

PAKISTAN
INCOME
FUND



BRANCHES:

Lahore:

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

Rawalpindi:

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

Islamabad:

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

Multan:

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

Peshawar:

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

CONTENTS

| | |
|----|---|
| 2 | Fund's Information |
| 3 | Report of the Directors of the Management Company |
| 6 | Report of the Fund Manager |
| 10 | Trustee Report to the Unit Holders |
| 11 | Statement of Compliance with the Code of Corporate Governance |
| 13 | Review Report to the Unit Holders on Statement of Compliance with the Best Practices of the Code of Corporate Governance |
| 14 | Independent Auditors' Report to the Unit Holders |
| 16 | Statement of Assets and Liabilities |
| 17 | Income Statement |
| 18 | Distribution Statement |
| 19 | Cash Flow Statement |
| 20 | Statement of Movement in Unit Holders' Funds |
| 21 | Notes to and Forming Part of the Financial Statements |
| 40 | Detail of Pattern of Holding (Units) |
| 41 | Pattern of Unit Holding (By Size) |
| 42 | Performance Table |

FUND'S INFORMATION

Management Company

Arif Habib Investments Limited
Arif Habib Centre, 23 M. T. Khan Road,
Karachi -74000.

Board of Directors of the Management Company

| | |
|---------------------------|-----------------|
| Mr. Muhammad Shafi Malik | Chairman |
| Mr. Nasim Beg | Chief Executive |
| Mr. Sirajuddin Cassim | Director |
| Mr. S. Gulrez Yazdani | Director |
| Mr. Muhammad Akmal Jameel | Director |
| Syed Ajaz Ahmed | Director |
| Mr. Muhammad Kashif Habib | Director |

Company Secretary & CFO of the Management Company

Mr. Zeeshan

Audit Committee

| | |
|---------------------------|----------|
| Mr. Muhammad Shafi Malik | Chairman |
| Syed Ajaz Ahmed | Member |
| Mr. Muhammad Akmal Jameel | Member |
| Mr. Muhammad Kashif Habib | Member |

Trustee

Central Depository Company of Pakistan Limited (CDC)
CDC House, 99-B, S.M.C.H.S
Main Shahrah-e-faisal, Karachi.

Bankers

| | |
|-------------------------|--|
| Arif Habib Bank Limited | Askari Bank Limited |
| Allied Bank Limited | Bank Al Habib Limited |
| Bank Alfalah Limited | Faysal Bank Limited |
| Habib Bank Limited | Habib Metropolitan Bank Limited |
| MCB Bank Limited | Meezan Bank Limited |
| NIB Bank Limited | Standard Chartered Bank (Pakistan) Limited |
| United Bank Limited | |

Auditors

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

Legal Adviser

M/s. Bawaney & Partners
404, 4th Floor, Beaumont Plaza, 6-C1-10,
Beaumont Road, Civil Lines, Karachi-75530

Registrar

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

Rating

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



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

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

Fund Objective

The objective of the fund is to deliver returns primarily from debt and fixed income investments without taking excessive risk.

Fund Profile

Pakistan Income Fund (PIF) is an open end fund, which invests in corporate securities, Government securities; money market placements, TDRs and short maturity reverse repurchase transactions. The overall duration of the portfolio is kept below 1 year, in order to keep interest rate risk at a relatively low and manageable level. The board has approved the categorization of the Fund as "Income Scheme"

Funds Performance during Financial Year ended June 30, 2010

The net assets of the Fund as at June 30, 2010 stood at Rs 2,101.70 million as compared to Rs 2,369.94 million at June 30, 2009 registering a decrease of 11.32%. The decline in fund size was primarily due to the fact that investors opted to convert their investments in other funds managed by Arif Habib Investment Limited.

The Net Asset Value (NAV) per unit at the end of the year stood at Rs 52.22 per unit compared to opening Ex-NAV of Rs 50.71 per unit. During the year total interim distributions per unit amounted to Rs 5.27 per unit. NAV registered an increase of Rs 6.78 per unit for the year.

Income Distribution

The Board in the meeting held on July 05, 2010 has declared final distribution in the form of bonus units to Type A units and equivalent cash dividend of Rs 1.10 per unit for Type B units amounting to Rs 44.273 million for the year ended June 30, 2010. This distribution is in addition to the interim distribution of Rs 5.27 per unit amounting to Rs 225.749 million. Hence total distribution for the Financial Year 2010 was Rs 6.37 per unit (12.56% on the opening Ex - NAV and 12.74% of face value of Rs 50 for Financial Year 2010).

Explanation With Regards To Auditor's Qualified Opinion

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

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

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

Corporate Governance

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

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

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit's holder fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements except as disclosed in Note 2.1.3 to the financial statements to reflect changes introduced by revised "IAS 1".
Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data of last nine years has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company, hence the disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. Statement showing attendance of Board meetings is as under:

Attendance of Board Meetings
From July 1, 2009 to June 30, 2010

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

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

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

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

| S. No. | Name | Designation | <i>Investment</i> | <i>Redemption</i> | <i>Bonus</i> |
|--------|---------------|-----------------|--------------------------|-------------------|--------------|
| | | | <i>(Number of Units)</i> | | |
| 1. | Mr. Nasim Beg | Chief Executive | – | – | 71 |

External Auditor

In accordance with clause 30.1 of the Trust deed of PIF pertaining to rotation of auditors, the retiring auditors, M/s A.F. Ferguson & Co., Chartered Accountants have completed their term. Hence, the Board of Directors of the Management Company, on recommendation of the Audit committee has appointed M/s. KPMG Taseer Hadi & Co, Chartered Accountants, as the Fund's auditors for the year ending June 30, 2011.

Future Outlook

Interest rates are expected to remain sticky upwards as expectations of continuing double digit inflation (around 12%) and higher government borrowings may not allow SBP to ease its monetary policy in the near term especially in the aftermath of the worst flood in the history of Pakistan, which has resulted in high level damages to the infrastructure, properties, livestock and crop.

Acknowledgment

The Board is thankful to its valued investors, the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, the Trustees of the Fund - Central Depository Company of Pakistan Limited and the management of the Karachi Stock Exchange for their continued cooperation and support. The Directors of the Management Company also acknowledge the efforts put in by the team of the Management Company and for the meticulous management of the Fund.

For and on behalf of the Board



Nasim Beg
Chief Executive

Karachi
August 03, 2010

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

Objective

The objective of the Fund is to deliver regular income and preservation of capital, primarily from debt and fixed income securities investments.

Fund Profile

Pakistan Income Fund (PIF) is an open-end Fund, which is allowed to invest in investment-grade Corporate Securities, Government Securities, Spread Transactions, COIs, TDRs and Short maturity reverse repurchase transactions. The overall duration of the portfolio is kept below 2 years, in order to keep interest rate risk at a relatively low and manageable level.

Fund Performance

PIF delivered a total annualized return of 14.01% during the year ended June 30, 2010, compared to its benchmark (6-month KIBOR-75% & 3-month PKRV-25%) return of 11.95%. Industry average return of Income fund category was 6.56% during 2010. This has placed PIF among the best performing Fixed Income Fund in the industry during FY2009-10. The weighted average credit quality of the Fund was AA+ at the end of the FY2010 while the average duration of its portfolio was 116 days.

| Jul,09 | Aug,09 | Sep,09 | Oct,09 | Nov,09 | Dec,09 | Jan,10 | Feb,10 | Mar,10 | Apr,10 | May,10 | Jun,10 |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 21.59% | 16.64% | 14.44% | 17.73% | 9.61% | 12.64% | 7.87% | 11.71% | 10.76% | 17.51% | 12.58% | 4.91% |

Asset Allocation

During the year, fund under management decreased by 11% to Rs 2.10 billion from Rs 2.37 billion as on June 30, 2009. Given the liquidity constraints in the TFC market and credit quality concerns of some TFCs, the Fund reduced its exposure to TFCs gradually during the second half of the year from over 50% of fund size to 37%. Profits were booked in those TFCs where relative credit spreads reduced after price appreciation.

The Fund decreased exposure in Telecommunication sector debt instruments to 5.12% from 13.50%. However, exposure in banking sector TFCs increased by 2.03% to 16.13% from 14.10% (as of June 30, 2009). PIF has TFC allocation of 8.36% in Fertilizer and 4.45% in Investment banks & companies sectors. While at the same time real estate sector TFCs up to 2.28% were added during the year.

Amid reduction in TFC exposure, the Fund increased its allocation in short dated TBills, where yields remained on higher side averaging around 12.07%. In addition, exposure in medium term maturity PIBs was 2.31% of net assets.

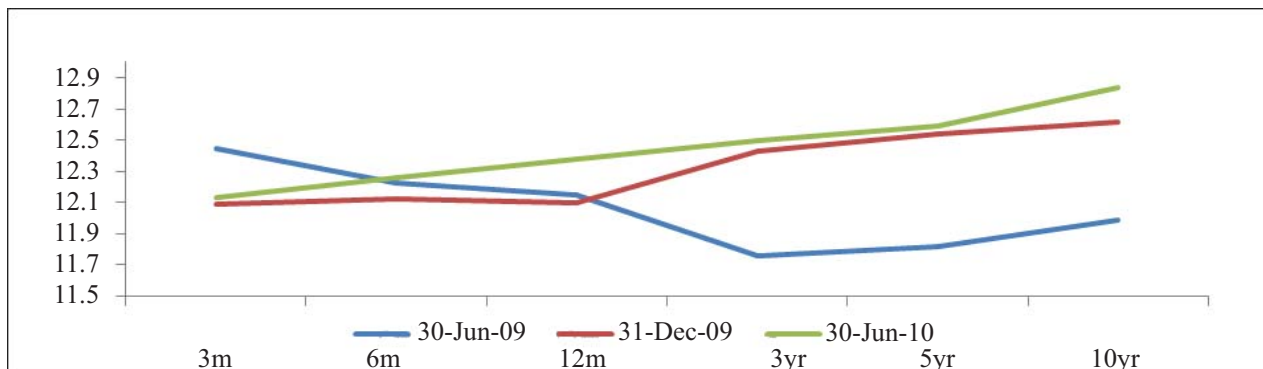
The Fund declared its 4th quarterly dividend of Rs 1.10 taking the tally to Rs 6.37 for the full year 2009-10 with the dividend yield of 12.56%.

Market Review

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

The leading concern among market participants at this time seems to be the huge government borrowing outstanding from the central bank and consequently non compliance with a major IMF quantitative target. As of the latest Net Domestic Assets (NDA) figures available up to June 25, the government's total borrowing during the fiscal year stands at Rs 461.86 billion. Of this amount, Rs 200.22 billion is from the Central Bank.

Yields in longer tenures moved higher except for papers up to 6-month where yields declined and remained in the band of 11.95% to 12.20%. The benchmark 10-year PIB moved up to 13.00% (12.70% - avg PKRV) and the 1-year treasury-bill crossed the yield level of 12.40% in June, 10.



On the other hand, 6-month KIBOR displayed a declining trend during the financial year FY10 in the wake of sufficient liquidity maintained by banks, and on June 30, 10 closed at 12.37%, 39 bps low from 12.76% (as on June 30, 09).



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

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

Financial Year 2010 in Review

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

The Real Sector

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

The Monetary Sector

Money supply (M2) has grown as compared to the previous year, but the increase continues to be explained by government borrowing from the banking system which has further increased. Improvement in external balance of payment position has increased the net foreign assets of the banking system during July-Jun FY10 which rose by Rs 89.07 billion after witnessing a decline of Rs 188.4 billion during the same period of FY09. Net domestic assets on the other hand witnessed a rise of Rs 530.7 billion, however lower as compared to the previous years Rs 590.2 billion. While government borrowing for budgetary support has increased, borrowing for commodity operations till now has been significantly lower. The Discount rate, after peaking in November 2008 has eased to 13.0% (as of end July) in response to a gradual fall in both headline as well as core inflation. Nevertheless, based on the inflationary environment and continued government borrowing, a further easing in the discount rate for at least FY11 does not seem likely. Treasury yields at this point also reflect heightened concerns regarding inflation and government debt situation.

Prices

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

The Fiscal Sector

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

The External Sector

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

The year ahead

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

Agriculture sector is severely impacted with approximate losses of nearly US\$3 billion on account of severe damages to standing crops of cotton, rice and sugar cane; loss of 500,000 metric tonnes of wheat stock; and loss of two hundred thousand livestock. In addition, floods have made it difficult to achieve wheat cultivation target for the year 2011, which will lead to lower wheat output during the year. Against the earlier growth target of 3.8% for FY2011, agriculture sector growth is most likely to be in red for the year. Similarly, manufacturing and services growth, which were earlier projected at 4.9% and 4.7%, are expected to be scaled down due to weak demand conditions in the economy along with the supply side problem due to the heavy destruction of infrastructure (roads, bridges) in the flood affected areas.

With commodity prices on the rise once again in international markets (partly due to flood damages in Pakistan) and Pakistan facing domestic shortages, inflation is expected to rise even further in coming months. As a result, monetary policy will continue to have a tightening stance in the remaining months of the year.

One other major negative consequence will be the deterioration in balance of trade as the country will become net importer of sugar, cotton and wheat and will be left with little rice to export (Pakistan is the third largest exporter of rice in the world-US\$2 billion export in 2010). This additional burden will have its impact on balance of payment and current account deficit, leading to additional downward pressure on the Rupee.

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

Future Outlook

Interest rates are also expected to remain sticky upwards as expectations of continuing double digit inflation (around 12%) and higher government borrowings may not allow SBP to ease its monetary policy in the near term especially in the aftermath of the worst flood in the history of Pakistan, which has resulted in high level damages to the infrastructure, properties, livestock and crop.

Other disclosures under NBFC regulations 2008

The Fund Manager hereby makes the following disclosures as required under the NBFC regulations 2008.

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

TRUSTEE REPORT TO THE UNIT HOLDERS

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shakra-e-Faisal
Karachi - 74400. Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com

TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN INCOME FUND

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

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

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

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


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

Karachi: September 29, 2010



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

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

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

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes six non-executive directors, however, none of the directors on the Board represent minority shareholders.
2. The directors of the Management Company have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year Mr. Salim Chamdia had resigned on September 7, 2009 and was replaced by Mr. S. Gulrez Yazdani on October 6, 2009.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive (CE) has been taken by the Board. As on June 30, 2010, there is no other executive director of the Management Company besides the CE.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated and signed by the Chairman of the Board of Directors.
9. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. The Board arranged orientation for the directors of the Management Company during the year to apprise them of their duties and responsibilities.
11. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive.
12. The Directors' Report of the Fund for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The Directors, CE and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
14. The financial statements of the Fund were duly endorsed by CE and CFO of the Management Company before approval of the Board.

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

On behalf of the Board



Nasim Beg
Chief Executive

Karachi: August 03, 2010

REVIEW REPORT TO THE UNIT HOLDERS

A.F.FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

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

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

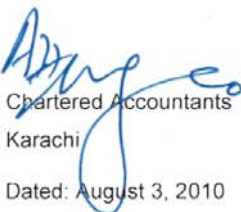
We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Arif Habib Investments Limited**, the Management Company of **Pakistan Income Fund** to comply with the Listing Regulation No. 35 (Chapter XI) of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

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

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

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

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


Chartered Accountants
Karachi
Dated: August 3, 2010

Lahore Office: 23-C Aziz Avenue, Canal Bank, Gulberg V, P. O. Box 39, Lahore, Pakistan Tel: (92-42) 35715864-71 Fax: (92-42) 35715872
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazi-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan. Tel: +93-779-315320, +93-799-315320

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS

A.F.FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

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

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

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

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

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

Basis for Qualified Opinion

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 applies. On the basis of an independent legal advice, in our opinion this levy has now become applicable on the Fund as well. However, no provision in respect of Workers Welfare Fund (WWF) has been made by the management for the reasons explained in note 12 to the financial statements. Had the management recognised this provision the liability towards WWF at June 30, 2010 would have amounted to Rs 11.299 million (including Rs 5.625 million for the year ended June 30, 2009) and accordingly the undistributed income and net assets of the Fund at June 30, 2010 would have been lower by Rs 11.299 million.

Qualified Opinion

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



A.F.FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

Other matters

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


Chartered Accountants

Engagement Partner: Rashid A. Jafer

Dated: August 3, 2010

Karachi

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

| | Note | 2010 | 2009 |
|---|------|------------------------|-------------------|
| (Rupees in '000) | | | |
| ASSETS | | | |
| Balances with banks | 3 | 16,396 | 145,616 |
| Receivable against sale of units | | 4,990 | 37,445 |
| Investments | 4 | 2,045,986 | 1,371,646 |
| Loans and receivables | | - | 750,000 |
| Dividend and profit receivable | 5 | 32,074 | 67,317 |
| Advances, deposits, prepayments and other receivables | 6 | 9,323 | 6,940 |
| TOTAL ASSETS | | <u>2,108,769</u> | <u>2,378,964</u> |
| LIABILITIES | | | |
| Payable to Management Company | 7 | 2,743 | 3,095 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 8 | 258 | 283 |
| Payable to Securities and Exchange Commission of Pakistan | 9 | 1,741 | 3,132 |
| Payable on redemption of units | | 1,134 | 774 |
| Accrued expenses and other liabilities | 10 | 1,198 | 1,742 |
| TOTAL LIABILITIES | | <u>7,074</u> | <u>9,026</u> |
| NET ASSETS | | <u>2,101,695</u> | <u>2,369,938</u> |
| UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED) | | <u>2,101,695</u> | <u>2,369,938</u> |
| CONTINGENCIES AND COMMITMENTS | | | |
| | 11 | | |
| | | Number of units | |
| Number of units in issue | | <u>40,244,515</u> | <u>44,669,101</u> |
| | | Rupees | |
| NET ASSET VALUE PER UNIT | 2.10 | <u>52.22</u> | <u>53.06</u> |

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

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


Chief Executive


Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

| | Note | 2010 | 2009 |
|--|-------|----------------|----------------|
| (Rupees in '000) | | | |
| INCOME | | | |
| Capital gain / (loss) on sale of investments - net | | 26,711 | (100,328) |
| Income from Term Finance Certificates and Sukuk bonds | | 158,455 | 275,471 |
| Income from Government Securities | | 113,030 | 11,495 |
| Income from Continuous Funding System (CFS) Transactions | | - | 47,732 |
| Income from Placements, Certificates of Investment and Term Deposit Receipts | | 29,154 | 134,441 |
| Income from reverse repurchase transactions | | 1,160 | 201 |
| Profit on bank deposits | | 8,562 | 38,082 |
| Other Income | | - | 10 |
| | | <u>337,072</u> | <u>407,104</u> |
| Unrealised appreciation / (diminution) in value of investments 'at fair value through profit or loss' -net | 4.1 | 13,403 | (84,701) |
| Provision against non performing exposure | | <u>(2,471)</u> | <u>-</u> |
| Reversal of income from Term Finance Certificates and Sukuk Bonds | 4.3.2 | <u>348,004</u> | <u>322,403</u> |
| Total Income | | <u>347,622</u> | <u>322,403</u> |
| OPERATING EXPENSES | | | |
| Remuneration of the Management Company | 7.1 | 34,815 | 52,688 |
| Remuneration of Central Depository Company of Pakistan Limited-Trustee | 8.1 | 3,321 | 4,513 |
| Annual fee - Securities and Exchange Commission of Pakistan | 9 | 1,741 | 3,132 |
| Borrowing cost | 13 | - | 9,177 |
| Securities transaction cost | | 690 | 2,128 |
| Settlement and bank charges | | 1,229 | 3,909 |
| Fees and subscription | | 258 | 1,130 |
| Legal and professional charges | | 83 | 1,502 |
| Auditors' remuneration | 14 | 496 | 844 |
| Printing and related costs | | 141 | 241 |
| Total operating expenses | | <u>42,774</u> | <u>79,264</u> |
| Net income from operating activities | | <u>304,848</u> | <u>243,139</u> |
| Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed | | (21,131) | 38,135 |
| Net income for the year before taxation | | <u>283,717</u> | <u>281,274</u> |
| Taxation | 2.12 | - | - |
| Net income for the year after taxation | | <u>283,717</u> | <u>281,274</u> |
| Other comprehensive income for the year | | - | - |
| Total comprehensive income for the year | | <u>283,717</u> | <u>281,274</u> |
| Earnings per unit | 2.11 | | |

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

For Arif Habib Investments Limited
(Management Company)


Chief Executive


Director

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

| | 2010 | 2009 |
|--|----------------------|-----------------------|
| | (Rupees in '000) | |
| Undistributed income brought forward | | |
| - Realised gain | 220,382 | 135,466 |
| - Unrealised (loss) / gain | <u>(83,787)</u> | <u>39,071</u> |
| | 136,595 | 174,537 |
| Final distribution for the year ended June 30, 2009: Rs 2.35 per unit (Date of distribution July 6, 2009) (2008: Rs 1.45 per unit) (Date of distribution July 3, 2008) | | |
| - Cash distribution | (4,581) | (10,281) |
| - Bonus units | <u>(100,401)</u> | <u>(160,686)</u> |
| Net income for the year | 283,717 | 281,274 |
| Interim distribution for the quarter ended September 30, 2009: Rs 1.87 per unit (Date of distribution September 30, 2009) (2008: Rs 1.30 per unit) (Date of distribution September 30, 2008) | | |
| - Cash distribution | (10,732) | (19,400) |
| - Bonus units | <u>(69,762)</u> | <u>(128,849)</u> |
| Interim distribution for the quarter ended December 31, 2009: Rs 2.00 per unit (Date of distribution: December 31, 2009) (2008:nil) | | |
| - Cash distribution | (11,478) | - |
| - Bonus units | <u>(73,564)</u> | - |
| Interim distribution for the quarter ended March 31, 2010: Rs 1.40 per unit (Date of distribution: March 31, 2010) (2009:nil) | | |
| - Cash distribution | (8,035) | - |
| - Bonus units | <u>(52,178)</u> | - |
| Undistributed income carried forward | <u>89,581</u> | <u>136,595</u> |
| Undistributed income carried forward | | |
| - Realised gain | 117,150 | 220,382 |
| - Unrealised loss | <u>(27,569)</u> | <u>(83,787)</u> |
| | <u>89,581</u> | <u>136,595</u> |

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

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



Chief Executive



Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

| | Note | 2010 | 2009 |
|---|------|------------------|--------------------|
| (Rupees in '000) | | | |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Net income for the year | | 283,717 | 281,274 |
| Adjustments for non - cash items: | | | |
| Unrealised (appreciation) / diminution on investments at fair value through profit or loss - net | | (13,403) | 84,701 |
| Remuneration of the Management Company | | 34,815 | 52,688 |
| Remuneration of Central Depository Company of Pakistan Limited-Trustee | | 3,321 | 4,513 |
| Provision against non performing exposure | | 2,471 | - |
| Net element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed | | 21,131 | (38,135) |
| | | <u>332,052</u> | <u>385,041</u> |
| (Increase) / decrease in assets | | | |
| Receivable against continuous funding system (CFS) transactions | | - | 1,043,412 |
| Receivable against sale of Investments | | - | 149,903 |
| Advances, deposits, prepayments and other receivables | | (2,383) | 362,408 |
| Investments | | (663,408) | 867,602 |
| Loans and receivables | | 750,000 | 75,000 |
| Dividend and profit receivable | | 35,243 | 42,901 |
| | | <u>119,452</u> | <u>2,541,226</u> |
| (Decrease) / Increase in liabilities | | | |
| Accrued expenses and other liabilities | | (544) | (2,246) |
| Payable to the Management Company | | 16 | (99) |
| Payable to the Central Depository Company of Pakistan Limited - Trustee | | - | (87) |
| Payable to Securities and Exchange Commission of Pakistan | | (1,391) | (6,243) |
| | | <u>(1,919)</u> | <u>(8,675)</u> |
| Remuneration paid to the Management Company | | (35,183) | (55,109) |
| Remuneration paid to Central Depository Company of Pakistan Limited - Trustee | | (3,346) | (4,855) |
| | | <u>411,056</u> | <u>2,857,628</u> |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Distribution made during the year | | (34,826) | (29,681) |
| Net payment from repurchase of units | | (505,450) | (3,850,914) |
| | | <u>(129,220)</u> | <u>(1,022,967)</u> |
| Net decrease in cash and cash equivalents during the year | | | |
| Cash and cash equivalents at the beginning of the year | | 145,616 | 1,168,583 |
| Cash and cash equivalents at the end of the year | 3 | <u>16,396</u> | <u>145,616</u> |

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

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


Chief Executive


Director

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

| | 2010 | 2009 |
|--|--------------------|---------------------|
| | (Rupees in '000) | |
| Net assets at the beginning of the year | 2,369,938 | 6,070,069 |
| Issue of 57,734,013 units (2009: 147,560,217 units) | 3,003,820 | 7,507,812 |
| Redemption of 67,981,732 units (2009: 226,589,165 units) | (3,542,085) | (11,421,401) |
| | (538,265) | (3,913,589) |
| Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed - net (transferred to income statement) | 21,131 | (38,135) |
| Final distribution: | | |
| Issue of 1,979,902 bonus units for the year ended June 30, 2009 (2008: 3,211,792 bonus units) | 100,401 | 160,686 |
| Interim distribution: | | |
| Issue of 1,365,737 bonus units for the quarter ended September 30, 2009 (2008: 2,573,381) | 69,762 | 128,849 |
| Interim distribution: | | |
| Issue of 1,447,538 bonus units for the quarter ended December 31, 2009 (2008: Nil) | 73,564 | - |
| Interim distribution: | | |
| Issue of 1,029,957 bonus units for the quarter ended March 31, 2010 (2009: Nil) | 52,178 | - |
| Final distribution for the year ended June 30, 2009: Rs 2.35 per unit (Date of distribution July 6, 2009) (2008: Rs 1.45 per unit) (Date of distribution July 3, 2008) | | |
| - Cash distribution | (4,581) | (10,281) |
| - Bonus units | (100,401) | (160,686) |
| Capital gain / (loss) on sale of investments - net | 26,711 | (100,328) |
| Unrealised appreciation / (diminution) in value of investments classified as 'at fair value through profit or loss' - net | 13,403 | (84,701) |
| Other net income for the year | 243,603 | 466,303 |
| Interim distribution for the quarter ended September 30, 2009: Rs 1.87 per unit (Date of distribution September 30, 2009) (2008: Rs 1.30 per unit) (Date of distribution September 30, 2008) | | |
| - Cash distribution | (10,732) | (19,400) |
| - Bonus units | (69,762) | (128,849) |
| Interim distribution for the quarter ended December 31, 2009: Rs 2.00 per unit (Date of distribution: December 31, 2009) (2008: nil) | | |
| - Cash distribution | (11,478) | - |
| - Bonus units | (73,564) | - |
| Interim distribution for the quarter ended March 31, 2010: Rs 1.40 per unit (Date of distribution: March 31, 2010) (2009: nil) | | |
| - Cash distribution | (8,035) | - |
| - Bonus units | (52,178) | - |
| | (47,014) | (37,942) |
| Net assets as at the end of the year | 2,101,695 | 2,369,938 |

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


Chief Executive

For Arif Habib Investments Limited
(Management Company)


Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

1 LEGAL STATUS AND NATURE OF BUSINESS

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

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. During the current year, the registered office of the Management Company has been shifted to Arif Habib Centre, 23 M.T. Khan Road, Karachi, Pakistan.

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

The policy of the Fund is to invest in a mix of Continuous Funding System (CFS) transactions, investment-grade debt securities, government securities, money market instruments and short-term reverse repurchase transactions.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned management quality rating of 'AM2' (positive outlook) to the Management Company and AA-(f) as stability rating to the Fund.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 Statement of compliance

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

2.1.2 Accounting convention

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

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

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

The Fund has applied IAS 1 (Revised) with effect from July 01, 2009 and has chosen to present all non-owner changes in equity in one performance statement - Statement of comprehensive income (income statement). Accordingly, items of income and expenses representing other comprehensive income have been presented in the 'Income statement'. Comparative information has been represented to reflect these changes. As the change in accounting policy only impacts presentation aspects, there is no impact on the values of the net assets of the Fund for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented.

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

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

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

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

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

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

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

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

2.1.6 Critical accounting estimates and judgments

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

2.2 Financial assets

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

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

c) Available for sale

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

2.2.2 Regular way contracts

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

2.2.3 Initial recognition and measurement

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

2.2.4 Subsequent measurement

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

a) Basis of valuation of 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. Under the said directive, investment in term finance certificates are valued on the basis of traded, thinly traded and non traded securities. Accordingly, investment in term finance certificates have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the 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 Markets Association of Pakistan.

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

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

Loans and receivables are carried at amortised cost.

2.2.5 Impairment

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

Provision for non-performing debt securities is made in accordance with the criteria for provision of non-performing debt securities specified in Circular No. 1 dated January 06, 2009 and Circular No. 13 dated May 4, 2009 issued by the SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of the Management Company.

2.2.6 Derecognition

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

2.2.7 Offsetting of financial assets and liabilities

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

2.2.8 Reclassification

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

2.3 Financial liabilities

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

2.4 Derivatives

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

2.5 Securities under repurchase / resale agreements

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

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

2.6 Proposed distributions

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

2.7 Issue and redemption of units

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

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

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

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

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

2.9 Provisions

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

2.10 Net asset value per unit

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

2.11 Earnings per unit

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

2.12 Taxation

No provision for taxation has been made as 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.

2.13 Revenue recognition

Realised capital gains / losses arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.

Unrealised capital gains / losses arising on marking to market of investments classified as ' Financial assets at fair value through profit or loss ' are included in the Income Statement in the period in which they arise.

Dividend income is recognised when the right to receive the payment is established.

Profit on bank deposits is recognised on an accrual basis.

Profit on investment is recognised on an accrual basis.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise of balances with banks.

2.15 Foreign currency translation

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

2.16 Functional and presentation currency

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

| | Note | June 30, 2010 | June 30, 2009 |
|--|-------|--------------------|--------------------|
| 3 BALANCES WITH BANKS | | (Rupees in '000) | |
| In current accounts | | 3,611 | 2,206 |
| In deposit accounts | 3.1 | <u>12,785</u> | <u>143,410</u> |
| | | <u>16,396</u> | <u>145,616</u> |
| 3.1 These accounts carry profit at the rates ranging from 5% to 11.25% (2009: 5% to 13.25%) per annum. | | | |
| 4 INVESTMENTS | | | |
| At fair value through profit or loss | | | |
| Term Finance Certificates | 4.3 | 774,816 | 1,086,175 |
| Government Securities | 4.4 | <u>1,271,170</u> | <u>285,471</u> |
| Total | | <u>2,045,986</u> | <u>1,371,646</u> |
| 4.1 Net Unrealised appreciation / (diminution) in value of investments at 'fair value through profit or loss' - net | | | |
| Market value of investments | | 2,045,986 | 1,371,646 |
| Cost of investments | | <u>(2,073,555)</u> | <u>(1,455,433)</u> |
| | | (27,569) | (83,787) |
| Net unrealised diminution / (appreciation) in value of investments at the beginning of the year | | <u>83,787</u> | <u>(39,071)</u> |
| Provision against non performing exposure | | 2,471 | - |
| Realised on disposal during the year | | <u>(45,286)</u> | <u>38,157</u> |
| | | 40,972 | (914) |
| | | <u>13,403</u> | <u>(84,701)</u> |
| 4.2 Movement in provision against debt securities | | | |
| Opening balance | | - | - |
| Charge for the year | 4.3.2 | 2,471 | - |
| Reversals during the year | | - | - |
| Write off during the year | | - | - |
| Closing balance | | <u>2,471</u> | <u>-</u> |

4.3 Term Finance Certificates - 'At fair value through profit or loss'

| Name of the investee company | Issue date | Number of certificates | | | | | Balance as at June 30, 2010 | | | | Market value as a percentage of net assets | Market value as a percentage of total investments | Face Value Percentage in relation to the size of the issue |
|--|-------------------|------------------------|---------------------------|--------------------------------|---------------------|---------|-----------------------------|-----------------------------|------|------|--|---|--|
| | | As at July 1, 2009 | Purchases during the year | Sales / Mature during the year | As at June 30, 2010 | Cost | Market Value | Appreciation / (Diminution) | | | | | |
| Askari Bank Limited | February 4, 2005 | 19,800 | - | 5,800 | 14,000 | 69,135 | 67,722 | (1,413) | 3.22 | 3.31 | 3.31 | 4.67 | |
| Askari Bank Limited | November 18, 2009 | - | 13,000 | - | 13,000 | 65,212 | 62,482 | (2,730) | 2.97 | 3.05 | 3.05 | 2.17 | |
| Bank AL Habib Limited | February 7, 2007 | 17,320 | - | 5,100 | 12,220 | 61,027 | 58,944 | (2,083) | 2.80 | 2.88 | 2.88 | 4.07 | |
| Bank Alfalah Limited | December 2, 2009 | - | 25,000 | 10,000 | 15,000 | 74,985 | 71,949 | (3,036) | 3.42 | 3.52 | 3.52 | 1.50 | |
| Engro Corporation Limited | March 18, 2008 | 44,900 | 6,500 | 12,000 | 39,400 | 189,789 | 175,799 | (13,990) | 8.36 | 8.59 | 8.59 | 4.93 | |
| Engro Corporation Limited | September 6, 2007 | - | 10,000 | 10,000 | - | - | - | - | - | - | - | - | |
| Escorts Investment Bank Limited | March 15, 2007 | 3,016 | - | - | 3,016 | 10,165 | 9,877 | (288) | 0.47 | 0.48 | 0.48 | 3.02 | |
| KASB Securities Limited | June 27, 2007 | 6,000 | 3,000 | 500 | 8,500 | 36,789 | 40,879 | 4,090 | 1.95 | 2.00 | 2.00 | 8.50 | |
| Maple Leaf Cement Factory Limited | December 3, 2007 | - | 2,000 | - | 2,000 | 6,997 | 8,497 | 1,500 | 0.40 | 0.42 | 0.42 | 0.13 | |
| NIB Bank Limited | March 5, 2007 | - | 502 | - | 502 | - | - | - | - | - | - | - | |
| Orix Leasing, Pakistan Limited | May 25, 2007 | 31,000 | - | - | 31,000 | - | - | - | - | - | - | - | |
| Pace Pakistan Limited | February 15, 2008 | - | 10,000 | - | 10,000 | 42,616 | 48,074 | 5,458 | 2.29 | 2.35 | 2.35 | 3.33 | |
| Pakistan Mobile Communications Limited | October 1, 2007 | 38,250 | - | 19,000 | 19,250 | 45,109 | 47,388 | 2,279 | 2.25 | 2.32 | 2.32 | 2.75 | |
| Pakistan Mobile Communications Limited | October 28, 2008 | 17,035 | - | 15,500 | 1,535 | 7,637 | 6,639 | (998) | 0.32 | 0.32 | 0.32 | 0.14 | |
| Searle Pakistan Limited | March 9, 2006 | 4,000 | - | - | 4,000 | 4,998 | 4,860 | (138) | 0.23 | 0.24 | 0.24 | 5.00 | |
| Standard Chartered Bank (Pakistan) Limited | February 1, 2006 | 10,000 | - | 10,000 | - | - | - | - | - | - | - | - | |
| Telecard Limited | May 27, 2005 | 19,980 | - | 5 | 19,975 | 41,108 | 36,456 | (4,652) | 1.73 | 1.78 | 1.78 | 4.16 | |
| Trust Investment Bank Limited | November 15, 2005 | 7,500 | - | - | 7,500 | 3,750 | 3,697 | (53) | 0.18 | 0.18 | 0.18 | 3.75 | |
| Trust Investment Bank Limited | July 4, 2008 | 10,000 | - | - | 10,000 | 43,733 | 39,014 | (4,719) | 1.86 | 1.91 | 1.91 | 8.33 | |
| United Bank Limited | September 8, 2006 | 22,012 | 500 | 6,500 | 16,012 | 80,229 | 77,974 | (2,255) | 3.71 | 3.81 | 3.81 | 4.00 | |
| United Bank Limited | February 14, 2008 | - | 10,000 | - | 10,000 | - | - | - | - | - | - | - | |
| Worldcall Telecom Limited | November 28, 2006 | 7,000 | - | - | 7,000 | 17,661 | 17,036 | (625) | 0.81 | 0.83 | 0.83 | 10.00 | |
| | | | | | | 800,940 | 777,287 | (23,653) | | | | | |
| | | | | | | - | (2,471) | (2,471) | | | | | |
| | | | | | | 800,940 | 774,816 | (26,124) | | | | | |

Provision against non-performing exposure (note 4.2.2)

4.3.1 The above include Term Finance Certificates with fair value aggregating to Rs 329,636 (2009: Rs 496,952) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of circular No. 11 dated October 23, 2007, issued by SECP.

4.3.2 During the current year, Maple Leaf Cement Factory Limited has defaulted in the payment of the fourth coupon of mark-up due on December 3, 2009. In accordance with the requirements of Circular 1 of 2009, issued by the Securities and Exchange Commission of Pakistan, no further mark-up is being accrued from the date the coupon was due and mark-up already accrued amounting to Rs 382,369 has been reversed. Further, provision amounting to Rs 2,471 million has been made in accordance with the provisioning policy approved by the Board of Directors of the Management Company. The said exposure has been restricted on March 30, 2010.

4.4 Government securities - 'At fair value through profit or loss'

| Issue date | Tenor | Face value | | | Balance as at June 30, 2010 | | | Market value as a percentage of net assets | Market value as a percentage of total investments |
|--------------------------|----------|--------------------|---------------------------|---------------------------------|-----------------------------|--------|-----------------------------|--|---|
| | | As at July 1, 2009 | Purchases during the year | Sales / Matured during the year | As at June 30, 2010 | Cost | Appreciation / (Diminution) | | |
| Pakistan Investment Bond | | | | | | | | | |
| September 3, 2009 | 3 Years | - | 25,000 | - | 25,000 | 24,548 | (452) | 1.16 | 1.19 |
| September 3, 2009 | 5 Years | - | 25,000 | - | 25,000 | 24,418 | (582) | 1.15 | 1.18 |
| September 3, 2009 | 10 Years | - | 75,000 | 75,000 | - | 24,151 | (24,151) | - | - |
| | | | | | 48,506 | 48,569 | (63) | | |

| Issue date | Tenor | Face value | | | Balance as at June 30, 2010 | | | Market value | | |
|-----------------------|---------|--------------------|---------------------------|---------------------------------|-----------------------------|---------|--------------|-----------------------------|-------------------------------|--------------------------------------|
| | | As at July 1, 2009 | Purchases during the year | Sales / Matured during the year | As at June 30, 2010 | Cost | Market Value | Appreciation / (Diminution) | as a percentage of net assets | as a percentage of total investments |
| Treasury Bills | | | | | | | | | | |
| February 12, 2009 | 1 Year | 100,000 | 375,000 | 475,000 | - | - | - | - | - | - |
| February 12, 2009 | 6 Month | 10,000 | - | 10,000 | - | - | - | - | - | - |
| February 26, 2009 | 6 Month | - | 100,000 | 100,000 | - | - | - | - | - | - |
| February 26, 2009 | 1 Year | - | 100,000 | 100,000 | - | - | - | - | - | - |
| February 26, 2009 | 1 Year | - | 200,000 | 200,000 | - | - | - | - | - | - |
| March 26, 2009 | 1 Year | 100,000 | 50,000 | 150,000 | - | - | - | - | - | - |
| March 26, 2009 | 1 Year | - | 25,000 | 25,000 | - | - | - | - | - | - |
| April 9, 2009 | 1 Year | 50,000 | - | 50,000 | - | - | - | - | - | - |
| April 9, 2009 | 1 Year | - | 50,000 | 50,000 | - | - | - | - | - | - |
| April 23, 2009 | 6 Month | - | 100,000 | 100,000 | - | - | - | - | - | - |
| May 7, 2009 | 6 Month | - | 50,000 | 50,000 | - | - | - | - | - | - |
| May 7, 2009 | 1 Year | - | 100,000 | 100,000 | - | - | - | - | - | - |
| May 21, 2009 | 1 Year | 50,000 | - | 50,000 | - | - | - | - | - | - |
| June 4, 2009 | 1 Year | - | 25,000 | 25,000 | - | - | - | - | - | - |
| August 13, 2009 | 1 Year | - | 100,000 | 100,000 | 50,000 | 49,371 | 49,313 | (58) | 2.35 | 2.41 |
| August 27, 2009 | 1 Year | - | 200,000 | 200,000 | - | - | - | - | - | - |
| August 27, 2009 | 1 Year | - | 100,000 | 100,000 | 100,000 | 98,182 | 98,177 | (5) | 4.67 | 4.80 |
| September 10, 2009 | 6 Month | - | 50,000 | 50,000 | - | - | - | - | - | - |
| September 10, 2009 | 1 Year | - | 100,000 | 100,000 | - | - | - | - | - | - |
| September 10, 2009 | 1 Year | - | 25,000 | 25,000 | 25,000 | 24,439 | 24,432 | (7) | 1.16 | 1.19 |
| September 10, 2009 | 6 Month | - | 48,000 | 48,000 | - | - | - | - | - | - |
| September 10, 2009 | 6 Month | - | 30,000 | 30,000 | - | - | - | - | - | - |
| September 10, 2009 | 6 Month | - | 50,000 | 50,000 | - | - | - | - | - | - |
| September 26, 2009 | 1 Year | - | 200,000 | 150,000 | 50,000 | 48,710 | 48,642 | (68) | 2.31 | 2.38 |
| September 26, 2009 | 6 Month | - | 100,000 | 100,000 | - | - | - | - | - | - |
| October 8, 2009 | 1 Year | - | 75,000 | 75,000 | - | - | - | - | - | - |
| October 8, 2009 | 3 Month | - | 200,000 | 200,000 | - | - | - | - | - | - |
| October 8, 2009 | 6 Month | - | 250,000 | 250,000 | - | - | - | - | - | - |
| October 8, 2009 | 1 Year | - | 75,000 | 75,000 | 75,000 | 72,665 | 72,627 | (38) | 3.46 | 3.55 |
| October 22, 2009 | 3 Month | - | 50,000 | 50,000 | - | - | - | - | - | - |
| November 5, 2009 | 3 Month | - | 65,000 | 65,000 | - | - | - | - | - | - |
| December 3, 2009 | 3 Month | - | 100,000 | 100,000 | - | - | - | - | - | - |
| January 14, 2010 | 3 Month | - | 50,000 | 50,000 | - | - | - | - | - | - |
| January 14, 2010 | 3 Month | - | 50,000 | 50,000 | - | - | - | - | - | - |
| January 14, 2010 | 6 Month | - | 150,000 | 150,000 | - | - | - | - | - | - |
| January 14, 2010 | 6 Month | - | 300,000 | 300,000 | 300,000 | 298,644 | 298,638 | (6) | 14.21 | 14.60 |
| February 11, 2010 | 6 Month | - | 75,000 | 75,000 | - | - | - | - | - | - |
| February 25, 2010 | 3 Month | - | 250,000 | 250,000 | - | - | - | - | - | - |
| February 25, 2010 | 3 Month | - | 50,000 | 50,000 | - | - | - | - | - | - |
| March 11, 2010 | 1 Year | - | 100,000 | 100,000 | - | - | - | - | - | - |
| March 11, 2010 | 1 Year | - | 50,000 | 50,000 | 50,000 | 46,173 | 46,075 | (98) | 2.19 | 2.25 |
| March 25, 2010 | 1 Year | - | 100,000 | 100,000 | - | - | - | - | - | - |
| April 8, 2010 | 3 Month | - | 150,000 | 150,000 | - | - | - | - | - | - |
| April 8, 2010 | 6 Month | - | 75,000 | 75,000 | 75,000 | 72,678 | 72,627 | (51) | 3.46 | 3.55 |
| May 6, 2010 | 1 Year | - | 100,000 | 100,000 | 100,000 | 90,819 | 90,541 | (278) | 4.31 | 4.43 |
| May 6, 2010 | 3 Month | - | 100,000 | 100,000 | 100,000 | 99,107 | 99,087 | (20) | 4.71 | 4.84 |
| May 20, 2010 | 3 Month | - | 150,000 | 150,000 | 150,000 | 148,005 | 147,940 | (65) | 7.04 | 7.23 |
| May 20, 2010 | 1 Year | - | 150,000 | 150,000 | 150,000 | 135,231 | 135,231 | (412) | 6.43 | 6.61 |
| June 3, 2010 | 3 Month | - | 40,000 | 40,000 | 40,000 | 39,273 | 39,271 | (2) | 1.87 | 1.92 |
| | | | | | | | 1,223,709 | 1,222,601 | (1,108) | |
| | | | | | | | 1,272,615 | 1,271,170 | (1,445) | |

| | Note | June 30, 2010 | June 30, 2009 |
|--|---|--|------------------|
| (Rupees in '000) | | | |
| 5 DIVIDEND AND PROFIT RECEIVABLE | | | |
| Income accrued on Term Finance Certificates | | 30,067 | 48,000 |
| Income accrued on Term Deposit Receipts | | - | 13,641 |
| Income accrued on Certificate of Investments | | - | 3,531 |
| Income accrued on Government Securities | | 1,870 | - |
| Profit receivable on bank deposits | | 137 | 2,145 |
| | | <u>32,074</u> | <u>67,317</u> |
| 6 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES | | | |
| Advance tax | | 3,927 | 3,927 |
| Prepaid expenses | | - | 13 |
| Receivable from Pakistan Stock Market Fund | | 2,406 | - |
| Receivable from Pakistan International Element Islamic Fund | | 5 | - |
| Deposit with National Clearing Company of Pakistan Limited | | 2,785 | 2,500 |
| Deposit with Central Depository Company of Pakistan Limited | | 200 | 200 |
| Other receivable | | - | 300 |
| | | <u>9,323</u> | <u>6,940</u> |
| 7 PAYABLE TO MANAGEMENT COMPANY | | | |
| Management Fee | 7.1 | 2,637 | 3,005 |
| Front end load | | 106 | 90 |
| | | <u>2,743</u> | <u>3,095</u> |
| 7.1 | The management fee is calculated at the rate of 1.50 percent of the average annual net assets of the Fund. The remuneration is paid to the Management Company monthly in arrears. | | |
| 8 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE | | | |
| Trustee fee | 8.1 | 258 | 283 |
| CDS charges | | - | - |
| | | <u>258</u> | <u>283</u> |
| 8.1 | The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein based on the daily net assets of the Fund. | | |
| | Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2010 is as follows: | | |
| | Amount of Funds Under Management (Average NAV) | Tariff per annum | |
| | Upto Rs. 1,000 million | Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher | |
| | On an amount exceeding Rs 1,000 million | Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million | |
| | The remuneration is paid to the trustee monthly in arrears. | | |
| 9 FEE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN | | | |
| | Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the scheme. | | |
| 10 ACCRUED EXPENSES AND OTHER LIABILITIES | | | |
| Auditors' Remuneration | | 415 | 659 |
| Legal & Professional | | 100 | 200 |
| Brokerage Payable | | 19 | - |
| Payable to Pakistan Stock Market Fund | | - | 294 |
| Others | | 664 | 589 |
| | | <u>1,198</u> | <u>1,742</u> |

11 CONTINGENCIES AND COMMITMENTS

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

12 CONTRIBUTION TO WORKERS WELFARE FUND

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

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

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

| | June 30, 2010 | June 30, 2009 |
|-----------------------------------|------------------|------------------|
| | (Rupees in '000) | |
| 13 BORROWING COST | | |
| Repo charges | - | 1,578 |
| Markup on running finance | - | 7,599 |
| | <u>-</u> | <u>9,177</u> |
| 14 AUDITORS' REMUNERATION | | |
| Annual audit fee | 210 | 210 |
| Half yearly review fee | 100 | 100 |
| Other certifications and services | 135 | 532 |
| Out of pocket expenses | 51 | 2 |
| | <u>496</u> | <u>844</u> |

15 DETAILS OF NON-COMPLIANT INVESTMENT 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. Board has approved the category of the fund as "Income Scheme".

In accordance with clause (v) of the investment criteria laid down for 'Income Scheme', the Fund is required to invest in any security having rating not lower than the investment grade (credit rating of BBB and above). However, as at June 30, 2010, the Fund is non-compliant with the above-mentioned requirement in respect of the following investment:

| Name of non-compliant 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 |
|-----------------------------------|--|--------------------------------------|------------------------|-------------------------------------|--------------------------|----------------------------|
| Investment in debt securities | Maple Leaf Cement Factory Limited - Term Finance Certificate | 8,497 | (2,471) | 6,026 | 0.287% | 0.286% |

*At the time of purchase, the said Sukuk was in compliance of the said circular (i.e. investment grade) and was subsequently downgraded to D due to default in payments of due principal and markup.

16 TRANSACTIONS WITH CONNECTED PERSONS

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

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

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

16.1 Details of the transactions with connected persons are as follows:

| | June 30, 2010 | June 30, 2009 |
|---|------------------|------------------|
| | (Rupees in '000) | |
| Management Company | | |
| Issue of nil units (2009: 846,049units) | - | 41,456 |
| Redemption of nil units (2009: 846,049units) | - | 44,053 |
| Management Fee for the year | 34,815 | 52,688 |
| Associated Companies | | |
| Arif Habib Bank Limited | | |
| Issue of 7,812,500 units (2009: nil units) | 400,000 | - |
| Redemption of 7,812,500 units (2009: nil units) | 404,922 | - |
| Investment in Term Deposit Receipt | - | 1,250,000 |
| Term Deposit Receipts - Matured | - | 1,750,000 |
| Profit on bank accounts | 1,604 | 24,619 |
| Income from Term Deposit Receipt | - | 41,730 |
| Bank charges | - | - |
| Mark-up on Running finance | - | 7,599 |
| Pakistan Stock Market Fund | | |
| Issue of Nil units (2009: 9,161,128 units) | - | 460,000 |
| Redemption of Nil units (2009: 9,161,128 units) | - | 454,458 |
| Pakistan Strategic Allocation Fund | | |
| Term finance certificates sold | | |
| Allied Bank Limited (Dec 6, 2006) Nil (2009: 13,600) certificates | - | 72,503 |
| Jahangir Siddiqui & Company (Sep 30, 2005) Nil (2009: 8,000) certificates | - | 38,151 |
| United Bank Limited (Feb 14, 2008) Nil (2009: 32,000) certificates | - | 162,823 |
| Pakistan Income Enhancement Fund | | |
| Term finance certificates sold | | |
| Bank Al-Falah Limited (Nov 23, 2004) Nil (2009: 13,866) certificates | - | 71,780 |
| United Bank Limited (Sep 8, 2006) Nil (2009: 7,000) certificates | - | 35,215 |
| Askari Bank Limited (Feb 4, 2005) Nil (2009: 2,000) certificates | - | 9,380 |
| Standard Chartered Bank (Pakistan) Limited (Feb 1, 2006) Nil (2009: 1,000) certificates | - | 5,083 |
| Standard Chartered Bank (Pakistan) Limited (Jan 20, 2004) Nil (2009: 1,092) certificates | - | 4,663 |
| Engro Chemical Pak Limited (Nov 30, 2007) Nil (2009: 500) certificates | - | 2,296 |
| Pakistan Mobile Communication Limited (Oct 1, 2007) Nil (2009: 7,000) certificates | - | 34,558 |
| Term finance certificates Purchased | | |
| KASB Securities Limited (June 27, 2007) Nil (2009: 6,000) certificates | - | 28,458 |
| Pakistan Capital Market Fund | | |
| Term finance certificates sold | | |
| Pakistan Mobile Communication Limited (Oct 1, 2007) Nil (2009: 10,050) certificates | - | 50,031 |
| United Bank Limited (September 8, 2006) Nil (2009: 10,020) certificates | - | 50,407 |
| Pakistan International Element Islamic Fund | | |
| Term finance certificates sold - Sukuk | | |
| Engro Chemical Pakistan Limited (September 6, 2007) Nil (2009: 10,000) certificates | 49,194 | - |

| | June 30, 2010 | June 30, 2009 |
|---|------------------|------------------|
| | (Rupees in '000) | |
| Other related parties | | |
| Mr. Arif Habib | | |
| Issue of nil bonus units (2009: 563,207) | - | 28,177 |
| Redemption of nil units (2009: 19,995,776) | - | 1,001,388 |
| Directors and executives of the management company | | |
| Issue of 5,348,247 units (2009: 903,504 units) | 274,636 | 45,921 |
| Issue of 40,616 bonus units (2009: 27,644 units) | 2,064 | 1,384 |
| Redemption of 5,189,235 units (2009: 1,253,025 units) | 266,474 | 61,065 |
| Central Depository Company of Pakistan Limited | | |
| Issue of nil units (2009: 1,854,489) | - | 94,913 |
| Issue of nil bonus units (2009: 100,383 units) | - | 5,024 |
| Redemption of nil units (2009: 3,757,125 units) | - | 189,714 |
| Trustee fee for the year | 3,321 | 4,513 |
| CDS charges for the year | 6 | 411 |
| CDS Induction Charges | 68 | 68 |
| Arif Habib Limited - Brokerage house | | |
| Brokerage * | 8 | 1,332 |

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

16.2 Amounts outstanding as at the year end

| | | |
|---|--------|--------|
| Management company | | |
| Payable to Management Company | 2,743 | 3,095 |
| Arif Habib Bank Limited | | |
| Bank balance | 3,594 | 12,465 |
| Profit receivable on bank accounts | 97 | 101 |
| Directors and executives of the Management Company | | |
| Units held 388,262 (2009: 145,153 units) | 20,275 | 7,702 |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Trustee fee payable | 258 | 283 |
| Security deposit | 200 | 200 |

17 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

| 2010 | | | | |
|------|---------------------|--------------------------|------------------------|----|
| | Designation | Qualification | Experience in years | |
| 1 | Basharat Ullah | Chief Investment Officer | MBA | 17 |
| 2 | Zeeshan | Chief Financial Officer | ACA | 7 |
| 3 | Mohammad Imran Khan | Head of Research | MBA | 7 |
| 4 | Zafar Rehman | Fund Manager | B.COM | 18 |
| 5 | Mr. Tariq Hashmi | Head of Marketing | MBA | 18 |

17.1 Zafar Rehman is the Manager of the Fund. He has obtained a Bachelors degree in Commerce. Other funds beings managed by the fund manager are as follows:

- Pakistan Income Enhancement Fund
- Metro-bank Pakistan Sovereign Fund

18 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

| | 2010 |
|---|---------------|
| 1 Alfalah Securities Limited | 22.60% |
| 2 KASB Securities Limited | 17.39% |
| 3 Invest Capital Investment Bank Limited | 15.07% |
| 4 JS Global Capital limited | 13.71% |
| 5 BMA Capital Management Limited | 9.53% |
| 6 First Capital Securities Corporation Limited | 8.54% |
| 7 Global Securities Pakistan Limited | 6.03% |
| 8 Atlas Capital Markets (Private) Limited | 2.18% |
| 9 Elixir Securities Pakistan (Private) Limited | 1.42% |
| 10 Invisor Securities (Private) Limited | 1.31% |
| | 2009 |
| 1 Arif Habib Limited | 32.56% |
| 2 Global Securities Pakistan Limited | 11.14% |
| 3 Shahzad Chamdia Securities (Private). Limited | 7.93% |
| 4 BMA Capital Management Limited | 7.83% |
| 5 Alfalah Securities Limited | 6.93% |
| 6 Noman Abid & Co. Limited | 6.46% |
| 7 Atlas Capital Markets (Private) Limited | 6.24% |
| 8 JS Global Capital Limited | 5.77% |
| 9 Multi Line Securites Limited | 1.88% |
| 10 Invest Capital Investment Bank Limited | 1.82% |

19 PATTERN OF UNIT HOLDING

| | As at June 30, 2010 | | |
|--------------------------|-------------------------------|--------------------------|------------------------------|
| | Number of unit holders | Investment amount | Percentage investment |
| | (Rupees in '000) | | |
| Individuals | 1,466 | 670,378 | 31.89 |
| Associated companies | 1 | 147,617 | 7.02 |
| Directors | 2 | 344 | 0.02 |
| Insurance companies | 6 | 120,392 | 5.73 |
| Bank / DFIs | 23 | 414,782 | 19.74 |
| Retirement funds | 108 | 522,032 | 24.84 |
| Public Limited companies | 4 | 38,235 | 1.82 |
| Others | 34 | 187,915 | 8.94 |
| | 1,644 | 2,101,695 | 100 |

PATTERN OF UNIT HOLDING

| | As at June 30, 2009 | | |
|--------------------------|-------------------------------|--------------------------|------------------------------|
| | Number of unit holders | Investment amount | Percentage investment |
| | (Rupees in '000) | | |
| Individuals | 1,640 | 632,313 | 26.68 |
| Associated companies | - | - | 0.00 |
| Directors | 2 | 157 | 0.01 |
| Insurance companies | 8 | 76,426 | 3.22 |
| Bank / DFIs | 17 | 812,424 | 34.28 |
| NBFCs | 2 | 54,994 | 2.32 |
| Retirement funds | 135 | 580,517 | 24.50 |
| Public Limited companies | 1 | 5,045 | 0.21 |
| Others | 44 | 208,062 | 8.78 |
| | 1,849 | 2,369,938 | 100 |

20 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 63rd, 64th, 65th, 66th, 67th, 68th, 69th, 70th, 71st, 72nd & 73rd Board meetings were held on July 6, 2009, July 28, 2009, July 29, 2009, October 22, 2009, November 10, 2009, February 22, 2010, March 22, 2010, April 22, 2010, April 24, 2010, June 16, 2010 & June 17, 2010 respectively.

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

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

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

21 FINANCIAL RISK MANAGEMENT

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

21.1 Market risk

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

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

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

21.1.1 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.

21.1.2 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 June 30, 2010, 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 2.127 million (2009: Rs 3.129 million).

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2010, the Fund holds Government Securities which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by Financial Markets Association of Pakistan on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be lower by Rs 4.403 million (2009: Rs 1.838 million). In case of 100 basis points decrease in rates announced by Financial Markets Association of Pakistan on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be higher by Rs 4.488 million (2009: Rs 1.863 million).

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

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

| As at June 30, 2010 | | | | | |
|--|--|--------------------|---|---------------|------------------|
| Exposed to Yield / Interest risk | | | Not exposed to Yield / Interest rate risk | Total | |
| Upto three months | More than three months and upto one year | More than one year | | | |
| ----- (Rupees in '000) ----- | | | | | |
| On-balance sheet financial instruments | | | | | |
| Financial assets | | | | | |
| Balance with banks | 12,785 | - | - | 3,611 | 16,396 |
| Investments | 805,501 | 473,050 | 767,435 | - | 2,045,986 |
| Dividend and profit receivable | - | - | - | 32,074 | 32,074 |
| Receivable against sale of units | - | - | - | 4,990 | 4,990 |
| Advances, deposits and other receivables | - | - | - | 5,396 | 5,396 |
| Sub Total | 818,286 | 473,050 | 767,435 | 46,071 | 2,104,842 |
| Financial liabilities | | | | | |
| Payable on redemption of units | - | - | - | 1,134 | 1,134 |
| Payable to Management Company | - | - | - | 2,743 | 2,743 |
| Payable to Central Depository Company of Pakistan Limited -Trustee | - | - | - | 258 | 258 |
| Accrued expenses and other liabilities | - | - | - | 1,198 | 1,198 |
| Sub Total | - | - | - | 5,333 | 5,333 |
| On-balance sheet gap | 818,286 | 473,050 | 767,435 | 40,738 | 2,099,509 |
| Off-balance sheet financial instruments | | | | | |
| Off-balance sheet gap | - | - | - | - | - |

| As at June 30, 2009 | | | | | |
|--|--|--------------------|---|----------------|------------------|
| Exposed to Yield / Interest risk | | | Not exposed to Yield / Interest rate risk | Total | |
| Upto three months | More than three months and upto one year | More than one year | | | |
| ----- (Rupees in '000) ----- | | | | | |
| On-balance sheet financial instruments | | | | | |
| Financial assets | | | | | |
| Balance with banks | 143,410 | - | - | 2,206 | 145,616 |
| Receivable against sale of investments | - | - | - | - | - |
| Investments | 9,853 | 275,618 | 1,086,175 | - | 1,371,646 |
| Loans and receivables | 750,000 | - | - | - | 750,000 |
| Dividend and profit receivable | - | - | - | 67,317 | 67,317 |
| Receivable against sale of units | - | - | - | 37,445 | 37,445 |
| Advances, deposits and other receivables | - | - | - | 3,000 | 3,000 |
| Sub Total | 903,263 | 275,618 | 1,086,175 | 109,968 | 2,375,024 |
| Financial liabilities | | | | | |
| Payable against purchase of investments | - | - | - | - | - |
| Payable on redemption of units | - | - | - | 774 | 774 |
| Payable to Management Company | - | - | - | 3,095 | 3,095 |
| Payable to Central Depository Company of Pakistan Limited -Trustee | - | - | - | 283 | 283 |
| Accrued expenses and other liabilities | - | - | - | 1,742 | 1,742 |
| Sub Total | - | - | - | 5,894 | 5,894 |
| On-balance sheet gap | 903,263 | 275,618 | 1,086,175 | 104,074 | 2,369,130 |
| Off-balance sheet financial instruments | | | | | |
| Off-balance sheet gap | - | - | - | - | - |

21.1.3 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. The Fund is not allowed to invest in equity securities, hence it is not exposed to equity price risk.

21.2 Credit risk

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in term finance certificates, loans and receivables and balances with banks. The credit risk on these funds is limited because the counterparties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies and investment guidelines (approved by the Board) require the Fund to invest in high rated debt securities.

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

| Bank Balances by rating category | 2010 | 2009 |
|--|-------------|-------------|
| Allied Bank Limited | AA | AA |
| Arif Habib Bank Limited | A | A |
| Askari Commercial Bank Limited | AA | AA |
| Bank Al Habib Limited | AA+ | AA+ |
| Bank Alfalah Limited | AA | AA |
| Deutsche Bank AG | AA+ | AA+ |
| Faysal Bank Limited | AA | AA |
| Habib Bank Limited | AA+ | AA+ |
| Habib Metropolitan Bank Limited | AA+ | AA+ |
| Meezan Bank Limited | AA- | A+ |
| MCB Bank Limited | AA+ | AA+ |
| NIB Bank Limited | AA- | AA- |
| Standard Chartered Bank (Pakistan) Limited | AAA | AAA |
| United Bank Limited | AA+ | AA+ |

| Term Finance Certificates by rating category | As at June 30, 2010 | As at June 30, 2009 |
|---|----------------------------|----------------------------|
| AA, AA- (2009: AA, AA-, AA+) | 66.45% | 85.73% |
| A, A+ (2009: A, A-, A+) | 21.93% | 9.30% |
| BBB, BBB+ (2009: BB, BB+, BB-) | 10.84% | 4.97% |
| D (2009: Nil) | 0.78% | - |

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

21.2.3 A reconciliation of provision made during the year in respect of outstanding debt securities is given in note 4.2 to these financial statements.

21.2.4 An analysis of the financial assets that are individually impaired as per the requirements of Circular No. 1 dated January 6, 2009 and Circular No. 13 dated May 4, 2009 issued by the Securities and Exchange Commission of Pakistan are as under:

| | 2010 | | 2009 | |
|---------------------------|-----------------------------------|-------------------------------|-----------------------------------|-------------------------------|
| | Payment over due (in days) | Amount (Rupees in 000) | Payment over due (in days) | Amount (Rupees in 000) |
| Term Finance Certificates | 1 to 89 | - | 1 to 89 | - |
| Term Finance Certificates | 90 to 179 | - | 90 to 179 | - |
| Term Finance Certificates | 180 to 270 | 382 | 180 to 270 | - |

21.2.5 Concentration of credit risk

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

21.3 Liquidity risk

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

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

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

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

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

| | As at June 30, 2010 | | | |
|--|----------------------------|-------------------|--|--------------------|
| | Total | Upto three months | More than three months and upto one year | More than one year |
| | ----- Rupees in '000 ----- | | | |
| Liabilities | | | | |
| Payable on redemption of units | 1,134 | 1,134 | - | - |
| Payable to Management Company | 2,743 | 2,743 | - | - |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 258 | 258 | - | - |
| Accrued expenses and other liabilities | 1,198 | 1,198 | - | - |
| | 5,333 | 5,333 | - | - |

| | As at June 30, 2009 | | | |
|--|----------------------------|-------------------|--|--------------------|
| | Total | Upto three months | More than three months and upto one year | More than one year |
| | ----- Rupees in '000 ----- | | | |
| Liabilities | | | | |
| Payable on redemption of units | 774 | 774 | - | - |
| Payable to Management Company | 3,095 | 3,095 | - | - |
| Payable to Central Depository Company of Pakistan Limited - Trustee | - | 283 | - | - |
| Accrued expenses and other liabilities | 1,742 | 1,742 | - | - |
| | 5,894 | 5,894 | - | - |

21.4 Financial instruments by category

| | | As at June 30,2010 | | |
|--|--|--|---|------------------|
| | | Loans and receivables | Assets at fair value through profit or loss | Total |
| | | Rupees in '000 | | |
| Assets | | | | |
| Balances with banks | | 16,396 | - | 16,396 |
| Investments | | - | 2,045,986 | 2,045,986 |
| Dividend and profit receivable | | 32,074 | - | 32,074 |
| Receivable against sale of units | | 4,990 | - | 4,990 |
| Advances, deposits and other receivables | | 5,396 | - | 5,396 |
| | | 58,856 | 2,045,986 | 2,104,842 |
| | | As at June 30,2010 | | |
| | | Liabilities at fair value through profit or loss | Other financial liabilities | Total |
| | | Rupees in '000 | | |
| Liabilities | | | | |
| Payable on redemption of units | | - | 1,134 | 1,134 |
| Payable to Management Company | | - | 2,743 | 2,743 |
| Payable to Central Depository Company of Pakistan Limited -Trustee | | - | 258 | 258 |
| Accrued expenses and other liabilities | | - | 1,198 | 1,198 |
| | | - | 5,333 | 5,333 |
| | | As at June 30,2009 | | |
| | | Loans and receivables | Assets at fair value through profit or loss | Total |
| | | Rupees in '000 | | |
| Assets | | | | |
| Balances with banks | | 145,616 | - | 145,616 |
| Investments | | - | 1,371,646 | 1,371,646 |
| Loans and receivables | | 750,000 | - | 750,000 |
| Dividend and profit receivable | | 67,317 | - | 67,317 |
| Receivable against sale of units | | 37,445 | - | 37,445 |
| Advances, deposits and other receivables | | 3,000 | - | 3,000 |
| | | 1,003,378 | 1,371,646 | 2,375,024 |
| | | As at June 30,2009 | | |
| | | Liabilities at fair value through profit or loss | Other financial liabilities | Total |
| | | Rupees in '000 | | |
| Liabilities | | | | |
| Payable against purchase of investments | | - | - | - |
| Payable on redemption of units | | - | 774 | 774 |
| Payable to Management Company | | - | 3,095 | 3,095 |
| Payable to Central Depository Company of Pakistan Limited -Trustee | | - | 283 | 283 |
| Accrued expenses and other liabilities | | - | 1,742 | 1,742 |
| | | - | 5,894 | 5,894 |

21.5 Fair value of financial assets and liabilities

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

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

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

| | ----- As at June 30, 2010 ----- | | | |
|---|---------------------------------|---------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| ASSETS | ----- Rupees in '000 ----- | | | |
| Investment in securities - at fair value through profit or loss | 1,453,608 | 586,352 | 6,026 | 2,045,986 |

22 CAPITAL RISK MANAGEMENT

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

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

In accordance with the risk management policies stated in note 21, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments.

23 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in its meeting held on July 5, 2010 has proposed a final bonus distribution in respect of the year ended June 30, 2010 of Rs 1.10 per unit (2009: Rs. 2.35 per unit) amounting to Rs. 44.273 million (2009: Rs 104.982 million). The financial statements for the year ended June 30, 2010 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2011.

24 DATE OF AUTHORISATION FOR ISSUE

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

25 CORRESPONDING FIGURES

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

26 GENERAL

26.1 Figures have been rounded off to the nearest thousand rupees.

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


Chief Executive


Director

**DETAIL OF PATTERN OF HOLDING (UNITS)
AS AT JUNE 30, 2010**

| | <u>UNITS HELD</u> |
|--|--------------------------|
| Directors and CEO | |
| Nasim Beg | 516 |
| Aijaz Ahmed | 6,070 |
| Public Limited Companies | 732,183 |
| Banks and Financial Institution | 10,769,791 |
| Insurance Companies | 2,305,471 |
| Indiviiduals | 12,835,172 |
| Retirement Funds | 9,996,783 |
| Modarabas & Mutual Funds | - |
| Othes Corporate Sector Entities | 30,326 |
| Non Profit Organizations | 3,568,203 |
| TOTAL | 40,244,515 |

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

| No. of Unit Holders | Units Holdings | | Total Units Held | Percentage(%) |
|---------------------|----------------|---------|----------------------|---------------|
| | FROM | TO | | |
| 1061 | 1 | 5000 | 1,027,489.38 | 2.55 |
| 168 | 5001 | 10000 | 1,158,861.38 | 2.88 |
| 81 | 10001 | 15000 | 1,008,895.29 | 2.51 |
| 54 | 15001 | 20000 | 933,229.88 | 2.32 |
| 41 | 20001 | 25000 | 914,357.75 | 2.27 |
| 35 | 25001 | 30000 | 968,284.34 | 2.41 |
| 19 | 30001 | 35000 | 620,429.73 | 1.54 |
| 17 | 35001 | 40000 | 638,459.59 | 1.59 |
| 14 | 40001 | 45000 | 600,276.88 | 1.49 |
| 15 | 45001 | 50000 | 721,954.08 | 1.79 |
| 19 | 50001 | 55000 | 988,747.57 | 2.46 |
| 9 | 55001 | 60000 | 519,472.70 | 1.29 |
| 4 | 60001 | 65000 | 254,138.67 | 0.63 |
| 12 | 65001 | 70000 | 801,599.31 | 1.99 |
| 7 | 70001 | 75000 | 512,654.29 | 1.27 |
| 7 | 75001 | 80000 | 541,024.98 | 1.34 |
| 5 | 80001 | 85000 | 412,360.36 | 1.02 |
| 7 | 85001 | 90000 | 609,669.94 | 1.51 |
| 3 | 90001 | 95000 | 278,844.37 | 0.69 |
| 3 | 95001 | 100000 | 291,712.74 | 0.72 |
| 5 | 100001 | 105000 | 511,987.07 | 1.27 |
| 1 | 105001 | 110000 | 109,526.10 | 0.27 |
| 4 | 110001 | 115000 | 444,328.36 | 1.10 |
| 1 | 115001 | 120000 | 117,753.60 | 0.29 |
| 2 | 120001 | 125000 | 243,463.62 | 0.60 |
| 6 | 125001 | 130000 | 765,398.78 | 1.90 |
| 2 | 130001 | 135000 | 266,933.45 | 0.66 |
| 2 | 135001 | 140000 | 274,554.99 | 0.68 |
| 1 | 145001 | 150000 | 148,530.73 | 0.37 |
| 2 | 155001 | 160000 | 313,897.32 | 0.78 |
| 2 | 160001 | 165000 | 326,340.84 | 0.81 |
| 1 | 170001 | 175000 | 171,369.14 | 0.43 |
| 1 | 175001 | 180000 | 179,436.41 | 0.45 |
| 1 | 180001 | 185000 | 180,862.18 | 0.45 |
| 1 | 190001 | 195000 | 193,698.29 | 0.48 |
| 4 | 205001 | 210000 | 828,128.92 | 2.06 |
| 1 | 215000 | 220000 | 218,854.45 | 0.54 |
| 1 | 220001 | 225001 | 221,166.78 | 0.55 |
| 1 | 235001 | 240000 | 238,677.73 | 0.59 |
| 1 | 240001 | 245000 | 243,902.44 | 0.61 |
| 1 | 260001 | 265000 | 264,694.15 | 0.66 |
| 2 | 265001 | 270000 | 537,340.66 | 1.34 |
| 1 | 285001 | 290000 | 286,808.99 | 0.71 |
| 1 | 325001 | 330000 | 327,383.74 | 0.81 |
| 1 | 330001 | 335000 | 330,620.05 | 0.82 |
| 1 | 365001 | 370000 | 369,379.77 | 0.92 |
| 1 | 375001 | 380000 | 379,397.88 | 0.94 |
| 1 | 395001 | 400000 | 397,988.67 | 0.99 |
| 1 | 480001 | 485000 | 484,239.62 | 1.20 |
| 1 | 500001 | 505000 | 503,648.47 | 1.25 |
| 1 | 510001 | 515000 | 512,513.13 | 1.27 |
| 1 | 520001 | 525000 | 524,595.21 | 1.30 |
| 1 | 590001 | 595000 | 591,103.58 | 1.47 |
| 1 | 655001 | 660000 | 658,469.64 | 1.64 |
| 1 | 785001 | 790000 | 786,367.55 | 1.95 |
| 1 | 875001 | 880000 | 875,697.61 | 2.18 |
| 1 | 925001 | 930000 | 928,338.03 | 2.31 |
| 1 | 1030001 | 1035000 | 1,034,380.84 | 2.57 |
| 1 | 1170001 | 1175000 | 1,170,024.30 | 2.91 |
| 1 | 1235001 | 1240000 | 1,239,699.24 | 3.08 |
| 1 | 2825001 | 2830000 | 2,826,826.67 | 7.02 |
| 1 | 5410001 | 5415000 | 5,413,721.12 | 13.45 |
| | 1,644 | | 40,244,515.38 | 100 |

PERFORMANCE TABLE

| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002* |
|--|----------------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|
|(Rupees in '000) | | | | | | | | | |
| Net assets | 2,101,695 | 2,369,938 | 6,070,069 | 9,405,960 | 5,686,587 | 3,706,552 | 3,400,528 | 1,499,901 | 309,667 |
| Net income | 283,717 | 281,274 | 842,173 | 918,141 | 523,839 | 315,810 | 284,423 | 154,299 | 10,679 |
|Announcement date of distribution | | | | | | | | | |
| Interim | 30/Sep/2009 | 30/Sep/2008 | 29/March/2008 | - | - | - | - | - | - |
| | 31/Dec/2009 | - | - | - | - | - | - | - | - |
| | 31/March/2010 | - | - | - | - | - | - | - | - |
| Final | 05/July/2010 | 06/July/2009 | 03/July/2008 | 04/July/2007 | 04/July/2006 | 04/July/2005 | 05/July/2004 | 03/July/2003 | 01/July/2002 |
| (Percentage) | | | | | | | | | |
| Total return of the fund | 14.01 | 8.81 | 9.23 | 10.70 | 10.11 | 9.63 | 7.49 | 13.03 | 12.76 |
| Annual dividend distribution | 12.56*** | 7.30*** | 9.50*** | 10.50*** | 10.00*** | 9.60** | 9.00** | 12.00** | 3.50** |
| Capital Growth | 1.45 | 1.51 | -0.23 | 0.22 | 0.12 | 0.04 | (1.38) | 1.08 | 1.25 |
| Average annual return (CAGR): | | | | | | | | | |
| One Year | 14.01 | 8.81 | 9.23 | 10.70 | 10.11 | 9.63 | 7.49 | 13.03 | 12.76 |
| Second Year | 11.38 | 9.01 | 9.97 | 10.40 | 9.89 | 8.56 | 10.18 | - | - |
| Third Year | 10.65 | 9.57 | 10.03 | 10.16 | 9.07 | 10.01 | - | - | - |
| (Rupees) | | | | | | | | | |
| NAV per unit | 52.22 | 53.06 | 51.48 | 55.47 | 55.11 | 54.85 | 54.53 | 56.73 | 51.94 |
| Highest offer price per unit | 53.69 | 54.06 | 54.36 | 56.20 | 55.83 | 55.60 | 55.28 | 57.51 | 54.27 |
| Lowest offer price per unit | 51.36 | 47.88 | 50.95 | 50.80 | 50.76 | 50.62 | 51.47 | 52.57 | 52.49 |
| Year end offer price per unit | 52.93 | 53.79 | 52.16 | 56.20 | 55.83 | 55.55 | 55.26 | 57.50 | 54.27 |
| Highest repurchase price per unit | 52.97 | 53.33 | 53.63 | 55.44 | 55.08 | 54.85 | 54.53 | 56.73 | 51.83 |
| Lowest repurchase price per unit | 50.67 | 47.23 | 50.26 | 50.11 | 50.07 | 49.94 | 50.78 | 50.20 | 50.13 |
| Year end repurchase price per unit | 52.22 | 53.06 | 51.46 | 55.44 | 55.08 | 54.80 | 54.51 | 56.72 | 51.83 |
| Interim distribution per unit | 1.87 | 1.30 | 3.30 | - | - | - | - | - | - |
| | 2.00 | - | - | - | - | - | - | - | - |
| | 1.40 | - | - | - | - | - | - | - | - |
| Final distribution per unit | 1.10 | 2.35 | 1.45 | 5.25 | 5.00 | 4.80 | 4.50 | 6.00 | 1.75 |
| Total distribution per unit | 6.37 | 3.65 | 4.75 | 5.25 | 5.00 | 4.80 | 4.50 | 6.00 | 1.75 |

Fund keeps the average duration of its portfolio less than two years.

* First year of operations from the period 1 March 2002 to 30 June 2002.

** This represents distribution in form of bonus units

*** Unit holders who have opted for cash payout have received cash payments accordingly.

Disclaimer

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

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



HEAD OFFICE:

Arif Habib Centre,
23 M. T. Khan Road, Karachi-74000, Pakistan.

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

Fax: (+92-21) 32470351, 32470337

E-mail: marketing@arifhabib.com.pk

Website: www.arifhabib.com.pk