

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) CONTENTS

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

Management Company

Arif Habib Investments Limited
8th Floor, Techno City, Corporate Tower,
Hasrat Mohani Road, Karachi

Board of Directors of the Management Company

Mian Mohammad Mansha	Chairman(subject to the approval of SECP)
Mr. Nasim Beg	Executive Vice Chairman
Mr. Yasir Qadri	Chief Executive (subject to the approval of SECP)
Syed Salman Ali Shah	Director (subject to the approval of SECP)
Mr. Haroun Rashid	Director (subject to the approval of SECP)
Mr. Ahmed Jahangir	Director (subject to the approval of SECP)
Mr. Samad A. Habib	Director
Mr. Mirza Mahmood Ahmad	Director (subject to the approval of SECP)

Company Secretary & CFO of the Management Company

Mr. Muhammad Saqib Saleem

Audit Committee

Mr. Nasim Beg
Mr. Haroun Rashid
Mr. Samad A. Habib
Mr. Ali Munir

Trustee

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

Bankers

Habib Metropolitan Bank Ltd.

Auditors

KPMG Taseer Hadi & Co. - Chartered Accountants
Sheikh Sultan Trust Building No. 2,
Beaumont Road, Karachi-75530, Pakistan

Legal Advisor

Bawaney & Partners
404, 4th Floor, Beaumont Plaza,
Beaumont Road, Civil Lines, Karachi-75530

Registrar

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

Rating

AM2 (Positive Outlook) –
Management Quality Rating assigned by PACRA

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011

The Board of Directors of Arif Habib Investment Limited, the Management Company of Pakistan Capital Protected Fund - Fixed Income Securities (PCPF - FIS), is pleased to present the Annual Report on the affairs of PCPF-FIS for the year ending 30th June, 2011.

Economy and Money Market Overview

Despite continued macro-economic challenges throughout the period, the year under review (July '10-June '11) was not as turbulent as it was expected to be due to concerns over payments from foreign donor agencies and devastation caused by floods throughout the country. Record-high levels of remittances and cotton prices saved the day and kept external account position under control.

During the year, exports rose to US\$ 25.4 billion, 29% higher on a YoY basis, reducing the trade deficit to around US\$ 10.3 billion, 11% lower YoY. In addition to contained trade deficit, record-high level of workers' remittances flow has taken the current account balance to a surplus of US\$ 437 million, for the first time after FY04. Despite meager financial account flows, country's balance of payment position improved significantly during the year by around US\$ 2.5 billion - taking the FX reserves to a record level of US\$ 18.2 billion, consequently keeping PKR-USD exchange rate largely stable during the year.

Post-flood, inflationary pressures have risen significantly amidst supply-side issues as well as phasing out of power subsidies, CPI inflation averaged higher at around 14.6% during 1H FY11. Due to relatively lower food inflation as well as no major electricity pass-through during the latter half, CPI inflation averaged at a lower level of 13.3% - taking the average FY11 inflation to 13.9%. Real economy, however, did not have much to show with Real GDP growth stood at a paltry 2.4%, much lower than the target. Loss in agriculture produce because of floods caused a major dent towards country's economic growth during the period under review. Services sector, however, was able to provide some support with a growth of 4.1%, bringing the overall GDP growth to 2.4%.

Fiscal indiscipline has remained a cause of concern for the economic managers as the country is expected to witness yet again a deficit of over 6% of the GDP during FY11. Even during the first 9M of the fiscal year, the country witnessed a fiscal deficit of Rs. 783 billion, 4.3% of the revised GDP. Slower growth in revenue collection coupled with higher current expenditure has been the chief reason behind ballooning fiscal deficit. Unfortunately, development expenditure is expected to be under-spent for yet another year to meet revised fiscal deficit targets. In addition of having a higher fiscal deficit, the financing mix is also alarming as the country had to resort to domestic sources of funding to a large extent in the absence of sizeable foreign flows during the period under review.

Considering the volatility in the macroeconomic variables, the State Bank of Pakistan has also altered its monetary stance at least twice during the year. Citing the deteriorating macroeconomic fundamentals during the 1H FY11 mainly in the backdrop of floods, the SBP raised its policy discount rate cumulatively by 150 bps to 14.0%. However, gradual improvement towards external account through remittances and increased textile exports as well as lower levels of government borrowing from SBP has compelled the central bank to keep its policy DR unchanged for the next 3 policies during 2H FY11. Due to an overall higher interest rate environment, 1 year PKRV averaged at around 13.4% during FY11, much higher than the average 12.2% a year ago.

During FY11, key monetary indicators have also been better as compared to that of last year with money supply (M2) posting a strong growth of 15.9%. Although Net Domestic Asset (NDA) growth has been a key contributor behind M2 growth during this year as well, sizeable YoY growth of 43% in Net Foreign Assets (NFA) has been commendable - also reflecting strong BOP position.

In absence of foreign donor payments coming through, government's need to borrow continues to be a barrier in way of significant drop in interest rates or growth in credit. However, in absence of new credit creation, existing Term Finance Certificates (TFC) market became liquid and bank issued TFCs commanded improvement in prices during the period under review. Moreover, GoP Ijarah Sukuk (GIS) has also emerged as an attractive instrument during the year for conventional markets in general and Shariah compliant markets in particular. In addition of giving strong interest yield, GIS has also provided potential for capital gains due to its demand-supply gap and therefore has seen significant activities during the year in both primary as well as secondary markets.

Future outlook

Citing contained inflationary pressures, strong external account position and lower levels of government borrowing from SBP, the central bank decided to lower its policy discount rate by 50 bps to 13.5% in its Jul'11 monetary policy review.

We believe that the materialization of sizeable foreign inflows will continue to be the single most important variable especially in the backdrop of sustained oil prices, downward trend in cotton prices and debt repayments including IMF. Going forward, liquidity and interest rate direction will be largely dependent on the magnitude and sources of fiscal funding. In the absence of foreign flows, greater reliance will be on domestic sources - which could rebound inflation and interest rates.

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

Fund's Performance

During the year, the net assets of the fund stood at around PKR 237 million as on June 30, 2011. The investment objective of the Fund is to provide 100% capital protection (net of front -end load) and maximize the returns by investing in Fixed Income, Money and Debt market instruments. The fund is benchmarked against average PKRV yield for 2.5 year + 200 basis points (for investment segment only). The fund was able to yield an annualized return of 9.5% during the period under review, which was lower than the Fund's benchmark return of 10.6% during the same period.

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011

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

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

Performance Information (%)	PCPF-FIS	Benchmark
Last twelve Months Return(Annualized)	9.5%	10.6%
Since Inception (CAGR)	14.2%	14.9%

During the year your fund earned net income of Rs 20.399 million. The Board in the meeting held on 4th July, 2011 has declared final distribution amounting to Rs. 18.361 million (i.e. Rs. 0.8564 per unit).

During the period, units worth Rs. 8.206 million were issued as bonus units and units with a value of Rs. 30.432 million were redeemed. As on 30th June 2011 the NAV of the Fund was Rs. 11.04 per unit.

Update on Workers' Welfare Fund

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party.

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

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

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

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

The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs. 0.608 million.

Corporate Governance

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

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

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements.

Accounting estimates are based on reasonable prudent judgment.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2011**

- 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 as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company, hence 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. As per note 1 of financial statements, MCB Asset Management Company Limited merged with and into Arif Habib Investments Limited on June 27, 2011. Statement showing attendance of Board Meeting is as under:-

Attendance of Board Meeting from 1st July 2010 to 30th June 2011.

S.#	Name	Designation	Meetings			
			Total	Attended	Eligible to Attend	Leave Granted
1.	Mr. Shafi Malik *	Former Chairman	15	15	15	-
2.	Mr. Nasim Beg **	E. Vice Chairman	15	15	15	-
3.	Mr. Muhammad Akmal Jameel *	Former Director	15	15	15	-
4.	Mr. Muhammad Kashif *	Former Director	15	11	15	4
5.	Syed Ajaz Ahmed *	Former Director	15	13	15	2
6.	Mr. Sirajuddin Cassim *	Former Director	15	4	15	11
7.	Mr. S. Gulrez Yazdani *	Former Director	15	13	15	2
8.	Mr. Samad A. Habib ***	Director	15	5	5	-
9.	Mian Mohammad Mansha ****	Chairman	15	1	1	-
10.	Mr. Yasir Qadri ****	Chief Executive	15	1	1	-
11.	Syed Salman Ali Shah ****	Director	15	1	1	-
12.	Mr. Haroun Rashid ****	Director	15	1	1	-
13.	Mr. Ahmed Jahangir ****	Director	15	1	1	-
14.	Mr. Mirza Mahmood Ahmad ****	Director	15	1	1	-

* Resigned on 27th June, 2011
 ** Mr. Nasim Beg resigned as Chief Executive on 27th June, 2011 and appointed as Executive Vice Chairman on the same date.
 *** Mr. Samad A. Habib was elected as director on 7th February, 2011 and his appointment approved by SECP on 31st March, 2011.
 ****Appointed on 27th June, 2011 and their approval of appointment from SECP is awaited.

- m. The trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary of the management company and their spouses and minor children, as are under:-

S. #	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman	-	554.1339	37.6672
2.	Syed Ajaz Ahmed	Former Director	-	-	632.7601

External Auditors

The fund's external auditors, Messers KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2012. The audit committee of the Board has recommended reappointment of KPMG Taseer Hadi & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2012.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2011**

Acknowledgement

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

For and on behalf of the board

Yasir Qadri
Chief Executive

Karachi: September 20, 2011

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2011

Fund Type and Category

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

Fund Benchmark

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

Investment Objective

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

Investment Strategy

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

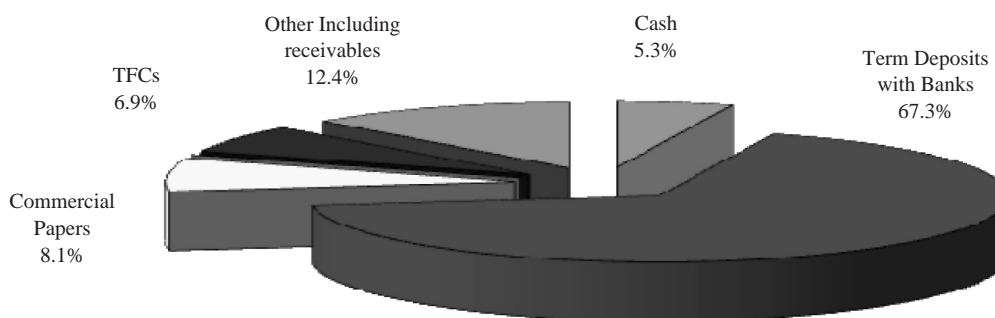
Manager's Review

The fund was able to generate an annualized return of 9.5% during the year under review as against the fund's benchmark return of 10.6% during the same period, an under-performance of 1.1%.

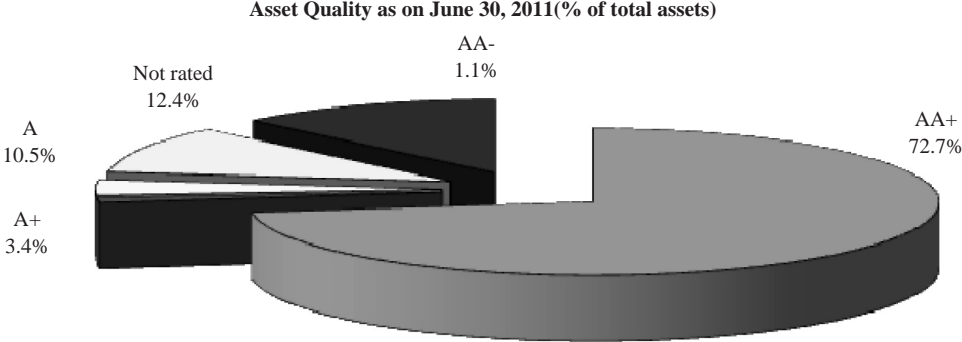
Committed with the objective of providing 100% capital protection, the fund allocated 67% of net assets in Term Deposit with Habib Metropolitan Bank as capital protection segment of the fund. 8% of the fund's net assets were invested in Commercial Papers, 7% in Term Finance Certificates and the rest in cash and other assets as of 30th June 2011.

The net assets of the fund stood at PKR 237 million by the end of June 2011, which was marginally down by around PKR 8 million as compared to June 2010.

Asset Allocation as on June 30, 2011 (% of total assets)



**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
REPORT OF THE FUND MANAGER
FOR THE YEAR ENDED JUNE 30, 2011**



Mr. Zaid Hidayatullah
Fund Manager

Karachi: September 20, 2011

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2011

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

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

Arif Habib Investments Limited, the Management Company of Pakistan Capital Protected Fund (Fixed Income Securities), has in all material respects managed Pakistan Capital Protected Fund (Fixed Income Securities), during the year ended 30th June 2011 in accordance with the provisions of the following:

- (i) the limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws;
- (ii) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;
- (iii) the creation and cancellation of units are carried out in accordance with the deed;
- (iv) and any regulatory requirement

For the purpose of information, the attention of unit holders is drawn towards note 15 to the financial statements, which refers to the pending outcome of the litigation regarding contribution to WWF in Honorable High Court of Sindh.

Karachi: October 17, 2011

Chief Executive Officer
MCB Financial Services Limited

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011

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

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 on its Board of Directors. At present the Board includes three independent non-executive directors out of a total strength of eight directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year Mr. Muhammad Shafi Malik, Mr. Sirajuddin Cassim, Mr. Muhammad Akmal Jameel, Mr. Muhammad Kashif, Mr. S. Gulrez Yazdani and Syed Ajaz Ahmed had resigned and were replaced by Mian Mohammad Mansha, Mr. Haroun Rasheed, Mr. Ahmed Jahangir, Mr. Yasir Qadri, Dr. Salman Shah and Mr. Mirza Mehmood Ahmad, respectively, as directors of the Management Company, on the same day due to merger as fully explained in note 1 to the financial statements.
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, 2011, there are no other executive directors of the Management Company besides the Executive Vice Chairman and Chief Executive.
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 Company has planned to conduct an orientation course for its directors, in the near future to appraise 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 CEO 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 Management Company. It comprises of four members, out of which two are non-executive directors.
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 Company has an effective internal audit function which was headed by the Head of Internal Audit who resigned on amalgamation. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2011**

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 shares of the Company 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

**Yasir Qadri
Chief Executive**

Karachi: September 20, 2011

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

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 Haib Investments Limited, "the Management Company" of the Fund to comply with the Listing Regulations of Islamabad 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 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 the controls and the effectiveness of such internal controls.

Further, sub-regulation (xiii-a) of Listing Regulations 35 notified by the Islamabad Stock Exchange (Guarantee) Limited 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. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2011.

Karachi
Dated: September 20, 2011

KPMG Taseer Hadi & Co.
Chartered Accountants

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of Pakistan Capital Protected Fund (Fixed Income Securities) ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2011, and the income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year ended 30 June 2011 and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2011, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Emphasis of matter

We draw attention to note 14 to the financial statements relating to provision for Workers' Welfare Fund (WWF) which refers to the pending outcome of the litigation regarding contribution to WWF in Honourable Sindh High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 0.608 million is not being maintained by the Fund. Our opinion is not qualified in respect of this matter.

Other matters

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

**Date: September 20, 2011
Karachi**

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

FINANCIAL STATEMENTS

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2011**

	Note	2011	2010
(Rupees in '000)			
Assets			
Capital protection segment			
Term deposit receipts	4	162,136	180,536
Profit receivable		26,488	7,979
		<u>188,624</u>	<u>188,515</u>
Investment segment			
Balances with banks	5	12,807	19,840
Profit receivable	6	858	1,362
Investments	7	36,096	36,869
Deposits and prepayments and other receivables	8	2,028	103
		51,789	58,174
Preliminary expenses and floatation costs	9	451	852
Total assets		<u>240,864</u>	<u>247,541</u>
Liabilities			
Payable to the Management Company	10	292	1,493
Payable to MCB Financial Services Limited - Trustee	11	41	41
Payable to Securities and Exchange Commission of Pakistan	12	188	66
Accrued expenses and other liabilities	13	3,668	1,377
Total liabilities		<u>4,189</u>	<u>2,977</u>
Contingency	14		
Net assets		<u>236,675</u>	<u>244,564</u>
Unit holders' funds (as per statement attached)		<u>236,675</u>	<u>244,564</u>
(Number of Units)			
Number of units in issue		<u>21,439,398</u>	<u>23,447,110</u>
(Rupees)			
Net asset value per unit		<u>11.04</u>	<u>10.43</u>

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

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

Chief Executive

Director

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011**

	Note	30 June, 2011	For the period from 17 October 2009 to 30 June 2010
(Rupees in '000)			
Income			
Income from term deposit receipts - capital protection segment		21,197	7,979
Capital (loss) / gain on sale of investments		(69)	833
Income from term finance and sukuk certificates		5,265	2,072
Income from commercial papers		922	-
Income from government securities		1,225	-
Unrealised (diminution) / appreciation in fair value of investments - 'at fair value through profit or loss'	7.3	(559)	1,439
Back-end load income		1,235	-
Profit on bank deposits		1,584	1,088
Total income		30,800	13,411
Expenses			
Remuneration of Arif Habib Investments Limited - Management Company	10.1	3,750	1,327
Remuneration of MCB Financial Services Limited - Trustee	11.1	554	185
Annual fee - Securities and Exchange Commission of Pakistan	12	188	66
Securities transaction cost		21	62
Bank charges		33	13
Fees and subscriptions		110	100
Legal and professional charges		75	155
Auditors' remuneration	15	405	298
Amortisation of preliminary expenses and floatation costs		401	148
Printing and related cost		125	95
Others		2,595	869
Total expenses		8,257	3,318
Net element of income / (loss) and capital gain / (losses) for the year included in prices of units issued less those in units redeemed		(2,144)	-
Net income for the year / period		20,399	10,093
Earnings per unit	16		

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

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

Chief Executive

Director

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011**

	30 June, 2011	For the period from 17 October 2009 to 30 June 2010
	(Rupees in '000)	
Undistributed income brought forward		
- Realized gains	8,654	-
- Unrealized gains	1,439	-
	10,093	-
Final distribution of 814,135 bonus units for the period from 17 October 2009 to 30 June 2010 at the rate of Re.0.35 per unit - Date of distribution: 5 July 2010	(8,206)	-
Net income for the year / period	20,399	10,093
Undistributed income carried forward	22,286	10,093
Undistributed income carried forward		
-Realized gains	21,328	8,654
-Unrealized (losses) / gains	958	1,439
	22,286	10,093

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

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

Chief Executive

Director

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	30 June, 2011	For the period from 17 October 2009 to 30 June 2010
	(Rupees in '000)	
Net assets at beginning of the year / period	244,564	-
Issue of 23,447,110 units for the period from 17 October 2009 to 30 June 2010		234,471
Issue of 814,135 bonus units for the period from 17 October 2009 to 30 June 2010 at the rate of Re.0.35 per unit - Date of distribution: 5 July 2010	8,206	-
Redemption of 2,007,712 units during the year ended 30 June 2011	(30,432)	-
	(22,226)	-
Net element of (income) / loss and capital (gains) / losses for the year included in prices of units issued less those in units redeemed	2,144	-
Final distribution of 814,135 bonus units for the period from 17 October 2009 to 30 June 2010 at the rate of Re.0.35 per unit - Date of distribution: 5 July 2010	(8,206)	-
Net income for the year / period (excluding unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital (losses) / gains on sale of investments)	21,027	7,821
Capital (loss) / gain on sale of investments	(69)	833
Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'	(559)	1,439
Net income for the year / period (including unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital (loss) / gain on sale of investments)	20,399	10,093
Net assets at end of the year / period	236,675	244,564
	(Rupees)	
Net asset value per unit as at beginning of the year / period	10.43	-
Net asset value per unit as at end of the year / period	11.04	10.43

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

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

Chief Executive

Director

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

	30 June, 2011	For the period from 17 October 2009 to 30 June 2010
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year / period	20,399	10,093
Adjustments		
Unrealised diminution / (appreciation) in fair value of investments - 'at fair value through profit or loss'	559	(1,439)
Amortisation of preliminary expenses and floatation costs	401	148
Net element of (income) / loss and capital (gain) / losses for the year included in prices of units issued less those in units redeemed	2,144	-
	<u>23,503</u>	<u>8,802</u>
(Increase) / decrease in assets		
Term deposit receipts	18,400	(180,536)
Profit receivable in term deposit receipts	(18,509)	(7,979)
Profit receivable	504	(1,362)
Investments	214	(35,430)
Deposits, prepayments and other receivables	(1,925)	(103)
Preliminary expenses and floatation cost	-	(1,000)
	<u>(1,316)</u>	<u>(226,410)</u>
Increase / (decrease) in liabilities		
Payable to Arif Habib Investments Limited - Management Company	(1,201)	1,493
Payable to MCB Financial Services Limited - Trustee	-	41
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	122	66
Accrued expenses and other liabilities	2,291	1,377
	<u>1,212</u>	<u>2,977</u>
Net cash generated from / (used in) operating activities	<u>23,399</u>	<u>(214,631)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments) / receipts from sale and redemption of units	(30,432)	234,471
Net (decrease) / increase in cash and cash equivalents during the year	<u>(7,033)</u>	<u>19,840</u>
Cash and cash equivalents at the beginning of the year / period	19,840	-
Cash and cash equivalents at the end of the year / period	<u>12,807</u>	<u>19,840</u>

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

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

Chief Executive

Director

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Capital Protected Fund - Fixed Income Securities (the Fund) was established under a Trust Deed executed on 15 June 2009 between Arif Habib Investments Limited (a subsidiary of MCB Bank Limited) as Management Company and MCB Financial Services Limited as Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on 7 August 2009 in accordance with the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

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

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

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

The Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of AM2' (Positive Outlook) to the Management Company of the Fund.

The Fund consists of two segments, Capital Protected Segment and an Investment Segment. The Capital Protected Segment aims at protecting investors capital by placing the assets of the segment in bank deposits having at least long term credit rating of AA- (Double A minus) or above at the time of placement. To achieve the objective the Fund has placed 81.85% of Fund property (net of loads and charges, if any) with Habib Metropolitan Bank Limited to ensure that these funds grow to become at least 100% of the total initial investment value (net of all expenses and taxes) at the time of maturity. The remaining assets of the Fund have been allocated to the Investment Segment that will be invested in fixed income instruments, money and debt market instruments with an objective of providing higher return than the minimum protection provided by the capital protection segment.

The Fund is listed on Islamabad Stock Exchange (Guarantee) Limited. The duration of the Fund is 30 (thirty) months from the last day of initial offering / launch period. The Fund will cease to operate on 15 August 2012 and shall stand liquidated.

Title to the assets of the Fund is held in the name of MCB Financial Services Limited as a trustee of the Fund. As per paragraph 17.2.4 of the Trust Deed of the Fund, the creditors of the Fund will have no claim against the assets of the Capital Protected Segment.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

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

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

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

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1: Presentation of Financial Statements) effective for annual periods beginning on or after 1 July 2012.
- Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12) effective for annual periods beginning on or after 1 January 2012.
- IAS 19 Employee Benefits (amended 2011) effective for annual periods on or after 1 January 2013
- Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14) effective for annual periods beginning on or after 1 January 2011.
- IAS 24 Related Party Disclosures (revised 2009) effective for annual periods beginning on or after 1 January 2011.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) effective for annual periods beginning on or after 1 July 2011.

2.4 Basis of measurement

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

2.5 Functional and presentation currency

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

2.6 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amount recognised in the financial statements are as follows:

Investments stated at fair value and derivative financial instruments

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

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Other assets

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

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied in the preparation of these financial statements to all period presented. At present, the Fund has no item to be reported in other comprehensive income, hence no such statement is prepared and total comprehensive income equals reported net income for the year as well as for comparative period.

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) *Financial instruments at fair value through profit or loss*

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

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

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

b) *Available-for-sale*

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

c) *Loans and receivables*

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

d) *Financial liabilities*

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

Recognition

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

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

Measurement

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

Subsequent to initial recognition, financial instruments classified as at 'fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement.

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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

Fair value measurement principles

The fair value of a government security not listed on a stock exchange and traded in the interbank market is valued at the average rate quoted on a widely used electronic quotation system and such average rate is based on the remaining tenor of the security.

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

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

Securities under repurchase/ resale agreements

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

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

Impairment

Financial assets not carried at fair value through profit or loss are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

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

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

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments: Recognition and Measurement.

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

Offsetting of financial instruments

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

3.2 Unit holders' fund

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

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

3.3 Issue and redemption of units

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

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

Any back-end load charge levied on redemptions becomes property of the Fund and is recognised in Income Statement currently.

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

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

The Fund records the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period in the Income Statement while the portion of the element of income / (loss) and capital gains / (losses) that relates to unrealised gains / (losses) held by the Fund in unit holders' fund is recorded 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.

3.5 Provisions

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

3.6 Preliminary expenses and floatation costs

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

3.7 Net asset value per unit

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

3.8 Taxation

Current

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

Deferred

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

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

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

3.9 Revenue recognition

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

3.10 Expenses

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

3.11 Cash and cash equivalents

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

3.12 Other assets

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

3.13 Proposed dividend and transfer between reserves

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

4. TERM DEPOSIT RECEIPTS

This represent a term deposit placed with Habib Metropolitan Bank at a mark-up rate of 11.95% (2010: 11.95%) per annum maturing on 15 August 2012. The said deposit has been placed by the Fund to ensure that these deposits are grown to become at least 100% of the total initial invested value.

5. BANK BALANCES

This represents deposit accounts maintained with Habib Metropolitan Bank, carrying mark-up at the rate ranging from 5% to 10.5% (2010: 9%) per annum.

6. PROFIT RECEIVABLE

	Note	2011	2010
(Rupees in '000)			
Profit receivable on bank deposits		114	117
Income accrued on term finance certificates		744	1,245
		858	1,362

7. INVESTMENTS

At fair value through profit or loss - held for trading

- Fixed income and other debt securities 7.1 16,681 36,869

Loan and receivables

- Commercial papers - unsecured 7.3 19,415 -

36,095	36,869
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**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

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

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

Name of the Investee company	Profit / mark-up percentage	As at June 30, 2010	Purchases during the year	Sales during the year	As at June 30, 2011	Balance as at June 30, 2011			Market value as a percentage of net assets	Market value as a percentage of total investments	Par value as a percentage of issued debt capital of investee company
						Cost	Market value	Appreciation / (Diminution)			
period											
-----Number of certificates-----						-----Rupees-----					
Pak Elektron Limited - Sukuk (7.1.1)	14.04%	4,700	-	-	4,700	7,338	8,284	(946)	3.50	22.95	0.61
Bank Alfalah Limited (IV) - Floating	14.78%	500	-	-	500	2,499	2,533	(34)	1.07	7.02	2.00
Bank AL Habib Limited (III)	15.50%	600	-	600	-	-	-	-			-
Pakistan Mobile Communication Limited (IV)	13.71%	6,800	-	6,800	-	-	-	-			-
Escorts Investment Bank Limited	15.26%	-	4,016	-	4,016	5,886	5,864	22	2.48	16.25	1.18
Total as at 30 June 2011						15,723	16,681	(958)			

7.1.1 During the year, owing to financial difficulty, Pak Elektron Limited has defaulted in the principal repayment of the sixteenth coupon while paid mark-up accrued on outstanding principal as at 28 June 2011. No provision there against has been recognized, however, further accrual of interest has been suspended in accordance with Circular 1 of 2009 issued by the SECP. The fund has applied discretionary rates on the rate provided by the MUFAP for its valuation as allowed under Circular 01 of 2009.

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

Name of the Investee company	Profit / mark-up percentage	As at 17 October, 2009	Purchases during the year	Sales during the year	As at June 30, 2010	Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investments	Par value as a percentage of issued debt capital of investee company
						Cost	Market value	Appreciation / (Diminution)			
period											
-----Number of certificates-----						-----Rupees-----					
Pak Elektron Limited - Sukuk	14.04%	-	6,700	2,000	4,700	13,208	14,662	1,454	6.00	39.77	1.82
Bank Alfalah Limited (IV) - Floating	14.78%	-	500	-	500	2,500	2,398	(102)	0.98	6.50	4.29
Bank AL Habib Limited (III)	15.50%	-	600	-	600	3,147	3,069	(78)	1.25	8.32	2.51
Pakistan Mobile Communication Limited (IV)	13.71%	-	10,669	3,869	6,800	16,575	16,740	165	6.84	45.40	1.37
Total as at 30 June 2010						35,430	36,869	1,439			

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

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

Significant terms and conditions of Term Finance Certificates outstanding as at 30 June 2010 are as follows:

Name of Security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue Date	Maturity Date
Pak Elektron Limited - Sukuk	3,214	1.75%+3 Month KIBOR	28 September 2007	28 September 2012
Bank Alfalah Limited (IV) - Floating	4,999	2.50%+6 Month KIBOR	2 December 2009	2 December 2017
Bank AL Habib Limited (III)	4,996	15.5%	15 June 2009	15 June 2017
Pakistan Mobile Communication Limited (IV)	2,500	1.3%+6 Month KIBOR	1 October 2007	1 October 2010

7.2 Net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'

Note	2011	2010
	(Rupees in '000)	
Fair value of investments	16,681	36,869
Less: Cost of investments	(15,723)	(35,430)
	958	1,439
Net unrealised appreciation in value of investments at fair value through profit or loss at the beginning of the year	(1,439)	-
Realised on disposal during the year	(78)	-
	(1,517)	-
	(559)	1,439

7.3 Commercial papers - unsecured - loans and receivables

Name of Security	Profit / mark-up percentage	As at 1 July, 2010	Purchased during the year	Maturities during the year	Sold during the year	As at 30 June, 2011	Carrying value as at 30 June 2011	Percentage of total investments on the basis of carrying value	
Tameer Micro Finance Bank Limited	7.3.1	16.25	-	20	-	-	20	19,415	1.16

7.3.1 These commercial papers have a face value of Rs. 1 million each and carry mark-up of 16.25 % per annum with a maturity on 10 September 2011 in lump sum.

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8. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2011	2010
(Rupees in '000)			
Deposit with National Clearing Company of Pakistan Limited	8.1	250	-
Deposit with Central Depository Company of Pakistan Limited	8.2	100	100
Prepayments		-	3
Other receivables	8.3	1,678	-
		2,028	103

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

8.2 This represents deposit with Central Depository Company of Pakistan Limited on account of initial deposit for opening of account.

8.3 This represents redemption receivable (principal repayment) from Pakistan Elektron Limited (PEL) as disclosed in note 7.1.1.

9. PRELIMINARY EXPENSES AND FLOATATION COSTS

Opening balance	852	1,000
Less: Amortisation during the year	(401)	(148)
	451	852

10. PAYABLE TO ARIF HABIB INVESTMENTS LIMITED – MANAGEMENT COMPANY

Management fee	10.1	292	300
Deposits paid on opening of bank accounts		-	193
Formation Cost		-	1,000
		292	1,493

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

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11. PAYABLE TO MCB FINANCIAL SERVICES LIMITED - TRUSTEE

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

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

12. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	30 June, 2011	30 June, 2010
	(Rupees in '000)	
Auditors' remuneration	341	255
Professional fee	150	75
Zakat payable	2,882	868
Others	295	179
	3,668	1,377

14. CONTINGENCIES AND COMMITMENTS

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 honourable 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 (the Ministry) issued a letter which states that mutual funds are not liable for WWF. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income of Mutual Fund(s), the product being sold, is exempted under the law *ibid*."

There have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds for the recovery of WWF. On 14 December 2010, the Ministry filed its response contesting the said petition. The legal proceedings in respect of the aforementioned petition are currently in progress.

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Based on the advice of the legal counsel handling the case, the Management Company is of the view that notwithstanding the show cause notices issued to a number of mutual funds, WWF is not applicable to the Funds due to the clarification issued by the Ministry which creates vested right, hence no provision of Rs 0.608 million (Re. 0.03 per unit) has been made in respect of WWF.

Subsequent to the year end, the Lahore High Court in a petition filed by an industrial establishment has "declared the amendments introduced in the WWF Ordinance through Finance Act, 2006 and 2008 as"unconstitutional and has therefore struck them down. The Management Company is evaluating the implications of the above developments and is in consultation with MUFAP.

15. AUDITORS' REMUNERATION

	30 June, 2011	For the period from 17 October 2009 to 30 June 2010
	(Rupees in '000)	
Annual audit fee	210	125
Half yearly review	125	50
Other certifications and services	60	73
Out of pocket expenses	10	50
	405	298

16. EARNINGS PER UNIT

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

17. TAXATION

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

18. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

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

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

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

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

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

	30 June, 2011		30 June, 2010	
	Unit	(Rupees in '000)	Unit	(Rupees in '000)
Units sold to:				
Management Company				
Arif Habib Investments Limited	-	-	7,500,000	75,700
Other related parties				
- Directors and executives of the management company	4,245	42,790	18,628	191
Units held by:				
Management Company				
Arif Habib Investments Limited	126,502	1,379	122,257	1,212
Other related parties				
- Directors / officers and employees of the management company	19,305	213	18,628	194
- Summit Bank Limited (formerly Arif Habib Bank Limited)	10,201,415	112,616	-	-
Transactions and balances with related parties / connected persons				
Arif Habib Investment Management Limited				
Opening	-	1,493	-	-
Remuneration for the year	-	3,750	-	1,327
Sales load for the year	-	-	-	4,159
Preliminary expenses and floatation cost	-	-	-	1,000
Other payable	-	-	-	193
	-	5,243	-	6,679
Amounts paid during the year	-	(4,951)	-	(5,186)
Balance at the end of the year	-	292	-	1,493
MCB Financial Services Limited - Trustee				
Balance at the beginning of the year			41	-
Remuneration for the year			554	185
Amounts paid during the year			(554)	(144)
Balance at end of the year			41	41

19. RISK MANAGEMENT

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

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES) NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

- Market risk
- Credit risk and
- Liquidity risk

Market risk

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

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

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

Currency risk

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

Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and future cash flows. As at 30 June 2011, the Fund holds floating rate term finance certificates, that expose the Fund to cash flow interest rate risk.

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

As at 30 June 2011, the investment in term finance certificates exposed to interest rate risk is detailed in Note 7.1.

Sensitivity analysis for variable rate instruments

In case of 100 basis points increase / decrease in KIBOR on 30 June 2011, the net assets of the Fund would have been higher / lower by Rs. 0.228 million (2010: 0.35 million) with consequential effect on interest income for the period.

The composition of the Fund's investment portfolio, KIBOR rates and yield matrix calculated by MUFAP is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2011 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates.

The Fund holds fixed rate unsecured commercial paper carried at amortized, hence the Fund is not exposed to fair value interest rate risk.

Other 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 instrument traded in the market. The Fund is not exposed to equity price risk, as the Fund does not hold any equity securities as at 30 June 2011.

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Credit risk

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse re-purchase transactions or other arrangements to fulfil their obligations resulting in financial loss to the Fund. These credit exposures exist within financing relationships, derivatives and other transactions. There is also a risk of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the central clearing system etc.

The credit risk of the Fund mainly arises from its investment in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, deposits and other receivable balances.

Credit risk management

It is the Fund's policy to enter into financial contracts with reputable, diverse and creditworthy counterparties and wherever possible or deemed necessary obtain collaterals in accordance with internal risk management policies and investment guidelines designed for credit risk management. The Investment Committee closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

The maximum exposure to credit risk before any credit enhancements at June 30 is the carrying amount of the financial assets as set out below:

	2011	2010
	(Rupees in '000)	
Capital protection segment		
Term deposit receipt	162,136	180,536
Profit receivable	26,488	7,979
	188,624	188,515
Investments segment		
Bank balances	12,807	19,840
Profit receivable	858	1,362
Investments	36,096	36,869
Deposits, prepayments and other receivables	2,028	100
	51,789	58,171

None of the above financial assets were considered to be past due or impaired in 2011 and 2010 except for investment in Pak Elektron Limited as mentioned in note 7.1.1 to these financial statements. The Fund has suspended accrual of mark up against its exposure to Pak Elektron Limited in accordance with the requirement of Circular 1 of 2009 issued by the SECP. Subsequent to year end, the investee company has revised repayment schedule.

Settlement risk

Credit risk relating to unsettled transactions in securities is considered to be minimal as the Fund uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery using central clearing system.

Bank balances

The Fund kept surplus liquidity with Habib Metropolitan Bank Limited having credit rating A1+ and AA+ short term and long term, respectively. The rating of the is monitored by the Fund Manager and Investment Committee.

Investment in debt securities

Credit risk on debt investments is mitigated by investing primarily in investment grade rated investments and purchase certificate of investments or make placements with financial institutions having sound credit rating. Where the investment is considered doubtful / becomes non-performing as per the criteria specified in Circular 1 of 2009 issued by SECP, a provision is recognised as per the criteria specified therein and also in accordance with provisioning policy of the Fund approved by Board of Directors of the Management Company.

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

Debt Securities by rating category	2011	2010
	Percentate	
AA	8.32%	8.32%
AA-	6.50%	6.50%
A+	45.40%	85.18%
A	39.77%	-
	<u>100%</u>	<u>100%</u>

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

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit less back end load at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by the SECP.

Units of the Fund are redeemable on demand at the option of its holders. However, the Fund is a Capital Protected Fund with a back end load on redemption before the maturity date, hence the Fund does not anticipate significant redemptions.

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

The liquidity position of the Fund is monitored by Fund Manager on daily basis and frequently by the Investment Committee.

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.

The maturity profile of the Fund's liabilities based on contractual maturities is given below:

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

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30 June 2010			
Up to three months	More than three months and up to one year	More than one year	Total
------(Rupees in '000)-----			
Payable to Arif Habib Investments Limited - Management Company	493	-	1,000
Payable to MCB Financial Services Limited (formerly Muslim Commercial Financial Services (Private) Limited) - Trustee	41	-	41
Payable to Securities and Exchange Commission of Pakistan	66	-	66
Accrued expenses and other liabilities	509	-	509
	1,109	-	1,000
			2,109

Unit holders' fund risk management

Management's objective when managing unit holders' funds is to safe guard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders' and to ensure reasonable safety of unit holders' funds.

The Management Company manages fund's investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in markets' conditions. The unit holders' funds structure depends on the issuance and redemption of units. The Fund is not subject to any externally imposed capital requirements except for at the time of establishment of Fund which is Rs.100 million.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Investment in term finance certificates as disclosed in note 7.1 to these financial statements are valued at the rates determined and notified by Mutual Fund Association of Pakistan (MUFAP) as per the methodology prescribed by the SECP via Circular 1 of 2009 and Circular 3 of 2010. Therefore the fair value of debt securities are included within Level 3 of the fair value hierarchy, as the inputs used for the valuation are not based on observable market data.

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21. DISTRIBUTION BY THE FUND

Non-adjusting event after the balance sheet date

The Board of Directors of the Management Company have approved a dividend of Rs. 0.8564 for every unit held for the period ended 30 June 2011, amounting to Rs. 18.361 million in total in their meeting held on 4 July 2010. The financial statements for the year ended 30 June 2011 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending 30 June 2012.

22. SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding pattern of unit holding, list of top ten brokers, meetings of the Board of Directors of the management company and members of the Investment Committee are as follows:

22.1 Pattern of unit holding

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

Category	Number of Unit Holders	Investment amount (Rupees in '000)	Percentage of total investment (%)
Individuals	47	86,652	36.61%
Listed company	1	13,296	5.62%
Associate companies and directors	2	114,012	48.17%
Provident fund	2	22,715	9.60%
	52	236,676	100.00

Unit holding pattern of the fund as at 30 June 2010 is as follows:

Category	Number of Unit Holders	Investment amount (Rupees in '000)	Percentage of total investment (%)
Individuals	55	107,572	43.99%
Public limited companies	1	12,141	4.96%
Associate companies and directors	2	114,012	48.17%
Provident fund	2	20,741	8.48%
NBFCs	1	1,275	0.52%
	60	244,564	100.00

22.2 Top ten brokers / dealers by percentage of commission paid

Broker name	2011	2010
	Percentate	
IGI Finex	74.48%	-
JS Global Capital Limited	20.97%	38.36%
First Capital Securities Corporation Ltd	-	36.18%
Icon Securities (Private) Limited	4.55%	12.52%
Alfalah Securities (Private) Limited	-	9.79%
KASB Securities	-	2.58%
Invest Capital	-	0.56%

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22.3 Investment committee

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

Name	Designation	Qualification	Experience in years
Basharat Ullah	Chief Investment Officer	MBA	18
Zeeshan	Chief Financial Officer	ACA	8
Muhammad Imran Khan	Head of Research	MBA	9
Zafar Rehman	Head of Debt and Money Market Funds	B.COM	19
Nadeem Khan	Fund Manager	MBA, MSc	18
Tariq Hashmi	Head of Marketing	MBA	19

Subsequent to the year end, owing to merger of Arif Habib Investments Limited with MCB Asset Management Company Limited, the Investment Committee has been reconstituted and recomposed as follows:

Name	Designation	Qualification	Experience in years
Yasir Qadri	Chief Executive Officer	MBA	16
Kashif Rafi	Fund Manager - Fixed Income Funds	MBA, CFA Level 1	10
Muhammad Asim	Fund Manager - Equity Funds	MBA, CFA	8
Syed Akbar Ali	Senior Research Analyst	MBA, CFA	7
Mohsin Pervez	Senior Research Analyst	CFA Level 1	9
Zaid Hidayatullah	Fund Manager	BBA	2

22.4 Other Funds managed by the Fund Manager

Nadeem Khan

Nadeem Khan is the Manager of the Fund as at year end. He has obtained a Masters degree in Business Administration and a Masters degree in Science. Other funds being managed by him is as follows:

— Pakistan Cash Management Fund

Subsequent to the year end owing to merger of Arif Habib Investments Limited with MCB Asset Management Company, Mr. Zaid Hidayatullah has been appointed as Fund manager in place of Mr.Nadeem Khan.

23. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 74th, 75th, 76th, 77th, 78th, 79th, 80th, 81st, 82nd, 83rd, 84th, 85th, 86th, 87th and 88th Board meetings were held on 5 July 2010, 3 August 2010, 4 August 2010, 22 October 2010, 25 October 2010, 12 November 2010, 20 December 2010, 30 December 2010, 17 February 2011, 19 February 2011, 16 April 2011, 21 April 2011, 23 April 2011, 15 June 2011, 27 June 2011 respectively.

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

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FOR THE YEAR ENDED JUNE 30, 2011**

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave Granted	
Mr. Shafi Malik*	15	15	-	
Mr. Nasim Beg	15	15	-	
Mr. Sirajuddin Cassim*	15	4	11	74th to 83rd and 88th meeting
Mr. S. Gulrez Yazdani *	15	13	2	75th and 76th meeting
Mr. Muhammad Akmal Jameel*	15	15	-	
Syed Ajaz Ahmed*	15	13	2	74th and 88th meeting
Mr. Muhammad Kashif Habib*	15	11	4	74th, 77th, 87th and 88th meeting
Mr. Samad A. Habib**	5	5	-	
Mian Mohammad Mansha***	1	1	-	
Mr. Yasir Qadri***	1	1	-	
Syed Salman Ali Shah***	1	1	-	
Mr. Haroun Rashid***	1	1	-	
Mr. Ahmed Jahangir***	1	1	-	
Mr. Mirza Mahmood Ahmad***	1	1	-	

* The above directors retired in the 88th meeting held on 27 June 2011.

** Mr.Samad A. Habib was appointed as director during the year in the extraordinary general meeting held on 7 February 2011 and approved by the SECP on 31 March 2011.

*** The above directors are appointed in place of retiring directors in the 88th meeting held on 27 June 2011.

24. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on September 20, 2011 by the Board of Directors of the Management Company.

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

Chief Executive

Director

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
PATTERN OF HOLDING AS PER REQUIREMENT OF
CODE OF CORPORATE GOVERNANCE
AS AT JUNE 30, 2011**

Category	No. of Unit Holders	Units
Associated Company, Undertakings, and Related Parties		
Arif Habib Investments Limited	1	126,502
Summit Bank Limited	1	10,201,458
Trust	2	2,057,684
Corporate	1	1,204,422
Individuals	47	7,849,442
	52	21,439,508

PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
PATTERN OF UNIT HOLDING (SIZE)
AS AT JUNE 30, 2011

No. of Unit Holders	Units Holdings	Total Units Held
9	1 - 10000	11,860
20	10001 - 100000	716,456
19	100001 - 1000000	5,591,742
4	1000001 - onwards	15,119,450
<u>53</u>		<u>21,439,508</u>

**PAKISTAN CAPITAL PROTECTED FUND (FIXED INCOME SECURITIES)
PERFORMANCE TABLE**

	June 30, 2009	June 30, 2008
	(Rupees in '000)	
Net Assets	236,675	244,564
Net Income	20,399	10,093
	(Rupees per unit)	
Net Asset Value per Unit	11.04	10.43
Final distribution per Unit	0.86	0.35
Distribution date-final	July4,2011	July5,2010
Year end offer price per unit	-	-
Year end repurchase price per unit	10.48	9.91
Highest repurchase price per unit	10.48	9.91
Lowest repurchase price per unit	9.58	9.50
	(Percentage)	
Total return of the Fund		
Capital growth	0.90	2.18
Income Distribution	8.60	9.46
Average annual return	9.50	11.64
One Year	9.50	11.64
Since inception	10.40	11.64
Waeighted average portfolio duration	336 days	580 days

Disclaimer

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