT COMMITTEE AND THE FUND MANAGER

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

		2010		
		Designation	Experience in years	Qualification
1	Mr. Yasir Qadri	Chief Executive	15	MBA
2	Mr. Kashif Rafi	Fund Manager - Fixed Income	9	MBA & CFA level I
3	Mr. Muhammad Asim	Fund Manager - Equity Funds	7	MBA & CFA
4	Mr. Shahab Farooq	Head of research	8	MBA
5	Mr. Syed Akbar Ali	Senior Research Analyst	5	MBA & CFA level II

21.2 Muhammad Asim is the Fund Manager. He is also managing MCB Dynamic Allocation Fund and MCB Sarmaya Mehfooz Fund 1.

22 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

		2010 (Percentage)
1	Invest & Finance Securities (Pvt) Limited	11.40
2	Fortune Securities Limited	10.96
3	Foundation Securities Limited	10.39
4	Elixir Securities Pakistan (Pvt) Limited	9.50
5	Invisor Securities (Pvt) Limited	8.43
6	JS Global Securities Limited	7.09
7	KASB Securities Limited	6.59
8	Invest Capital and Securities (Pvt) Limited	5.48
9	Arif Habib Securities Limited	4.70
10	Pearl Securities (Pvt) Limited	3.15
		2009 (Percentage)
1	Invest & Finance Securities (Pvt) Limited	15.20
2	Foundation Securities Limited	12.21
3	Invisor Securities (Pvt) Limited	9.91
4	Fortune Securities Limited	9.39
5	JS Capital Markets Limited	8.42
6	Invest Capital & Securities (Pvt) Ltd	7.17
7	Elixir Securities Pakistan (Pvt) Limited	5.57
8	KASB Securities (Pvt) Limited	5.23
9	Arif Habib Securities Limited	4.09
10	Al-Habib Capital Market Securities (Pvt) Limited	3.32

23 PATTERN OF UNIT HOLDING

June 30, 2010				
Category	Number of unit holders	Number of units held	Net Assets value of the amount invested	Percentage of investment
(Rupees in '000)				
Individuals	416	777,951	75,216	11.56
Associated companies / Directors	6	2,281,527	220,589	33.90
Insurance companies	-	-	-	-
Banks / DFIs	2	1,867,634	180,571	27.74
NBFCs	-	-	-	-
Retirement funds	9	1,386,874	134,089	20.60
Public limited companies	-	-	-	-
Others	7	417,664	40,382	6.20
	440	6,731,650	650,847	100.00

June 30, 2009				
Category	Number of unit holders	Number of units held	Net Assets value of the amount invested	Percentage of total investment
(Rupees in '000)				
Individuals	581	1,132,621	86,023	13.38
Associated companies / Directors	7	4,496,592	341,519	53.11
Insurance companies	-	-	-	-
Banks / DFIs	2	2,056,987	156,230	24.30
NBFCs	1	595,581	45,235	7.03
Retirement funds	6	115,029	8,737	1.36
Public limited companies	-	-	-	-
Others	5	69,173	5,254	0.82
	602	8,465,983	642,998	100.00

24 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 16th, 17th, 18th, and 19th Board meetings were held on July 01, 2009, October 09, 2009, February 23, 2010 and April 22, 2010 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of persons attending the meetings	No. of meetings held	Number of Meetings			Meeting not attended
		Attendance required	Attended	Leave granted	
1 Mr. Mian Muhammad Mansha	4	4	4	-	-
2 Mr. Atif Aslam Bajwa	4	4	2	2	17th & 19th meetings
3 Mr. Ali Munir	4	4	2	2	17th & 19th meetings
4 Mr. Usman Ali Usmani	4	4	4	-	-
5 Mr. Ahmed Jehangir	4	4	4	-	-
6 Mr. Waliullah Shah	4	4	4	-	-
7 Mr. Samir Saigol *	4	2	2	-	-
8 Mr. Haroun Rashid *	4	2	2	-	-
9 Mr. Yasir Qadri (Chief Executive Officer)	4	4	4	-	-
10 Mr. Saqib Saleem (CFO & Company Secretary)	4	4	4	-	-

* Directors appointed during the year and only two meetings of the Board were held after their appointment

25 FINANCIAL RISK MANAGEMENT

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

25.1 Market risk

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

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

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

25.1.1 Currency risk

Currency risk is the risk that the fair value or future cashflows 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.

25.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Fund has no significant interest-bearing assets, the Fund's income and operating cash flows are substantially independent of changes in market interest rates.

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

June 30 , 2010						
Yield / effective interest rate	Total	Exposed to interest rate risk			Not exposed to interest rate risk	
		Upto three months	More than three months and upto one year	More than one year		
%	(Rupees in '000)					
On-balance sheet financial instruments						
Financial assets						
Bank balances	5 to 10.5	23,858	23,817	-	-	41
Investments						
- Listed equity securities		595,163	-	-	-	595,163
- Government securities	12.05	24,650	24,650	-	-	-
Receivable against sale of investments		6,784	-	-	-	6,784
Dividend and other receivables		2,006	-	-	-	2,006
Security deposits		3,700	-	-	-	3,700
		656,161	48,467	-	-	607,694
Financial liabilities						
Payable to the Management Company		1,668	-	-	-	1,668
Payable to the Trustee		116	-	-	-	116
Accrued and other liabilities		1,063	-	-	-	1,063
		2,847	-	-	-	2,847
On-balance sheet gap		653,314	48,467	-	-	604,847

June 30 , 2009						
Yield / effective interest rate	Total	Exposed to interest rate risk			Not exposed to interest rate risk	
		Upto three months	More than three months and upto one year	More than one year		
%	(Rupees in '000)					
On-balance sheet financial instruments						
Financial assets						
Bank balances	5 to 6.5	61,104	61,063	-	-	41
Investments						
- Listed equity securities		579,272	-	-	-	579,272
Dividend and other receivables		2,688	-	-	-	2,688
Security deposits		3,700	-	-	-	3,700
		646,764	61,063	-	-	585,701
Financial liabilities						
Payable to MCB Asset Management Company Limited - Management Company		2,066	-	-	-	2,066
Payable to Central Depository Company of Pakistan Limited		107	-	-	-	107
Payable against redemption of units		-	-	-	-	-
Payable against purchase of investments		1,811	-	-	-	1,811
Accrued and other liabilities		924	-	-	-	924
		4,908	-	-	-	4,908
On-balance sheet gap		641,856	61,063	-	-	580,793

25.1.3 Price Risk

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

In case of 5% increase / decrease in KSE 100 index on June 30, 2010, net income for the year would increase / decrease by Rs 30.911 million (2009: Rs 30.242 million) and net assets of the Fund would increase / decrease by the same amount as a result of gains / losses on equity securities 'at fair value through profit or loss'.

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

25.2 Credit risk

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

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Investment Committee. In addition, the risk is managed through assignment of credit limits and by following strict credit evaluation criteria laid down by the Management Company. The Fund does not expect to incur material credit losses on its financial assets.

The maximum exposure to credit risk before any credit enhancement as at June 30, 2010 is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

The analysis below summarises the credit quality of the Fund's financial assets as at June 30, 2010 and June 30, 2009:

Bank balances by rating category	2010	2009
A1+	100%	100%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2010 is the carrying amount of the financial assets.

Concentration on credit risk

Concentration on 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 concentration of credit risk.

25.3 Liquidity risk

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

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

The Fund has the ability to borrow in the short-term to ensure settlement. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

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

The Fund did not withhold any redemptions during the year.

The following table 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.

	June 30, 2010			
	Total	Upto three months	Over three months and upto one year	Over one year
	(Rupees in '000)			
Liabilities				
Payable to the Management Company	1,668	1,668	-	-
Payable to the Trustee	116	116	-	-
Accrued and other liabilities	1,063	1,063	-	-
	<u>2,847</u>	<u>2,847</u>	<u>-</u>	<u>-</u>
	June 30, 2009			
	Total	Upto three months	Over three months and upto one year	Over one year
	(Rupees in '000)			
Liabilities				
Payable to the Management Company	2,066	2,066	-	-
Payable to Central Depository Company of Pakistan Limited	107	107	-	-
Payable against purchase of investments	1,811	1,811	-	-
Accrued and other liabilities	924	924	-	-
	<u>4,908</u>	<u>4,908</u>	<u>-</u>	<u>-</u>

26 UNIT HOLDERS' FUND

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

The Fund has no restrictions on the offering and redemption of units. There is no specific capital requirement which is applicable to the fund.

The Fund's objectives when managing unit holders' funds are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong base of assets to meet unexpected losses or opportunities.

In accordance with the risk management policies as stated in note 25, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests. In addition, the Fund can also support liquidity by short-term borrowings or disposal of investments where necessary.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the reporting date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value as the items are short-term in nature.

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

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

	As at June 30, 2010			
	Level 1	Level 2	Level 3	Total
ASSETS	Rupees in '000			
Investment in securities	595,163	24,650	-	619,813

28 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 01, 2010 have approved the issue of bonus on all classes of units at the rate of Rs 18.6601 per unit (2009: Nil). The financial statements of the Fund for the year ended June 30, 2010 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2011.

29 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified wherever necessary, for the purposes of comparison and better presentation. During the current year, there were no major reclassifications.

30 GENERAL

Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

31 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 07, 2010 by the Board of Directors of the Management Company.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

Organization

Management Company MCB Asset Management Company Limited
8th Floor, Techno City Corporate Tower,
Hasrat Mohani Road, Karachi.
T 92 21 32276900-907
F 92 21 32276908

Board of Directors Mian Mohammad Mansha / Chairman
Ali Munir
Mohammad Usman Ali Usmani
S. Waliullah Shah
Ahmed Jahangir
Haroun Rashid
Samir Iqbal Saigol
Yasir Qadri / Chief Executive Officer

Audit Committee Ali Munir / Chairman
S. Waliullah Shah / Member
Ahmed Jahangir / Member

**Chief Financial Officer &
Company Secretary** Muhammad Saqib Saleem

Trustee Central Depository Company of Pakistan Limited
CDC House, 99-B, Block 'B', S. M. C. H. S.
Main Shara-e-Faisal Karachi-74400

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

Legal Adviser Bawany & Partners,
Room No. 404, 4th Floor, Beaumont Plaza
Beaumont Road, Civil Lines, Karachi.

Bankers

MCB Bank Limited
NIB Bank Limited
Bank Alfalah Limited
Standard Chartered Bank Limited
Faysal Bank Limited

Transfer Agent

MCB Asset Management Company Limited
8th Floor, Techno City Corporate Tower,
Hasrat Mohani Road, Karachi.
T 92 21 32276900-907
F 92 21 2276908
E info@mcbamc.com.pk
W www.mcbamc.com.pk

Directors' Report

For the MCB Dynamic Allocation Fund under management of
MCB Asset Management Company Limited

On behalf of the Board of Directors of MCB Asset Management Company Limited (MCB AMC), the Management Company of MCB Dynamic Allocation Fund (MCB DAF), I am pleased to present the Annual Report on the affairs of MCB DAF, for the year ended June 30, 2010.

MCB Asset Management Company Limited continued improving its position amongst the top asset management companies in the country where during a very short history of three and a half years, the company sailed through the most turbulent and rapidly changing economic conditions of the country. The outgoing year brought some recovery to the overall economic environment where MCB AMC managed to out-perform the industry growth. The total assets under management by MCB AMC rose to PKR 14.2 billion as on June 30, 2010 compared to PKR 10.8 billion as on June 30, 2009.

Performance Review

During the year under review, global financial markets showed an improving pattern fuelled by the signs of recovery in the global economy and liquidity position. The domestic equities markets also performed well based on this factor, as foreign investors had remained a major driving force behind the equities pull back. In addition to this, the overall domestic macroeconomic environment also began to stabilize post IMF's loan package. Barring fiscal account issues, other key macroeconomic indicators, especially the external accounts, showed some marked improvements during the year under review. Considering the need for growth stimulus and reviving macro indicators, the central bank made a cumulative cut of 150bps in the Policy Discount Rate during the period, which coupled with better liquidity, kept interest rates on the lower side.

During the year under review, your fund's NAV per unit increased by 16.7% to PKR 78.23 as on June 30, 2010. During the year under review, your fund incurred a net profit of PKR 57.729 million compared to a net loss of PKR 219.766 million of last year. On the other hand, net Assets of the fund dropped to PKR 403 million as compared to PKR 714 million as on June 30, 2009. Despite a return of 26.2% of the KSE-100 Index, the lower risk appetite of the investors resulted in redemption pressures from the fund. The adverse return impact that your fund took because of tumbling equities markets during previous years was recovered to a greater extent during the year under review amid better performing asset markets.

Outlook

Although almost all of the major economies of the world are showing signs of significant improvements, some shocks are still jolting few regional economies like the recent Euro-zone debt crises. Although global economic managers are being extra vigilant and cautious, such issues do pose the risk of getting the current stabilizing trend in the global economic progress side-tracked.

The domestic economy although had shown marked improvements, especially on the external account front, fiscal challenges and inflationary pressures continue to haunt the economic managers of the country. The recent increase of 50bps in the policy discount rate by the SBP is signifying the monetary concerns of these elements. The recent catastrophe of country-wide flash-floods, which is the worst calamity the world has witnessed since many years, is likely to aggravate these issues further and put the country several years back on the infrastructure and socio-economic grounds with an initially guessed loss of over a couple of billions of US Dollars. Significant loss of agricultural output and land, destruction of infrastructure including transportation and irrigation system, shocks in industrial output and incremental burden on the financial sector of the country are few of the expected losses.

The full impacts of this disaster are yet to be seen and timely materialization of the pledged foreign aids and grants is very critical in order to meet the rehabilitation requirements and rebuilding of infrastructure. Rising inflationary concerns may play a critical role in determination of the interest rates direction and hence the performance of the capital markets of the country going forward.

Performance Information (%)	MCB DAF
For last 30 days	1.3 %
Last twelve Months Return	16.7 %
Since Inception	(21.8) %

Update on Provision for Workers' Welfare Funds

The amendments made through Finance Act, 2008 to the Workers' Welfare Fund (WWF) Ordinance, 1971, brought Mutual Funds in the embed of the said Ordinance. Previously, the Management Company, based on the legal advise obtained through Mutual Funds Association of Pakistan (MUFAP) was of the view that Collective Investment Schemes (CIS) were not establishments and therefore, WWF will not be applicable to such schemes and in addition to this MUFAP, on behalf CIS also filed a Constitutional Petition in Sindh High Court challenging the applicability of WWF to the CIS. However, after the court order dispensing the filed petition, your Fund has recorded the entire liability and started accruing the provision on daily basis. As a matter of extreme importance and in the interest of unit holders many efforts were made for clarity on applicability of WWF on CIS.

As result of these efforts, Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, through their letter nos. WWF (A – II)11. (5)/2010 dated July 8, 2010 and July 15, 2010, have clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy.

As mentioned in Note 13 to the Financial Statement, on the basis of clarification letter from Ministry of Labour & Manpower, Workers' Welfare Fund, both the Auditors and MUFAP sought opinion from legal advisors resulting in conflicting views. MUFAP's counsel recommending that after clarification received from the Ministry, Mutual Funds are no longer required to record provision in respect of WWF, whereas most of the auditors have expressed a qualified opinion based on the advice from their legal counsel.

Because of ambiguity created based on conflicting opinions by lawyers and as a matter of abundant caution and prudence, the Management Company of the Fund has decided to recognize the provision for WWF in these financial statements.

Units in issue

During the year, units worth Rs.67.511 million were issued and units worth value of Rs. 506.987 million were redeemed. As on 30 June 2010 the NAV of the Fund was Rs. 78,2252 per unit.

Income Distribution

During the year your fund earned a net income of Rs. 57.729 million out of which Rs 51.982 million is distributed subsequent to year end (i. e. Rs. 10.0890 per unit).

Code of Corporate Governance

The Management Company of MCB DAF is committed to observing the Code of Corporate Governance prescribed for listed companies.

1. The financial statements prepared by the Management Company present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holders' fund. Proper books of account of the Fund have been maintained.
2. Appropriate accounting policies have been consistently applied in preparation of financial statements, except as mentioned in note 2.2 and accounting estimates are based on reasonable and prudent judgment.
3. International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements.
4. The system of internal control is sound in design and has been effectively implemented and monitored.
5. There is no significant doubt upon the Fund's ability to continue as a going concern.
6. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
7. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
8. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company.
9. In accordance with the requirements of Code of Corporate Governance the Directors of Management Company have developed and signed the "Statement of Ethics and Business Practices".

10. Key financial data is summarized in the Fund Manager Report included in this annual Report.
11. The detailed pattern of unit holding, as required by the Companies Ordinance, 1984 and the Code of Corporate Governance is annexed.
12. Four meetings of the Board of Directors of MCB Asset Management Company Limited were held during the year under review. The attendance of all directors is appended below:

Name	Designation	Meetings		
		Total	Attended	Leave Granted
Mian Mohammad Mansha	Chairman	04	04	-
Mr. Ali Munir	Director	04	02	02
Mr. Usman Ali Usmani	Director	04	04	-
Mr. Atif Aslam Bajwa	Director	04	02	02
Mr. Ahmed Jehangir	Director	04	04	-
Mr. S. Waliullah Shah	Director	04	04	-
Mr. Samir Saigol *	Director	03	03	-
Mr. Haroon Rashid *	Director	03	03	-
Mr. Yasir Qadri	CEO	04	04	-

* Appointed during the year

13. During the year under review no trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary and their spouses and minor children.

Auditors

The fund's external auditors, Messers A.F. Ferguson & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2011. The audit committee of the Board has recommended reappointment of A.F. Ferguson & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2011.

Acknowledgements

The Board takes this opportunity to thank its valued unit-holders and investors for their confidence and patronage. In addition, we would like to acknowledge the Securities and Exchange Commission of Pakistan (SECP), State Bank of Pakistan (SBP) and Central Depository Company of Pakistan (Trustee) for their continued support, guidance and cooperation. The Board also would like to take this opportunity to express its appreciation to the employees of MCB Asset Management Company for their dedication, commitment, enthusiasm and hard work for the Company.

For and on behalf of the Board

Yasir Qadri
Chief Executive Officer

Karachi: September 07, 2010

Annexure

	Number of Unit Holders	Units Held
Associated Company, undertakings and related parties		
MCB Bank Limited	1	1,000,000
D. G. Khan Cement Company Ltd Employees Provident Fund Trust	1	15,335
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarbas and Mutual Funds.		
	2	294,339
Director, CEO and their spouses and minor children		
Yasir Qadri	-	-
Executives		
	-	-
Trust		
	11	414,969
Corporate		
	4	37,231
Individuals		
	1700	1,124,712
Others		
	1	9,935
Unit holding more than ten percent		
Trustee Karachi Electric Supply Corporation	1	1,500,000
Capital Development Authority	1	755,805
	1722	5,152,325

Fund Manager's Report

For the MCB Dynamic Allocation Fund under management of
MCB Asset Management Company Limited

Fund type and category

MCB Dynamic Allocation Fund (MCB DAF) is an Open-End Asset Allocation Scheme, for which SECP categorization is in process.

Benchmark

MCB DAF is an absolute return Fund and has no benchmark. However, a benchmark has been suggested to the SECP for its approval.

Investment Objective

It is an Asset Allocation Fund with an objective to provide high absolute return by investing in equity and debt markets.

Your Fund, during the year under review, managed its exposures across asset classes in line with the overall macroeconomic developments of the country while focusing on minimizing market risks.

Investment Strategy

The Fund will aim to achieve the above-mentioned objective by investing up to 100% in equity securities or up to 100% in debt securities according to the market conditions.

Manager's Review

Your Fund posted a total return of 16.7% during the year under review, while since inception return of the fund stood at -21.8%. The fund continued to follow a risk-averse strategy and hence refrained from aggressive equities exposures.

Equities market remained extremely volatile during the year under review with volumes remaining depressed. Your Fund opened the year with an equities exposure of 52% which was gradually reduced to a lowest exposure of 31% during the first quarter and later on enhanced to a highest of 70% towards the ending months of the year, which was then later reduced to 55% by year-end. Average exposure towards equities during the year under review stood at 46%. The focus was maintained on defensive high dividend yielding stocks with attractive valuations.

The exposure to government securities (Treasury Bills) was also managed according to the market conditions and their relative risk-return profile. Seasonal opportunities for the placement of Term Deposits were also capitalized at attractive rates. Investments in TFCs, however, were restricted to selected high credit quality instruments of the banking sector while some TFCs of the manufacturing sector were deemed risky and were liquidated.

Net Assets of the Fund declined to Rs.403.041 million as on June 30, 2010 from Rs.714.089 million as on June 30, 2009, a decline of 43.6%. Despite decent returns redemption pressures resulted in the decline in fund size.

The fund also announced bonus units worth Rs. 10.08 per unit for the year under review.

Review of Economy and Asset Classes

Huge state-sponsored stimulus packages in developed economies attempted to avert the economic crises that emerged almost two years back. During the year under review, global economy marched on the path of stability and recovery mainly led by the emerging economies including China and India. Contrary to earlier expectations, Euro-zone has demonstrated remarkable resilience post-debt crisis that emerged during the year under review. Although full recovery of the global economy is yet to be achieved with few concerns, the overall environment seems stable.

Domestic capital markets remained relatively better than that of last year owing to better liquidity in the system. Political environment though, appeared to be noisy on few occasions but overall it largely remained stable.

On the macroeconomic front, external account depicted a positive picture thanks to lower import bill, higher remittances, logistic support flows from the US and other flows from the donor agencies. Inflationary pressures continued to ease during the first half, where the average CPI inflation stood at 10.3% and hence enabled the central bank to maintain a monetary easing stance by reducing interest rates cumulatively by 150 basis points to 12.5% during the period. Fiscal imbalances continued to haunt the economic managers of the country owing to rising circular debt and commodity financing. The government's rising need for fiscal funding left them with no option but to borrow from the central bank which had led to inflationary pressures. Due to rising commodities prices and electricity tariff adjustments during the second half, CPI Inflation kept on rising with second half averaged at 13.1% taking the full year CPI average to 11.7%. Resurgence in inflationary pressures during the second half compelled the SBP to take a more cautious monetary stance and hence it kept the policy discount rate unchanged during the second half of the year.

Money market in general remained fairly liquid with few periods of crunch in liquidity. Rates traveled southwards mainly during the first half in response to the easing monetary stance of the central bank. However, during the second half, rates remained firm as a result of a more cautious monetary stance and inched upwards in anticipation of an upward adjustment in discount rate towards the end of the year under review.

Equities market during the year under review displayed a robust performance where the KSE-100 Index rose by 35.7% with depressed volumes at large mainly due to the unavailability of leverage product in the market. Although most of this performance is attributed to the first half of the period under review as the macroeconomic indicators improved with YoY CPI declining which induced SBP to continue with the monetary policy easing. Foreign investors have been the net buyers during most part of the year under review due to the signs of macroeconomic and political stability in the country. Continued support of the IMF and other donor agencies kept the foreigners' view positive on the Pakistan's economy and capital

markets. As a result, there has been a significant decline in the yield of Pakistan’s Eurobonds and Credit Default Swap (CDS) during the earlier part of the year.

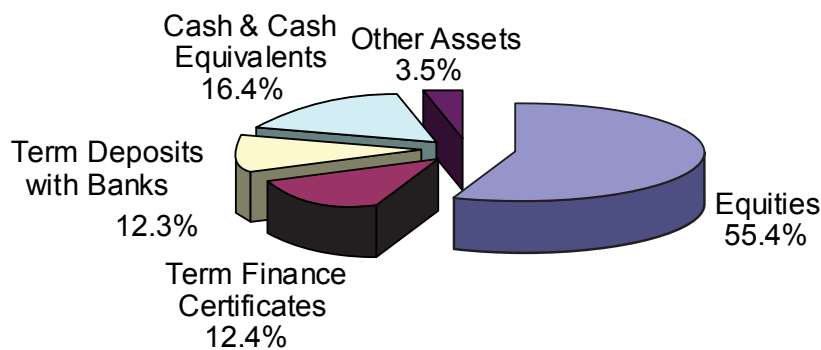
Although foreigners continued to be the net buyers in the local stock market even during the second half of the year under review, local players took a conservative stance primarily due to delay in the launch of margin finance product, imposition of CGT and deterioration in some key macro indicators.

Future outlook

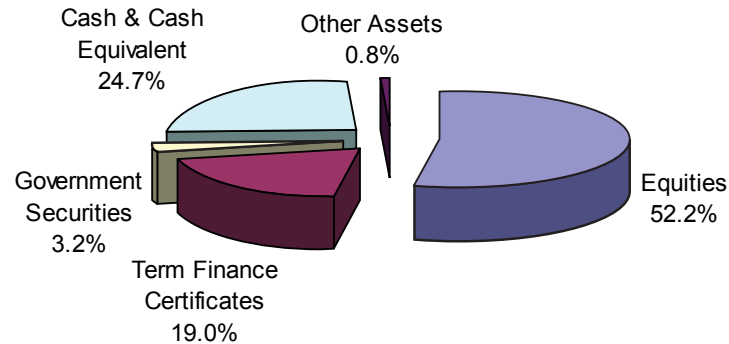
The domestic economy although had shown marked improvements especially on the external account front, fiscal challenges and inflationary pressures continue to haunt the economic managers of the country. The recent increase of 50 basis points in the policy discount rate by the SBP is signifying the monetary concerns of these elements. The recent catastrophe of country-wide flash-floods, which is the worst calamity the world has witnessed since many years, is likely to aggravate these issues further and put the country several years back on the infrastructure and socio-economic grounds with an initially guessed loss of over a couple of billions of US Dollars. Significant loss of agricultural output and land, destruction of infrastructure including transportation and irrigation system, shocks in industrial output and incremental burden on the financial sector of the country are few of the expected losses.

The full impacts of this disaster are yet to be seen and timely materialization of the pledged foreign aids and grants is very critical in order to meet the rehabilitation requirements and rebuilding of infrastructure. Rising inflationary concerns may play a critical role in determination of the interest rates direction and hence the performance of the capital markets of the country going forward.

Asset Allocation as on June 30, 2010 (% of total assets)



Asset Allocation as on June 30, 2009 (% of total assets)



Performance Table

Performance Information	2010	2009	2008
Total Net Assets Value – Rs. in million	403.041	714.089	1,689.89
Net Assets value per unit – Rupees	78.23	67.02	87.65
Highest offer price per unit	87.47	90.16	105.99
Lowest offer price per unit	69.87	54.42	87.20
Highest Redemption price per unit	84.85	87.46	102.81
Lowest Redemption price per unit	67.78	52.79	84.58
Distribution per unit (annual) – Rs.	10.089	-	-
Net Assets Value before distribution	78.23	N/a	N/a
Net Assets Value after distribution	68.14	N/a	N/a
Average Annual Return - %			
One year	16.7	(23.5)	(12.35)
Two year (inception date Mar 11, 2008)	(10.8)	(32.98)	N/a
Three year	(21.8)	N/a	N/a
Net Income / (loss) for the period – Rs. in million	57,729	(219.766)	(238.15)
Income Distribution – Rs. in million	51.981	-	-
Accumulated Capital Growth – Rs. in million	-	-	-

* The income distribution is related to the year ended June 30, 2010 but recorded and distributed on July 01, 2010.

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

Units Holding by Size

<u>Units Range</u>	<u>Nos. of Unit Holders</u>	<u>Units Held</u>
1 – 10,000	1702	907,367
10,001 – 100,000	13	339,202
100,001– 1,000,000	6	2,405,756
1,000,001 – onwards	1	1,500,000
Total	1,722	5,152,325

Mr. Kashif Rafi
 Fund Manager

Karachi: September 07, 2010

Statement of Compliance with the best practices of Code of Corporate Governance

For The Year Ended 30 June 2010

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in Chapter XI Regulation No. 35 of Listing Regulations of Lahore 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. MCB Dynamic Allocation Fund is an open end mutual fund and is listed at the Lahore Stock Exchange. The Fund being a unit trust scheme does not have its own board of directors. The Board of Directors of MCB Asset Management Company Limited, the Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of non-executive directors. All the directors, except the Chief Executive Officer are non-executive directors.
2. The existing 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 NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year under review one casual vacancy occurred on the Board which was duly filled in by the appointment of another director subsequent to the year ended June 30, 2010.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices' for the Fund which has been signed by all the directors and employees of the Management Company.
6. The Management Company has developed a Vision / Mission statement, overall corporate strategy and significant policies for the Fund that have been approved by the Board. A complete record of particulars of significant policies along with the dates on which these 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 terms and conditions of employment of the Chief Executive Officer, Chief Financial Officer and the Company Secretary have been taken by the Board.
8. The related party transactions are placed before the audit committee and approved by the board of directors on a quarterly basis with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
9. The meetings of the Board were presided over by the Chairman and in his absence by the director elected by the Board 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.

10. The Directors have been provided with the copies of the NBFC (Establishment and Regulation) Rule, 2003, Non- Banking Finance Companies and Notified Entities Regulations, 2008, Companies Ordinance, 1984 , Listing Regulations, Code of Corporate Governance , Prudential Regulations, Company's Memorandum and Articles of Association and all other relevant rules and regulations and hence are conversant with the relevant laws applicable to the Company and the funds and are aware of their duties and responsibilities.
11. The directors' report relating to the Fund for the year ended June 30, 2010 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 the Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The directors, CEO, and executives do not hold any interest in the units of the Fund other than those disclosed in the note 20 to financial statements.
14. The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee.
16. The meetings of the Audit Committee were held once in every quarter and prior to the approval of interim and final results of the Fund and as required by the Code. The terms of reference of Audit Committee have been approved in the meeting of the Board of Directors and the Committee has been advised to ensure compliance with those terms of reference.
17. The Management Company has outsourced the internal audit function of the Company to M/s Ford Rhodes Sidat Hyder & Co. Chartered Accountants, Karachi, for the period from April 01, 2010 to June 30, 2010, who are considered suitably qualified and experienced for the purpose and well conversant with the policies and procedures of the Fund. For the period July 01, 2009 to March 31, 2010, the management company had its own internal audit function of the fund, which has suitably qualified and experienced people for the purpose and well conversant with the policies and procedure of the fund.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Management Company or units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

Yasir Qadri
Chief Executive Officer
Karachi: September 07, 2010

Review report to the unit holders on the statement of compliance with the best practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of MCB Asset Management Company Limited (the Management Company) of **MCB Dynamic Allocation Fund** (the Fund) to comply with the Listing Regulation No. 35 (Chapter XI) of the Lahore Stock Exchange where the Fund is listed.

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

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

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

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

A.F. Ferguson & Co.
Chartered Accountants
Karachi
Dated: September 07, 2010

Trustee Report to the unit holders

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

The MCB Dynamic Allocation Fund (the Fund), an open-end fund was established under a trust deed dated November 22, 2007, executed between MCB Asset Management Company Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

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

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

Muhammad Hanif Jakhura

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi: October 21, 2010

Independent auditors' report to the unit holders

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

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

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

Opinion

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

Other matters

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

A.F. Ferguson & Co.
Chartered Accountants
Engagement Partner: Salman Hussain
Karachi
Dated: September 07, 2010

>> FINANCIAL STATEMENT

MCB DYNAMIC ALLOCATION FUND STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2010

	Note	2010	2009
Rupees in '000			
ASSETS			
Bank balances	4	66,796	176,657
Investments	5	275,290	532,341
Loans and receivables	6	50,000	-
Receivable against sale of investments		5,378	2,401
Dividend and other receivables	7	2,342	8,997
Security deposits	8	3,600	3,600
Preliminary expenses and floatation costs	9	2,710	3,710
Total assets		406,116	727,706
LIABILITIES			
Payable to Management Company	10	520	1,154
Payable to the Trustee	11	69	117
Annual fee payable to the Securities and Exchange Commission of Pakistan	12	574	883
Payable against redemption of units		8	-
Payable against purchase of investments		-	10,252
Accrued and other liabilities	13	1,904	1,211
Total liabilities		3,075	13,617
NET ASSETS		403,041	714,089
Unit holders' fund (as per statement attached)		403,041	714,089
CONTINGENCIES & COMMITMENTS			
	15		
Number of units			
NUMBER OF UNITS IN ISSUE		5,152,325	10,654,816
Rupees			
NET ASSET VALUE PER UNIT	3.9	78.23	67.02

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC ALLOCATION FUND INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
Rupees in '000			
INCOME			
Capital gain / (loss) on sale of investments		113,777	(378,651)
Income from spread transactions		1	2,768
Dividend income		15,155	19,761
Profit on bank deposits and term deposit receipts		11,352	39,430
Income from money market placements		1,565	867
Income from term finance certificates		19,854	16,998
Income from government securities		7,352	993
		169,056	(297,834)
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'		(21,169)	15,267
Total income / (loss)		147,887	(282,567)
EXPENSES			
Remuneration of Management Company		9,059	17,065
Remuneration of the Trustee		1,208	1,733
Annual fee - Securities and Exchange Commission of Pakistan	12	574	883
Brokerage and settlement charges		5,401	6,225
Amortisation of preliminary expenses and floatation costs		1,000	1,000
Auditors' remuneration	16	570	410
Bank charges		69	5
Other expenses		400	885
		18,281	28,206
Net income / (loss) from operating activities		129,606	(310,773)
Element of (loss) / income and capital (losses) / gains included in the prices of units issued less those in units redeemed		(70,699)	91,007
Provision for Workers' Welfare Fund	18	(1,178)	-
Net income / (loss) for the year before taxation		57,729	(219,766)
Taxation	19	-	-
Net income / (loss) for the year after taxation		57,729	(219,766)
Other comprehensive income for the year		-	-
Total comprehensive income / (loss) for the year		57,729	(219,766)
Earning / (loss) per unit	3.13		

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC ALLOCATION FUND DISTRIBUTION STATEMENT

FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	Rupees in '000	
Accumulated loss brought forward		
Realised loss	(368,228)	(178,953)
Unrealised income / (loss)	16,835	(59,202)
	(351,393)	(238,155)
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - amount that forms part of the unit holders' fund	181,472	106,528
Net income / (loss) for the year after taxation	57,729	(219,766)
Accumulated loss carried forward	(112,192)	(351,393)
Accumulated loss comprising:		
Realised loss	(92,514)	(368,228)
Unrealised (loss) / income	(19,678)	16,835
	(112,192)	(351,393)

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC ALLOCATION FUND STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND

FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	Rupees in '000	
Net assets at beginning of the year	714,089	1,689,898
Issue of 917,623 units (2009: 3,538,714 units)	67,511	274,808
Redemption of 6,420,114 units (2009: 12,164,432 units)	(506,987)	(939,844)
	(439,476)	(665,036)
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		
- amount representing (income) / loss and capital (gains) / losses - transferred to income statement	70,699	(91,007)
- amount representing income that forms part of unit holders' fund - transferred to distribution statement	(181,472)	(106,528)
	(110,773)	(197,535)
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised income	181,472	106,528
Net unrealised (diminution) / appreciation on re-measurement of investment classified as 'financial assets at fair value through profit or loss'	(21,169)	15,267
Capital gain / (loss) on sale of investments	113,777	(378,651)
(Loss) / income from other operating activities	(34,879)	143,618
	57,729	(219,766)
Net assets as at the end of the year	403,041	714,089

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC ALLOCATION FUND CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
Rupees in '000			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income / (loss) for the year before taxation		57,729	(219,766)
Adjustments for non-cash charges and other items:			
Capital (gain) / loss on sale of investment		(113,777)	378,651
Dividend income		(15,155)	(19,761)
Net unrealised diminution / (appreciation) on remeasurement of investment classified as 'financial assets at fair value through profit or loss'		21,169	(15,267)
Amortisation of preliminary expenses and floatation costs		1,000	1,000
Element of loss / (income) and capital losses / (gains) included in the prices of units issued less those in units redeemed		70,699	(91,007)
		21,665	33,850
(Increase) / decrease in assets			
Investments - net		336,430	(23,833)
Other receivable		3,969	937
Profit receivable on bank deposits		157	2,805
Security deposits and prepayments		-	18
		340,556	(20,073)
Increase / (decrease) in liabilities			
Payable against redemption of units		8	(11,218)
Payable to the Management Company		(634)	(12,959)
Payable to the Trustee		(48)	(148)
Annual fee payable to the Securities and Exchange Commission of Pakistan		(309)	332
Accrued and other liabilities		693	(2,473)
		(290)	(26,466)
Dividend income received		17,684	23,356
Net cash inflow from operating activities		379,615	10,667
CASH FLOWS FROM FINANCING ACTIVITIES			
Net receipts from issue of units		67,511	274,808
Net payments on redemption of units		(506,987)	(939,844)
Net cash outflow on financing activities		(439,476)	(665,036)
Net decrease in cash and cash equivalents		(59,861)	(654,369)
Cash and cash equivalents at the beginning of the year		176,657	831,026
Cash and cash equivalents at the end of the year	17	116,796	176,657

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB DYNAMIC ALLOCATION FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

1 LEGAL STATUS AND NATURE OF BUSINESS

MCB Dynamic Allocation Fund (the Fund) was established under the Non-Banking Finance Companies and Notified Entities Regulations, 2007 and has been approved as an open ended investment scheme by the Securities and Exchange Commission of Pakistan (SECP) on December 17, 2007. It was constituted under a Trust Deed dated November 22, 2007, between MCB Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited as the Trustee, also incorporated under the Companies Ordinance, 1984.

The Management company of the Fund has been licensed to act as Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th floor, Technocity Corporate Tower, Hasrat Mohani Road, Karachi.

The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units of the Fund can be transferred to / from the funds managed by the management company and can also be redeemed by surrendering to the Fund. The units are listed on the Lahore Stock Exchange.

The Fund is an asset allocation fund and is allowed to shift total exposure into debt or equity instruments as per market conditions and the discretion of the Management Company. The objective of the Fund is to provide a high return which commensurates the higher risk taken due to pro-active allocation of funds across various asset and debt classes.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of "AM2-" to the Management Company and a rating of '3-Star-normal' to 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) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.2 Changes in accounting policies and disclosures arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year

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

The Fund has applied IAS 1 (revised) from July 1, 2009, and has elected to present one performance statement. As a result non-owner changes in equity which were previously credited directly in the statement of movement in unit holders' fund are now shown as other comprehensive income in the performance statement (referred to as statement of comprehensive income in these financial statements). The change in the presentation has not affected the values of the net assets of the Fund for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented. The adoption of this standard has resulted in increase in certain disclosures.

- b) IFRS 7 (amendment) 'Financial instruments: Disclosures'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment has resulted in certain additional disclosures but does not have an impact on the Fund's financial position or performance.

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

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

- a) IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation'. The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. Keeping in view the requirements set out in the Non-Banking Finance Companies and Notified Entities Regulations, 2008 the adoption of this amendment did not impact the classification of units in the financial statements of the Fund.
- b) IAS 39 (amendment), 'Financial instruments: Recognition and measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of the amendment did not have a significant impact on the Fund's financial statements.

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

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

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

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

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

2.5 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. The estimates, judgments and associated assumptions are based on the management's experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgement was exercised in application of accounting policies principally relate to classification and valuation of financial assets (note 3.1 and 5).

2.6 Accounting convention

These financial statements have been prepared under the historical cost convention except for investments classified as 'financial assets at fair value through profit or loss' category which are carried at fair value.

2.7 Functional and presentation currency

The financial statements are presented in Pak Rupees, which is the functional and presentation currency of the Fund.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below:

3.1 Financial assets

3.1.1 Classification

The Fund classifies its financial assets in the following categories: 'financial assets at fair value through profit or loss' and 'loans and receivables' as follows:

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading in the 'Financial assets at fair value through profit or loss' category.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

3.1.2 Regular way contracts

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

3.1.3 Initial recognition and measurement

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

3.1.4 Subsequent measurement

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

a) Basis of valuation of term finance certificates

Investment in term finance certificates are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no. 1/2009 dated January 06, 2009. Mutual Funds Association of Pakistan determines these rates based on the methodology prescribed in the circular. The rates so determined by MUFAP are used by the Fund for subsequent valuation of its term finance certificates.

b) Basis of valuation of government securities

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

c) Basis of valuation of equity securities

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

Net gains and losses arising on changes in the fair value of financial assets at fair value through profit or loss are taken to the income statement.

Subsequent to initial recognition financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method.

3.1.5 Impairment

The Fund assesses at each balance sheet date whether there is objective evidence that the financial asset or a group of financial assets is impaired. If any such indication exists, the recoverable amount of such asset or group of assets is estimated and impairment losses are recognised in the income statement.

For financial assets classified as 'loans and receivable', a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to original terms. The amount of the provision is the difference between the asset's carrying value and present value of estimated future cash outflows, discounted at the original effective interest rate.

3.1.6 Derecognition

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

3.1.7 Offsetting of financial instruments

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

3.2 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances and short term highly liquid investments with original maturities of three months or less.

3.3 Derivatives

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

3.4 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

3.5 Spread transactions (ready-future transactions)

The Fund enters into certain transactions involving purchase of a security in the ready market and simultaneous sale of the same security in the futures market (spread transactions). Securities purchased by the Fund in the ready market are carried on the statement of assets and liabilities till their eventual disposal. The forward sale of the securities in the futures market is accounted for separately.

3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from March 16, 2008, as per the requirement of the Trust Deed of the Fund.

3.7 Provisions

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

3.8 Taxation

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

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

3.9 Net asset value per unit

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

3.10 Issue and redemption of units

Units issued are recorded at the offer price of the day on which funds are received in the Trustee bank accounts, during business hours. The offer price represents the net asset value per unit as of close of business day plus sale load at three percent of net asset value.

Units redeemed are recorded at the redemption price announced as of the close of the business day on which a correct filled-in redemption form is submitted within business hours. The redemption price represents the net asset value per unit as of the close of the business day.

3.11 Proposed distributions

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

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

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

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

3.13 Earning / (loss) per unit

Earning / loss per unit has not been disclosed as in the opinion of the management determination of weighted average units for calculating the loss per unit is not practicable.

3.14 Revenue recognition

- Mark-up on term finance certificates, government securities and money market placements are recognised on an accrual basis.
- Income from spread transactions arising on settlement of ready - future purchases are included in the income statement in the period in which they arise.
- Profits on bank deposits and term deposit receipts are recognised on an accrual basis.
- Dividend income on equity securities is recognised when the right to receive dividend is established.
- Gains and losses on sale of securities and unrealised gains and losses arising on revaluation of investments classified as 'financial assets at fair value through profit and loss' are included in the income statement in the period in which they arise.

4	BANK BALANCES	Note	2010	2009
		Rupees in '000		
	In savings accounts	4.1	<u>66,796</u>	<u>176,657</u>

4.1 These carry mark-up at rates ranging from 5% to 10.5% per annum (2009: 5% to 9.25% per annum).

5	INVESTMENTS	Note	2010	2009
		Rupees in '000		
	Financial assets at fair value through profit or loss - held for trading			
	Listed equity securities	5.1	<u>224,993</u>	373,684
	Listed debt securities	5.2	<u>50,297</u>	69,892
	Unlisted debt securities	5.3	-	65,915
	Government securities	5.5	-	22,850
			<u>275,290</u>	<u>532,341</u>

5.1 Listed equity securities

Name of investee company	Number of shares					Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment	Percentage of paid up capital of investee company held
	As at July 1, 2009	Purchased during the year	Bonus/ rights shares	Disposed off during the year	As at June 30, 2010	Cost	Market value	Appreciation/ (diminution)			
—————(Rupees in '000)—————											
Unless stated otherwise, the holdings are in ordinary shares having a face value of Rs. 10 each											
Auto Mobile & Parts											
Indus Motors Company Limited	-	33,000	-	10,000	23,000	5,561	6,035	474	1.50%	2.19%	0.03%
Agriauto Industries Limited	-	30,000	-	-	30,000	2,149	2,070	(79)	0.51%	0.75%	0.21%
						<u>7,710</u>	<u>8,105</u>	<u>395</u>	<u>2.01%</u>	<u>2.94%</u>	
Construction & Materials											
Dera Ghazi Khan Cement Limited	-	202,200	-	150,000	52,200	1,316	1,233	(83)	0.31%	0.45%	0.01%
Lucky Cement Limited	164,400	231,000	-	395,400	-	-	-	-	-	-	-
						<u>1,316</u>	<u>1,233</u>	<u>(83)</u>	<u>0.31%</u>	<u>0.45%</u>	
Chemicals											
Engro Corporation Limited	125,000	379,501	876	435,490	69,887	13,492	12,131	(1,361)	3.01%	4.41%	0.02%
Fatima Fertilizers Limited	-	5,581	-	-	5,581	79	70	(9)	0.02%	0.03%	0.00%
Fauji Fertilizer Bin Qasim Limited	-	898,814	-	793,335	105,479	3,265	2,747	(518)	0.68%	1.00%	0.01%
Fauji Fertilizer Company Limited	697,310	688,845	-	1,293,940	92,215	9,716	9,505	(211)	2.36%	3.45%	0.01%
						<u>26,552</u>	<u>24,453</u>	<u>(2,099)</u>	<u>6.07%</u>	<u>8.89%</u>	
Banks											
Bank Alfalah Limited	687,537	1,339,245	-	1,729,231	297,551	3,779	2,815	(964)	0.70%	1.02%	0.02%
Bank Al Habib Limited	7,200	-	-	7,200	-	-	-	-	-	-	-
The Bank of Punjab	-	50,000	-	50,000	-	-	-	-	-	-	-
Faysal Bank Limited	-	147,100	-	147,100	-	-	-	-	-	-	-
Habib Bank Limited	-	50,000	-	25,000	25,000	2,861	2,431	(430)	0.60%	0.88%	0.00%
MCB Bank Limited	215,000	542,419	1,200	718,400	40,219	8,108	7,810	(298)	1.94%	2.84%	0.01%
National Bank of Pakistan	165,100	1,515,000	6,250	1,527,310	159,040	10,468	10,194	(274)	2.53%	3.70%	0.01%
United Bank Limited	768,700	1,477,999	16,277	1,993,120	269,856	15,835	14,629	(1,206)	3.63%	5.31%	0.02%
						<u>41,051</u>	<u>37,879</u>	<u>(3,172)</u>	<u>9.40%</u>	<u>13.75%</u>	
Non life insurance											
Adamjee Insurance Company Limited	-	10,000	1,000	11,000	-	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Personal goods											
Amtex Limited	-	300,000	-	300,000	-	-	-	-	-	-	-
Nishat (Chunian) Limited	-	559,971	-	559,971	-	-	-	-	-	-	-
Nishat Mills Limited	-	1,098,735	52,104	929,167	221,672	12,304	9,558	(2,746)	2.37%	3.47%	0.06%
						<u>12,304</u>	<u>9,558</u>	<u>(2,746)</u>	<u>2.37%</u>	<u>3.47%</u>	
Oil and gas											
Attock Petroleum Limited	10,800	279,941	-	205,851	84,890	28,838	24,597	(4,241)	6.10%	8.93%	0.15%
Attock Refinery Limited	-	20,000	-	20,000	-	-	-	-	-	-	-
Byco Petroleum Pakistan Limited	-	1,416,566	-	1,416,566	-	-	-	-	-	-	-
Oil & Gas Development Company Limited	679,000	1,429,075	-	2,102,593	5,482	689	777	88	0.19%	0.28%	0.00%
Pakistan Oilfields Limited	375,500	779,304	-	1,070,019	84,785	19,248	18,305	(943)	4.54%	6.65%	0.04%
Pakistan Petroleum Limited	59,700	728,281	7,611	674,217	121,375	23,478	22,348	(1,130)	5.54%	8.12%	0.01%
Pakistan State Oil Company Limited	22,100	724,419	-	711,342	35,177	10,142	9,153	(989)	2.27%	3.32%	0.02%
						<u>82,395</u>	<u>75,180</u>	<u>(7,215)</u>	<u>18.64%</u>	<u>27.30%</u>	
General Industries											
Packages Limited	5,000	111,476	-	37,100	79,376	12,530	9,406	(3,124)	2.33%	3.42%	0.09%
Thal Limited *	-	7,000	-	-	7,000	586	665	79	0.16%	0.24%	0.03%
						<u>13,116</u>	<u>10,071</u>	<u>(3,045)</u>	<u>2.49%</u>	<u>3.66%</u>	
Electricity											
The HUB Power Company Limited	2,261,000	2,817,609	-	3,959,317	1,119,292	38,621	35,773	(2,848)	8.88%	12.99%	0.10%
Kot Addu Power Company Limited	380,200	861,572	-	981,866	259,906	11,261	10,848	(413)	2.69%	3.94%	0.03%
Nishat Chunian Power Limited	-	1,312,985	-	933,529	379,456	3,677	3,772	95	0.94%	1.37%	0.07%
Nishat Power Limited	-	2,701,042	-	1,884,011	817,031	8,650	8,121	(529)	2.01%	2.95%	0.23%
						<u>62,209</u>	<u>58,514</u>	<u>(3,695)</u>	<u>14.52%</u>	<u>21.25%</u>	
Fixed Line Telecommunication											
Pakistan Telecommunication Company Limited	20,000	210,000	-	230,000	-	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total - 2010						246,653	224,993	(21,660)	55.81%	81.71%	
Total - 2009						349,632	373,684	24,052	39.00%	48.00%	

* The face value of shares held of Thal limited is Rs. 5

5.1.1 Investment in listed equity securities includes shares with market value aggregating to Rs 5.204 million that have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of Fund's trades in terms of Circular no. 11 dated October 23, 2007 issued by SECP.

5.2 Listed Debt Securities

Name of investee company	Number of Certificates				Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2009	Purchased during the year	Disposed during the year	As at June 30, 2010	Cost	Market value	Appreciation/ (Diminution)		

—(Rupees in '000)—

Certificates having a face value of Rs. 5,000 each unless stated otherwise

Commercial banks

Bank Al Habib Limited	520	-	-	520	2,482	2,548	66	0.63%	0.93%
NIB Bank Limited	12,600	-	9,755	2,845	13,139	13,647	508	3.39%	4.96%
Askari Bank Limited	-	5,000	-	5,000	24,995	24,603	(392)	6.10%	8.94%
United Bank Limited	2,000	-	-	2,000	9,191	9,499	308	2.36%	3.45%

Fertilizer

Pak Arab Fertilizer (Pvt) Limited	-	2,000	2,000	-	-	-	-	-	-
-----------------------------------	---	-------	-------	---	---	---	---	---	---

Total - 2010

49,807 50,297 490 12.48% 18.28%

Total - 2009

68,815 69,892 1,077 9.79% 13.14%

5.2.1 Investment in listed debt securities includes term finance certificates with market value aggregating to Rs 21.979 million that have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of Fund's trades in terms of Circular no. 11 dated October 23, 2007 issued by SECP.

5.3 Unlisted Debt Securities

Name of investee company	Number of Certificates				Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2009	Purchased during the year	Disposed during the year	As at June 30, 2010	Cost	Market value	Appreciation/ (Diminution)		

—(Rupees in '000)—

KASB Securities Limited	3,000	-	3,000	-	-	-	-	-	-
Engro Chemical Pakistan Limited - (PRP-I)	12,000	-	12,000	-	-	-	-	-	-

Total - 2010

- - - - -

Total - 2009

75,888 65,915 (9,973) 9.23% 12.38%

5.4 Significant terms and conditions of term finance certificates outstanding at the year end are as follows:

Name of Security	Number of certificates	Face value (Rupees)	Mark up rate (per annum)	Maturity	Secured/ Unsecured	Rating
------------------	------------------------	---------------------	--------------------------	----------	--------------------	--------

Listed Debt Securities

Bank Al Habib Limited	520	5,000	1.95% + 6 month KIBOR	February 7, 2015	Unsecured	AA
NIB Bank Limited	2,845	5,000	1.15% + 6 month KIBOR	March 5, 2016	Unsecured	A+
Askari Bank Limited	5,000	5,000	2.5% + 6 month KIBOR	November 18, 2019	Unsecured	AA-
United Bank Limited	2,000	5,000	0.85% + 6 month KIBOR	February 14, 2018	Unsecured	AA

5.4.1 The term finance certificates held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage / pledge of fixed assets of the issuer.

5.5 Investment in government securities

Name of investee company	Face value				Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2009	Purchased during the year	Disposed during the year	Matured during the year	As at June 30, 2010	Cost	Market value		

—(Rupees in '000)—

Treasury bills - 1 year	25,000	212,000	237,000	-	-	-	-	-	-
Treasury bills - 6 months	-	50,000	50,000	-	-	-	-	-	-
Treasury bills - 3 months	-	110,000	110,000	-	-	-	-	-	-
Total - 2010	25,000	372,000	397,000	-	-	-	-	-	-

Total - 2009

22,125 22,850 725 3.20% 4.29%

	Note	2010	2009
Rupees in '000			
6 LOANS AND RECEIVABLES			
Term deposit receipts	6.1	50,000	-

6.1 Term deposit receipts from various banking companies carry interest rates ranging from 12.5% to 12.6% and are maturing at various dates upto August 9, 2010.

	2010	2009
Rupees in '000		
7 DIVIDEND AND OTHER RECEIVABLES		
Dividend receivable	8	2,537
Income accrued on term deposit receipts	76	-
Income accrued on term finance certificates	1,706	6,008
Profit receivable on saving deposits	295	452
Other receivable	257	-
	2,342	8,997

8 SECURITY DEPOSITS AND PREPAYMENTS

Security deposits with		
- National Clearing Company of Pakistan Limited	3,500	3,500
- Central Depository Company of Pakistan Limited	100	100
	3,600	3,600

9 PRELIMINARY EXPENSES AND FLOATATION COSTS

Opening balance	5,000	5,000
Less: accumulated amortisation	2,290	1,290
Closing balance	2,710	3,710

9.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. This expenditure is being amortised over a period of five years commencing from March 16, 2008.

	Note	2010	2009
Rupees in '000			
10 PAYABLE TO MANAGEMENT COMPANY			
Management fee	10.1	497	861
Sales load payable	10.2	23	293
		520	1,154

10.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. In the current year, the Management Company has charged remuneration at a rate of 1.5 percent (2009: 3 percent from July 01, 2008 to August 31, 2008 and at a rate of 1.5 percent from September 1, 2008 to June 30, 2009) of the average annual net assets of the Fund.

10.2 Sales load payable comprises of Rs 23 thousand (2009: Nil) payable to the Management Company and Rs Nil (2009: Rs 293 thousand) payable to distribution agents of the Fund.

	Note	2010	2009
Rupees in '000			
11 PAYABLE TO THE TRUSTEE			
Trustee fee	11.1	66	115
CDC settlement charges		3	2
		69	117

11.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed and Offering Document as per the tariff specified therein, based on the daily net asset value of the Fund. As per the Trust Deed and Offering Document, the tariff structure applicable to the Fund in respect of trustee fee for the year ended June 30, 2010 is as follows:

Amount of funds under management (average NAV)

Upto Rs 1,000 million

On an amount exceeding Rs 1,000 million

The remuneration is paid to the Trustee monthly in arrears.

Tariff per annum

Rs 0.7 million or 0.20% per annum of NAV whichever is higher.

Rs 2 million plus 0.10% per annum of NAV exceeding Rs 1,000 million.

12 ANNUAL FEE PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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

13 ACCRUED AND OTHER LIABILITIES

Auditors' remuneration
Brokerage payable
Provision for Workers' Welfare Fund
Others

	2010	2009
	Rupees in '000	
	350	250
	0	439
	1,178	-
	376	522
	1,904	1,211

14 FINANCIAL INSTRUMENTS BY CATEGORY

	As at June 30, 2010		
	Loans and receivables	Assets at fair value through profit or loss	Total
	(Rupees in '000)		
Assets			
Bank balances	66,796	-	66,796
Investments	-	275,290	275,290
Loans and receivables	50,000	-	50,000
Receivable against sale of investments	5,378	-	5,378
Dividend and other receivables	2,342	-	2,342
Security deposits	3,600	-	3,600
	128,116	275,290	403,406

	As at June 30, 2010		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	(Rupees in '000)		
Liabilities			
Payable to Management Company	-	520	520
Payable to the Trustee	-	69	69
Payable against purchase of investments	-	-	-
Payable against redemption of units	-	8	8
Accrued and other liabilities	-	726	726
	-	1,323	1,323

	As at June 30, 2009		
	Loans and receivables	Assets at fair value through profit or loss	Total
	(Rupees in '000)		
Assets			
Balances with banks	176,657	-	176,657
Investments	-	532,341	532,341
Receivable against sale of investments	2,401	-	2,401
Dividend and other receivables	8,997	-	8,997
Security deposits	3,600	-	3,600
	191,655	532,341	723,996

	As at June 30, 2009		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	(Rupees in '000)		
Liabilities			
Payable to Management Company	-	1,154	1,154
Payable to the Trustee	-	117	117
Payable against purchase of investments	-	10,252	10,252
Accrued and other liabilities	-	1,210	1,210
	-	12,733	12,733

15 CONTINGENCIES AND COMMITMENTS

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

16	AUDITORS' REMUNERATION	Note	2010	2009
			Rupees in '000	
	Annual statutory audit fee		250	200
	Half yearly review fee		175	125
	Other certifications		100	85
	Out of pocket expenses		45	-
			570	410
17	CASH AND CASH EQUIVALENTS			
	Bank balances	4	66,796	176,657
	Term deposit receipts		50,000	-
			116,796	176,657

18 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund (WWF) Ordinance, 1971, whereby the definition of "industrial establishment" was amended to include therein, any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 (Ordinance of 1969) applies. Management Company of the Fund, based on a legal advice obtained through Mutual Funds Association of Pakistan (MUFAP) was of a firm view that Collective Investment Scheme (CIS) were not establishments and therefore, the WWF Ordinance should not be applicable to such schemes. The MUFAP had also filed a constitutional petition in the High Court of Sindh (the Court) on behalf of the members, challenging the applicability of WWF to the CIS. The said petition was dismissed by the Court vide its order dated May 25, 2010 on the main ground that the MUFAP (Petitioner) could not be held entitled to maintain a petition in respect of its members as it was not the aggrieved party. The Judgment recognises that the Trusts are covered by the scope of the definition of commercial establishment as contained in Ordinance of 1969 and, therefore, mutual funds and other funds appear to be covered unless it can be established that they fall within the scope of exemption set out in Section 5 (1)(iii) of the Ordinance of 1969 i.e. the Trusts not run for profit or in the course of business does not make any profit This could be examined when the aggrieved parties directly approached the Court for redressal.

In the meantime, clarification has been obtained by the MUFAP from the Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, which, through their letter nos. WWF (A - II)11.(5)/2010 dated July 8, 2010 and July 15, 2010, has clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy.

Various legal opinions are available on this matter. Some legal advisors are of the view that this levy is not applicable on CIS and therefore provision is not required to be created while there is also a contrary view according to which this levy has become applicable on the fund and the letter issued by the Ministry of Labour & Manpower, Government of Pakistan has no legal significance.

Because of ambiguity created based on conflicting opinions by lawyers and as a matter of abundant caution the Management Company of the Fund has decided to recognize a provision for WWF in these financial statements.

19 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded any tax liability in respect of income relating to the current year as the management company intends to distribute at least 90 percent of the Fund's accounting income for the year as reduced by capital gains (whether realised or unrealised) to its unit holders.

20 TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES

- 20.1** Connected persons of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, the Trustee, directors and key management personnel of the management company and other associated undertakings.
- 20.2** The transactions with connected persons are in the normal course of business and at contracted rates.
- 20.3** 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.

20.4 Details of the transactions with the connected persons during the year are as follows:

	Year ended June 30, 2010	Year ended June 30, 2009
	Rupees in '000	
MCB Bank Limited		
- Profit received on saving accounts	1,984	14,998
- Dividend income received	254	83
MCB Asset Management Company Limited		
- Remuneration of the Management Company	9,059	17,065
- Sales load paid	18	405
- Preliminary expenses and floatation costs	1,000	1,000
Hub Power Company Limited		
- Dividend income received	3,762	808
Nishat Mills Limited		
- Dividend income received	419	2,680
Central Depository Company of Pakistan Limited		
- Remuneration of the Trustee	1,208	1,733
- CDC settlement charges	112	121
Central Depository Company of Pakistan Limited - Gratuity Fund		
- Redemption of units: Nil (2009: 10,013 units)	-	819
Key management personnel		
- Redemption of 300 units (2009: 2,652 units)	21	216

	2010	2009
	Rupees in '000	
20.5 Amount outstanding as at year end		
MCB Bank Limited		
- Bank balances	17,567	131,414
- Profit receivable on saving accounts	104	452
- 1,000,000 units held as at June 30, 2010 (2009: 1,000,000 units)	78,225	67,020
- 40,219 shares held by the Fund as at June 30, 2010 (2009: 215,000 shares)	7,810	33,331
- Sales load payable	-	292
MCB Asset Management Company Limited		
- Remuneration payable to Management Company	497	861
- Sales load payable	23	-
Central Depository Company of Pakistan Limited		
- Remuneration payable to the Trustee	66	115
- CDC settlement charges	3	2
- Security deposit	100	100
Capital Development Authority		
- 755,805 units held as at June 30, 2010 (2009: Nil)	59,123	-
D.G Khan Cement Company Limited. Employees Provident Trust		
- 15,335 units held as at June 30, 2010 (2009: 15,335 units)	1,200	1,028
- 52,200 shares held by the Fund as at June 30, 2010 (2009: Nil)	1,233	-
Hub Power Company Limited		
- 1,119,292 shares held by the Fund as at June 30, 2010 (2009: 2,261,000 shares)	35,773	61,250
Nishat Mills Limited		
- 221,671 shares held by the Fund as at June 30, 2010 (2009: Nil)	9,558	-
Siddiqsons Tin Plate Limited - Staff Provident Fund Trust		
- 15,000 units held as at June 30, 2010 (2009: Nil)	1,173	-
Trustees Karachi Electric Provident Fund		
- 1,500,000 units held as at June 30, 2010 (2009: Nil)	117,338	-
Key management personnel		
- Units held as at June 30, 2010: Nil (2009: 300 units)	-	20

21 PARTICULARS OF THE INVESTMENT COMMITTEE AND THE FUND MANAGER

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

2010				
	Designation	Experience in years	Qualification	
1	Mr. Yasir Qadri	Chief Executive Officer	15	MBA
2	Mr. Kashif Rafi	Fund Manager -Fixed Income	9	MBA & CFA Level I
3	Mr. Muhammad Asim	Fund Manager - Equity Funds	7	MBA & CFA
4	Mr. Shahab Farooq	Head of Research	8	MBA
5	Syed Akbar Ali	Senior Research Analyst	5	MBA & CFA Level II

21.2 Muhammad Asim and Kashif Rafi are the Fund Managers. Muhammad Asim is also managing MCB Dynamic Stock Fund and MCB Sarmaya Mehfooz Fund I while Kashif Rafi is also managing MCB Cash Management Optimizer and MCB Dynamic Cash Fund.

22 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

	2010 (Percentage)
1 Invest & Finance Securities (Pvt) Limited	11.97%
2 KASB Securities Limited	9.91%
3 Jahangir Siddiqui Capital Markets Limited	9.30%
4 Invest Capital & Securities (Pvt) Ltd	8.76%
5 Invisor Securities (Pvt) Limited	6.59%
6 Arif Habib Limited	6.38%
7 Foundation Securities Limited	5.72%
8 Elixir Securities Pakistan (Pvt) Limited	4.68%
9 I.I. Kodvai Securities (Pvt) Ltd	4.48%
10 Aqeel Karim Dhedhi Securities (Pvt) Ltd	4.10%

	2009 (Percentage)
1 Invest & Finance Securities (Private) Limited	16.46
2 Jahangir Siddiqui Capital Markets Limited	8.00
3 Elixir Securities Pakistan (Private) Limited	7.76
4 I.I. Kodvai Securities (Private) Ltd	7.58
5 Fortune Securities (Private) Ltd	7.10
6 Foundation Securities Limited	6.92
7 Invest Capital & Securities (Private) Ltd	6.27
8 Arif Habib Limited	5.75
9 Ismail Iqbal Securities (Private) Ltd	5.56
10 KASB Securities Limited	5.52

23 PATTERN OF UNIT HOLDING

As at June 30, 2010				
Category	Number of unit holders	Number of units held	Net asset value of the amount invested	Percentage of total investment
(Rupees in '000)				
Individuals	1,700	1,124,712	87,981	21.83
Associated companies / Directors	2	1,015,335	79,424	19.70
Insurance companies	-	-	-	-
Banks / DFIs	1	237,819	18,603	4.62
NBFCs	-	-	-	-
Retirement funds	12	1,914,969	149,799	37.17
Public limited companies	1	995	78	0.02
Others	6	858,495	67,156	16.66
	1,722	5,152,325	403,041	100.00

As at June 30, 2009

Category	Number of unit holders	Number of units held	Net asset value of the amount invested	Percentage of total investment
(Rupees in '000)				
Individuals	2,645	1,970,320	132,051	18.49
Associated companies / Directors	2	1,015,335	68,048	9.53
Insurance companies	2	200,067	13,409	1.88
Banks / DFIs	3	1,980,582	132,739	18.59
NBFCs	1	223,341	14,968	2.10
Retirement funds	24	4,441,073	297,642	41.68
Public limited companies	1	995	67	0.01
Others	8	823,103	55,162	7.72
	2,686	10,654,816	714,086	100.00

24 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 16th, 17th, 18th, and 19th Board meetings were held on July 01, 2009, October 09, 2009, February 23, 2010 and April 22, 2010 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of persons	Number of meetings held	Number of Meetings			Meetings not attended
		Attendance required	Attended	Leave granted	
1 Mr. Mian Muhammad Mansha	4	4	4	-	
2 Mr. Atif Aslam Bajwa	4	4	2	2	17th & 19th meeting
3 Mr. Ali Munir	4	4	2	2	17th & 19th meeting
4 Mr. Usman Ali Usmani	4	4	4	-	
5 Mr. Ahmed Jehangir	4	4	4	-	
6 Mr. Waliullah Shah	4	4	4	-	
7 Mr. Samir Saigol *	4	2	2	-	
8 Mr. Haroun Rashid *	4	2	2	-	
9 Mr. Yasir Qadri (Chief Executive Officer)	4	4	4	-	
10 Mr. Saqib Saleem (CFO & Company Secretary)	4	4	4	-	

* Directors appointed during the year and only two meetings of the Board were held after their appointment.

25 FINANCIAL RISK MANAGEMENT

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

25.1 Market risk

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

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

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

25.1.1 Currency risk

Currency risk is the risk that the fair value or future cashflows 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.

25.1.2 Interest rate risk

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

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing term finance certificates exposing the Fund to cashflow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on the last repricing date of these term finance certificates, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 0.142 million (2009: Rs 0.426 million).

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2010, the Fund does not hold any fixed rate instrument which are subject to interest rate risk.

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

June 30, 2010						
Yield / effective interest rate	Total	Exposed to interest rate risk			Not exposed to interest rate risk	
		Upto three months	More than three months and upto one year	More than one year		
%		Rupees in '000				
On-balance sheet financial instruments						
Financial assets						
Bank balances	5.00 - 10.5	66,796	66,796	-	-	-
Investments						
- Financial assets at fair value through profit or loss	13.14% to 14.73%	275,290	50,297	-	-	224,993
Loans and receivables	12.5% to 12.6%	50,000	50,000	-	-	-
Receivable against sale of investment		5,378	-	-	-	5,378
Dividend and other receivable		2,342	-	-	-	2,342
Security deposits		3,600	-	-	-	3,600
		403,406	167,093	-	-	236,313
Financial liabilities						
Payable to the Management Company		520	-	-	-	520
Payable to the Trustee		69	-	-	-	69
Payable against redemption of units		8	-	-	-	8
Payable against purchase of investments		-	-	-	-	-
Accrued and other liabilities		726	-	-	-	726
		1,323	-	-	-	1,323
On-balance sheet gap		402,083	167,093	-	-	234,990
Off-balance sheet financial instruments		-	-	-	-	-

June 30, 2009						
Yield / effective interest rate	Total	Exposed to interest rate risk			Not exposed to interest rate risk	
		Upto three months	More than three months and upto one year	More than one year		
%		Rupees in '000				
On-balance sheet financial instruments						
Financial assets						
Bank balances	5.00 - 9.25	176,657	176,657	-	-	-
Investments						
- Financial assets at fair value through profit or loss	11.1 - 17.58	532,341	158,657	-	-	373,684
Receivable against sale of investment		2,401	-	-	-	2,401
Dividend and other receivable		8,997	-	-	-	8,997
Security deposits		3,600	-	-	-	3,600
		723,996	335,314	-	-	388,682
Financial liabilities						
Payable to the Management Company		1,154	-	-	-	1,154
Payable to the Trustee		117	-	-	-	117
Payable against purchase of investments		10,252	-	-	-	10,252
Accrued and other liabilities		1,210	-	-	-	1,210
		12,733	-	-	-	12,733
On-balance sheet gap		711,263	335,314	-	-	375,949
Off-balance sheet financial instruments		-	-	-	-	-

25.1.3 Price Risk

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

In case of 5% increase / decrease in KSE 100 index on June 30, 2010, net income for the year would increase / decrease by Rs. 10.689 million (2009: Rs. 19.436 million) and net assets of the Fund would increase / decrease by the same amount as a result of gains / losses on equity securities at fair value through profit or loss.

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

25.2 Credit risk

Credit risk represents the risk of a loss if the counterparties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in term finance certificates, loans and receivables and bank balances. The credit risk on liquid fund is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies and investment guidelines (approved by Investment Committee) require the Fund to invest in debt securities that have been rated as investment grade by a well known rating agency.

The analysis below summarises the credit quality of the Fund's investment in term finance certificates as at June 30, 2010 and June 30, 2009:

Term Finance Certificates by rating category	June 30, 2010	June 30, 2009
A, A-, A+	27%	43%
AA, AA-, AA+	73%	57%
Bank balances by rating category		
A1+	100%	100%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2010 is the carrying amount of the financial assets.

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 concentration of credit risk.

25.3 Liquidity risk

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

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

The Regulations allow the Fund to borrow in the short term to ensure settlement. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

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

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

June 30, 2010				
Total	Upto three months	Over three months and upto one year	Over one year	
(Rupees in '000)				
Payable to the Management Company	520	520	-	-
Payable to the Trustee	69	69	-	-
Payable against redemption of units	8	8	-	-
Payable against purchase of investments	-	-	-	-
Accrued and other liabilities	726	726	-	-
	1,323	1,323	-	-

June 30, 2009				
Total	Upto three months	Over three months and upto one year	Over one year	
(Rupees in '000)				
Payable to the Management Company	1,154	1,154	-	-
Payable to the Trustee	117	117	-	-
Payable against redemption of units	-	-	-	-
Payable against purchase of investments	10,252	10,252	-	-
Accrued and other liabilities	1,210	1,210	-	-
	12,733	12,733	-	-

26 UNIT HOLDERS' FUND RISK MANAGEMENT

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

The Fund has no restriction on the offering and redemption of units. There is no specific capital requirement which is applicable to the Fund.

The Fund's objectives when managing unit holders' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong base of assets to meet unexpected losses or opportunities.

In accordance with the risk management policies as stated in note 25, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the reporting date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value as the items are short-term in nature.

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

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

	As at June 30, 2010			
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
ASSETS				
Investment in securities	224,993	50,297	-	275,290

28 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 01, 2010 has approved a final distribution in respect of the year ended June 30, 2010 of Rs 10.0890 per unit (2009: Nil) amounting to Rs 51.982 million (2009: Nil). The financial statements of the Fund for the year ended June 30, 2010 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2011.

29 CORRESPONDING FIGURES

Corresponding figure have been rearranged and reclassified wherever necessary, for the purpose of comparison and better presentation. During the current year, there were no major reclassifications.

30 GENERAL

Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

31 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 07, 2010 by the Board of Directors of the Management Company.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

Organization

Management Company

MCB Asset Management Company Limited
8th Floor, Techno City Corporate Tower,
Hasrat Mohani Road, Karachi.
T 92 21 32276900-907
F 92 21 32276908

Board of Directors

Mian Mohammad Mansha / Chairman
Ali Munir
Mohammad Usman Ali Usmani
S. Waliullah Shah
Ahmed Jahangir
Haroun Rashid
Samir Iqbal Saigol
Yasir Qadri / Chief Executive Officer

Audit Committee

Ali Munir / Chairman
S. Waliullah Shah / Member
Ahmed Jahangir / Member

Chief Financial Officer & Company Secretary

Muhammad Saqib Saleem

Trustee

Central Depository Company of Pakistan Limited
CDC House, 99-B, Block 'B', S.M.C.H.S.
Main Shara-e-Faisal Karachi-74400

Auditors

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

Legal Adviser

Bawany & Partners,
Room No. 404, 4th Floor, Beaumont Plaza
Beaumont Road, Civil Lines, Karachi.

Bankers

MCB Bank Limited
Bank Alfalah Limited
United Bank Limited
Standard Chartered Bank Limited
Faysal Bank Limited

Transfer Agent

MCB Asset Management Company Limited
8th Floor, Techno City Corporate Tower,
Hasrat Mohani Road, Karachi.
T 92 21 32276900-907
F 92 21 2276908
E info@mcbamc.com.pk
W www.mcbamc.com.pk

Directors' Report

For the MCB Cash Management Optimizer under management of
MCB Asset Management Company Limited

The Board of Directors of MCB Asset Management Company Limited, the Management Company of MCB Cash Management Optimizer (MCB CMOP), is pleased to present the first Annual Report on the affairs of MCB CMOP for the year ending June 30, 2010.

MCB Asset Management Company Limited continued improving its position amongst the top asset management companies in the country, where during a very short history of three and a half years, the company sailed through the most turbulent and rapidly changing economic conditions of the country. The outgoing year brought some recovery to the overall economic environment where MCB AMC managed to out-perform the industry growth. The total assets under management by MCB AMC rose to PKR 14.2 billion as on June 30, 2010 compared to PKR 10.8 billion as on June 30, 2009.

Economy and Money Market Overview

During the year under review, short term money market rates remained relatively lower amid better liquidity in the system coupled with successive cuts in the policy discount rate. Broad Money (M2), a key barometer for money supply, went up by 12.5% during the year. The growth in monetary aggregates though was mainly contributed by the growth in Net Domestic Asset (NDA), Net Foreign Asset (NFA) growth has also been encouraging, which is contrary to the last year's net outflow in NFA.

Considering the revival in macroeconomic statistics coupled with a need for growth stimulus, the State Bank of Pakistan continued with its relaxed monetary policy stance during the year and cut its policy discount rate cumulatively by 150 bps. One month KIBOR closed the year at 12.2% as compared to 13.0% by the end of last year. The growth momentum of the economy, on the other hand, has also improved during the year with Gross Domestic Product (GDP) registering an increase of 4.1%, owing to a sizeable improvement in manufacturing and services sectors.

External account remained largely under control courtesy a) commodities price melt-down due to global economic slowdown and b) record high remittances. External current account deficit touched US\$ 3.5 billion for the period under review, which was significantly down by 62% on a Year on Year basis. As a result of significantly lower external current account deficit as well as higher financial flows from the donor agencies, the country's foreign exchange reserves touched a record high level of US\$ 16.8 billion in Jun'10. Stable commodities prices have also helped in keeping a check on inflationary pressures along with supporting the country's balance of payment position.

CPI Inflation remained largely under control during the year with an average of 11.7% for FY10. Inflation, though, was relatively lower at 10.3% during the first half of the period under-review, second half remained on a higher side with average inflation of 13.1% amid food inflation and power tariff & fuel adjustments. In addition to resurgence in inflationary pressures during the latter part of the year, fiscal slippages have remained a major cause of

concern for the country's economic managers as they continued to affect the overall liquidity and interest rates scenario.

Government's significant reliance on domestic sources for fiscal deficit funding had made government papers a very attractive investment vehicle for the investors and thus significant activities were witnessed in T-bills and PIBs throughout the year.

Future outlook

Citing resurgence in inflationary pressures and fiscal imbalances as key challenges in FY11, the central bank decided to increase its policy discount rate by 50 bps to 13.0% in its Jul'10 monetary policy review. Devastations caused by floods are likely to affect the country's economic indicators adversely, including GDP growth, inflation and fiscal deficit. Considering flood-related shocks and lack of clarity on foreign inflows, the SBP would maintain a cautious monetary stance going forward. We, however, believe that the materialization of expected foreign inflows should bode well for the domestic liquidity, which could, in turn, bring down interest rates and hence rejuvenate economic growth.

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

Fund's Performance

During the first year of its operations, the net assets of the fund have grown significantly to around PKR 6.5 billion as on June 30, 2010. The investment objective of the fund is to provide investors competitive returns from a low risk portfolio of short duration assets while maintaining high liquidity. The fund is benchmarked against average 3-month deposit rates of AA and above-rated scheduled banks, net of expenses. Your fund, through active management and carefully selected trading positions, was able to yield an annualized return of 10.9% since its inception on 1st Oct 2009, which was significantly higher than the Fund's benchmark return of 7.2% during the same period.

The overall liquidity situation of the system remained relatively better during the fiscal year under-review. Considering the risk-return profile of government papers, your fund kept its exposure significantly towards government papers while maintaining decent allocations towards TDRs. Although your fund maintained decent exposure towards government papers throughout the year, it altered its portfolio's duration actively to take advantage of the fast changing interest rate scenario.

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

Performance Information (%)	MCB CMOP	Benchmark
One Month Return	10.7%	7.4%
Last three Months Return	10.4%	5.6%
Since Inception (October 01, 2009	10.9%	7.2%

Update on Provision for Workers' Welfare Funds

The amendments made through Finance Act, 2008 to the Workers' Welfare Fund (WWF) Ordinance, 1971, brought Mutual Funds in the embed of the said Ordinance. Previously Management Company, based on the legal advise obtained through Mutual Funds Association of Pakistan (MUFAP), was of the view that Collective Investment Schemes (CIS) were not establishments and therefore, WWF will not be applicable to such schemes and in addition to this MUFAP, on behalf CIS also filed a Constitutional Petition in Sindh High Court challenging the applicability of WWF to the CIS. However, after the court order dispensing the filed petition, your Fund has recorded the entire liability and started accruing the provision on daily basis. As a matter of extreme importance and in the interest of unit holders many efforts was made for clarity on applicability of WWF on CIS.

As a result of these efforts, Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, through their letter nos. WWF (A – II)11.(5)/2010 dated July 8, 2010 and July 15, 2010, have clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy.

As mentioned in Note 13 to the Financial Statement, on the basis of clarification letter from Ministry of Labour & Manpower, Workers' Welfare Fund, both the Auditors and MUFAP sought opinion from legal advisors resulting in conflicting views. MUFAP's counsel recommending that after clarification received from the Ministry, Mutual Funds are no longer required to record provision in respect of WWF, whereas most of the auditors have expressed a qualified opinion based on the advice from their legal counsel.

Because of ambiguity created based on conflicting opinions by lawyers and as a matter of abundant caution and prudence, the Management Company of the Fund has decided to recognize the provision for WWF in these financial statements.

Units in issue

During the period, units worth Rs.23.676 billion (including Rs. 382.890 million worth of bonus units) were issued and units with a value of Rs. 17.157 billion were redeemed. As on 30 June 2010 the NAV of the Fund was Rs. 101.8903 per unit.

Income Distribution

During the year your fund earned a net income of Rs. 552.425 million out of which Rs 217.528 million were distributed as interim payout on January 23, 2010 (i.e Rs. 3.3422 per unit), April 22, 2010 (i.e Rs. 2.6092 per unit) and remaining is distributed subsequent to year end (i.e. Rs. 1.8903 per unit).

Code of Corporate Governance

The Management Company of MCB CMOP is committed to observing the Code of Corporate Governance prescribed for listed companies.

1. The financial statements, prepared by the Management Company present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holders' fund. Proper books of account of the Fund have been maintained.
2. Appropriate accounting policies have been adopted and consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
3. International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements.
4. The system of internal control is sound in design and has been effectively implemented and monitored.
5. There is no significant doubt upon the Fund's ability to continue as a going concern.
6. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
7. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
8. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company.
9. In accordance with the requirements of Code of Corporate Governance the Directors of Management Company have developed and signed the "Statement of Ethics and Business Practices".
10. Key financial data is summarized in the Fund Manager Report included in this annual Report.
11. The detailed pattern of unit holding, as required by the Companies Ordinance, 1984 and the Code of Corporate Governance is annexed.

12. Four meetings of the Board of Directors of MCB Asset Management Company Limited were held during the year under review. The attendance of all directors is appended below:

Name	Designation	Meetings		
		Total	Attended	Leave Granted
Mian Mohammad Mansha	Chairman	04	04	-
Mr. Ali Munir	Director	03	01	02
Mr. Usman Ali Usmani	Director	04	04	-
Mr. Atif Aslam Bajwa	Director	03	01	02
Mr. Ahmed Jehangir	Director	04	04	-
Mr. S. Waliullah Shah	Director	04	04	-
Mr. Samir Saigol *	Director	02	02	-
Mr. Haroon Rashid *	Director	02	02	-
Mr. Yasir Qadri	CEO	04	04	-

* Appointed during the year

13. During the year under review no trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary and their spouses and minor children.

Auditors

The fund's external auditors, Messers A.F. Ferguson & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2011. The Audit Committee of the Board has recommended reappointment of A.F. Ferguson & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2011.

Acknowledgements

The Board takes this opportunity to thank its valued unit-holders and investors for their confidence and patronage. In addition, we would like to acknowledge the Securities and Exchange Commission of Pakistan (SECP), State Bank of Pakistan (SBP) and Central Depository Company of Pakistan (Trustee) for their continued support, guidance and cooperation. The Board also would like to take this opportunity to express its appreciation to the employees of MCB Asset Management Company for their dedication, commitment, enthusiasm and hard work for the Company.

For and on behalf of the Board

Yasir Qadri
Chief Executive Officer

Karachi: September 07, 2010

Annexure

	Number of Unit Holders	Units Held
Associated Company, undertakings and related parties		
Adamjee Insurance Co. Ltd.	1	1,553,974
MCB Asset Management Company Limited	1	536,593
MCB AMC Staff Provident Fund	1	11,899
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarbas and Mutual Funds.	13	15,312,108
Director, CEO and their spouses and minor children		
Yasir Qadri	-	-
Executives	5	30,051
Trust	25	1,474,772
Corporate	44	38,108,646
Individuals	412	6,885,404
Others	2	126,104
Unit holding more than ten percent	-	-
	504	64,039,551

Fund Manager's Report

For the MCB Cash Management Optimizer Under Management Of
MCB Asset Management Company Limited

Fund Type and Category

MCB Cash Management Optimizer (MCB CMOP) is an Open-End Money Market Scheme.

Fund Benchmark

The benchmark for MCB CMOP is an average of 3 month deposit rates of AA and above rated scheduled bank for the period of return. The performance of the fund will be compared to its benchmark after deducting all the expenses which are charged to the fund.

Investment Objective

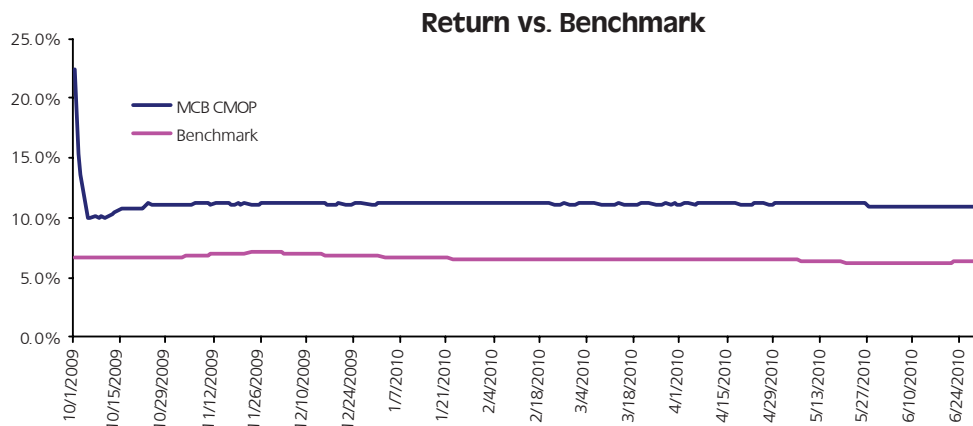
To provide unit-holders competitive returns from a low risk portfolio of short duration assets while maintaining high liquidity. The Fund achieved its objective by posting a decent return while minimizing risk.

Investment Strategy

The Fund will invest the entire net assets in authorized short term money market instruments with a maximum time to maturity of six months. This is intended to reduce risk while maintaining liquidity.

Manager's Review

During its first year of operation, the Fund performed reasonably well and was able to generate an annualized return of 10.9% since its inception on 1st October 2009, which was higher than the Fund's benchmark return of 7.2% during the same period. Considering its objectives, the Fund continued to deploy its assets carefully without aggressively chasing them. Given a very attractive risk-return profile of the short term government papers, the Fund kept a significant exposure in short-end Treasury Bills while also maintaining decent allocations towards term deposits (TDRs). Moreover, the Fund's net assets have grown significantly to PKR 6.5 billion as on June 30, 2010 during the first year of its launch.



Review of Macro-economy and Asset Class

Due to better liquidity in the system during the year, short term money market rates remained in a lower region with 1-month KIBOR closing the year at 12.2%, lower than that of last year's closing rate of 13.0%. Citing the need for growth stimulus and relative improvement in key macro-economic indicators, the central bank maintained its relaxed monetary policy stance during the year with a cumulative cut of 150 bps in the policy discount rate. During the year under review, key monetary indicators have also been better as compared to that of last year with money supply (M2), a key barometer for liquidity, posting a growth of 12.5%. Although significant growth in Net Domestic Asset (NDA) has been a key contributor behind M2 growth during this year as well, decent growth in Net Foreign Assets (NFA) has been encouraging as it was net negative during the previous year.

Commodities prices have remained relatively stable amid lower demand due to global economic slowdown, especially during the first half of the year under review. Relatively stable commodities prices have had a positive bearing on the country's external account as depicted by a significantly lower current account deficit (CAD) of US\$ 3.5 billion during the year. In addition to lower trade deficit, record-high workers' remittances worth US\$ 8.9 billion and decent flows under logistic support from the US were also a major factor behind an improved external current account. A significantly improved current account deficit coupled with decent flows from donor agencies resulted in a positive balance of payment position and hence took the Foreign exchange reserves to record-high levels of US\$ 16.8 billion.

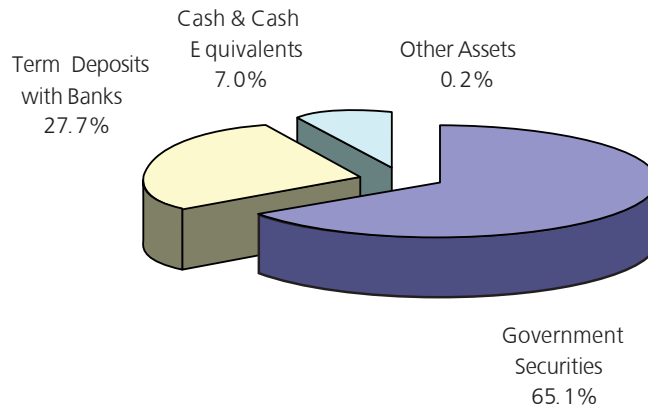
Stable commodities prices during the year also kept the headline inflation under-control with average FY10 YoY CPI inflation at 11.7%. Though, inflation was much lower during the first half of the period under review at 10.3% due to stable prices, inflationary pressures rose significantly during the second half due to gradually rising commodities prices and electricity tariff adjustment and hence ended the second half at an average of 13.1%.

The growth momentum of the economy, on the other hand, has also improved in FY10 with Gross Domestic Product registering an increase of 4.1% for FY10, owing to a sizeable improvement in manufacturing and services sectors. Fiscal account, on the other hand, remained a concerning issue for the economy as it continued to put pressures on the liquidity and interest rate scenario of the system. Significant credit demand by the government coupled with a better credit quality had made government securities a very attractive investment vehicle for the investors.

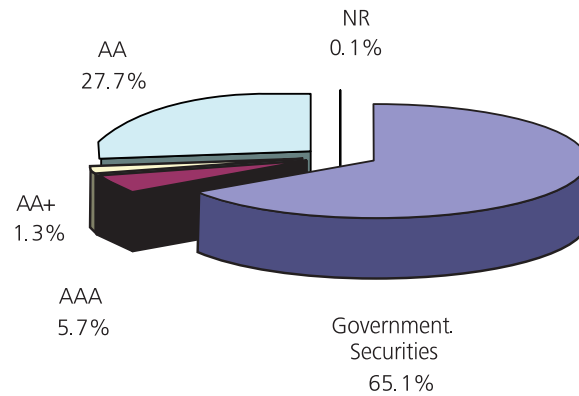
Future Outlook

Considering the rising fiscal imbalances and significantly higher CPI inflation during the second half of the year, the State Bank of Pakistan decided to change the monetary policy direction and hence increased its policy discount rate by 50 bps to 13.0% in its Jul'10 monetary policy review. Key macro-economic indicators are likely to come under severe pressure post floods and as a result of this, the government is planning to present a revised budget for FY11 after the comprehensive damage assessment, the report of which will be available in October 2010. We believe that the timely materialization of pledged foreign flows will hold the key in dictating the liquidity and interest rates direction going forward.

Asset Allocation as on June 30, 2010 (% of total assets)



Asset Quality as on June 30, 2010 (% of total assets)



Performance Table:

Performance Information	2010
Total Net Assets Value – Rs. in million	6,525.010
Net Assets value per unit – Rupees	101.8903
Highest offer price per unit	103.3422
Lowest offer price per unit	100.0276
Highest Redemption price per unit	103.3422
Lowest Redemption price per unit	100.0276
Distribution per unit (interim) – Rs. (23 Jan-10)	3.3422
Net Assets Value before distribution	103.3422
Net Assets Value after distribution	100.0000
Distribution per unit (interim) – Rs. (22-Apr-10)	2.6092
Net Assets Value before distribution	102.6092
Net Assets Value after distribution	100.0000
Distribution per unit (Annual) *– Rs. (30 Jun-10)	1.8903
Net Assets Value before distribution	101.8903
Net Assets Value after distribution	100.0000
Average Annual Return - %	
One year (Inception Date 1 st October 2009)	10.7
Two year	N/a
Three year	N/a
Net Income for the period – Rs. in million	552.425
Income Distribution – Rs. in million	552.425
Accumulated Capital Growth – Rs. in million	-
Weighted average Portfolio Duration (Days) – 30 June 2010	57

* The income distribution is related to the year ended June 30, 2010 but recorded and distributed on July 01, 2010.

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

Unit Holding by Size

<u>Units Range</u>	<u>Nos. of Unit Holders</u>	<u>Units Held</u>
1 – 10,000	344	764,450
10,001 – 100,000	101	3,362,324
100,001 – 1,000,000	44	14,041,246
1,000,001 – onwards	15	45,871,529
Total	504	64,039,551

Mr. Kashif Rafi
Fund Manager

Karachi: September 07, 2010

Statement of Compliance with the best practices of Code of Corporate Governance

For The Period From September 07, 2009 to June 30, 2010

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in Chapter XI Regulation No. 35 of Listing Regulations of the Lahore 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. MCB Cash Management Optimizer is an open end mutual fund and is listed at Lahore Stock Exchange. The Fund being a unit trust scheme does not have its own board of directors. The Board of Directors of MCB Asset Management Company Limited, the Management Company manages has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of non-executive directors. All the directors, except the Chief Executive Officer are non-executive directors.
2. The existing 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 NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year under review one casual vacancy occurred on the Board which was duly filled in by the appointment of another director subsequent to the period ended June 30, 2010.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices' for the Fund which has been signed by all the directors and employees of the Management Company.
6. The Management Company has developed a Vision / Mission statement, overall corporate strategy and significant policies for the Fund that have been approved by the Board. A complete record of particulars of significant policies along with the dates on which these 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 terms and conditions of employment of the Chief Executive Officer, Chief Financial Officer and the Company Secretary have been taken by the Board.
8. The related party transactions are placed before the audit committee and approved by the board of directors on a quarterly basis with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
9. The meetings of the Board were presided over by the Chairman and in his absence by the director elected by the Board 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.

10. The Directors have been provided with the copies of the NBFC (Establishment and Regulation) Rule, 2003, Non- Banking Finance Companies and Notified Entities Regulations, 2008, Companies Ordinance, 1984 , Listing Regulations, Code of Corporate Governance , Prudential Regulations, Company's Memorandum and Articles of Association and all other relevant rules and regulations, and hence are conversant with the relevant laws applicable to the Company and the funds and are aware of their duties and responsibilities.
11. The directors' report relating to the Fund for the period ended June 30, 2010 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 the Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The directors, CEO, and executives do not hold any interest in the units of the Fund other than those disclosed in the note 20 to financial statements.
14. The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee.
16. The meetings of the Audit Committee were held once in every quarter and prior to the approval of interim and final results of the Fund and as required by the Code. The terms of reference of Audit Committee have been approved in the meeting of the Board of Directors and the Committee has been advised to ensure compliance with those terms of reference.
17. The Management Company has outsourced the internal audit function of the Company to M/s Ford Rhodes Sidat Hyder & Co. Chartered Accountants, Karachi, for the period from April 01, 2010 to June 30, 2010, who are considered suitably qualified and experienced for the purpose and well conversant with the policies and procedures of the Fund. For the period September 07, 2009 to March 31, 2010, the management company had its own internal audit function of the fund, which has suitably qualified and experienced people for the purpose and well conversant with the policies and procedure of the fund.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Management Company or units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

Yasir Qadri
Chief Executive Officer
Karachi: September 07, 2010

Review report to the unit holders on the statement of compliance with the best practices of the Code of Corporate Governance

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

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

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

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

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

A.F. Ferguson & Co.
Chartered Accountants
Karachi
Dated: September 07, 2010

Trustee Report to the unit holders

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

The MCB Cash Management Optimizer (the Fund), an open-end fund was established under a trust deed dated July 10, 2009, executed between MCB Asset Management Company Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the period from September 07, 2009 to June 30, 2010, in accordance with the provisions of the following:

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

Muhammad Hanif Jakhura

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi: October 21, 2010

Independent auditors' report to the unit holders

We have audited the accompanying financial statements of MCB Cash Management Optimizer which comprise the statement of assets and liabilities as at June 30, 2010, and the related income statement, statement of comprehensive income, distribution statement, cash flow statement and statement of movement in unit holders' funds for the period from September 7, 2009 to June 30, 2010 and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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 June 30, 2010 and of its financial performance, cash flows and transactions for the period from September 7, 2009 to June 30, 2010 in accordance with approved accounting standards as applicable in Pakistan.

Other matters

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

A. F. Ferguson & Co.
Chartered Accountants
Engagement Partner: Salman Hussain
Karachi
Dated: September 07, 2010

>> FINANCIAL STATEMENT

MCB CASH MANAGEMENT OPTIMIZER STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2010

	Note	June 30, 2010 (Rupees in '000)
ASSETS		
Bank balances	4	477,788
Investments	5	4,275,051
Loans and receivables	6	1,820,000
Receivable against sale of investments		6
Other receivables	7	4,229
Preliminary expenses and floatation costs	8	4,249
Total assets		6,581,323
LIABILITIES		
Payable to the Management Company	9	11,589
Payable to the Trustee	10	642
Payable to the Securities and Exchange Commission of Pakistan	11	3,185
Payable against purchase of investments		9,957
Payable on redemption of units		18,893
Accrued and other liabilities	12	12,047
Total liabilities		56,313
NET ASSETS		6,525,010
Unit holders' fund (as per statement attached)		6,525,010
CONTINGENCIES AND COMMITMENTS		
	14	
		(Number of units)
NUMBER OF UNITS IN ISSUE		64,039,551
		(Rupees)
NET ASSET VALUE PER UNIT	3.9	101.89

The annexed notes 1 to 30 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB CASH MANAGEMENT OPTIMIZER INCOME STATEMENT

FOR THE PERIOD FROM SEPTEMBER 7, 2009 TO JUNE 30, 2010

	Note	For the period from September 7, 2009 to June 30, 2010 (Rupees in '000)
INCOME		
Capital gain on sale of investments		26,837
Income from government securities		295,479
Profit on money market placement		68,319
Profit on bank deposits and term deposit receipts	15	118,991
		509,626
Net unrealised appreciation on re-measurement of investments classified as ' financial assets at fair value through profit or loss'		2,789
		512,415
EXPENSES		
Remuneration of the Management Company		51,289
Remuneration of the Trustee		4,997
Annual fee - Securities and Exchange Commission of Pakistan		3,185
Brokerage and settlement charges		1,104
Amortisation of preliminary expenses and floatation costs		751
Auditors' remuneration	16	650
Other expenses		881
		62,857
Net income from operating activities		449,558
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed		114,141
Provision for Workers' Welfare Fund	17	(11,274)
Net income for the period before taxation		552,425
Taxation	18	-
Net income for the period after taxation		552,425
Other comprehensive income for the period		-
Total comprehensive income for the period		552,425
Earnings per unit	3.13	

The annexed notes 1 to 30 form an integral part of these financial statements.

MCB CASH MANAGEMENT OPTIMIZER DISTRIBUTION STATEMENT

FOR THE PERIOD FROM SEPTEMBER 7, 2009 TO JUNE 30, 2010

	For the period from September 7, 2009 to June 30, 2010
	(Rupees in '000)
Net income for the period after taxation	552,425
Interim distributions during the period ended June 30, 2010:	
On January 22, 2010 at Rs 3.3422 per unit	
- Cash distribution	(26,712)
- Bonus distribution	(190,816)
On April 22, 2010 at Rs 2.6092 per unit	
- Cash distribution	(21,766)
- Bonus distribution	(192,074)
Undistributed income carried forward	121,057
Undistributed income comprising:	
Realised income	118,268
Unrealised income	2,789
	121,057

The annexed notes 1 to 30 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB CASH MANAGEMENT OPTIMIZER STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND

FOR THE PERIOD FROM SEPTEMBER 7, 2009 TO JUNE 30, 2010

	For the period from September 7, 2009 to June 30, 2010
	(Rupees in '000)
Issue of 229,205,032 units	23,292,695
Issue of 3,828,895 interim bonus units	382,890
Redemption of 168,994,376 units	(17,157,491)
	6,518,094
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(114,141)
Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	2,789
Capital gain on sale of investments	26,837
Other operating income	522,799
Net income for the period	552,425
Interim distributions during the period ended June 30, 2010:	
On January 22, 2010 at Rs 3.3422 per unit	
- Cash distribution	(26,712)
- Bonus distribution	(190,816)
On April 22, 2010 at Rs 2.6092 per unit	
- Cash distribution	(21,766)
- Bonus distribution	(192,074)
Net assets as at June 30, 2010	6,525,010

The annexed notes 1 to 30 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB CASH MANAGEMENT OPTIMIZER CASH FLOW STATEMENT

FOR THE PERIOD FROM SEPTEMBER 7, 2009 TO JUNE 30, 2010

Note	For the period from September 7, 2009 to June 30, 2010
(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income for the period before taxation	552,425
Adjustments for non-cash charges and other items:	
Capital gain on sale of investments	(26,837)
Income from government securities	(295,479)
Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	(2,789)
Amortisation of preliminary expenses and floatation costs	751
Element of (income) / losses and capital (gains) / losses included in prices of units issued less those in units redeemed	(114,141)
	113,930
(Increase) / decrease in assets	
Investments - net	(3,855,408)
Other receivables	(4,229)
	(3,859,637)
Increase / (decrease) in liabilities	
Payable to the Management Company	6,589
Payable to the Trustee	642
Payable on redemption of units	18,893
Payable to the Securities and Exchange Commission of Pakistan	3,185
Accrued and other liabilities	12,047
	41,356
Net cashflow used in operating activities	(3,704,351)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net receipts from issue of units	23,292,695
Net payments on redemption of units	(17,157,491)
Distributions during the period	(48,478)
Net cash generated from financing activities	6,086,726
Net increase in cash and cash equivalents during the period	2,382,375
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	2,382,375

19

The annexed notes 1 to 30 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB CASH MANAGEMENT OPTIMIZER NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM SEPTEMBER 7, 2009 TO JUNE 30, 2010

1 LEGAL STATUS AND NATURE OF BUSINESS

MCB Cash Management Optimizer (the Fund) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) and Non Banking Finance Companies and Notified Entities Regulations, 2008 and was approved as an open end investment scheme by the Securities and Exchange Commission of Pakistan (SECP) on July 30, 2009. It was constituted under a Trust Deed dated July 10, 2009 between MCB Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited as the Trustee, also incorporated under the Companies Ordinance, 1984.

The Management Company of the Fund has been licensed to act as Asset Management Company under the NBFC Rules 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.

The Fund is an open end mutual fund and offers units for public subscription on a continuous basis. The units of the Fund can be transferred to / from other funds managed by the Management Company and can also be redeemed by surrendering to the Fund. The units are listed on the Lahore Stock Exchange.

According to paragraph 37.2 of the Trust Deed, the first accounting period of MCB Cash Management Optimizer shall commence from the date on which the trust property is first paid or transferred to the Trustee. The subscription towards the seed capital of the Fund was received on September 7, 2009. Accordingly, these financial statements have been prepared for the period from September 7, 2009 to June 30, 2010.

The Fund is purely a money market fund and has a policy to invest in short term corporate debt and government securities, repurchase agreements, term deposit and money market placements with scheduled banks, with a maximum maturity of 180 days and weighted average maturity upto 90 days. The objective of the fund is to provide competitive returns from a low risk portfolio of short duration assets while maintaining high liquidity.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of AM2- to the Management Company and a fund stability rating of AA(f) to the Fund.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

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

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

2.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The area where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments (note 3.1 and 5).

2.4 Accounting Convention

These financial statements have been prepared under the historical cost convention except for investments classified as 'financial assets at fair value through profit or loss' which are carried 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

3.1 Financial assets

3.1.1 Classification

The Fund classifies its financial assets either as 'Financial assets at fair value through profit or loss' or as 'loans and receivables'. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading in the 'Financial assets at fair value through profit or loss' category.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

3.1.2 Regular way contracts

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

3.1.3 Initial recognition and measurement

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

3.1.4 Subsequent measurement

Subsequent to initial recognition, the investments of the Fund in government securities, designated by the management as 'financial assets at fair value through profit or loss', are valued on the basis of rates announced by the Financial Market Association of Pakistan.

Net gains and losses arising on changes in the fair value of financial assets carried at fair value through profit or loss are taken to the income statement.

Subsequent to initial recognition, loans and receivables are carried at amortised cost, using the effective interest rate method.

3.1.5 Impairment

The Fund assesses at each balance sheet date whether there is objective evidence that the financial asset or a group of financial assets is impaired. If any such indication exists, the recoverable amount of such asset or group of assets is estimated and impairment losses are recognised in the income statement.

For financial assets classified as 'loans and receivables', a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying value and the present value of estimated future cashflows, discounted at the original effective interest rate.

3.1.6 Derecognition

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

3.1.7 Offsetting of financial assets and liabilities

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

3.2 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances and short-term highly liquid investments with original maturities of three months or less.

3.3 Derivatives

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

3.4 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recorded at fair value and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

3.5 Securities under repurchase / resale agreements

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

3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from September 30, 2009, as per the requirement of the Trust Deed of the Fund.

3.7 Provisions

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

3.8 Taxation

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

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

3.9 Net asset value per unit

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

3.10 Issue and redemption of units

Units issued are recorded at the offer price of the day on which funds are received in the Trustee bank accounts during business hours. The offer price represents the net asset value per unit as of the close of the previous business day.

Units redeemed are recorded at the redemption price announced as of the close of the business day on which a correctly filled-in redemption form is submitted within business hours. The redemption price represents the net asset value per unit as of the close of the previous business day.

3.11 Proposed distributions

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

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

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

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

3.13 Earnings per unit

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

3.14 Revenue recognition

- Mark-up on government securities, letter of placements, commercial paper, certificates of deposits and term deposits are recognised on an accrual basis.
- Income on reverse repurchase transactions are recognised on an accrual basis.
- Profit on bank deposits is recognised on an accrual basis.
- Realised capital gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Dividend income on equity securities is recognised when the right to receive dividend is established.
- Unrealised gains or losses arising on revaluation of investments classified as 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

		Note	2010
		Rupees in '000	
4	BANK BALANCES		
	Saving accounts	4.1	477,788

4.1 These saving accounts carry profit at rates ranging from 5% to 11% per annum.

5 INVESTMENTS

Financial assets at fair value through profit or loss - held for trading
- Investment in government securities

5.1 **4,275,051**

5.1 Financial assets at fair value through profit or loss - held for trading

Investment in government securities

Government securities	Face Value			Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment	
	As at July 1, 2009	Purchased during the period	Disposed / Matured during the period	As at June 30, 2010	Carrying Value	Market value			Appreciation / (diminution)
							Rupees in '000		
							%		
Treasury Bills - 1 year	-	11,386,000	10,336,000	1,050,000	1,024,722	1,023,166	(1,556)	15.68	23.93
Treasury Bills - 6 months	-	12,274,000	9,031,000	3,243,000	3,162,907	3,167,298	4,391	48.54	74.09
Treasury Bills - 3 months	-	6,501,000	6,416,000	85,000	84,633	84,587	(46)	1.30	1.98
Totals	-	30,161,000	25,783,000	4,378,000	4,272,262	4,275,051	2,789	65.52	100.00

		Note	2010
		Rupees in '000	
6	LOANS AND RECEIVABLES		
	Term deposit receipts	6.1	1,820,000
			1,820,000

6.1 Term deposit receipts from various banking companies carry interest rates ranging from 12.5% to 12.6% and are maturing at various dates upto August 9, 2010.

		2010
		(Rupees in '000)
7	OTHER RECEIVABLES	
	Profit on saving deposits	2,147
	Profit on term deposit receipts	2,082
		4,229

8 PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation cost incurred
Less: amortisation during the period
Closing balance

5,000
751
4,249

8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. This expenditure is being amortised over a period of five years commencing from September 30, 2009 as per the requirement set out in the Trust Deed of the Fund.

		Note	2010
		(Rupees in '000)	
9	PAYABLE TO THE MANAGEMENT COMPANY		
	Remuneration of the Management Company	9.1	6,589
	Preliminary expenses and floatation charges	9.2	5,000
			11,589

9.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding 3% of the average annual net assets of the Fund and thereafter of an amount equal to 2% of such assets of the Fund. The remuneration began to accrue from the close of the Initial Public Offer period on September 30, 2009. The Management Company has charged remuneration at a rate of 10% on the daily Gross earnings of the fund with a cap of 3% per annum and a floor of 0.25% per annum of average daily net assets of the Fund. The remuneration is paid to the Management Company on a monthly basis in arrears.

9.2 Preliminary expenses and floatation charges are reimburseable to the Management Company subject to an audit of the expenses. Accordingly, these will be repaid during next year upon the completion of the audit of these financial statements.

10	PAYABLE TO THE TRUSTEE	2010	
		Note	(Rupees in '000)
	Remuneration payable	10.1	642

- 10.1** The trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed and Offering Document as per the tariff specified therein, based on the daily net asset value of the Fund. As per the Trust Deed the tariff structure in respect of trustee fee, applicable to the Fund during the current period, is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs 1,000 million	Rs 0.7 million or 0.2 % p.a. of NAV which ever is higher
On an amount exceeding Rs 1,000 million	Rs 2 million plus 0.1 % p.a. of NAV exceeding Rs 1,000 million

The remuneration is paid to the Trustee on monthly basis in arrears.

11	PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	2010	
		Note	(Rupees in '000)
	Annual fee payable	11.1	3,185

- 11.1** Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme which is a money market scheme is required to pay as annual fee to SECP, at an amount equal to 0.075 % of the average annual net assets of the Fund. The fees begun to accrue from the close of the Initial Public Offer period on September 30, 2009.

12	ACCRUED AND OTHER LIABILITIES	2010	
		(Rupees in '000)	
	Auditors' remuneration		350
	Payable to Workers' Welfare Fund		11,274
	Withholding tax payable		53
	Others		370
			12,047

13 FINANCIAL INSTRUMENTS BY CATEGORY

	As at June 30, 2010		
	Loans and receivables	Assets at fair value through profit or loss	Total
	Rupees in '000		
ASSETS			
Bank balances	477,788	-	477,788
Investments	-	4,275,051	4,275,051
Loans and receivables	1,820,000	-	1,820,000
Other receivables	4,229	-	4,229
	2,302,017	4,275,051	6,577,068
	As at June 30, 2010		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	Rupees in '000		
LIABILITIES			
Payable to the Management Company	-	11,589	11,589
Payable to the Trustee	-	642	642
Payable against purchase of investments	-	9,957	9,957
Payable on redemption of units	-	18,893	18,893
Accrued and other liabilities	-	773	773
	-	41,854	41,854

14 CONTINGENCIES AND COMMITMENTS

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

		For the period from September 7, 2009 to June 30, 2010 (Rupees in '000)
15	PROFIT ON BANK DEPOSITS AND TERM DEPOSIT RECEIPTS	
	Profit on saving deposits	42,274
	Profit on term deposit receipts	76,717
		118,991
16	AUDITORS' REMUNERATION	
	Annual audit fee	250
	Half yearly review fee	175
	Other certifications	150
	Out of pocket expenses	75
		650

17 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund (WWF) Ordinance, 1971, whereby the definition of "industrial establishment" was amended to include therein, any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 (Ordinance of 1969) applies. Management Company of the Fund, based on a legal advice obtained through Mutual Funds Association of Pakistan (MUFAP) was of a firm view that Collective Investment Scheme (CIS) were not establishments and therefore, the WWF Ordinance should not be applicable to such schemes. The MUFAP had also filed a constitutional petition in the High Court of Sindh (the Court) on behalf of the members, challenging the applicability of WWF to the CIS. The said petition was dismissed by the Court vide its order dated May 25, 2010 on the main ground that the MUFAP (Petitioner) could not be held entitled to maintain a petition in respect of its members as it was not the aggrieved party. The Judgment recognises that the Trusts are covered by the scope of the definition of commercial establishment as contained in Ordinance of 1969 and, therefore, mutual funds and other funds appear to be covered unless it can be established that they fall within the scope of exemption set out in Section 5 (1)(iii) of the Ordinance of 1969 i.e. the Trusts not run for profit or in the course of business does not make any profit This could be examined when the aggrieved parties directly approached the Court for redressal.

In the meantime, clarification has been obtained by the MUFAP from the Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, which, through their letter nos. WWF (A - II)11.(5)/2010 dated July 8, 2010 and July 15, 2010, has clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy.

Various legal opinions are available on this matter. Some legal advisors are of the view that this levy is not applicable on CIS and therefore provision is not required to be created while there is also a contrary view according to which this levy has become applicable on the fund and the letter issued by the Ministry of Labour & Manpower, Government of Pakistan has no legal significance.

Because of ambiguity created based on conflicting opinions by lawyers and as a matter of abundant caution the Management Company of the Fund has decided to recognize a provision for WWF in these financial statements.

18 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded a tax liability in respect of income relating to the current period as the management company has distributed more than 90 percent of the Fund's accounting income for the period as reduced by capital gains (whether realised or unrealised) to its unit holders.

		Note	2010 (Rupees in '000)
19	CASH AND CASH EQUIVALENTS		
	Bank balances	4	477,788
	Term deposit receipts	6	1,820,000
	Treasury bill	5.1	84,587
			2,382,375

20 TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES

20.1 Connected persons of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, the Trustee, directors and key management personnel and other associated undertakings.

- 20.2 The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 20.3 Remuneration payable to the Management Company and the fee payable to the Trustee are determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

20.4 Transactions with connected persons during the period

MCB Bank Limited

Profit received on deposit accounts

1,727

MCB Asset Management Company Limited

Remuneration of the Management Company

51,289

Issue of units: 1,000,000

100,000

Issue of bonus units: 30,558

3,056

Redemption of units: 493,965

50,000

Central Depository Company of Pakistan Limited-Trustee

Fee charged during the period

4,997

Adamjee Insurance Company Limited

Issue of units: 40,292,874

4,111,339

Issue of bonus units: 652,634

65,263

Redemption of units: 39,391,533

4,007,839

Adamjee Life Assurance Company Limited

Issue of units: 2,067,790

211,552

Issue of bonus units: 59,933

5,993

Redemption of units: 2,127,723

215,111

First Women Bank Limited

Issue of units: 200,000

20,000

Issue of bonus units: 12,077

1,208

Key Management Personnel

Issue of units: 39,305

4,004

Issue of bonus units: 1,613

161

Redemption of units: 8,920

909

20.5 Amount outstanding as at period end

MCB Bank Limited

Bank balance

105,951

Profit receivable on deposit accounts

373

MCB Asset Management Company Limited

Remuneration payable to the Management Company

6,589

Units held: 536,593

54,673

Central Depository Company of Pakistan Limited-Trustee

Fee payable

642

Adamjee Insurance Company Limited

Units held: 1,553,975

158,334

Key Management Personnel

Units held: 30,051

3,062

21 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

	2010		
	Designation	Experience in years	Qualification
1 Mr. Yasir Qadri	Chief Executive	15	MBA
2 Mr. Kashif Rafi	Fund Manager - Fixed Income	9	MBA & CFA level I
3 Mr. Muhammad Asim	Fund Manager - Equity Funds	7	MBA & CFA
4 Mr. Shahab Farooq	Head of research	8	MBA
5 Mr. Syed Akbar Ali	Senior Research Analyst	5	MBA & CFA level II

- 21.2 Mr. Kashif Rafi is the Manager of the Fund. He is also managing MCB Dynamic Cash Fund and MCB Dynamic Allocation Fund.

22 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

For the
period from
September
7, 2009 to
June 30,
2010

1	IGI Finex Securities Limited	28.16%
2	Invest Capital Investment Bank Limited	22.61%
3	Invisor Securities (Pvt) Limited	13.93%
4	Global Securities Pakistan Limited	9.58%
5	BMA Capital Management Co.	8.00%
6	KASB Securities Limited	5.30%
7	Alfalsh Securities (Pvt) Ltd	4.72%
8	JS Global Capital Limited	2.55%
9	Atlas Capital Markets (Pvt) Limited	2.49%
10	Elixir Securities Pakistan (Pvt.) Limited	2.44%

23 PATTERN OF UNIT HOLDINGS

Category	June 30, 2010			
	Number of unit holders	Number of units held	Net asset value of the amount invested	Percentage of total investment
	(Rupees in '000)			
Individuals	417	6,915,455	704,618	11%
Associated Companies / Directors	3	2,102,466	214,221	3%
Insurance Companies	8	7,045,214	717,839	11%
Banks / DFIs	4	8,119,298	827,278	13%
NBFCs	-	-	-	-
Retirement Funds	23	1,252,312	127,598	2%
Public Limited Companies	13	25,298,801	2,577,703	40%
Others	36	13,306,004	1,355,753	20%
	504	64,039,551	6,525,010	100%

24 ATTENDANCE OF MEETING OF BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

The 17th, 18th, and 19th meetings of the Board of Directors of the Management Company were held on October 09, 2009, February 23, 2010, and April 22, 2010 respectively. Information in respect of attendance by Directors in the meetings is given below:

	Name of person	Number of Meetings Held	Number of meetings			Meeting not attended
			Attendance required	Attended	Leave granted	
1	Mr. Mian Mohammad Mansha	3	3	3	-	-
2	Mr. Atif Aslam Bajwa	3	3	1	2	17th & 19th meeting
3	Mr. Ali Munir	3	3	1	2	17th & 19th meeting
4	Mr. Usman Ali Usmani	3	3	3	-	-
5	Mr. Ahmed Jehangir	3	3	3	-	-
6	Mr. Waliullah Shah	3	3	3	-	-
7	Mr Samir Saigol *	3	2	2	-	-
8	Mr Haroun Rashid *	3	2	2	-	-
9	Mr. Yasir Qadri (Chief Executive Officer)	3	3	3	-	-
10	Mr. Saqib Saleem (CFO & Company Secretary)	3	3	3	-	-

* These directors were appointed during the period. Only two meetings of the Board were held after their appointment.

25 FINANCIAL RISK MANAGEMENT POLICIES

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

25.1 Market risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

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

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

25.1.1 Currency risk

Currency risk is the risk that the fair value or future cashflows 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.

25.1.2 Interest rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

a) Sensitivity analysis for variable rate instruments

As at June 30, 2010, the Fund does not hold any variable rate instruments and is not exposed to cash flow interest rate risk.

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2010 the Fund holds Market Treasury Bills which are classified as 'financial assets at fair value through profit or loss', exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Market Association of Pakistan (FMAP) on June 30, 2010, with all other variables held constant, the net income for the period and net assets would be lower by Rs 8.141 million. In case of 100 basis points decrease in rates announced by the FMAP on June 30, 2010, with all other variables held constant, the net income for the period and net assets would be higher by Rs 8.176 million.

As at June 30, 2010, the Fund also holds term deposit receipts which are classified as 'loans and receivables'. Since 'loans and receivables' are carried at amortised cost, any increase or decrease in market interest rates will not affect the net income for the period nor the net assets of the fund as at June 30, 2010.

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

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

June 30, 2010					
Yield / effective interest rate	Total	Exposed to Yield/Interest rate risk			Not exposed to yield / interest risk
		Upto three months	More than three months and upto one year	More than one year	
%	Rupees in '000				
On-balance sheet financial instruments					
Financial Assets					
Bank balances	5.00 - 11.00	477,788	477,788	-	-
Investments					
- Financial assets at fair value through profit or loss	10.53 - 12.84	4,275,051	4,275,051	-	-
Loans and receivables	12.50 - 12.60	1,820,000	1,820,000	-	-
Other receivables		4,229	-	-	4,229
		6,577,068	6,572,839	-	4,229
Financial Liabilities					
Payable to the Management Company		11,589	-	-	11,589
Payable to the Trustee		642	-	-	642
Payable against purchase of investment		9,957	-	-	9,957
Payable on redemption of units		18,893	-	-	18,893
Accrued and other liabilities		773	-	-	773
		41,854	-	-	41,854
On balance sheet gap		6,535,214	6,572,839	-	(37,625)
Off balance sheet financial instruments		-	-	-	-
Off balance sheet gap		-	-	-	-

25.1.3 Price Risk

Price risk is the risk that the fair value or future cash flow of financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The fund is not exposed to any price risk as no equity securities are held by the Fund as on June 30, 2010.

25.2 Credit risk

Credit risk represents the risk of a loss if counter parties fail to perform as contracted. Credit risk arises from deposits with banks and financial institutions and receivable against sale of investments. The fund places its deposits with banks with sound credit ratings and excellent reputation.

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

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

	2010	
	(Rupees in '000)	Percentage
Bank balances by category		
A1+	477,784	100.00%
A-1+	4	-
Term deposit receipts by category		
A1+	1,820,000	100.00%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2010 is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

Concentration of credit risk

Concentrations of credit risk exist when changes in economic or industry factors similarly affect groups of counter parties 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 creditworthy counter parties thereby mitigating any significant concentrations of credit risk.

25.3 Liquidity risk

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

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

The Fund has the ability to borrow in the short term to ensure settlement. However, during the current period, no borrowing was obtained by the Fund. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

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

June 30, 2010			
Total	Upto three months	Over three months and upto one year	Over one year
(Rupees in '000)			

Liabilities

Payable to the Management Company	11,589	11,589	-	-
Payable to the Trustee	642	642	-	-
Payable against purchase of investment	9,957	9,957	-	-
Payable on redemption of units	18,893	18,893	-	-
Accrued and other liabilities	773	773	-	-
	<u>41,854</u>	<u>41,854</u>	-	-

26 UNIT HOLDERS' FUND RISK MANAGEMENT

The Unit holders' fund is represented by redeemable units. These units are entitled to distributions and to redemptions based on the redemption price that is fixed on the basis of the Fund's net asset value per unit announced on the close of the business day preceding the day on which a correctly filled application for redemption is received. The relevant movements are shown on the Statement of Movement in Unit Holders' Fund.

The Fund has no restrictions on the subscription and redemption of units. However, the Management Company has taken undertaking from the sponsor to invest Rs 100 million for atleast two years in compliance with Regulation 44(3)(e)(ii) of the NBFC Regulations.

The Fund's objectives when managing unit holders' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong base of assets under management.

In accordance with the risk management policies stated in note 25, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption. In addition the Fund can also support liquidity by short-term borrowings or disposal of investments, where necessary.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair values of financial assets and liabilities in active market (e.g. treasury bills) are based on quoted market prices at the close of the trading on the period end date. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or rating agency, and those prices represent actual and regularly occurring market transactions on an arm length's basis.

The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value as the items are short term in nature or periodically repriced.

According to the amendments to International Financial Reporting Standard 7, Financial Instruments: Disclosure - Improving disclosures about financial instruments, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Investments of the Fund carried at fair value are categorised in the level 1 category.

28 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 1, 2010 have approved a final distribution for the year ended June 30, 2010 at the rate of 1.8903%. The financial statements of the Fund for the period ended June 30, 2010 do not include the effect of this appropriation which will be accounted for in the financial statements of the Fund for the year ending June 30, 2011.

29 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 07, 2010 by the Board of Directors of the Management Company.

30 GENERAL

Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

Organization

Management Company

MCB Asset Management Company Limited
8th Floor, Techno City Corporate Tower,
Hasrat Mohani Road, Karachi.
T 92 21 32276900-907
F 92 21 32276908

Board of Directors

Mian Mohammad Mansha / Chairman
Ali Munir
Mohammad Usman Ali Usmani
S. Waliullah Shah
Ahmed Jahangir
Haroun Rashid
Samir Iqbal Saigol
Yasir Qadri / Chief Executive Officer

Audit Committee

Ali Munir / Chairman
S. Waliullah Shah / Member
Ahmed Jahangir / Member

Chief Financial Officer & Company Secretary

Muhammad Saqib Saleem

Trustee

Central Depository Company of Pakistan Limited
CDC House, 99-B, Block 'B', S.M.C.H.S.
Main Shara-e-Faisal Karachi-74400

Auditors

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

Legal Adviser

Bawany & Partners,
Room No. 404, 4th Floor, Beaumont Plaza
Beaumont Road, Civil Lines, Karachi.

Bankers

MCB Bank Limited
Bank Alfalah Limited

Transfer Agent

MCB Asset Management Company Limited
8th Floor, Techno City Corporate Tower,
Hasrat Mohani Road, Karachi.
T 92 21 32276900-907
F 92 21 2276908
E info@mcbamc.com.pk
W www.mcbamc.com.pk

Directors' Report

For the MCB Sarmaya Mehfooz Fund-1 under management of
MCB Asset Management Company Limited

On behalf of the Board of Directors of MCB Asset Management Company Limited (MCB AMC), the Management Company of MCB Sarmaya Mehfooz Fund - 1 (MCB SMF), I am pleased to present the first Annual Report on the affairs of MCB SMF, for the period ended June 30, 2010.

MCB Asset Management Company Limited continued improving its position amongst the top asset management companies in the country where during a very short history of three and a half years, the company sailed through the most turbulent and rapidly changing economic conditions of the country. The outgoing year brought some recovery to the overall economic environment where MCB AMC managed to out-perform the industry growth. The total assets under management by MCB AMC rose to PKR 14.2 billion as on June 30, 2010 compared to PKR 10.8 billion as on June 30, 2009.

Performance Review

In line with the strategy the fund immediately invested 92.79% in term deposit receipts that will ensure capital protection at maturity. To generate active return, the fund remained cautious amid uncertainties on macroeconomic and capital markets front and took only a marginal 0.2% exposure in equities, while rest of funds remained available in cash.

Outlook

Economic management had already been an uphill task for the economic managers and the recent calamity in the form of floods has further aggravated economic pressures. Risks to tracking of key economic indicators, including fiscal account and external support, were already high. Rehabilitation efforts and reconstruction of damaged infrastructure post floods could result in further strains on the fiscal and external accounts, besides receded productive capacity that will affect economic growth. The Government is still focused on carrying out relief efforts and may delay an official assessment of damages.

Major investable sectors in equities and corporate debt markets have not taken any direct hit but the uncertainty on extent of damage and its probable repercussions may keep investors wary of risks to key investment variables including interest rates and overall economic growth. While IMF negotiations are underway for external account support, the International community has come forward and pledged about a billion dollars in the form of aid and grants with the UN. The Foreign office has also increased its efforts to revive FODP forum and realize the Funds committed by its members.

Performance of economy and capital markets is highly dependent on the timely materialization of foreign pledged aids and grants for the rebuilding work. Respective impacts on inflation and money market liquidity would also impact the direction of interest rates and capital market performances eventually.

Update on Provision for Workers' Welfare Funds

The amendments made through Finance Act, 2008 to the Workers' Welfare Fund (WWF) Ordinance, 1971, brought Mutual Funds in the embed of the said Ordinance. Previously, the Management Company, based on the legal advise obtained through Mutual Funds Association of Pakistan (MUFAP), was of the view that Collective Investment Schemes (CIS) were not establishments and therefore, WWF will not be applicable to such schemes and in addition to this MUFAP, on behalf CIS also filed a Constitutional Petition in Sindh High Court challenging the applicability of WWF to the CIS. However, after the court order dispensing the filed petition, your Fund has recorded the entire liability and started accruing the provision on a daily basis. As a matter of extreme importance and in the interest of unit holders many efforts were made for clarity on applicability of WWF on CIS.

As result of these efforts, Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, through their letter nos. WWF (A – II)11. (5)/2010 dated July 8, 2010 and July 15, 2010, have clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy.

As mentioned in Note 13 to the Financial Statement, on the basis of clarification letter from Ministry of Labour & Manpower, Workers' Welfare Fund, both the Auditors and MUFAP sought opinion from legal advisors resulting in conflicting views. MUFAP's counsel recommending that after clarification received from the Ministry, Mutual Funds are no longer required to record provision in respect of WWF, whereas most of the auditors have expressed a qualified opinion based on the advice from their legal counsel.

Because of ambiguity created based on conflicting opinions by lawyers and as a matter of abundant caution and prudence, the Management Company of the Fund has decided to recognize the provision for WWF in these financial statements.

Units in issue

During the year, units worth Rs. 678.768 million units were issued and units worth a value of Rs. 50.103 million were redeemed. As on 30 June 2010 the NAV of the Fund was Rs. 100.2654 per unit.

Income Distribution

During the year your fund earned a net income of Rs. 1.663 million which is distributed subsequent to year end (i.e. Rs. 0.2654 per unit).

Code of Corporate Governance

The Management Company of MCB SMF is committed to observing the Code of Corporate Governance prescribed for listed companies.

1. The financial statements, prepared by the Management Company present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holders' fund. Proper books of account of the Fund have been maintained.
2. Appropriate accounting policies have been adopted and consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
3. International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements.
4. The system of internal control is sound in design and has been effectively implemented and monitored.
5. 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 3.5 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.
6. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
7. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
8. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company.
9. In accordance with the requirements of Code of Corporate Governance the Directors of the Management Company have developed and signed the "Statement of Ethics and Business Practices".
10. Key financial data is summarized in the Fund Manager Report included in this annual Report.
11. The detailed pattern of unit holding, as required by the Companies Ordinance, 1984 and the Code of Corporate Governance is annexed.

12. Four meetings of the Board of Directors of MCB Asset Management Company Limited were held during the period under review. The attendance of all directors is appended below:

Name	Designation	Meetings		
		Total	Attended	Leave Granted
Mian Mohammad Mansha	Chairman	02	02	-
Mr. Ali Munir	Director	02	01	01
Mr. Usman Ali Usmani	Director	02	02	-
Mr. Atif Aslam Bajwa	Director	02	01	01
Mr. Ahmed Jehangir	Director	02	02	-
Mr. S. Waliullah Shah	Director	02	02	-
Mr. Samir Saigol *	Director	02	02	-
Mr. Haroon Rashid *	Director	02	02	-
Mr. Yasir Qadri	CEO	02	02	-

* Appointed during the year

13. During the year under review no trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary and their spouses and minor children.

Auditors

The fund's external auditors, Messers A.F. Ferguson & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2011. The Audit Committee of the Board has recommended reappointment of A.F. Ferguson & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2011.

Acknowledgements

The Board takes this opportunity to thank its valued unit-holders and investors for their confidence and patronage. In addition, we would like to acknowledge the Securities and Exchange Commission of Pakistan (SECP), State Bank of Pakistan (SBP) and Central Depository Company of Pakistan (Trustee) for their continued support, guidance and cooperation. The Board also would like to take this opportunity to express its appreciation to the employees of MCB Asset Management Company for their dedication, commitment, enthusiasm and hard work for the Company.

For and on behalf of the board

Yasir Qadri
Chief Executive Officer

Karachi: September 07, 2010

Annexure

	Number of Unit Holders	Units Held
Associated Company, undertakings and related parties		
MCB Employees Pension Fund	1	508,625
MCB Asset Management Company Limited	1	507,181
Adamjee Insurance Co. Ltd.	1	152,385
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarbas and Mutual Funds.	-	-
Director, CEO and their spouses and minor children		
Yasir Qadri	-	-
Executives	-	-
Trust	-	-
Corporate	-	-
Individuals	352	5,057,879
Others	2	60,934
	357	6,287,005

Fund Manager's Report

For the MCB Sarmaya Mehfooz Fund -1 under management of
MCB Asset Management Company Limited

Fund type and category

MCB Sarmaya Mehfooz Fund – 1 (MCB SMF- 1) is an Open - End Capital Protected Scheme.

Benchmark

The Benchmark of the Fund is 1-year Term Deposit Rate of AA+ rated bank for the same amount and KSE-30 Index in the weightings of Capital Protected Segment and Investment Segment of the Fund.

Investment Objective

The primary objective of the fund is to protect the initial investment value of investors at maturity with secondary objective of providing growth over the period.

In line with its objective, your fund invested the amount necessary to ensure capital protection at maturity in term deposit with bank while the remaining amount is being utilized for providing growth by investing in equities and money market instruments.

Investment Strategy

The investment strategy of the fund is such that the Net Realizable Value of investments shall at least be equal to the initial investment value if the units of the funds are held as per the Minimum Period requirements.

Manager's Review

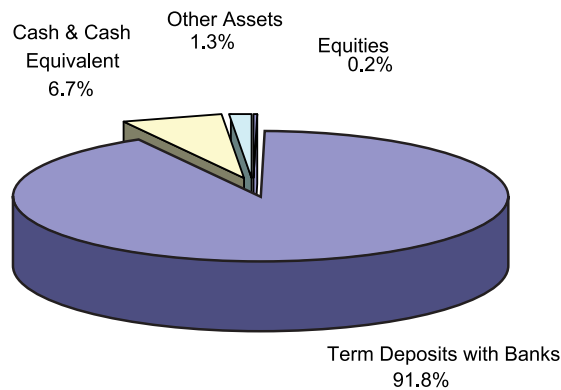
Your Fund, being launched on June 14, 2010, posted a total return of 0.3% during the last few days of the year under review as compared to the benchmark's return of 0.6%. The relative under-performance is due to initial fund deployment lags. Besides the capital protection segment, which is 92% of net assets and being invested in TDR, only 0.2% of total assets were invested in equities owing to uncertainties on the overall macroeconomic environment of the country which are influencing the capital markets performance. The rest of the funds are available as ready cash to be deployed as and when deemed appropriate.

Future outlook

Economic management had already been an uphill task for the economic managers and the recent calamity in the form of floods has further aggravated economic pressures. Risks were already mounting on key macro-economic indicators including fiscal account, CAD, inflation and external support. Rehabilitation efforts and reconstruction of damaged infrastructure post-floods could result in further strains on the fiscal and external account, besides receded productive capacity that will affect the overall economic growth. Although the official estimates are not available as yet, a joint report of ADB and WB is expected to be made available in October 2010, which would clarify the exact damage and loss position.

Although many of the key investable sectors in both equities and corporate debt markets have not been very badly affected, but the uncertainties on the extent of damage and its probable repercussions may keep investors wary of risks to key investment variables including interest rates and overall economic growth. We believe that the performance of the economy and capital markets is highly dependent on the timely materialization of pledged foreign aids and grants for the reconstruction work. Realization of foreign inflows would hold the key in dictating the direction of interest rates and capital market performances eventually.

Asset Allocation as on June 30, 2010 (% of total assets)



Performance Table

Performance Information	2010
Total Net Assets Value – Rs. in million	630.3692
Net Assets value per unit – Rupees	100.2654
Highest offer price per unit	-
Lowest offer price per unit	-
Highest Redemption price per unit	95.2521
Lowest Redemption price per unit	95.0681
Distribution per unit (annual) * – Rs. (June 30, 2010)	0.2654
Net Assets Value before distribution	100.2654
Net Assets Value after distribution	100.0000
Average Annual Return - %	
One year (inception date June 12, 2010)	0.3
Two year	N/a
Three year	N/a
Net income for the period – Rs. in million	1.668
Income Distribution – Rs. in million	1.668
Accumulated Capital Growth – Rs. in million	-

* The income distribution is related to the year ended June 30, 2010 but recorded and distributed on July 01, 2010.

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

Unit Holding by Size

<u>Units Range</u>	<u>Nos. of Unit Holders</u>	<u>Units Held</u>
1 – 10,000	204	698,903
10,001 – 100,000	144	3,330,115
100,001– onwards	9	2,257,986
Total	357	6,287,005

Muhammad Asim, CFA
Fund Manager

Karachi: September 07, 2010

Statement of Compliance with the best practices of Code of Corporate Governance

For The Period From February 23, 2010 to June 30, 2010

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in Chapter XI Regulation No. 35 of Listing Regulations of the Lahore 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. MCB Sarmaya Mehfooz Fund 1 is an open end mutual fund and is listed at the Lahore Stock Exchange. The Fund, being a unit trust scheme, does not have its own board of directors. The Board of Directors of MCB Asset Management Company Limited, the Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of non-executive directors. All the directors, except the Chief Executive Officer are non-executive directors.
2. The existing 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 NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year under review one casual vacancy occurred on the Board which was duly filled in by the appointment of another director subsequent to the period ended June 30, 2010.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices' for the Fund which has been signed by all the directors and employees of the Management Company.
6. The Management Company has developed a Vision / Mission statement, overall corporate strategy and significant policies for the Fund that have been approved by the Board. A complete record of particulars of significant policies along with the dates on which these 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 terms and conditions of employment of the Chief Executive Officer, Chief Financial Officer and the Company Secretary have been taken by the Board.
8. The related party transactions are placed before the audit committee and approved by the board of directors on a quarterly basis with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
9. The meetings of the Board were presided over by the Chairman and in his absence by the director elected by the Board 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.

10. The Directors have been provided with the copies of the NBFC (Establishment and Regulation) Rule, 2003, Non- Banking Finance Companies and Notified Entities Regulations, 2008, Companies Ordinance, 1984 , Listing Regulations, Code of Corporate Governance, Prudential Regulations, Company's Memorandum and Articles of Association and all other relevant rules and regulations and hence are conversant with the relevant laws applicable to the Company and the funds and are aware of their duties and responsibilities.
11. The directors' report relating to the Fund for the period ended June 30, 2010 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 the Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The directors, CEO, and executives do not hold any interest in the units of the Fund other than those disclosed in the note 21 to financial statements.
14. The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee.
16. The meetings of the Audit Committee were held once in every quarter and prior to the approval of interim and final results of the Fund and as required by the Code. The terms of reference of Audit Committee have been approved in the meeting of the Board of Directors and the Committee has been advised to ensure compliance with those terms of reference.
17. The Management Company has outsourced the internal audit function of the Company to M/s Ford Rhodes Sidat Hyder & Co. Chartered Accountants, Karachi, for the period from April 01, 2010 to June 30, 2010, who are considered suitably qualified and experienced for the purpose and well conversant with the policies and procedures of the Fund. For the period February 23, 2010 to March 31, 2010, the management company had its own internal audit function of the fund, which has suitably qualified and experienced people for the purpose and well conversant with the policies and procedure of the fund
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Management Company or units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

Yasir Qadri
Chief Executive Officer
Karachi: September 07, 2010

Review report to the unit holders on the statement of compliance with the best practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of MCB Asset Management Company Limited (the Management Company) of **MCB Sarmaya Mehfooz Fund - 1** (the Fund) to comply with the Listing Regulation No. 35 (Chapter XI) of the Lahore Stock Exchange where the Fund is listed.

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

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

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the period from February 23, 2010 to June 30, 2010.

A.F. Ferguson & Co.
Chartered Accountants
Karachi
Dated: September 07, 2010

Trustee Report to the unit holders

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

The MCB Sarmaya Mehfooz Fund 1 (the Fund), an open-end fund was established under a trust deed dated February 25, 2010, executed between MCB Asset Management Company Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the trustee.

In our opinion, the Management Company has in all material respects managed the Fund for the period from February 23, 2010 to June 30, 2010, in accordance with the provisions of the following:

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

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

Karachi: October 21, 2010

Independent auditors' report to the unit holders

We have audited the accompanying financial statements of MCB Sarmaya Mehfooz Fund 1, which comprise the statement of assets and liabilities as at June 30, 2010, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the period from February 23, 2010 to June 30, 2010 and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2010 and of its financial performance, cash flows and transactions for the period from February 23, 2010 to June 30, 2010 in accordance with approved accounting standards as applicable in Pakistan.

Emphasis of matter paragraph

Without qualifying our opinion we draw attention to note 1.4 to the annexed financial statements which, interalia, states that the annexed financial statements are not prepared on the, a going concern basis, as the Fund is due to mature on June 18, 2011, however, no adjustments are required as the assets and liabilities are stated at values at which these are expected to be realized or settled.

Other matters

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

A. F. Ferguson & Co.

Chartered Accountants

Engagement Partner: Salman Hussain

Karachi

Dated: September 07, 2010

>> FINANCIAL STATEMENT

MCB SARMAYA MEHFOOZ FUND 1 STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2010

	Note	2010 (Rupees in '000)
ASSETS		
Bank balances	4	42,383
Investments	5	1,210
Loans and receivables	6	583,455
Profit receivable	7	4,281
Receivable against sale of investments		505
Security deposits and prepayments	8	3,119
Preliminary expenses and floatation costs	9	1,256
Total assets		636,209
LIABILITIES		
Payable to MCB Asset Management Company Limited - Management Company	10	4,702
Payable to Central Depository Company of Pakistan Limited - Trustee	11	65
Annual fee payable to Securities and Exchange Commission of Pakistan	12	25
Payable against purchase of investment		316
Accrued expenses and other liabilities	13	732
Total liabilities		5,840
NET ASSETS		630,369
UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)		630,369
CONTINGENCIES AND COMMITMENTS		
	14	
		(Number of units)
Number of units in issue		6,287,005
		(Rupees)
NET ASSET VALUE PER UNIT	15	100.27

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB SARMAYA MEHFOOZ FUND 1 INCOME STATEMENT

FOR THE PERIOD FROM FEBRUARY 23 TO JUNE 30, 2010

	Note	For the period from February 23 to June 30, 2010 (Rupees in '000)
INCOME		
Capital gain on sale of investments		13
Profit on bank deposits		982
Income from term deposit receipts		2,359
Income on redemption of units		5
		3,359
Net unrealised diminution on re-measurement of investments classified as ' financial assets at fair value through profit or loss '	5.1	(12)
Total income		3,347
EXPENSES		
Remuneration of MCB Asset Management Company - Management Company		736
Remuneration of Central Depository Company of Pakistan Limited - Trustee		65
Annual fee - Securities and Exchange Commission of Pakistan		25
Brokerage and settlement charges		6
Amortisation of preliminary expenses and floatation costs	9	75
Auditors' remuneration	16	325
Other expenses		377
Total expenses		1,609
Net income from operating activities		1,738
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(36)
Provision for Workers' Welfare Fund	17	(34)
Net income for the period before taxation		1,668
Taxation	18	-
Net income for the period after taxation		1,668
Other comprehensive income for the period		-
Total comprehensive income for the period		1,668
Earnings per unit	19	

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB SARMAYA MEHFOOZ FUND 1 DISTRIBUTION STATEMENT

FOR THE PERIOD FROM FEBRUARY 23 TO JUNE 30, 2010

	For the period from February 23 to June 30, 2010 (Rupees in '000)
Net income for the period after taxation	1,668
Undistributed income carried forward	1,668
Undistributed income comprising of :	
Realised income	1,680
Unrealised income / (loss)	(12)
	1,668

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB SARMAYA MEHFOOZ FUND 1 STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND

FOR THE PERIOD FROM FEBRUARY 23 TO JUNE 30, 2010

	For the period from February 23 to June 30, 2010 (Rupees in '000)
Issue of 6,787,676 units	678,768
Redemption of 500,671 units	(50,103)
	628,665
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	
- amount representing (income) / loss and capital (gains) / losses transferred to income statement	36
Net unrealised diminution on re-measurement of investments classified as ' financial assets at fair value through profit or loss '	(12)
Other net operating income for the period	1,680
	1,668
Net assets as at the end of the period	630,369

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB SARMAYA MEHFOOZ FUND 1 CASH FLOW STATEMENT

FOR THE PERIOD FROM FEBRUARY 23 TO JUNE 30, 2010

Note	For the period from February 23 to June 30, 2010 (Rupees in '000)
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income for the period before taxation	1,668
Adjustments for non-cash charges and other items:	
Net unrealised diminution on re-measurement of investments classified as ' financial assets at fair value through profit or loss '	12
Amortisation of preliminary expenses and floatation costs	75
Element of (income) / losses and capital (gains) / losses included in prices of units issued less those in units redeemed	36
	1,791
(Increase) / decrease in assets	
Investment	(1,411)
Loans and receivable	(583,455)
Profit receivable	(4,281)
Security deposits and prepayments	(3,119)
	(592,266)
Increase / (decrease) in liabilities	
Payable to MCB Asset Management Company Limited - Management Company	3,371
Payable to Central Depository Company of Pakistan Limited - Trustee	65
Annual fee payable to Securities and Exchange Commission of Pakistan	25
Accrued expenses and other liabilities	732
	4,193
Net cash flow on operating activities	(586,282)
CASH FLOWS FROM FINANCING ACTIVITIES	
Receipts from issue of units	678,768
Payments on redemption of units	(50,103)
Net cash inflow from financing activities	628,665
Net increase in cash and cash equivalents during the period	42,383
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	42,383

4

The annexed notes 1 to 31 form an integral part of these financial statements.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director

MCB SARMAYA MEHFOOZ FUND 1

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM FEBRUARY 23 TO JUNE 30, 2010

1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** MCB Sarmaya Mehfooz Fund 1 (the Fund) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and was approved as an investment scheme by the Securities and Exchange Commission of Pakistan (SECP) on March 12, 2010. It was constituted under a Trust Deed dated September 16, 2008 amended by a Supplemental Trust Deed dated February 25, 2010 between MCB Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited as the Trustee, also incorporated under the Companies Ordinance, 1984.
- 1.2** The Management Company of the Fund has been licensed to act as Asset Management Company under the NBFC Rules 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.
- 1.3** The Fund is a capital protected open ended mutual fund, the units of which are listed on the Lahore Stock Exchange. The units of the Fund may be redeemed subject to a Back-end Load. In order to protect the interest of unit holders, the Fund shall remain closed for further investment. However, the Management Company of the Fund with prior approval of SECP, Trustee and after giving seven days notice to existing unit holders may re-open the Fund for taking further investments in accordance with the conditions specified in para 3.12 of the offering document of the Fund.
- 1.4** According to the Offering Document dated June 03, 2010, the duration of the Fund is three hundred and seventy two days following the last day of initial offering period which was June 11, 2010. The Fund will automatically dissolve after the aforementioned period. After the said dissolution the units of the Fund shall stand automatically redeemed within thirty days of the close of the minimum period at the redemption price which shall be determined by the Management Company after completion of the realisation of all investments. The management has not prepared these financial statements on a going concern basis as the Fund has been established for a specific period and will continue its operations till the end of that period. Further, the management has assessed that, except for preliminary expenses and floatation cost, which will be amortized as stated in note 3.5 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.
- 1.5** According to paragraph 37.2 of the Trust Deed, the first accounting period of the Fund shall commence from the date on which the trust property is first paid or transferred to the Trustee i.e February 23, 2010.
- 1.6** The principal activity of the Fund is to invest in deposits with commercial banks and in equity securities. The Fund is a capital protected fund with the objective to protect the Initial Investment value of investors at maturity with secondary objective of providing growth over the period.
- 1.7** The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of AM2- to the Management Company. The Management Company has initiated the process of obtaining the rating of the Fund which is expected to be completed in the year 2011.

2 BASIS OF PREPARATION

2.1 Statement Of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of 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) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by SECP prevail.

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

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

- (a)** IAS 7(Amendment), 'Statement of Cash Flows' (effective from January 1, 2010). The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Fund's financial statements.

- (b) IAS 24 related party Disclosures (revised) (effective from January 1, 2011). The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

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

2.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments (note 3.2 and 5).

2.4 Accounting Convention

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

2.5 Functional and presentation currency

These financial statements are presented in Pakistani Rupees which is the Fund's functional and presentation currency.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

3.1 Cash and cash equivalents

Cash and cash equivalents include demand deposits with banks, other short term highly liquid investments with original maturities of three months or less.

3.2 Financial assets

3.2.1 Classification

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

(a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading in the 'Financial assets at fair value through profit or loss' category.

(b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

3.2.2 Regular way contracts

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

3.2.3 Initial recognition and measurement

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

3.2.4 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss that comprise of equity securities are valued on the basis of the last traded market price available at the stock exchange. Gains and losses arising from changes in the fair values are taken to income statement. Loans and receivables are carried at amortised cost using the effective interest method.

3.2.5 Impairment

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for financial assets classified as 'loans and receivables', a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying value and present value of estimated future cash flows, discounted at original effective interest rate.

3.2.6 Derecognition

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

3.2.7 Offsetting of financial assets and liabilities

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

3.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or has been expired.

3.4 Derivatives

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

3.5 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over the life of the Fund in accordance with the requirements set out in the Trust Deed of the Fund.

3.6 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 of that date. The offer price represents the Net Asset Value per unit as of the close of the business day, provision for transaction costs and any provision for duties and charges, if applicable. 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 applications during business hours of that day. The redemption price represents the Net Asset Value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

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

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

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

3.8 Provisions

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

3.9 Taxation

The income of the Fund is exempt from Income Tax as per clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders.

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

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

3.10 Proposed distributions

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

3.11 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Dividend income on equity securities is recognised when the right to receive the payment is established.
- Income on redemption of units is recognised when units are redeemed at the transaction date.
- 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.
- Profit on bank deposits is recognised on an accrual basis.

3.12 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 circulation at the period end.

4	BANK BALANCES	Note	2010 (Rupees in '000)
	Saving accounts	4.1	42,383
4.1	Bank balances in saving account carries interest rate ranging from 5% to 8.25% per annum.		
5	INVESTMENTS		
	At fair value through profit or loss - held for trading		
	Equity securities - Listed	5.2	1,210

5.1 Net unrealised diminution in value of investments at fair value through profit or loss

Market value of investments
less: carrying value of investments

2010 (Rupees in '000)	
	1,210
	(1,222)
	<u>(12)</u>

5.2 Financial assets carried at fair value through profit or loss - held for trading

Shares of listed companies - Fully paid up ordinary shares of Rs 10 each unless otherwise stated

Name of investee company	Number of shares				Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investment	Percentage of paidup capital of the investee company
	As at February 23, 2010	Purchases during the period	Sales during the period	As at June 30, 2010	Cost	Market value	Unrealised gain / (loss)			
————(Rupees in '000)————										
Banks										
National Bank of Pakistan	-	12,000	2,000	10,000	656	641	(15)	0.10%	52.98%	0.00%
MCB Bank Limited	-	7,000	7,000	-	-	-	-	0.00%	0.00%	0.00%
					<u>656</u>	<u>641</u>	<u>(15)</u>	<u>0.10%</u>	<u>52.98%</u>	<u>0.00%</u>
Electricity										
Hub Power Company Limited	-	10,000	-	10,000	315	320	5	0.05%	26.45%	0.00%
Nishat Power Limited	-	25,000	-	25,000	251	249	(2)	0.04%	20.57%	0.01%
					<u>566</u>	<u>569</u>	<u>3</u>	<u>0.09%</u>	<u>47.02%</u>	<u>0.01%</u>
					<u>1,222</u>	<u>1,210</u>	<u>(12)</u>	<u>0.19%</u>	<u>100.00%</u>	<u>0.01%</u>

6 LOANS AND RECEIVABLES

Term deposit receipts

Note	2010 (Rupees in '000)
6.1	<u>583,455</u>

6.1 Term deposit receipts from a banking company carry interest rate of 11.35% and are maturing upto June 17, 2011.

7 PROFIT RECEIVABLE

Profit on saving deposits
Income on term deposit receipts

2010 (Rupees in '000)	
	1,922
	2,359
	<u>4,281</u>

8 SECURITY DEPOSITS AND PREPAYMENTS

Security Deposits with
- National Clearing Company of Pakistan Limited
- Central Depository Company of Pakistan Limited
Prepayments

	3,000
	100
	19
	<u>3,119</u>

9 PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs incurred
Less: amortisation for the period
Balance as at June 30, 2010

	1,331
	75
	<u>1,256</u>

9.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. This expenditure is being amortised over the life of the fund commencing from June 10, 2010 as per the requirements set out in the Trust Deed of the Fund.

10 PAYABLE TO MCB ASSET MANAGEMENT COMPANY LIMITED - MANAGEMENT COMPANY

Management fee
Formation cost payable
Security deposits paid by management company on behalf of the Fund
Others

Note	2010 (Rupees in '000)
10.1	736
	1,331
	2,600
	35
	<u>4,702</u>

- 10.1** Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of 2.25 percent per annum for the current period. The remuneration is paid to the Management Company on a monthly basis in arrears.

	Note	2010 (Rupees in '000)
11 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		
Trustee Fee	11.1	<u>65</u>

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

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

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

	Note	2010 (Rupees in '000)
12 ANNUAL FEE PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN		
Annual fee	12.1	<u>25</u>

- 12.1** Under the provision of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (The NBFC Regulations), the Fund is required to pay as annual fee to the SECP, an amount equal to the 0.075 percent of the average annual net assets of the Fund.

	2010 (Rupees in '000)
13 ACCRUED EXPENSES AND OTHER LIABILITIES	
Auditors' remuneration payable	325
Printing charges payable	350
Provision for workers' welfare fund	34
Others	23
	<u>732</u>

14 CONTINGENCIES AND COMMITMENTS

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

15 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 circulation at the period end.

	For the period from February 23 to June 30, 2010 (Rupees in '000)
16 AUDITORS' REMUNERATION	
Audit fee	225
Other certification	100
	<u>325</u>

17 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund (WWF) Ordinance, 1971, whereby the definition of "industrial establishment" was amended to include therein, any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 (Ordinance of 1969) applies. Management Company of the Fund, based on a legal advice obtained through Mutual Funds Association of Pakistan (MUFAP) was of a firm view that Collective Investment Scheme (CIS) were not establishments and therefore, the WWF Ordinance should not be applicable to such schemes. The MUFAP had also filed a constitutional petition in the High Court of Sindh (the Court) on behalf of the members, challenging the applicability of WWF to the CIS. The said petition was dismissed by the Court vide its order dated May 25, 2010 on the main ground that the MUFAP (Petitioner) could not be held entitled to maintain a petition in respect of its members as it was not the aggrieved party. The Judgment recognises that the Trusts are covered by the scope of the definition of commercial establishment as contained in Ordinance of 1969 and, therefore, mutual funds and other funds appear to be covered unless it can be established that they fall within the scope of exemption set out in Section 5 (1)(iii) of the Ordinance of 1969 i.e. the Trusts not run for profit or in the course of business does not make any profit This could be examined when the aggrieved parties directly approached the Court for redressal.

In the meantime, clarification has been obtained by the MUFAP from the Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, which, through their letter nos. WWF (A – II)11.(5)/2010 dated July 8, 2010 and July 15, 2010, has clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy.

Various legal opinions are available on this matter. Some legal advisors are of the view that this levy is not applicable on CIS and therefore provision is not required to be created while there is also a contrary view according to which this levy has become applicable on the fund and the letter issued by the Ministry of Labour & Manpower, Government of Pakistan has no legal significance.

Because of ambiguity created based on conflicting opinions by lawyers and as a matter of abundant caution the Management Company of the Fund has decided to recognize a provision for WWF in these financial statements.

18 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the period, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded any tax liability in respect of income relating to the current period as the management company intends to distribute at least 90 percent of the Fund's accounting income for the period as reduced by capital gains (whether realised or unrealised) to its unit holders.

19 EARNINGS PER UNIT

Earnings per unit (EPU) for the period ended June 30, 2010 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

20 FINANCIAL INSTRUMENTS BY CATEGORY

	2010		
	Loans and receivables	Assets at fair value through profit or loss	Total
ASSETS	Rupees in '000		
Bank balances	42,383	-	42,383
Investments	-	1,210	1,210
Loans and receivables	583,455	-	583,455
Profit receivable	4,281	-	4,281
Receivable against sale of investments	505	-	505
Security deposits	3,100	-	3,100
	<u>633,724</u>	<u>1,210</u>	<u>634,934</u>
	2010		
	Liabilities at fair value through profit or loss	Amortised cost	Total
LIABILITIES	Rupees in '000		
Payable to MCB Asset Management Company Limited - Management Company	-	4,702	4,702
Payable to Central Depository Company of Pakistan Limited - Trustee	-	65	65
Payable against purchase of investment	-	316	316
Accrued expenses and other liabilities	-	698	698
	<u>-</u>	<u>5,781</u>	<u>5,781</u>

21 TRANSACTIONS WITH CONNECTED PERSONS

- 21.1** Connected persons of the Fund include MCB Asset Management Company Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.
- 21.2** The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 21.3** Remuneration to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed.
- 21.4** Remuneration payable to the Trustee is determined in accordance with the provisions of the NBFC regulations and the Trust Deed.
- 21.5** **Details of the transactions with connected persons are as follows:**

	For the period from February 23 to June 30, 2010 (Rupees in '000)
MCB Asset Management Company Limited - Management Company	
Management fee expense for the period	736
Preliminary expenses and floatation cost paid by the Management Company on behalf of the Fund	1,331
Issue of 1,006,823 units	100,682
Redemption of 499,642 units	50,000
MCB Employees Pension Fund	
Issue of 508,625 units	50,863
MCB Bank Limited	
Profit on bank deposits	913
Profit on term deposit receipts	2,359
Central Depository Company of Pakistan Limited - Trustee	
Remuneration for the period	65
Adamjee Insurance Company Limited	
Issue of 152,385 units	15,239
	2010
21.6 Amount outstanding as at the period end	(Rupees in '000)
MCB Asset Management Company Limited	
Investment held by the Sponsor in the Fund (507,181 units)	50,853
Management fee payable	736
Formation cost payable	1,331
Security deposit payable	2,600
Others	35
MCB Bank Limited	
Balance in saving account	283
Profit receivable on bank deposits	1,853
Term deposit receipts	583,455
Profit receivable on term deposit receipts	2,359
Adamjee insurance Company Limited	
Investment held in the Fund (152,385 units)	15,279
Hub Power Company Limited	
10,000 shares held by the Fund as at June 30, 2010	320
Nishat Power Limited	
25,000 shares held by the Fund as at June 30, 2010	249
Central Depository Company of Pakistan Limited - Trustee	
Remuneration payable	65
Security deposit	100
MCB Employees Pension Fund	
Investment held in the Fund (508,625 units)	50,997

22 PARTICULARS OF THE INVESTMENT COMMITTEE AND THE FUND MANAGER

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

2010				
	Designation	Experience in years	Qualification	
1	Mr. Yasir Qadri	Chief Executive	15	MBA
2	Mr. Kashif Rafi	Fund Manager - Fixed Income	9	MBA & CFA level I
3	Mr. Muhammad Asim	Fund Manager - Equity Funds	7	MBA & CFA
4	Mr. Shahab Farooq	Head of research	8	MBA
5	Mr. Syed Akbar Ali	Senior Research Analyst	5	MBA & CFA level II

22.1 Muhammad Asim is the Fund Manager. He is also managing MCB Dynamic Allocation Fund and MCB Sarmaya Mehfooz Fund 1.

23 BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

- 1 Invest & Finance Securities (Private) Limited
- 2 Fortune Securities (Private) Limited

2010
Percentage
89.74%
10.26%
100.00%

24 PATTERN OF UNIT HOLDING

Pattern of unit holding in the Fund as at June 30, 2010 is as follows :

Category	Number of unit holders	Number of units held	Net assets value of the amount invested	Percentage of total investment
(Rupees in '000)				
Individuals	352	5,057,879	507,130	80.45
Associated companies / Directors	3	1,168,192	117,129	18.58
Insurance companies	-	-	-	-
Banks / DFIs	-	-	-	-
NBFCs	-	-	-	-
Retirement funds	-	-	-	-
Public Limited companies	-	-	-	-
Others	2	60,934	6,110	0.97
	357	6,287,005	630,369	100.00

25 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS (BoD)

The 18th and 19th BoD meetings of the Fund were held on February 23, 2010 and April 22, 2010 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of persons attending the meetings	No. of meetings held	Number of Meetings			Meetings not attended
		Attendance required	Attended	Leave granted	
1 Mr. Mian Umer Mansha	2	2	2	-	-
2 Mr. Atif Aslam Bajwa	2	2	1	1	19th meeting
3 Mr. Ali Munir	2	2	1	1	19th meeting
4 Mr. Usman Ali Usmani	2	2	2	-	-
5 Mr. Ahmed Jehangir	2	2	2	-	-
6 Mr. Waliullah Shah	2	2	2	-	-
7 Mr. Samir Saigol	2	2	2	-	-
8 Mr. Haroun Rashid	2	2	2	-	-
9 Mr. Yasir Qadri (Chief Executive Officer)	2	2	2	-	-
10 Mr. Saqib Saleem (CFO & Company Secretary)	2	2	2	-	-

26 FINANCIAL RISK MANAGEMENT

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

26.1 Market risk

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

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

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

26.1.1 Currency risk

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

26.1.2 Yield / Interest rate risk

Yield / 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.

a) Sensitivity analysis for variable rate instruments

As at June 30, 2010, the Fund does not hold any variable rate instruments and is not exposed to cashflow yield / interest rate risk.

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2010, the Fund holds term deposit receipts which are classified as 'Loans and receivables' exposing the Fund to fair value yield / interest rate risk. However, since the 'Loans and receivables' are carried at amortised cost therefore any increase or decrease in market interest rate will not affect the net income for the period nor net assets of the Fund as at June 30, 2010.

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

		2010				
		Exposed to yield / interest rate risk				
Yield / effective interest rate	Total	Upto three months	More than three months and upto one year	More than one year	Not exposed to yield / interest rate risk	
Percentage per annum	Rupees in '000					
On balance sheet financial instruments						
Financial assets						
Bank balances	5 to 8.25	42,383	42,383	-	-	
Investments		1,210	-	-	1,210	
Loans and receivables	11.35	583,455	-	583,455	-	
Profit receivable		4,281	-	-	4,281	
Receivable against sale of Investments		505	-	-	505	
Security deposits		3,100	-	-	3,100	
		634,934	42,383	583,455	-	
					9,096	
Financial liabilities						
Payable to MCB Asset Management Company Limited - Management Company		4,702	-	-	4,702	
Payable to Central Depository Company of Pakistan Limited - Trustee		65	-	-	65	
Payable against purchase of investment		316	-	-	316	
Accrued expenses and other liabilities		698	-	-	698	
		5,781	-	-	5,781	
On balance sheet gap		629,153	42,383	583,455	-	
Off balance sheet financial instruments		-	-	-	-	
Off balance sheet gap		-	-	-	-	

26.1.3 Price Risk

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

In case of 5% increase / decrease in KSE 100 index on June 30, 2010, net income for the period would decrease / increase by Rs 0.059 million and net assets of the Fund would increase / decrease by the same amount as a result of gains / losses on equity securities at fair value through profit or loss.

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

26.2 Credit risk and management of credit risk

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. The Fund is exposed to counterparty credit risks on loans and receivables, balances with banks, profit receivable, deposits and other receivables. The credit risk on bank balances and loans and receivables is limited because the counter parties are financial institutions with reasonably high credit ratings. Credit risk on dividend receivables (if any) is minimal due to statutory protection. All transactions in listed securities are settled / paid for upon delivery using central clearing company. In addition, the Fund has a policy to enter into financial instrument contracts by following internal guidelines such as approved counterparties, obtaining adequate collateral and transacting through approved brokers.

Out of total financial assets, bank balances of Rs 42.383 million have been placed with banks having a short term credit rating of A1+ or A-1+ and loans and receivables which only represents term deposit receipts amounting to Rs 583.455 million are issued by the financial institution having a long term credit rating of AA+.

The maximum exposure to credit risk before any credit enhancement as at June 30, 2010 is the carrying amount of the financial assets. None of these assets are 'impaired' nor 'past due but not impaired'.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments mainly comprises of term deposit receipts which have been issued by the financial institution having strong credit rating and remaining transactions are entered into with diverse credit worthy counter parties thereby mitigating any significant concentration of credit risk to counter parties.

26.3 Liquidity risk

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

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

The Fund has the ability to borrow in the short-term to ensure settlement. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

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

The following table analyzes the Fund's 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.

	2010			
	Total	Upto three months	Over three months and upto one year	Over one year
Rupees in '000				
Liabilities				
Payable to MCB Asset Management Company Limited - Management Company	4,702	736	3,966	-
Payable to Central Depository Company of Pakistan Limited - Trustee	65	65	-	-
Payable against purchase of investment	316	316	-	-
Accrued expenses and other liabilities	698	698	-	-
	5,781	1,815	3,966	-

27 UNIT HOLDERS' FUND RISK MANAGEMENT

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

The Fund's objectives when managing unit holders' funds are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong base of assets under management.

In accordance with the risk management policies as stated in note 26, the Fund endeavors to invest the subscriptions received in term deposit receipts and in appropriate investments while maintaining sufficient liquidity to meet redemption requests. In addition, the Fund can also support liquidity by short-term borrowings or disposal of investments where necessary.

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Financial assets which are tradeable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is not considered to be significantly different from book value as the items are either short term in nature or periodically repriced.

According to the amendments to International Financial Reporting Standard 7, Financial Instruments : Disclosure - Improving disclosures about financial instruments, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Investments of the Fund carried at fair value are categorised in the level 1 category.

29 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 01, 2010 have approved distribution at the rate of 0.2654%. The financial statements of the Fund for the year ended June 30, 2010 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2011.

30 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue on September 07, 2010 by the Board of Directors of the Management Company.

31 GENERAL

Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

For MCB Asset Management Company Limited
(Management Company)

Yasir Qadri
Chief Executive

M. U. A. Usmani
Director