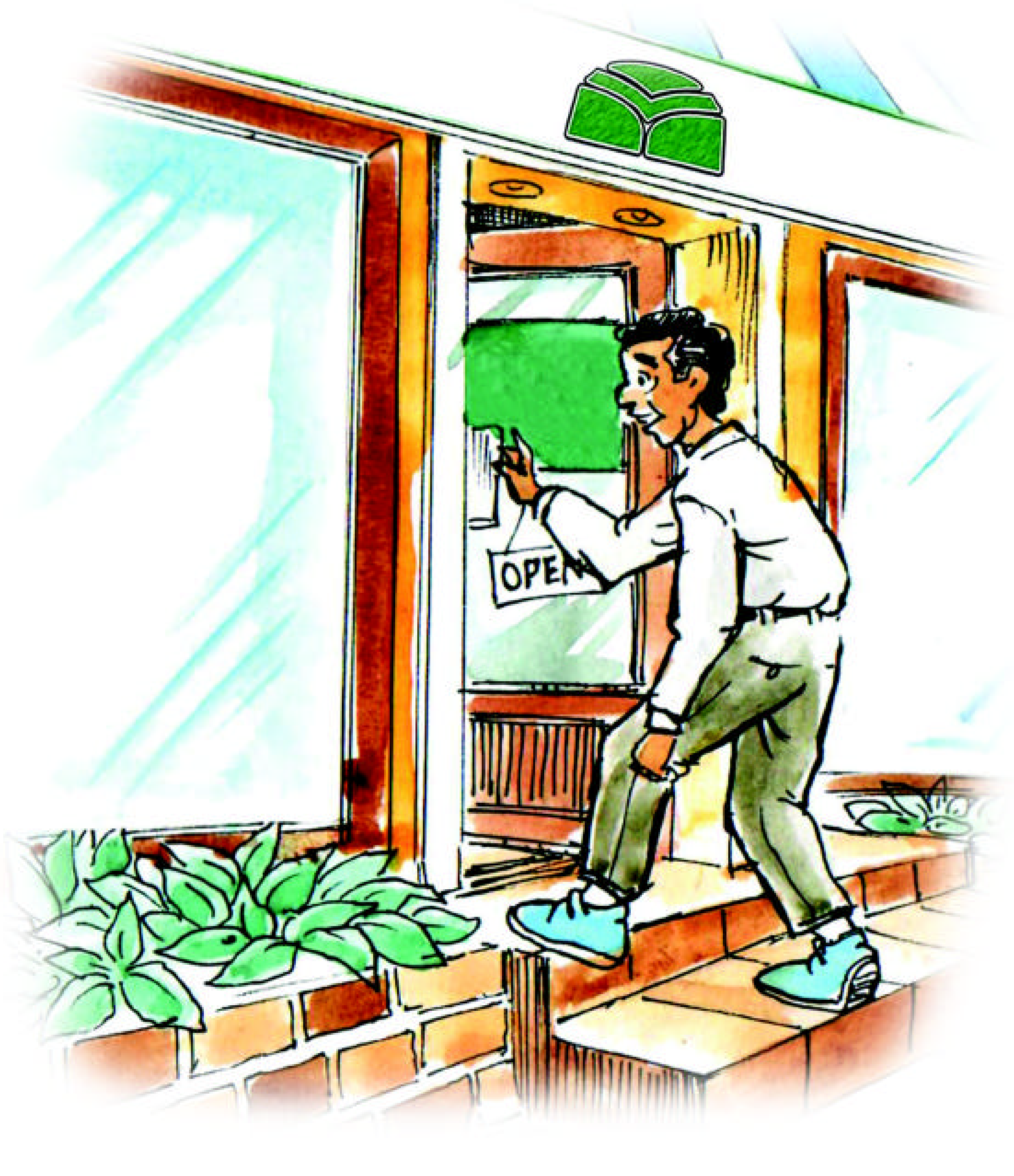
Bachat ka Doosra Naam

# Annual Report 2012



Arif Habib Investments Limited (A subsidiary of MCB Bank Limited)

# CONTENTS

# Vision

To become synonymous with Savings.

# Mission

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

# Core Values

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

# COMPANY INFORMATION

| | | |
|---|---|---|
| **Board of Directors** | **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) |
| **Audit Committee** | **Mr. Haroun Rashid** | Chairman |
| | **Mr. Nasim Beg** | Member |
| | **Mr. Samad A. Habib** | Member |
| | **Mr. Ali Munir** | Member |
| **Human Resource Committee** | **Dr. Salman Shah** | Chairman |
| | **Mr. Nasim Beg** | Member |
| | **Mr. Ahmed Jahangir** | Member |
| | **Mr. Haroun Rashid** | Member |
| | **Mr. Yasir Qadri** | Member |

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

**Auditors**
**Riaz Ahmed & Company**
Chartered Accountants
108-109 1st Floor, Park Avenue, Block 6,
PECHS, Shahra-e-Faisal, Karachi. 75400.

**Legal Advisors**
**Akhud Forbes**
D-21, Block 4, Scheme 5, Clifton
Karachi-75600, Pakistan.

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

**Share Register**
**Noble Computer Services (Private) Limited**
First Floor, House of Habib Building (Siddiqsons Tower),
3-Jinnah Cooperative Housing Society,
Main Shahrah-e-Faisal, Karachi, Pakistan.
Tel: (021) 4325482-87
Fax: (021) 4325442
Website: www.noble-computers.com

**Bankers**
MCB Bank Limited
Summit Bank Limited
Bank AL Habib Limited

**Registered Office**
8th Floor, Techno City Corporate Tower,
Hasrat Mohani Road, Karachi.
UAN: (+92-21) 11-11-622-24, Toll Free: 0800-622-24
Fax: (+92-21) 32276898, 32276908
URL: www.mcbah.com, Email: info@mcbah.com

**Ratings (PACRA)**
Asset Manager
AM2

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Twelfth Annual General Meeting of Arif Habib Investments Limited will be held on Wednesday, September 26, 2012 at 2:30 p.m. at Aquarius Hall, Beach Luxury Hotel, Moulvi Tamizuddin Khan Road, Karachi to transact the following business:

**ORDINARY BUSINESS:**

1. To confirm the minutes of the last Annual General Meeting held on October 25, 2011.

2. To receive, consider and adopt the Audited Financial Statements of the Company for the year ended June 30, 2012 together with Directors' and Auditors' Reports thereon.

3. To consider and approve final cash dividend of 15% i.e. Rs. 1.50/- per ordinary share of Rs. 10/- each as recommended by the Board of Directors. It is in addition to the interim cash dividend of 7.50% i.e. Rs. 0.75/- per ordinary share of Rs. 10/- each already paid to the shareholders during the year, thus making a total cash dividend of 22.5% i.e. Rs. 2.25/- per ordinary share of Rs. 10/- each for the year ended June 30, 2012.

4. To appoint external auditors of the Company for the year ending June 30, 2013 and fix their remuneration. To comply with the requirement of Code (xxxvii) of the Code of Corporate Governance 2012, the Board of Directors, on the recommendation of Audit Committee of the Company, has proposed the appointment of M/s A. F. Ferguson & Co. Chartered Accountants as external auditors, for the year ending June 30, 2013 in place of retiring auditors M/s. Riaz Ahmed & Co. Chartered Accountants. A notice under Section 253(1) of the Companies Ordinance, 1984 has also been received from a shareholder of the Company to the same effect.

5. To transact any other business with the permission of the Chair.

By Order of the Board

M. Saqib Saleem

Muhammad Saqib Saleem
Company Secretary

September 04, 2012
Karachi

**Notes:**

1. The share transfer books of the Company will remain closed from September 20, 2012 to September 26, 2012 (both days inclusive). Transfers received in order at the office of our Share Registrar M/s. Noble Computer Services (Private) Limited, 1st Floor, House of Habib Building (Siddiqsons Tower), 3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi – 75350, by the close of business on September 19, 2012, will be considered in time for the determination of the entitlement of the shareholders to final cash dividend and to attend and vote at the meeting.

2. A member entitled to attend, speak and vote at the Annual General Meeting is entitled to appoint another person as his/her proxy to attend, speak and vote for his/her behalf.

3. A proxy need not be a member of the Company. A proxy shall also have the right to demand and join in demanding a poll and vote on a poll.

4. The instrument appointing proxy, together with the power of attorney or other authority under which it is signed, as the case may be, or a notarially certified copy of the power or authority, must be deposited at the Registered Office of the Company at least 48 hours before the time of the meeting. Form of Proxy is enclosed.

5. Members are requested to submit copies of their CNICs and notify any change in their addresses immediately to the Share Registrar M/s. Noble Computer Services (Private) Limited.

6. Dividend Mandate Forms are available at the Registered Office of the Company. Members who wish to receive the cash dividend declared by the Company, if any, to be directly credited into their bank account shall submit a duly filled in dividend mandate form at the Registered Office of the Company. Please note that dividend mandate is optional, so members who do not wish to give dividend mandate, same shall continue to be paid through the dividend warrants.

7. CDC account holders and sub-account holders will further have to follow the undermentioned guidelines as laid down in Circular No. 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

**A. For attending the meeting:**

i) In case of individuals, the account holders or sub-account holders and/or the persons whose securities are in group account and their registration details are uploaded as per the CDC Regulations, shall authenticate their identity by showing their original Computerized National Identity Card (“CNIC”) or original passport at the time of attending the meeting.

ii) In case of corporate entities, board of directors’ resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting (unless it has been provided earlier).

**B. For appointing proxies:**

i) In case of individuals, the account holders or sub-account holders and/or the person whose securities are in group account and their registration details are uploaded as per the CDC Regulations, shall submit the proxy form as per the above-mentioned requirements.

ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

iii) Attested copies of the CNIC or passport of the beneficial owners and the proxy shall be furnished with the proxy form.

iv) The proxy shall produce his/her original CNIC or original passport at the time of the meeting.

v) In case of corporate entities, board of directors' resolution/power of attorney with specimen signature of the nominee shall be produced along with the proxy form at the time of the meeting (unless it has been provided earlier).

# **DIRECTORS' REPORT OF**
# ARIF HABIB INVESTMENTS LIMITED

The Board of Directors of Arif Habib Investment Limited (AHI) is pleased to present the Annual Report on the affairs of AHI for the year ended June 30, 2012.

## Company's Performance Review

Your Company recorded a gross income of Rs. 537.144 million, which includes management/investment advisory fee and other operating income. After accounting of administrative, operating expenses and income sharing of Rs. 332.005 million, the company earned a profit before tax of Rs. 205.139 million. The net profit after tax for the period amounts to Rs. 144.580 million, as compared to net profit of Rs. 71.635 million for the previous financial year ended June 30, 2011. Accordingly, with the increasing trend of size of Funds under management of the company, the company is expected to deliver better results going forward.

The Earning per share of current financial year ended June 30, 2012 is Rs. 2.01 per share as compared to Rs 1.97 in previous financial year ended June 30, 2011.

The Company has announced and paid interim dividend @7.50% as on December 31, 2011 to its share holders. The Board proposes final Dividend @ 15% as on June 30, 2012.

## Regulatory Approvals

With the approval of Securities & Exchange Commission of Pakistan, MCB Asset Management Company Limited was merged into the Company by virtue of the scheme of amalgamation in terms of Section 282L(4) of the Companies Ordinance, 1984. The effective date of the merger was June 27, 2011.

As shared with the members earlier, your Company has filed a constitutional petition before the Honorable High Court of Sindh on July 2, 2011 against an attempt from the Regulator extended the effective merger date from June 27, 2011 to July 30, 2011, pleading that the merger is a past and closed transaction and consequently on the grounds that the extension order was illegal and not tenable under law. The Court, in response to the said petition, suspended the operation of the extension order of SECP till the outcome of the application. The external auditors of the Company have emphasized the above mentioned situation in their audit report. The status of this litigation is unchanged till to date.

## MARKET & ECONOMIC REVIEW

### Economy & Money Market Review

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

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

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

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

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

During FY12, key monetary indicators have shown reasonable improvement with money supply (M2) posting a strong growth of 14.4%. Although Net Domestic Asset (NDA) growth has been a key contributor behind M2 growth during this year as well, sizeable YoY decline of 32% in Net Foreign Assets (NFA) has been very alarming – also reflecting weak BOP position.

Significant credit demand by the government coupled with an attractive risk-return profile has kept government papers a very attractive investment vehicle for the investors during this year also. However, in absence of new credit creation, existing Term Finance Certificates (TFC) market became liquid and bank issued TFCs continued to command improvement in prices during the period under review. Moreover, GoP Ijarah Sukuk (GIS), like previous year, has remained an attractive instrument during the year for conventional markets in general and Shariah compliant markets in particular. In addition of giving strong interest yield, GIS has also provided potential for capital gains due to its demand-supply gap and therefore has seen significant activities during this year also in both primary as well as secondary markets.

**Equities Market Review**

The local bourses gave an average performance with the KSE-100 index rising by about 10% in FY12 as against 29% return posted in FY11. Pakistan equity market, however, remained the 3rd best performing market in the region this year as well after Philippines and Thailand.

KSE-100 Index made a depressing start with market shedding 13% during the first couple of months and made the yearly bottom at around 10,800 levels. Alongside negative returns, the market continued to remain dull with consistently low turnover throughout the period remained indicative of investor's shyness towards equity asset class. Even a cumulative cut of 200 bps in DR by the SBP during the first half failed to generate strong momentum among equity investors due to fear of aggressive sell off by foreign investors. Global equities market went down significantly during the quarter, which also had an adverse impact on emerging and frontier markets including Pakistan. Other resistive forces that played a dampening role for the market were political unrest, worsened law and order situation, strained Pak-US relations, floods in Sindh and energy crisis. Foreigners were net seller during the first half with an outflow of US$ 151 million.

After a depressing first half, the Capital Gains Tax amnesty came as a piece of fortune to the investors at the local equities market and the KSE-

100 index surged by 22% during the latter half of the year under review. The expectation of reprieving CGT also waved a magic wand on the volumes too where 2HFY12 saw buoyant volumes while marking a 33-month high at 577mn shares traded in a day. Participation from retail investors also returned to the market during the latter part of this year where mid and small-cap stocks remained the highlights of market activities lately. After a significant sell-off during the first half, foreigners' also jumped on to the bandwagon during the latter half with a net inflow of US$ 62 million.

Macro economic factors remained challenging the KSE performance included sustained high oil and declining cotton prices resulting in higher trade deficit, lack of foreign flows as well IMF repayments depleted FX reserves and caused PKR to depreciate against the US$ by around 10%. On the positive front, the SBP remained in a monetary easing cycle with a cumulative reduction of 200 bps in the policy discount rate during the year– improving the fundamentals of debt-laden companies.

Sector wise, Cements, Power and Autos outperformed the KSE-100 index while sectors like Chemicals, Textiles and Refineries remained among the underperformers. Best performing stocks included EFOODS, MEBL, BAFL, and DGKC.

**MARKET & ECONOMY – FUTURE OUTLOOK**

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

We believe that the political arena would turn noisy on the back of election year ahead as well as continued confrontation between government and judiciary. Global economic environment would remain jittery in the near term, which could provide further hiccups to the international as well as local equity markets. However, expectation of monetary easing by the SBP in the upcoming monetary policy on the back of benign inflation as well as release of CSF payment should support the bull-run in the market in the near term while any major deterioration in key macro-indicators going forward could have a toll on the market performance. Strong earnings growth, sizeable discount to regional markets, high dividend yield and relatively cheaper PE valuations warrant decent returns for long term investors in our view.

**MUTUAL FUND INDUSTRY REVIEW**

Despite macroeconomic challenges, the performance of mutual fund industry remained significantly strong during the year under review with assets under management of open-end mutual funds surpassing Rs. 350 billion mark by the end of FY12, reflecting a phenomenal growth of 58% on a year on year basis.

Like previous year, money market funds remained the preferred investment avenue amid low-risk appetite of the investors and therefore major new money flow has been towards these funds with their size crossing Rs. 150 billion by June 2012 end, representing a growth of 95% YoY. During the year, traditional income funds have also performed well and have grown by staggering 124% YoY to a size of around Rs. 87 billion courtesy strong demand of Sovereign/ Government bond funds. Shariah compliant income funds also remained an attractive segment during the year achieving a strong 43% YoY growth to reach to a size of Rs. 30 billion.

Despite a decent growth in KSE-100 index during the year under review, equity funds not only failed to attract new money, they came under significant redemption pressure and ended the year at Rs. 52 billion, flat YoY, despite 10% rise in KSE-100 index.

## MUTUAL FUND INDUSTRY OUTLOOK

Due to the continued prevalence of risk aversion, a robust growth in mutual funds has been contributed by fixed income funds. This trend is unlikely to be changed going forward with high interest rates environment clearly supporting fixed income funds growth. In addition, voluntary pension schemes (due to enhanced tax-advantage) and Shariah compliant funds (stable returns due to Ijarah Sukuk) should also perform better in the next couple of years. Similarly, given the attractive valuation multiples of Pakistan equities market, stock fund still appears to be the right choice for longer term savings and investments.

### Entity Rating and Asset Manager Rating

Rating of Collective Investment Schemes under management of the Company are as under:

| Fund | Star rating | | Rating agency |
|---|---|---|---|
| | Normal | Long-term | |
| Pakistan Stock Market Fund | 2- star | 4- star | PACRA |
| Pakistan Premier Fund | 3- star | 4- star | PACRA |
| Pakistan Capital Market Fund | 2- star | 3- star | PACRA |
| Pakistan International Element Islamic Asset Allocation Fund | 3- star | 2- star | PACRA |
| Pakistan Strategic Allocation Fund | 3- star | 4- star | PACRA |
| MCB Dynamic Stock Fund | 4- star | 5- star | PACRA |
| MCB Dynamic Allocation Fund | 4- star | 4- star | PACRA |

| | Stability rating | Rating agency |
|---|---|---|
| Pakistan Cash Management Fund | AAA (f) | PACRA |
| Pakistan Income Fund | A+ (f) | PACRA |
| MetroBank - Pakistan Sovereign Fund | AA (f) | PACRA |
| Pakistan Income Enhancement Fund | A + (f) | PACRA |
| MCB Dynamic Cash Fund | A + (f) | PACRA |
| MCB Cash Management Optimizer Fund | AA + (f) | PACRA |
| MCB Islamic Income Fund | AA - (f) | PACRA |

### Holding Company

MCB Bank Limited being the parent company of Arif Habib Investments Limited hold 51.33% of the outstanding ordinary shares of the company.

### Corporate Governance

The Company is committed to implement the highest standards of corporate governance. With three (3) independent Directors on the Board, as governing body of the company the Board is accountable to the shareholders 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 company remains committed to conduct business in line with listing regulations of Karachi Stock Exchange, which clearly defined the role and responsibilities of Board of Directors and Management.

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

a. Financial statements prepared by the management of the Company, present fairly its state of affairs, the results of operations, cash flows and Change in equity.

b. Proper books of accounts of the Company have been maintained.

c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

d. International Accounting Standards, as applicable in Pakistan have been followed in the preparation of financial statements and any departures there from has been adequately disclosed and explained.

e. The system of internal control is sound in design and has been effectively implemented and monitored with on going efforts to improve it further.

f. There are no significant doubts upon the Company'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 operating and financial data of the last six years in summarized form is annexed.

i. Outstanding taxes, duties, levies and charges have been fully disclosed in the annexed audited financial statements.

j. The Company has planned to conduct orientation course for its directors, where necessary, in the year future to appraise them with their duties and responsibilities.

k. Summary of shares acquired or disposed during the year by the Chief Executive, Directors, Chief Financial Officer & Company Secretary and their spouses and minor children is provided below:

| Trades by | Position | No. of shares purchases | No of shares sold |
|---|---|---|---|
| Mr. Nasim Beg | Executive Vice Chairman | 216,049 | 216,049 |

l. The value of investments of staff provident funds of Arif Habib Investments Limited, as at June 30, 2012 is Rs.20,632,083.

m. The detailed pattern of share holding as on June 30, 2012 is annexed.

n. **Meeting of the Directors**

During the year, nine (9) meetings of the Board of Directors were held. The attendance of each Director is as follows:

| Name of Directors | Number of meetings | Number of meetings | | |
|---|---|---|---|---|
| | | Attendance required | Attended | Leave granted |
| Mian Mohammad Mansha | 9 | 9 | 4 | 5 |
| Mr. Nasim Beg | 9 | 9 | 9 | - |
| Syed Salman Ali Shah | 9 | 9 | 8 | 1 |
| Mr. Haroun Rashid | 9 | 9 | 6 | 3 |
| Mr. Ahmed Jahangir | 9 | 9 | 8 | 1 |
| Mr. Samad. A. Habib | 9 | 9 | 6 | 3 |
| Mr. Mirza Mahmood | 9 | 9 | 7 | 2 |
| Mr. Yasir Qadri | 9 | 9 | 9 | - |

o. **Meeting of the Audit Committee.**

During the year, five (5) meetings of the Audit Committee were held. The attendance of each member are as follows:

| Name of Persons | Number of meetings | Number of meetings | | |
|---|---|---|---|---|
| | | Attendance required | Attended | Leave granted |
| Mr. Haroun Rashid | 5 | 5 | 3 | 2 |
| Mr. Nasim Beg | 5 | 5 | 5 | - |
| Mr. Samad. A. Habib | 5 | 5 | 2 | 3 |
| Mr. Ali Munir | 5 | 5 | 3 | 2 |

## Auditors

The present auditors, Messers Riaz Ahmed & Co., Chartered Accountants, have completed their assignment for the year ended June 30, 2012 and shall retire on the conclusion of 12th Annual General Meeting. In compliance with the requirements of recently promulgated Revised Code of Corporate Governance, the Board has recommended appointment of A.F. Ferguson & Co., Chartered Accountant as auditors of the Company for the year ending June 30, 2013.

## Acknowledgement

The Board of Directors of the Management Company is thankful to Securities and Exchange Commission of Pakistan, the management of the Karachi Stock Exchange for their continued support and cooperation. The Directors also appreciate the efforts put in by the employees of the Company for their commitment and dedication and shareholders for their confidence in the Company.

For and on behalf of the board

Karachi: 15th August, 2012

Yasir Qadri
Chief Executive Officer

# COMBINED PATTERN OF SHARE HOLDINGS CDC AND PHYSICAL
## AS AT 30 JUNE 2012

| NO. | CATEGORIES/SUB-CATEGORIES OF SHAREHOLDRES | NUMBER OF SHARES HELD | CATEGORY WISE NO. OF FOLIOS/ CDC A/CS | CATEGORY WISE SHARES HELD | PERCENTAGE |
|---|---|---|---|---|---|
| 1 | INDIVIDUALS | | 1,290 | 5,744,836 | 7.98 |
| 2 | INVESTMENT COMPANIES | | 2 | 175,536 | 0.24 |
| 3 | JOINT STOCK COMPANIES | | 22 | 1,544,773 | 2.15 |
| 4 | DIRECTORS AND THEIR SPOUSE(S) AND MINOR CHILDREN | | 5 | 2,509,677 | 3.49 |
| | YASIR QADRI | 1,200 | | | |
| | ABDUS SAMAD | 4 | | | |
| | NASIM BEG | 83,955 | | | |
| | NASIM BEG / ZARI BEG | 2,400,118 | | | |
| | NASIM BEG | 24,400 | | | |
| 5 | EXECUTIVES | | 0 | 0 | 0.00 |
| 6 | ASSOCIATED COMPANIES , UNDERTAKINGS AND RELATED PARTIES | | 4 | 59,161,392 | 82.17 |
| | TRUSTEE ARIF HABIB INV MNGT LTD EMP STOCK BEN O/SHIP TRUST | 35,886 | | | |
| | TRUSTEES ARIF HABIB INV MGT LTD EMP STOCK BEN. O/SHIP TRUST | 504,571 | | | |
| | MCB BANK LIMITED | 36,956,768 | | | |
| | ARIF HABIB CORPORATION LIMITED | 21,664,167 | | | |
| 7 | PUBLIC SECTOR COMPANIES AND CORPORATIONS | | 0 | 0 | 0.00 |
| - | | 0 | | | |
| 8 | BANKS, DFIs, NBFIs, INSURANCE COMPANIES,TAKAFUL, MODARABAS & PENSION FUNDS | | 3 | 2,857,782 | 3.97 |
| 9 | MUTUAL FUNDS | | 0 | 0 | 0.00 |
| 10 | FOREIGN INVESTORS | | 2 | 6,004 | 0.01 |
| 11 | CO-OPERATIVE SOCIETIES | | 0 | 0 | 0.00 |
| 12 | CHARITABLE TRUSTS | | 0 | 0 | 0.00 |
| 13 | OTHERS | | 0 | 0 | 0.00 |
| | **TOTAL** | | **1,328** | **72,000,000** | **100.00** |

SHARE-HOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE LISTED COMPANY

TOTAL PAID-UP CAPITAL OF THE COMPANY 72,000,000 SHARES

5% OF THE PAID-UP CAPITAL OF THE COMPANY 3,600,000 SHARES

| NAME(S) OF SHAREHOLDER(S) | DESCRIPTION | NO. OF SHARES HELD | PERCENTAGE |
|---|---|---|---|
| ARIF HABIB CORPORATION LIMITED | FALLS IN CATEGORY # 6 | 21,664,167 | 30.09 |
| MCB BANK LIMITED | FALLS IN CATEGORY # 6 | 36,956,768 | 51.33 |
| TOTAL | | 58,620,935 | 81.42 |

# COMBINED PATTERN OF SHARE HOLDINGS CDC AND PHYSICAL
AS AT 30 JUNE 2012

| NUMBER OF SHARE HOLDERS | SHARE HOLDING | | TOTAL SHARES HELD |
|---|---|---|---|
| 179 | 1- | 100 | 4,332 |
| 169 | 101- | 500 | 49,221 |
| 381 | 501- | 1,000 | 261,259 |
| 435 | 1,001- | 5,000 | 970,826 |
| 71 | 5,001- | 10,000 | 539,710 |
| 32 | 10,001- | 15,000 | 393,582 |
| 13 | 15,001- | 20,000 | 228,615 |
| 8 | 20,001- | 25,000 | 188,944 |
| 3 | 25,001- | 30,000 | 81,704 |
| 5 | 35,001- | 40,000 | 185,620 |
| 3 | 40,001- | 45,000 | 123,583 |
| 1 | 45,001- | 50,000 | 49,543 |
| 4 | 50,001- | 55,000 | 212,619 |
| 2 | 55,001- | 60,000 | 114,800 |
| 1 | 60,001- | 65,000 | 61,500 |
| 1 | 65,001- | 70,000 | 67,498 |
| 3 | 75,001- | 80,000 | 234,380 |
| 1 | 80,001- | 85,000 | 83,955 |
| 2 | 110,001- | 115,000 | 225,800 |
| 1 | 145,001- | 150,000 | 146,500 |
| 1 | 170,001- | 175,000 | 172,306 |
| 1 | 215,001- | 220,000 | 216,049 |
| 1 | 220,001- | 225,000 | 225,000 |
| 1 | 230,001- | 235,000 | 234,849 |
| 1 | 460,001- | 465,000 | 463,719 |
| 1 | 500,001- | 505,000 | 504,571 |
| 1 | 530,001- | 535,000 | 535,000 |
| 1 | 860,001- | 865,000 | 860,339 |
| 1 | 1,230,001- | 1,235,000 | 1,232,283 |
| 1 | 2,310,001- | 2,315,000 | 2,310,840 |
| 1 | 2,400,001- | 2,405,000 | 2,400,118 |
| 1 | 21,660,001- | 21,665,000 | 21,664,167 |
| 1 | 36,955,001- | 36,960,000 | 36,956,768 |
| | | | |
| **1,328** | | | **72,000,000** |

# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
## FOR THE YEAR ENDED 30 JUNE 2012

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in Regulation No. 35 of Listing Regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

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

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

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

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. During the period no casual vacancy occurred on the board of the Company.

5. The Company is in the process of formulating the 'Code of Conduct' and appropriate steps will be taken to disseminate it throughout the company along with its supporting policies and procedures.

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, other executive and non-executive directors, have been taken by the Board. No new appointment of Chief Executive Officer, other executive and non-executive directors were made during the year.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and

circulated.

9. The Company has planned to conduct an orientation course for its directors, in the near future to apprise them of their duties and responsibilities.

10. No new appointments of Chief Financial Officer, Company Secretary and Head of Internal Audit were made during the year. The board subsequent to the yearend has appointed Head of Internal Audit.

11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Company before approval of the Board.

13. The Directors, Chief Executive Officer and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of share holding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an audit committee. It comprises of four members, of whom two are non-executive directors and the chairman of the committee is an independent director.

16. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has formed an HR and Remuneration Committee. It comprises five members, of whom three are non-executive directors and the chairman of the committee is an independent director.

18. The Board has outsourced the internal audit function to Ernst and Young Ford Rhodes Sidat Hyder Chartered Accountants who are considered to be suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

19. The statutory auditors of the Company 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 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 International Federation of Accountants guidelines in this regard.

21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange.

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.

23. We confirm that all other material principles enshrined in the Code have been complied with towards which reasonable progress is being made by the company to seek compliance by the end of next accounting year.

For and on behalf of the board

Karachi: 15th August, 2012

Yasir Qadri
Chief Executive Officer

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of ARIF HABIB INVESTMENTS LIMITED ("the Company") for the year ended 30 June 2012, to comply with the Listing Regulation No. 35 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. 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 Company'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 Company personnel and review of various documents prepared by the Company to comply with the Code.

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

Further, Sub-Regulation (x) of Listing Regulation 35 (Previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length 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 Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 June 2012.

Riaz Ahmad & Co.

**RIAZ AHMAD & COMPANY**
**Chartered Accountants**

**Name of engagement partner:**
**Muhammad Kamran Nasir**

**Date: 15 August 2012**

**KARACHI**

# FINANCIAL AND BUSINESS HIGHLIGHTS

| | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011* | 2012 |
|---|---|---|---|---|---|---|---|---|
| Pre tax Margin | % | 55% | 51% | 42% | -119% | 14% | 32% | 39% |
| Net Margin | % | 44% | 40% | 36% | -111% | 17% | 25% | 27% |
| ***Performance*** | | | | | | | | |
| Return on assets | % | 30% | 23% | 24% | -39% | 8% | 5% | 10% |
| Return on equity | % | 46% | 31% | 35% | -85% | 13% | 6% | 11% |
| ***Leverage*** | | | | | | | | |
| Gearing (Debt:Equity) | times | 0.31 | 0.21 | 0.31 | 0.98 | 0.68 | 0.07 | 0.10 |
| Interest Coverage Ratio | times | 18.10 | 24.58 | 18.77 | -3.63 | 2.09 | N/A | N/A |
| ***Liquidity*** | | | | | | | | |
| Current Ratio | times | 2.50 | 3.52 | 2.59 | 1.01 | 1.80 | 6.32 | 7.83 |
| ***Valuation*** | | | | | | | | |
| Earnings per share | Rs. | 8.88 | 7.18 | 8.30 | -10.08 | 2.14 | 1.97 | 2.01 |
| No. of ordinary shares | | 30 | 30 | 30 | 30 | 30 | 72 | 72 |
| ***Historical trend*** | | | | | | | | |
| Management fee (Rs. in million) | | 402.43 | 418.05 | 446.12 | 249.30 | 271.06 | 237.23 | 479.61 |
| Operating profit (Rs. in million) | | 353.02 | 286.92 | 303.57 | 25.42 | 100.39 | 91.72 | 205.19 |
| Profit before tax (Rs. in million) | | 333.52 | 275.25 | 287.4 | -323.82 | 52.35 | 90.72 | 205.14 |
| Profit after tax (Rs. in million) | | 266.44 | 215.42 | 249.04 | -302.48 | 64.25 | 71.65 | 144.58 |
| Share capital (Rs. in million) | | 65 | 130 | 300 | 300 | 300 | 720 | 720 |
| Shareholders equity (Rs. in million) | | 574.69 | 698.49 | 708.58 | 354.69 | 488.07 | 1269.62 | 1281.93 |
| Total assets (Rs. in million) | | 882.52 | 953.82 | 1046.20 | 768.36 | 821.89 | 1356.63 | 1410.02 |

* As explained in Note 3 to the Financial Statements the Financial Statements of the Company have been drawn up using acquisition method under IFRS 3 - Business Combination. Therefore, the financial and business highlights for the year 2011 as reported may not be comparable with rest of the historical reported data.

# AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of ARIF HABIB INVESTMENTS LIMITED (the Company) as at 30 June 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year ended 30 June 2012 and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2012 and of the profit, total comprehensive income, its cash flows and changes in equity for the year ended 30 June 2012; and

(d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

**Emphasis of Matter**

We draw attention to note 1.2 to the financial Statements which states that the Scheme of Amalgamation of the Company with MCB Asset Management Company Limited was approved by the Securities and Exchange Commission of Pakistan (SECP) vide its order dated 10 June 2011 that fixed the effective date of amalgamation to be 27 June 2011. However, the SECP issued another order dated 27 June 2011 and extended the effective date of amalgamation from 27 June 2011 to 30 July 2011. For the reasons mentioned in the aforesaid note, the Company filed a Constitutional Petition in the Honourbale High Court of Sindh, during the preceding year, challenging SECP's order dated 27 June 2011. In response to the Petition, the Court suspended such order of SECP until the final outcome of the litigation. Based on legal advice obtained during the preceding year, the Company accounted for its amalgamation with MCB Asset Management Company Limited in its financial statements for the year ended 30 June 2011 on the basis that the sanction order dated 10 June 2011 was fully effective. The Petition has not so far been decided by the Court. The status of this litigation is unchanged till the date of authorization for issue of these financial statements.

Our opinion is not qualified in respect of this matter.

**Other Matter**

The financial statements of the Company for the year ended 30 June 2011 were audited by another firm of Chartered Accountants who modified their report dated 29 September 2011 wherein following matters were emphasized: (i) petition submitted to Honorable High Court of Sindh with respect to amalgamation of the Company; (ii) the financial statements were prepared under reverse acquisition method using the financial statements of MCB Asset Management Company Limited for the period ended 26 June 2011 which were audited by us where we modified our report dated 29 September 2011 by emphasizing the matter of litigation related to amalgamation. Further, the comparatives in the financial statements of the Company for the year ended 30 June 2011 represented the figures of MCB Asset Management Company Limited for the year ended 30 June 2010 which were also audited by us where we expressed an unqualified opinion in our report dated 07 September 2010; (iii) the pending finalization of fair values of certain assets acquired as a result of amalgamation which were provisionally determined; (iv) the financial statements of the Company for the year ended 30 June 2010 were audited by another firm of chartered accountants whose report dated 04 August 2010 expressed an unqualified opinion thereon.

RIAZ AHMAD & COMPANY
Chartered Accountants

Karachi: 15th August, 2012

Engagement Partner:
Muhammad Kamran Nasir

# BALANCE SHEET
## AS AT 30 JUNE 2012

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | ------------- (Rupees) ------------- | |
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | **Restated** |
| Fixed assets | 4 | 388,271,445 | 399,945,937 |
| Long term investments | 5 | 326,549,333 | 310,324,182 |
| Long term loans and receivables | 6 | 6,547,002 | 6,925,070 |
| Long term deposits | | 849,700 | 624,700 |
| Deferred taxation | | - | 5,327,523 |
| | | **722,217,480** | **723,147,412** |
| **CURRENT ASSETS** | | | |
| Receivable from related parties | 7 | 120,913,283 | 101,600,492 |
| loans and advances | 8 | 1,282,238 | 3,029,899 |
| Deposits, prepayments and other receivables | 9 | 10,193,757 | 9,298,172 |
| Accrued mark-up | | 184,225 | 1,007,993 |
| Taxation - net | 10 | 75,983,220 | 76,153,030 |
| Short term investments | 11 | 467,659,528 | 306,626,274 |
| Cash and bank balances | 12 | 11,590,602 | 57,779,770 |
| | | **687,806,853** | **555,495,630** |
| Non-current assets held for sale | 13 | **-** | **77,970,426** |
| **TOTAL ASSETS** | | **1,410,024,333** | **1,356,613,468** |
| **EQUITY AND LIABILITIES** | | | |
| **SHARE CAPITAL AND RESERVES** | | | |
| Authorised share capital | | | |
| 72,000,000 (2011: 72,000,000) ordinary shares of Rupees 10 each | | 720,000,000 | 720,000,000 |
| Issued, subscribed and paid up share capital | 14 | 720,000,000 | 720,000,000 |
| Reserves | 15 | 551,591,327 | 538,729,994 |
| **Total equity** | | 1,271,591,327 | 1,258,729,994 |
| **Surplus on revaluation of property, plant and equipment - net of deferred tax** | 16 | 10,335,783 | 10,870,308 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred taxation | 17 | 40,287,243 | - |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 18 | 87,809,980 | 87,013,166 |
| **TOTAL LIABILITIES** | | 128,097,223 | 87,013,166 |
| Contingencies and Commitments | 19 | | |
| **TOTAL EQUITY AND LIABILITIES** | | **1,410,024,333** | **1,356,613,468** |

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

CHIEF EXECUTIVE OFFICER

Executive Vice Chairman / Director

## PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2012

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | ------------- (Rupees) | ------------- |
| **REVENUE** | | | |
| Management fee / investment advisory fee | 20 | **479,611,311** | 237,227,299 |
| Processing and other related income | | **2,591,370** | 56,674 |
| Mark up on bank deposits | | **2,104,025** | 2,056,856 |
| Gain on sale of investments | | **9,862,788** | 14,773,571 |
| Unrealised gain on investments at fair value through profit or loss | | **34,998,448** | 28,675,708 |
| | | **529,167,942** | 282,790,108 |
| **EXPENSES** | | | |
| Administrative and operating expenses | 21 | **(243,055,116)** | (143,118,925) |
| Management, investment advisory, processing fee and other related income sharing | 22 | **(88,902,768)** | (49,949,199) |
| Finance cost | | **(47,030)** | (2,660) |
| | | **(332,004,914)** | (193,070,784) |
| Other income | | **7,976,270** | 996,989 |
| **PROFIT BEFORE TAXATION** | | **205,139,298** | 90,716,313 |
| Taxation | 23 | **(60,559,631)** | (19,081,365) |
| **NET PROFIT FOR THE YEAR** | | **144,579,667** | 71,634,948 |
| **EARNINGS PER SHARE - BASIC AND DILUTED** | 24 | **2.01** | 1.97 |

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

CHIEF EXECUTIVE OFFICER

Executive Vice Chairman / Director

# STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

| | 30 June 2012 | 30 June 2011 |
|---|---|---|
| | ------------- (Rupees) | ------------- |
| **Profit after tax** | 144,579,667 | 71,634,948 |
| **Other Comprehensive income** | | |
| Unrealized fair value gain / (loss) on available for sale investments | 29,713,705 | (1,095,847) |
| Related deferred tax | (109,585) | 109,585 |
| | 29,604,120 | (986,262) |
| Unrealized fair value loss transferred to profit and loss on disposal of available-for-sale investments | 143,021 | - |
| Transferred from surplus on revaluation of fixed assets on account of incremental depreciation | 801,248 | 475,532 |
| Related deferred tax liability | (266,723) | (156,583) |
| | 534,525 | 318,949 |
| **Total comprehensive income** | **174,861,333** | **70,967,635** |

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

CHIEF EXECUTIVE OFFICER

Executive Vice Chairman / Director

# CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | -------------- (Rupees) | ------------- |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before taxation | | 205,139,298 | 90,716,313 |
| **Adjustments for non cash items:** | | | |
| Depreciation | | 12,780,102 | 9,171,593 |
| Amortisation | | 2,012,314 | 1,657,397 |
| Gain on sale of property and equipment | | (227,581) | (979,489) |
| Capital gain on sale of available for sale investments | | (9,862,788) | - |
| Unrealized gain on investments at fair value through profit or loss | | (34,998,488) | (28,675,708) |
| Finance cost | | 47,030 | 2,660 |
| | | (30,249,411) | (18,823,547) |
| Cash flow from operations before working capital changes | | 174,889,887 | 71,892,766 |
| **Changes in working capital** | | | |
| **(Increase) / decrease in current assets** | | | |
| Remuneration receivable from related parties | | 58,657,635 | (5,424,090) |
| Short term investments | | (102,540,429) | 90,559,050 |
| Formation cost | | - | 5,330,765 |
| Loans and advances | | 1,747,661 | (607,871) |
| Deposits, prepayments and other receivables | | (895,585) | (209,026) |
| Mark-up accrued | | 823,768 | (717,091) |
| Other receivables | | - | (54,898,246) |
| | | (42,206,950) | 34,033,491 |
| **Increase / (decrease) in current liabilities** | | | |
| Trade and other payables | | 796,814 | 1,379,368 |
| **Net working capital changes** | | (41,410,136) | 35,412,859 |
| **Net cash flows after working capital changes** | | 133,479,751 | 107,305,625 |
| Income tax paid | | (14,582,114) | (20,186,136) |
| Dividend paid | | (162,000,000) | (30,000,000) |
| Finance cost paid | | (47,030) | (2,660) |
| **Net cash (used in) / flow from operating activities** | | (43,149,393) | 57,116,829 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Capital expenditure on fixed assets | | (3,921,942) | (3,472,582) |
| Proceeds from sale of property plant and equipment | | 729,099 | 1,036,933 |
| Long term loans and receivables | | 378,068 | (811,354) |
| Net inflow of cash on acquisition of subsidiary | | - | 41,573,019 |
| Long term security deposits | | (225,000) | - |
| Long term investments made | | - | (50,000,000) |
| Long term receivable from funds - formation cost | | - | 155,000 |
| **Net cash used in investing activities** | | (3,039,775) | (11,518,984) |
| **NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS** | | (46,189,168) | 45,597,845 |
| Cash and cash equivalents at the beginning of the year | | 57,779,770 | 12,181,925 |
| **Cash and cash equivalents at the end of the year (Note 12)** | | **11,590,602** | **57,779,770** |

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

CHIEF EXECUTIVE OFFICER

Executive Vice Chairman / Director

# STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

| | | Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Capital Reserve | | | Revenue Reserve | | | Sub Total | |
| | Issued, Subcribed and paid-up share capital | Share Premium | Deficit arising on amalgamation | Sub Total | Unrealized (Loss) / Gain on available for sale investment | Un-appropriated profit | Sub Total | | Total |
| | ------------------------------------------Rupees------------------------------------------ | | | | | | | | |
| Balance as at 30 June 2010 | 300,000,000 | - | - | - | - | 161,762,359 | 161,762,359 | 161,762,359 | 461,762,359 |
| Bonus Share Issued @ 20% of issued share capital | 60,000,000 | - | - | - | - | - | - | - | 60,000,000 |
| Issue of share capital on amalgamation | 360,000,000 | 396,000,000 | | 396,000,000 | - | - | - | 396,000,000 | 756,000,000 |
| Deficit arising on account of difference in share capital of AHIL and MCB AMC | - | - | (60,000,000) | (60,000,000) | - | - | - | (60,000,000) | (60,000,000) |
| Dividend Paid @ 10% (Re. 1 per share) | - | - | - | - | - | (30,000,000) | (30,000,000) | (30,000,000) | (30,000,000) |
| **Total comprehensive income for the year** | | | | | | | | | |
| Profit for the year | - | - | - | - | - | 71,634,948 | 71,634,948 | 71,634,948 | 71,634,948 |
| Transferred from surplus on revaluation of fixed assets on account of incremental depreciation net of deferred tax | - | - | - | - | - | 318,949 | 318,949 | 318,949 | 318,949 |
| Unrealized fair value loss on available for sale Investments | - | - | - | - | (986,262) | - | (986,262) | (986,262) | (986,262) |
| | - | - | - | - | (986,262) | 71,953,897 | 70,648,686 | 70,967,635 | 70,967,635 |
| **Balance as at 30 June 2011** | **720,000,000** | **396,000,000** | **(60,000,000)** | **336,000,000** | **(986,262)** | **203,716,256** | **202,411,045** | **538,729,994** | **1,258,729,994** |
| Dividend paid @15% (Rupee 1.5 per share) for the year ended 30 June 2011 | - | - | - | - | - | (108,000,000) | (108,000,000) | (108,000,000) | (108,000,000) |
| Dividend paid @7.5% (Rupee 0.75 per share) for the half year ended 31 December 2011 | - | - | - | - | - | (54,000,000) | (54,000,000) | (54,000,000) | (54,000,000) |
| **Total comprehensive income for the year** | | | | | | | | | |
| Profit for the year | - | - | - | - | - | 144,579,667 | 144,579,667 | 144,579,667 | 144,579,667 |
| Unrealized fair value gain on available for sale Investments | - | - | - | - | 29,604,120 | - | 29,604,120 | 29,604,120 | 29,604,120 |
| Transferred from surplus on revaluation of fixed assets on account of incremental depreciation net of deferred tax | - | - | - | - | - | 534,525 | 534,525 | 534,525 | 534,525 |
| Unrealized fair value loss transferred to profit and loss on disposal of available-for-sale investments | - | - | - | | 143,021 | - | 143,021 | 143,021 | 143,021 |
| | - | - | - | - | 29,747,141 | 145,114,192 | 174,861,333 | 174,861,333 | 174,861,333 |
| Balance as at 30 June 2012 | **720,000,000** | **396,000,000** | **(60,000,000)** | **336,000,000** | **28,760,879** | **186,830,448** | **215,272,378** | **551,591,327** | **1,271,591,327** |

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

CHIEF EXECUTIVE OFFICER

Executive Vice Chairman / Director

## 1. STATUS AND NATURE OF BUSINESS

**1.1** Arif Habib Investments Limited (the Company) was incorporated on 30 August 2000, as an unquoted public limited company under the Companies Ordinance, 1984. During 2008, the Company was listed on the Karachi Stock Exchange by way of offer for sale of shares by a few of the existing shareholders of the Company to the general public. In the same financial year, the name of the Company was changed from Arif Habib Investment Management Limited to Arif Habib Investments Limited. The registered office of the Company is situated at 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan. The Company is a subsidiary of MCB Bank Limited (MCB) which has 51.33% (2011: 51.33%) direct holding in the Company.

**1.2** During the year ended 30 June 2011, a transfer agreement was signed on 19 January 2011 between Arif Habib Corporation Limited (AHCL) [the then parent of the Company] and MCB Bank Limited (MCB Bank) [the then parent of MCB Asset Management Company Limited (MCB AMC)] for the transfer of entire business of MCB AMC to the Company to achieve synergies in business and access to a wider distribution network. The scheme of amalgamation (the scheme) was approved by the shareholders of the Company and MCB AMC in their respective extra ordinary general meetings held on 21 May 2011. The Securities and Exchange Commission of Pakistan (SECP) vide its order dated 10 June 2011 under Section 282(L) of the Companies Ordinance, 1984 (the Sanction Order) approved the Scheme. As per the Sanction Order, the effective date of amalgamation was 27 June 2011 (the effective date).

Pursuant to amalgamation, the entire undertaking of MCB AMC including all properties, assets, liabilities, receivables, payables and all other rights and obligations was transferred into and vested in the Company as on the effective date. As part of the Scheme, the Company issued and allotted 36 million Ordinary shares of Rupees 10 each, as fully paid shares, to registered Ordinary shareholders of MCB AMC in the ratio of 1.2 Ordinary shares of the Company for each share of Rupees 10 of MCB AMC as consideration. The fair value of the shares issued to the shareholders of MCB AMC was based on the published quoted price of the Ordinary shares of the Company as at 24 June 2011 (25 June 2011 and 26 June 2011 being public holidays) being Rupees 21 per share.

Accordingly, the Company is a subsidiary of MCB Bank Limited from the end of the preceding year which owns 51.33% Ordinary shares in the Company (30 June 2011: 51.33% Ordinary shares as at the effective date).

After the close of business on 27 June 2011, the SECP issued another order under Section 484(2) of the Companies Ordinance, 1984 (the Extension Order) to extend the effective date from 27 June 2011 to 30 July 2011.

Based upon legal advice, the Company filed a constitutional petition before the Honorable High Court of Sindh (the Court) on 02 July 2011 pleading that the merger is a past and closed transaction and the Extension Order was illegal and not tenable under law. On 04 July 2011, the Court suspended the operation of the Extension Order till the disposal of the application.

On the basis of the order of the Honorable High Court of Sindh dated 04 July 2011 and the legal advice regarding merits of the case, management strongly believes that the outcome of the petition would be in its favor.

**1.3** The Company is registered as an Asset Management Company and Investment Advisor under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC) and Pension Fund Manager under Voluntary Pension System Rules, 2005. The Company also manages discretionary portfolio accounts.

**1.4** The Company is currently acting as Asset Management Company of the following open ended funds:

| | Net Asset Value as at 30 June 2012 | Net Asset Value as at 30 June 2011 |
|---|---|---|
| | ---- (Rupees in million) ---- | |
| **Open-end mutual funds** | | |
| Pakistan Income Fund | **1,301** | 1,814 |
| Pakistan Stock Market Fund | **921** | 1,244 |
| Metro Bank-Pakistan Sovereign Fund | **6,369** | 2,999 |
| Pakistan International Element Islamic Asset Allocation Fund | **294** | 337 |
| Pakistan Capital Market Fund | **354** | 390 |
| Pakistan Cash Management Fund | **3,836** | 2,711 |
| Pakistan Income Enhancement Fund | **991** | 1,624 |
| Pakistan Capital Protected Fund - Fixed Income Securities | **240** | 237 |
| AH Dow Jones SAFE Pakistan Titans 15 Index Fund | **101** | 123 |
| Pakistan Premier Fund | **468** | 688 |
| Pakistan Strategic Allocation Fund | **352** | 608 |
| MCB Islamic Income Fund | **1,507** | 182 |
| MCB Dynamic Allocation Fund | **100** | 333 |
| MCB Dynamic Stock Fund | **726** | 693 |
| MCB Cash Management Optimizer | **18,971** | 10,393 |
| MCB Dynamic Cash Fund | **6,696** | 5,020 |
| **Pension Funds** | | |
| Pakistan Pension Fund | **260** | 221 |
| Pakistan Islamic Pension Fund | **157** | 127 |
| **Discretionary portfolio** | **1,604** | 801 |

The company is also managing investors under discretionary portfolio management agreement, the details of which is given below:

| | | |
|---|---|---|
| Number of accounts | **12** | **8** |
| Cost of the Portfolio - Rupees | 1,534,061,819 | 706,469,688 |
| Market Value of Portfolio - Rupees | 1,582,976,575 | 718,679,880 |
| Management Fee earned - Rupees | 2,842,334 | 221,203 |

1.5 The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of AM2 to the Company.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

#### a) Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting

Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008 and directives issued by the Securities and Exchange Commission of Pakistan. Wherever the requirements of the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008 or the requirements of the said directives shall prevail.

**b) Accounting convention**

These financial statements have been prepared under the historical cost basis, except for certain investments which are carried at fair value.

**c) Significant judgments and key sources of estimation in applying the accounting policies**

In the process of applying the Company's accounting policies, the management has not identified any area where significant judgments have been exercised which have material impact on the financial statements, except as mentioned below. Further, there are no key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date that have significant risks of causing a material adjustment within the next financial year. The Company has used significant judgement and estimates in the following areas:

- Useful life of fixed assets (note 2.2)
- Non current assets held for sale (note 2.3)
- Fair valuation of unquoted available-for-investments (note 2.4.3)
- Impairment in available-for-sale investments (note 2.4.5)
- Provision for tax and deferred tax (note 2.7)
- Provisions (note 2.11)
- Impairment in non financial assets (note 2.16)

**d) Amendments to published approved standards that are effective in current period and are relevant**

International Accounting Standard (IAS) 1 (Amendment), 'Presentation of Financial Statements', now requires an entity to present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The company has preferred to present this analysis in the statement of changes in equity.

IFRS 7 (Amendments), ‘Financial Instruments’, emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

IAS 24 (Revised), ‘Related Party Disclosures’, issued in November 2009. It supersedes IAS 24, ‘Related Party Disclosures’, issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

**e) Interpretations and amendments to published approved standards that are effective in current period but not relevant.**

There are other new interpretations and amendments to the published approved standards that are mandatory for accounting periods beginning on or after 01 July 2011 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

**f) Standards and amendments to published approved standards that are not yet effective but relevant**

Following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 01 July 2012 or later periods:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2013). IFRS 9 is the first step in the process to replace IAS 39 'Financial Instruments: Recognition and Measurement'. It requires that all equity investments are to be measured at fair value while eliminating the cost model for unquoted equity investments. Certain categories of financial instruments available under IAS 39 will be eliminated. Moreover, it also amends certain disclosure requirements relating to financial instruments under IFRS 7 'Financial Instruments: Disclosures'. The management of the Company is in the process of evaluating impacts of the aforesaid standard on the Company's financial statements.

IFRS 13, 'Fair value measurement'. This standard provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The standard is not applicable until 01 July 2013 but is available for early adoption.

IAS 1, 'Financial statement presentation' (Amendment). The main change resulting from this amendment is the requirement for entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendment does not address which items are presented in OCI. The company will apply these amendments from 01 July 2013.

IFRS 12, 'Disclosures of interests in other entities'. This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is not applicable until April 01, 2013 but is available for early adoption.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

**g) Standards, interpretations and amendments to published approved standards that are not effective in current year and not considered relevant.**

There are other accounting standards, amendments to published approved standards and new interpretations that are mandatory for accounting periods beginning on or after 01 July 2012 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

**2.2 Fixed assets**

**2.2.1 Property and equipment**

Property and equipment except for office premises and Capital work-in-progress are stated at cost less accumulated depreciation and impairment in value, if any. Capital work-in-progress are stated at cost. Office premises are measured under revaluation model and stated at revalued amount less accumulated depreciation and impairment in value, if any. Surplus arising on revaluation is credited to surplus on revaluation of property and equipment. The surplus on revaluation of property and equipment to the extent of incremental depreciation charged on the related assets is transfered to unappropriated profit through statement of comprehensive income, net of deferred tax.

Assets' residual values, if significant and their useful lives are reviewed at each reporting date and adjusted prospectively, if appropriate, at each reporting date.

Depreciation is charged to income by applying the straight line method except for office premises which is depreciated applying the reducing balance method at the rates specified in the relevant note. In respect of additions and disposals during the year, depreciation is charged when the asset is available for use and upto the date the asset's derecognition respectively.

Subsequent costs are recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income during the period in which they are incurred.

Gains or losses on disposal of assets, if any, are recognized as and when incurred.

All expenditure connected with specific assets incurred during installation and construction period are carried under capital work in-progress. These are transferred to specific assets as and when these are available for use.

**2.2.2 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition.

The useful lives of intangible assets are assessed as either finite or indefinite.

**Intangible assets with finite useful life - Computer software**

Intangible assets with finite lives are amortised over the useful economic life using straight line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets - computer software is amortised at the rates specified in the relevant note. Intangible assets' residual values, if significant and their useful lives are reviewed at each balance sheet date and adjusted prospectively, if appropriate, at each reporting date.

Amortisation on additions to intangible assets is charged from the month in which an asset is acquired or capitalised while no amortisation is charged for the month in which that asset is disposed of.

**Intangible assets with indefinite useful life - Goodwill and Management rights**

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level.

**Goodwill**

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed as an intangible asset.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as per the requirement of International Accounting Standard (IAS) 36, 'Impairment of Assets'. Impairment charge in respect of goodwill is recognised in the profit and loss account.

**Management rights**

This intangible asset represents the present value of future cash flows relating to the management fee that would be earned by the Company assuming growth factors, based on the necessary market assumptions, on Asset Under Management (AUM) of Arif Habib Investments Limited. This benefit also considers the fact that the economic life time of these AUMs are unlimited. Based on this assumption, this intangible asset has been valued using certain valuation techniques.

The fair value of this identifiable intangible asset has been determined using an income approach by the Management of the Company. The income approach begins with an estimation of the annual cash flows, which a market participant acquirer would expect the asset to generate over a discrete projection period. The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset's projected cash flows. The present value of the estimated cash flows are then added to the present value equivalent to the residual value of the asset at the end of the discrete projection period to arrive at an estimate of the fair value of the specific asset.

In applying the income approach, the Company used the Multiple-period Excess Earnings Method to determine the value of the above intangible assets. Under this method the value of a specific intangible asset is estimated from the residual earnings after fair returns on all other assets (if any) employed have been deducted from the asset's after-tax operating earnings.

The valuations are based on information at the time of acquisition and the expectations and assumptions that have been deemed reasonable by the Company's Management. It has been assumed that the underlying assumptions or events associated with such assets will occur as projected.

After initial recognition, management rights are stated at cost less accumulated impairment losses. Impairment is tested at each reporting date.

**2.3 Non-current assets held for sale**

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition, management is committed to the sale, and expects to qualify for recognition as a completed sale within one year from the date of classification.

Property and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

## 2.4 Financial instruments

### 2.4.1 Classification

**(a) Investments at 'fair value through profit or loss'**

These include financial instruments categorised as 'held-for-trading' which are acquired principally for the purpose of generating profit from short-term fluctuations in prices or dealers' margins or are securities included in a portfolio in which a pattern of short-term profit taking exists.

These include investments that are designated as investments at 'fair value through profit or loss' upon initial recognition.

**(b) Held to maturity**

These are securities acquired by the Company with the intention and ability to hold them upto maturity.

**(c) Loans and receivables**

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

**(d) Available-for-sale**

Investments which are not classified in any of the preceding categories are classified as available-for-sale investments.

### 2.4.2 Recognition

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

The Company follows trade date accounting for purchase and sale of investments. Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

### 2.4.3 Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at 'fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at 'fair value through profit or loss' are charged to the income statement immediately.

Subsequent to initial recognition, instruments classified as financial assets 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. Changes in the fair value of instruments classified as 'available-for-sale' are recognised in other comprehensive income until derecognised or impaired when the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement.

Financial assets classified as 'loans and receivables' and 'held to maturity' are carried at amortised cost using the effective yield method, less impairment losses, if any.

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

**2.4.4 Fair value measurement principles**

The fair value of financial instruments were determined as follows:

- The carrying value of debt securities is based on the value determined and announced by the Mutual Funds Association of Pakistan (MUFAP).

- Provisions are recognised when there is objective evidence that a financial asset or group of financial assets are non performing. Additional provision may be recognised when there is objective evidence of the continuity of non-performance. Further, the reversal of provisions are made where there is an objective evidence that the impairment is reversed.

  The fair value of shares of listed companies / units of funds is based on their price quoted on the Karachi Stock Exchange at the reporting date without any deduction for estimated future selling costs. Financial assets and financial liabilities are priced at their fair market value.

**2.4.5 Impairment**

Impairment loss on investments other than 'available-for-sale' is recognised in the income statement whenever the carrying amount of investment exceeds its recoverable amount. If, in a subsequent period, the amount of an impairment loss recognised decreases the impairment is reversed through the income statement.

In case of investments classified as 'available-for-sale', a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for 'available-for-sale' financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from other comprehensive income and recognised in the income statement. However, the decrease in impairment loss on equity securities classified as 'available-for-sale' is not reversed through the income statement but is recognised in other comprehensive income.

**2.4.6 Derecognition**

The Company derecognises a financial asset when the contractual right to the cash flow from the financial asset expires or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

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

**2.5 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

**2.6 Employee benefits**

**Defined contributory plan**

The Company contributes to an approved funded provident / pension fund for all its permanent employees. Equal monthly contributions are made both by the Company and the employees at the rate of 8.33% of basic salary per annum.

**2.7 Taxation**

**Current**

The charge for current taxation is based on taxable income at the current rates of taxation, after taking into account tax rebates and tax credits available, if any, or minimum taxation at the rate of one percent of turnover under Section 113 of the Income Tax Ordinance, 2001 (applicable for the tax year 2012) whichever is higher. Payment of minimum tax is subject to adjustment against tax liabilities of following three years. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime.

**Deferred**

Deferred income tax is provided using the liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In this regard, the effects on deferred taxation of the portion of income subject to final tax regime is also considered in accordance with the requirement of Technical Release-27 of the Institute of Chartered Accountants of Pakistan.

Deferred income tax asset is recognized for all deductible temporary differences and unused tax losses, if any, to the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax is charged to profit and loss account, except in case of items credited or charged to comperhensive income in which case its is included in comperhensive income.

**2.8 Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand and 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 investment or other purposes.

**2.9 Dividend and other distributions**

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are declared and other appropriations are recognized in the period in which these are approved by the Board of Directors.

### 2.10 Offsetting

A financial asset and liability is offset and the net amount is reported in the financial statements, if the Company has a legally enforceable right to set off the transaction and the Company also intends to settle on the net basis, or to realise the asset and settle the liability simultaneously.

### 2.11 Provisions

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

### 2.12 Other payables

Liabilities for other amounts payable are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received whether billed to the Company or not.

### 2.13 Revenue recognition

#### 2.13.1 Management / advisory fee

Management / advisory fee is calculated on a daily / monthly basis by charging specified rates to the net asset value / income of the Collective Investment Schemes. The fee so charged does not exceed the limit prescribed in the NBFC Regulations / Voluntary Pension System Rules 2005.

Management fee from open-end schemes is calculated by charging the specified rates to the net asset value / income of open end schemes at the close of business of each calendar day. Advisory fee from closed-end schemes is calculated on daily / monthly basis by charging the specified rates to the net assets value of closed-end schemes. Advisory fee from the discretionary portfolios is calculated in accordance with the respective agreements with the clients. Management fee from pension funds is calculated by charging the specified rates to the average net assets value.

Specified rates of management and advisory fees are as follows:

| Open-end scheme | Basis | 30 June 2012 Percentage | 30 June 2011 Percentage |
|---|---|---|---|
| Pakistan Income Fund | Net asset value | **1.5** | 1.5 |
| Pakistan Stock Market Fund | Net asset value | **2** | 2 |
| MetroBank-Pakistan Sovereign Fund | 10% of income or 1.5% of Net Assets whichever is lower subject to a minimum of 0.5% | **10 / 1.5 / 0.5** | 10 / 1.5 / 0.5 |
| Pakistan Capital Market Fund | Net asset value | **2** | 2 |
| Pakistan Cash Management Fund | 10% of gross earnings or 0.25% of Net Assets whichever is higher | **10 / 0.25** | 10 / 0.25 |
| Pakistan Income Enhancement Fund | Net asset value | **1.5** | 1.5 |
| **Pakistan International Element Islamic Asset Allocation Fund (PIEIF)** | | | |
| PIEIF – A | Net asset value | **3** | 3 |
| PIEIF – B | Net asset value | **3** | 3 |
| PIEIF – C | Net asset value | **2** | 2 |
| PIEIF – D | Net asset value | **2** | 2 |
| PIEIF – E | Net asset value | **1.5** | 1.5 |
| Pakistan Premier Fund | Net asset value | **2** | 2 |
| Pakistan Strategic Allocation Fund | Net asset value | **2** | 2 |
| AH Dow Jones SAFE Pakistan Titans 15 Index Fund | Net asset value | **1** | 1 |
| Pakistan Capital Protected Fund - Fixed Income Securities | Net asset value | **1.5** | 1.5 |
| MCB Islamic Income Fund | 10% of gross earnings or 0.25% of Net Assets whichever is higher | **10 / 0.25** | 10 / 0.25 |
| MCB Dynamic Allocation Fund | Net asset value | **1.5** | 1.5 |
| MCB Dynamic Stock Fund | Net asset value | **3** | 3 |
| MCB Cash Management Optimizer | 10% of gross earnings or 0.25% of Net Assets whichever is higher | **10 / 0.25** | 10 / 0.25 |
| MCB Dynamic Cash Fund | Net asset value | **1.5** | 1.5 |
| **Pension Funds** | | | |
| Pakistan Pension Fund | Net asset value | **1.5** | 1.5 |
| Pakistan Islamic Pension Fund | Net asset value | **1.5** | 1.5 |
| **Discretionary portfolios** | Net asset value / Performance | **0.0-2.0** | 0.0-2.0 |

### 2.13.2 Processing and other related income

These are recognised once the services are provided to unit holders in connection with their investments in the open-end schemes managed by the Company.

**2.13.3 Dividend income**

Dividend income from investment is recognized when the right to receive payment is established.

**2.13.4 Mark-up / interest income**

Mark-up / interest income is accrued on a time proportion basis, by reference to the principal outstanding at the effective interest rates applicable.

**2.14 Share Capital**

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

**2.15 Earnings per share**

The Company presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated if there is any potential dilutive effect on the Company's reported net profits.

**2.16 Impairment - Non financial assets**

The Company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## 3. BUSINESS COMBINATION - FINALIZATION OF FAIR VALUES

The Company's financial statements for the year ended 30 June 2011 were prepared using reverse acquisition method in accordance with the requirements of the International Financial Reporting Standard – 3 (revised) 'Business Combinations'. As permitted under IFRS–3, the fair values of the assets of the Company assumed and accounted for under reverse acquisition method were incorporated provisionally in the aforementioned financial statements based on limited information. IFRS 3 requires to retrospectively adjust such provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. The provisional amounts recognized were required to be adjusted during the 'Measurement period' which cannot exceed one year from the acquisition date.

During the year, the management finalized the fair values of such assets as at 31 December 2011. The retrospective adjustment has been made in the balance sheet and the comparatives have been revised as under:

| | Note | Carrying amount as at 26 June 2011 | Fair values provisionally determined as at 26 June 2011 | Further adjustments to finalize the fair values identified | Fair values finalized and adjusted retrospectively |
|---|---|---|---|---|---|
| | | Rupees | | | |
| Fixed assets | | 35,752,429 | 34,654,895 | - | 34,654,895 |
| Investments | | 262,261,172 | 262,261,172 | - | 262,261,172 |
| Long-term loans and receivables | | 6,051,191 | 6,051,191 | - | 6,051,191 |
| Long-term deposits | | 115,000 | 115,000 | - | 115,000 |
| Intangible assets acquired on amalgamation | 4.3 | - | 109,000,000 | 83,000,000 | 192,000,000 |
| Deferred tax asset | | 62,760,149 | 62,760,149 | (21,572,968) | 41,187,181 |
| Cash and bank balances | | 41,573,019 | 41,573,019 | - | 41,573,019 |
| Other current assets – net | | 160,705,655 | 160,705,655 | 5,470,621 | 166,176,276 |
| **Total assets** | | 569,218,615 | 677,121,081 | 66,897,653 | 744,018,734 |
| **Liabilities** | | | | | |
| Trade and other payables | | 50,535,712 | 67,776,760 | - | 67,776,760 |
| Provision for taxation | | 2,368,907 | 2,368,907 | - | 2,368,907 |
| **Total liabilities** | | 52,904,619 | 70,145,667 | - | 70,145,667 |
| **Net assets acquired** | | 516,313,996 | 606,975,414 | 66,897,653 | 673,873,067 |
| **Fair value of the consideration transferred** | | | 756,000,000 | - | 756,000,000 |
| **Goodwill arising on acquisition – adjusted (Note 4.3)** | | | 149,024,586 | 66,897,653 | 82,126,933 |

**3.1** This exercise resulted in an increase in the value of 'Intangible Asset-Management Rights' by Rupees 83 million, a decrease in the 'Deferred Tax Asset' by Rupees 21.572 million, a increase in 'Other Current Assets' of Rupees 5.471 million and a corresponding decrease in the 'Goodwill' by Rupees 66.898 million.

The fair value of 'Intangible Asset-Management Rights' has been worked out by an independent valuer as at the reporting date based on future projections of earnings after taking into account reasonable assumptions and related data. The 'Deferred Tax Asset' and 'Other Current Assets' have been adjusted upon identifying further information that could not be substantiated as at the acquisition date. No change has been identified with respect to the values of all other assets due to which such values have now been treated as final. The management believes that the exercise of finalizing the fair values is now complete effective from 31 December 2011.

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | (Rupees) | |
| **4. FIXED ASSETS** | | | |
| Property and equipment | **4.1** | 104,030,443 | 113,905,121 |
| Capital work in progress | **4.2** | 5,000,000 | 5,200,000 |
| Intangible assets | **4.3** | 279,241,002 | 280,840,816 |
| | | **388,271,445** | **399,945,937** |

4.1 **Property and equipment**

| 30 June 2012 | COST / REVALUATION | | | | | ACCUMULATED DEPRECIATION | | | | Net Book Value At 30 June 2012 | Rate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | At 01 July 2011 | Additions / (disposals) | Surplus on revaluation / reversal of depreciation due to revaluation | Assets acquired under amalgamation | At 30 June 2012 | At 01 July 2011 | Charge for the year / (depreciation on disposals) | Reversal of depreciation due to revaluation | At 30 June 2012 | | |
| | (Rupees) | | | | | (Rupees) | | | | | % |
| Office premises | 80,800,000 | - | - | - | 80,800,000 | 2,356,669 | 3,922,164 | - | 6,278,833 | 74,521,167 | 5 |
| Furniture and fittings | 12,662,491 | 2,181,807<br>(293,030) | - | - | 14,551,268 | 3,857,637 | 1,384,659<br>(4,474) | - | 5,237,822 | 9,313,446 | 10 |
| Office equipment | 8,208,600 | 582,487<br>(103,910) | - | - | 8,687,177 | 2,695,891 | 1,368,694<br>(6,719) | - | 4,057,866 | 4,629,311 | 20 |
| Motor vehicles | 9,952,063 | -<br>(1,336,000) | - | - | 8,616,063 | 1,814,135 | 2,095,883<br>(1,336,000) | - | 2,574,018 | 6,042,045 | 20-25 |
| Computers | 23,349,010 | 642,648<br>(122,537) | - | - | 23,869,121 | 10,342,711 | 4,008,702<br>(6,766) | - | 14,344,647 | 9,524,474 | 25 |
| | 134,972,164 | 3,406,942<br>(1,855,477) | - | - | 136,523,629 | 21,067,043 | 12,780,102<br>(1,353,959) | - | 32,493,186 | 104,030,443 | |

**4.1.1** The office premises of the Company was originally revalued by an independent professional valuer on 20 November 2007. The revaluation was carried out by M/s.Pee Dee & Associates on the basis of professional assessment of present market values and resulted in a surplus of Rs.1.623 million.

During the last year, the Company revalued its office premises using the same independent professional valuer as on 01 October 2010. The said revaluation was based on present market values and resulted in a further surplus of Rs.15.260 million. Had there been no revaluation, the carrying amount of the said office premises as at 30 June 2012 would have been Rupees 59.11 million (2011: .62.219 million).

| 30 June 2011 | COST / REVALUATION | | | | | ACCUMULATED DEPRECIATION | | | | Net Book Value At 30 June 2011 | Rate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | At 01 July 2010 | Additions / (disposals) | Surplus on revaluation / reversal of depreciation due to revaluation | Assets acquired under amalgamation | At 30 June 2011 | At 01 July 2010 | Charge for the year / (depreciation on disposals) | Reversal of depreciation due to revaluation | At 30 June 2011 | | |
| | (Rupees) | | | | | (Rupees) | | | | | % |
| Building | 71,811,000 | - | 15,260,062<br>(6,271,062) | - | 80,800,000 | 4,876,598 | 3,751,133<br>- | (6,271,062) | 2,356,669 | 78,443,331 | 5 |
| Furniture and fittings | 9,435,459 | 1,604,766 | | 1,622,266 | 12,662,491 | 2,800,382 | 1,057,255 | - | 3,857,637 | 8,804,854 | 10 |
| Office equipment | 3,329,336 | 982,286<br>(36,950) | | 3,933,928 | 8,208,600 | 1,973,651 | 735,173<br>(12,933) | - | 2,695,891 | 5,512,709 | 20 |
| Motor vehicles | 6,780,663 | -<br>(4,884,663) | - | 8,056,063 | 9,952,063 | 5,570,740 | 1,128,058<br>(4,884,663) | - | 1,814,135 | 8,137,928 | 20-25 |
| Computers | 12,269,461 | 847,386<br>(61,712) | | 10,293,875 | 23,349,010 | 7,871,022 | 2,499,974<br>(28,285) | - | 10,342,711 | 13,006,299 | 25 |
| | 103,625,919 | 3,434,438<br>(4,983,325) | 15,260,062<br>(6,271,062) | 23,906,132 | 134,972,164 | 23,092,393 | 9,171,593<br>(4,925,881) | (6,271,062) | 21,067,043 | 113,905,121 | |

### 4.1.2 Particulars of disposal of property and equipment during the year are as follows:

| Description | Cost | Accumulated depreciation | Written down value | Sale proceeds | Gain | Mode of disposal | Buyer's particulars |
|---|---|---|---|---|---|---|---|
| | (Rupees) | | | | | | |
| Motor vehicle | **1,336,000** | **1,336,000** | **-** | **267,200** | **267,200** | As per Company Policy | Mr. Junaid Khalid (Employee) |

The other assets disposed of during the year were individully below Rupees 50,000.

## 4.2 Capital work-in-progress

This represents amount paid for upgradation of computer software to a consultant.

## 4.3 Intangible assets

| 30 June 2012 | Note | COST: At 01 July 2011 | COST: Additions / (deletions) | COST: Assets acquired under amalgamation | COST: At 30 June 2012 | ACCUMULATED AMORTISATION: At 01 July 2011 | ACCUMULATED AMORTISATION: Charge for the year | ACCUMULATED AMORTISATION: At 30 June 2012 | NET BOOK VALUE AT 30 JUNE 2012 | RATE |
|---|---|---|---|---|---|---|---|---|---|---|
| | | (Rupees) | | | | (Rupees) | | | | % |
| Computer software | | 13,056,056 | 515,000<br>(102,500) | - | 13,468,556 | 6,342,173 | 2,012,315 | 8,354,487 | 5,114,069 | 25 |
| Goodwill | 3, 4.3.1 | 82,126,933 | - | - | 82,126,933 | - | - | - | 82,126,933 | - |
| Management rights | 3 | 192,000,000 | - | - | 192,000,000 | - | - | - | 192,000,000 | - |
| | | 287,182,989 | 515,000<br>(102,500) | - | 287,595,489 | 6,342,173 | 2,012,315 | 8,354,487 | 279,241,002 | |

| 30 June 2011 | COST: At 01 July 2010 | COST: Additions / (deletions) | COST: Assets acquired under amalgamation | COST: At 30 June 2011 | ACCUMULATED AMORTISATION: At 01 July 2010 | ACCUMULATED AMORTISATION: Charge for the year | ACCUMULATED AMORTISATION: At 30 June 2011 | NET BOOK VALUE AT 30 JUNE 2011 | RATE |
|---|---|---|---|---|---|---|---|---|---|
| | (Rupees) | | | | (Rupees) | | | | % |
| Computer software | 7,469,149 | 38,144 | 5,548,763 | 13,056,056 | 4,684,776 | 1,657,397 | 6,342,173 | 6,713,883 | 25 |
| Goodwill (Restated) | - | - | 82,126,933 | 82,126,933 | - | - | - | 82,126,933 | - |
| Management rights (Restated) | - | - | 192,000,000 | 192,000,000 | - | - | - | 192,000,000 | - |
| | 7,469,149 | 38,144 | 279,675,696 | 287,182,989 | 4,684,776 | 1,657,397 | 6,342,173 | 280,840,816 | |

4.3.1 The company believes that the entire amount of goodwill will be deductible for tax purpose.

## 5. LONG TERM INVESTMENTS

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | (Rupees) | |
| **In Collective Investment Schemes - related parties** | | | |
| Available-for-sale investments | 5.1 | 326,549,333 | 310,324,182 |

## 5.1 Available-for-sale investments

| Name of the investee / fund | Note | As at 30 June 2012: As at 01 July 2011 | Bonus units aquired / units sold | As at 30 June 2012 | Cost | Market value | Accumulated Unrealized gain / (loss) on revaluation of investments | As at 30 June 2011: Cost | Market value | Unrealized gain / (loss) on revaluation of investments |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Units | | | (Rupees) | | | | | |
| **Open end mutual funds** | | | | | | | | | | |
| Pakistan Pension Fund | 5.1.1 | **900,000** | **-** | **900,000** | **113,328,000** | **126,426,000** | **13,098,000** | 113,328,000 | 112,992,000 | (336,000) |
| Pakistan Islamic Pension Fund | 5.1.1 | **900,000** | **-** | **900,000** | **111,534,000** | **125,682,000** | **14,148,000** | 111,534,000 | 110,991,000 | (543,000) |
| Pakistan Capital Protected Fund - Fixed Income Securities (FIS) | 5.1.1 & 5.1.2 | **-** | **-** | **-** | **-** | **-** | **-** | 1,339,657 | 1,396,582 | 56,925 |
| AH Dow Jones SAFE Pakistan Titans 15 Index Fund (AHDJPF) | 5.1.1 | **600,000** | **(176,058)** | **423,942** | **23,164,667** | **24,376,683** | **1,212,016** | 35,220,000 | 34,818,000 | (402,000) |
| MCB Islamic Income Fund | 5.1.1 | **500,000** | **-** | **500,000** | **50,000,000** | **50,064,650** | **64,650** | 50,000,000 | 50,126,600 | 126,600 |
| | | | | | **298,026,667** | **326,549,333** | **28,522,666** | 311,421,657 | 310,324,182 | (1,097,475) |

**5.1.1** This represents investment in seed capital of the Fund.

**5.1.2** The fund will complete its term on 15th August 2012. Accordingly, this investment has been shown under 'short term investment'. ( Note 11.2.1).

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| **6. LONG-TERM LOANS AND RECEIVABLES** | | ------------- (Rupees) | ------------- |
| **Related parties - unsecured - considered good** | | | |
| **Loans** | | | |
| Chief executive | 6.1 | **277,510** | 413,470 |
| Loan to employees | 6.1 | **2,510,175** | 1,897,959 |
| | 6.2 & 6.3 | **2,787,685** | 2,311,429 |
| Less: Current portion | 8 | **(795,275)** | (440,544) |
| | | **1,992,410** | 1,870,885 |
| **Other receivables - from related parties** | | | |
| Pakistan Cash Management Fund | 6.4 | **-** | 553,389 |
| Pakistan Income Enhancement Fund | 6.4 | **-** | 535,338 |
| Pakistan Strategic Allocation Fund | 6.4 | **5,585,109** | 4,045,100 |
| Pakistan Premier Fund | 6.4 | **4,281,370** | 3,176,301 |
| MCB Islamic Income Fund | 6.4 | **-** | 1,000,000 |
| | | **9,866,479** | 9,310,128 |
| Less: Current portion | 7.1 | **(5,311,887)** | (4,255,943) |
| | 6.5 | **6,547,002** | 6,925,070 |

**6.1** This includes loans given to employees for the purpose of purchase of cars.These loans are given to employees against down payment of leased car as per the Company policy and are adjustable on availing revised facility on change of entitlement of an employee or at the time of final settlement on leaving the Company.

**6.2** Reconciliation of loans to chief executive and employees:

| | 30 June 2012 | 30 June 2011 |
|---|---|---|
| Opening balance | **2,311,429** | 503,069 |
| Acquired on amalgamation | **-** | 997,006 |
| Disbursed during the year | **1,488,686** | 2,138,503 |
| Recovered during the year | **(1,012,430)** | (1,327,149) |
| | **2,787,685** | 2,311,429 |

**6.3** Maximum aggregate balance of loans due from related parties during the period was Rupees 3.573 (30 June 2011: Rupees 1.240) million.

**6.4** This includes expenses incurred in connection with the incorporation, registration, establishment and offering for sale and distribution of the securities of the Funds borne by the Company and reimbursable by Funds in equal amounts, payable annually over a period of five years or period till maturity, whichever is earlier. The fair values of receivable from related parties are based on discounted cash flows.

**6.5** The carrying value of “Long-Term Loans and Receivables” is denominated in Pak Rupees, and the amounts approximate their fair values which is neither past due nor impaired.

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | ------------- (Rupees) ------------- | |
| **7. RECEIVABLE FROM RELATED PARTIES** | | | |
| **Unsecured - considered good** | | | |
| Pakistan Income Fund | | **2,003,378** | 2,358,954 |
| Pakistan Stock Market Fund | | **2,052,906** | 2,363,179 |
| Metro Bank-Pakistan Sovereign Fund | | **6,636,515** | 1,858,264 |
| Pakistan Premier Fund | | **3,161,088** | 2,296,231 |
| Pakistan Capital Market Fund | | **672,963** | 652,122 |
| Pakistan Strategic Allocation Fund | | **3,707,972** | 2,643,774 |
| Pakistan International Element Islamic Asset Allocation Fund | | **531,657** | 548,130 |
| Pakistan Pension Fund | | **360,530** | 302,116 |
| Pakistan Islamic Pension Fund | | **221,353** | 172,120 |
| Pakistan Capital Protected Fund-I | | **-** | 286,155 |
| Pakistan Cash Management Fund | | **4,683,759** | 3,674,087 |
| Pakistan Income Enhancement Fund | | **1,612,335** | 2,339,002 |
| Pakistan Capital Protected Fund - FIS | | **341,426** | 292,377 |
| AH Dow Jones SAFE Pakistan Titans 15 Index Fund | | **93,320** | 3,822,055 |
| MCB Islamic Income Fund | | **2,242,749** | 1,135,777 |
| MCB Dynamic Allocation Fund | | **161,502** | 411,462 |
| MCB Dynamic Stock Fund | | **1,684,462** | 1,718,962 |
| MCB Cash Management Optimizer | | **21,715,351** | 11,111,400 |
| MCB Dynamic Cash Fund | | **9,980,785** | 5,783,157 |
| MCB Sarmaya Mehfooz Fund 1 | | **721,399** | 56,054,023 |
| | 7.1 | **62,585,450** | 99,823,347 |
| Discretionery Porftolio (advisory fee) | | **357,407** | 148,826 |
| Fatima Fertilizer (Private) Limited | | **-** | 208,233 |
| Employees' Trust | 7.2 | **-** | 1,420,086 |
| Rotocast Engineering (Private) Limited | 7.3 | **57,970,426** | - |
| | 7.4 | **120,913,283** | 101,600,492 |

**7.1** The above amounts represent receivable on account of management fee, current portion of long-term receivables and other expenses paid on behalf of related parties.

**7.2** This represents amount receivable from "Arif Habib Investment Employees Stock Beneficial OwnershipTrust".

**7.3** During the year company received Rupees 20 million against non current assets classified as held for sale of in 2011.

**7.4** The carrying value of “Receivable from related parties” is denominated in Pak Rupees, and the amount approximates their fair values which is neither past due nor impaired.

| | Note | | |
|---|---|---|---|
| **8. LOANS AND ADVANCES** | | | |
| **Considered good - unsecured** | | | |
| Current portion of loan to employees | 6 | **795,275** | 440,544 |
| Advance to employees | | **32,023** | 1,966,484 |
| Advance to suppliers and contractors | | **454,940** | 622,871 |
| | 8.1 | **1,282,238** | 3,029,899 |

**8.1** The carrying value of “Loans and advances” is denominated in Pak Rupees, and the amount approximates their fair values which is neither past due nor impaired.

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | ------------- (Rupees) ------------- | |
| **9. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES** | | | |
| **Deposits** | | **449,614** | 399,198 |
| **Prepayments** | | | |
| Registration fee | | **3,047,021** | 1,811,459 |
| Maintenance | | **1,283,335** | 1,450,000 |
| Insurance | | **2,434,913** | 898,206 |
| Others | | **1,705,013** | 1,890,118 |
| | | **8,470,282** | 6,049,783 |
| **Other receivables** | | | |
| Discretionery Porftolio (advisory fee) | | **1,186,256** | 415,186 |
| Others | | **87,605** | 2,434,005 |
| | | **1,273,861** | 2,849,191 |
| | 9.1 | **10,193,757** | 9,298,172 |

**9.1** The carrying value of “Deposits" and "Other receivables” is denominated in Pak Rupees, and the amount approximates their fair values which is neither past due nor impaired.

**10. TAXATION - net**

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| Advance tax | | **14,436,677** | 31,461,991 |
| Income tax refundable | 10.1 | **76,668,264** | 49,904,034 |
| | | **91,104,941** | 81,366,025 |
| Provision for taxation | | **(15,121,721)** | (5,212,995) |
| | | **75,983,220** | 76,153,030 |

**10.1** The above amount includes assessed refunds for the tax years 2008, 2009, 2010 and 2011.

## 11. SHORT TERM INVESTMENTS

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | (Rupees) | |
| **In Collective Investment Schemes - related parties** | | | |
| At fair value through profit or loss | 11.1 | **465,242,143** | 305,785,131 |
| Available-for-sale investments | 11.2 | **2,417,385** | 841,143 |
| | | **467,659,528** | 306,626,274 |

### 11.1 At fair value through profit or loss

| Name of the investee Fund | As at 30 June 2012 | | | | | As at 30 June 2011 | |
|---|---|---|---|---|---|---|---|
| | As at 01 July 2011 | Additions (Disposals) | As at 30 June 2012 | Cost | Market value | Cost | Market value |
| | Units | | | (Rupees) | | | |
| **Open end mutual funds** | | | | | | | |
| MCB Dynamic Cash Fund | 1,920,726 | **1,795,413** | **3,716,139** | **354,019,834** | **376,907,202** | 172,449,232 | 194,616,986 |
| MCB Cash Management Optimizer | 608,892 | **(463,380)** | **145,512** | **13,097,261** | **14,567,804** | 54,660,191 | 61,041,545 |
| MCB Islamic Income Fund | 500,000 | **105,733** | **605,733** | **50,126,600** | **60,651,585** | 50,000,000 | 50,126,600 |
| Pakistan Cash Management Fund | - | **262,009** | **262,009** | **13,000,000** | **13,115,552** | - | - |
| | | | | **430,243,695** | **465,242,143** | 277,109,423 | 305,785,131 |

### 11.2 Available-for-sale investments

| Name of the investee Fund | As at 30 June 2012 | | | | | | As at 30 June 2011 | | |
|---|---|---|---|---|---|---|---|---|---|
| | As at 01 July 2011 | Addi tions | As at 30 June 2012 | Cost | Market value | Accumulated unrealized gain on revaluation of Investments | Cost | Market value | Unrealized gain on revaluation of investments |
| | Units | | | (Rupees) | | | | | |
| **Open end mutual funds** | | | | | | | | | |
| Metro Bank-Pakistan Sovereign Fund | **16,494** | **3,042** | **19,536** | **839,515** | **942,002** | **102,487** | 839,515 | 841,143 | 1,628 |
| Pakistan Capital Protected Fund - Fixed Income Securities (FIS) | **126,502** | **17,861** | **144,363** | **1,339,657** | **1,475,383** | **135,726** | - | - | - |
| | | | | **2,179,172** | **2,417,385** | **238,213** | 839,515 | 841,143 | 1,628 |

**11.2.1** The Pakistan Capital Fund – Fixed Income Securities was launched in 2010 with a fixed term of 2.5 years, Subsequent to the reporting date the Fund will complete its term on 15th August 2012.

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | ------------- (Rupees) | ------------- |
| **12. CASH AND BANK BALANCES** | | | |
| Cash in hand | | **25,000** | 26,893 |
| Cash at bank in | | | |
| Current accounts | | **3,617,351** | 816,901 |
| Deposit accounts | 12.1 & 12.2 | **7,948,251** | 56,935,976 |
| | | **11,565,602** | 57,752,877 |
| | | **11,590,602** | 57,779,770 |

**12.1** This includes cash at bank in deposit accounts with Summit Bank Limited (a related party), amounting to Rupees 2.907 million (2011: Rupees 36.899 million) carrying mark-up at the rate of 11.00% (2011: 11.00%) per annum.

**12.2** This includes cash at bank in deposit accounts with MCB Bank Limited (a related party), amounting to Rupees 4.108 million (2011: Rupees 16.180 million) carrying mark-up at the rate of 11% (2011: 12.00%) per annum.

**13. NON-CURRENT ASSETS HELD FOR SALE**

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| Lease hold improvements | | **-** | 42,985,127 |
| Generator | | **-** | 12,914,414 |
| Furniture and fixtures | | **-** | 7,270,313 |
| Office equipment | | **-** | 13,056,555 |
| Computer equipment | | **-** | 1,744,017 |
| | 13.1 | **-** | 77,970,426 |

**13.1** These represent property and equipment acquired on amalgamation which were previously in use of the Company. Consequent to the merger, the Company relocated its office premises and, accordingly, these assets were classified as held for sale. During the year, these assets have been sold to Rotocast Engineering Company (Private) Limited, a related party, at the values negotiated during the last year.

**14. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL**

| 30 June 2012 | 30 June 2011 | | 30 June 2012 | 30 June 2011 |
|---|---|---|---|---|
| --------- (Number of shares) | --------- | | ------------- (Rupees) | ------------- |
| | | Ordinary Share of Rs.10 each | | |
| **50,000,000** | 50,000,000 | Fully paid in cash | **50,000,000** | 50,000,000 |
| **310,000,000** | 310,000,000 | As fully paid bonus shares | **310,000,000** | 310,000,000 |
| **360,000,000** | 360,000,000 | Shares issued for consideration other than cash 14.2 | **360,000,000** | 360,000,000 |
| **720,000,000** | 720,000,000 | | **720,000,000** | 720,000,000 |

**14.1** At 30 June 2012, MCB Bank Limited, the holding Company, held 36,956,768 (2011: 36,956,768) Ordinary shares of Rupees10 each representing 51.33% of share capital.

**14.2** During the last year, the Company issued 36,000,000 Ordinary shares of Rupees10 each to MCB Bank Limited on account of an agreement entered into between the shareholders of the Company and MCB Bank Limited, as more fully explained in note 1.2 to the financial statements.

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | (Rupees) | (Rupees) |
| **15. RESERVES** | | | |
| Share premium | | **396,000,000** | 396,000,000 |
| Deficit arising on amalgamation | 15.1 | **(60,000,000)** | (60,000,000) |
| Unappropriated profit | | **186,830,448** | 203,716,256 |
| Unrealised fair value gain / (loss) on available-for-sale investments - net | | **28,760,879** | (986,262) |
| | | **551,591,327** | 538,729,994 |

**15.1** This represents deficit arising on account of difference in share capital of AHIL and MCB AMC.

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| **16. SURPLUS ON REVALUATION OF FIXED ASSETS - net of tax** | | | |
| Surplus on revaluation of office premises | | **16,206,923** | 1,422,393 |
| Add: Revaluation made duing the year | 4.1 | **-** | 15,260,062 |
| | | **16,206,923** | 16,682,455 |
| Transferred to unappropriated profit in respect of: | | | |
| Incremental depreciation charged during the year - net of deferred tax | | **(534,525)** | (318,949) |
| Related deferred tax liability | | **(266,723)** | (156,583) |
| | | **(801,248)** | (475,532) |
| Surplus on revaluation - closing balance | | **15,405,675** | 16,206,923 |
| **Less: Related deferred tax liability on:** | | | |
| Opening balance | | **5,336,615** | 458,259 |
| Adjustment due to change in rate of exempt income and income under final tax | | **-** | 10,106 |
| Revaluation made during the year | | **-** | 5,024,833 |
| Incremental depreciation charged on related assets | | **(266,723)** | (156,583) |
| | | **5,069,892** | 5,336,615 |
| | | **10,335,783** | 10,870,308 |
| **17. DEFERRED TAXATION** | | | |
| **Deductible temporary differences:** | | | |
| - Tax losses | | **-** | (27,437,771) |
| - Minimum tax | | **-** | (5,207,308) |
| - Deferred tax on revaluation and others adjustments | | **5,069,892** | 4,387,901 |
| | | **5,069,892** | (28,257,178) |
| **Taxable temporary differences:** | | | |
| - Property and equipment | | **15,161,980** | 21,959,146 |
| - Intangible assets | | **20,055,371** | 970,509 |
| | | **35,217,351** | 22,929,655 |
| | | **40,287,243** | (5,327,523) |

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | (Rupees) | |
| **18. TRADE AND OTHER PAYABLES** | | | |
| Accrued expenses | 18.1 | **45,604,023** | 63,665,527 |
| Withholding tax payable | | **38,424** | 8,558,856 |
| Sales tax payable | | **7,823,129** | - |
| Payable to facilitators / distributor | | **33,107,248** | 14,460,053 |
| Unclaimed dividend | | **1,213,760** | 178,730 |
| Others | | **23,396** | 150,000 |
| | | **87,809,980** | 87,013,166 |

**18.1** This Includes Rs. 5.184 million (2011: Rupees 17.858 million) payable to Rotocast Engineering Private Limited (a related party).

## 19. CONTINGENCIES AND COMMITMENTS

### 19.1 Contingencies

Bank Guarantee of Rupees Nil (2011: Rupees 1.55 million) against the limit of Rupees Nil ( 2011: Rupees 2.10 million) issued by Summit Bank Limited, a related party, in favour of a commercial bank in relation to credit cards issued to the employees of the Company by the said commercial bank.

### 19.2 Commitments

There were no commitments at the reporting date.

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| **20. MANAGEMENT FEE / INVESTMENT ADVISORY FEE** | | (Rupees) | |
| **From related parties** | | | |
| Collective Investment Schemes | 20.1 | **553,507,067** | 237,006,096 |
| Discretionery portfolios | | **2,842,334** | 221,203 |
| | | **556,349,401** | 237,227,299 |
| Less : Sind Sales Tax | | **(76,738,090)** | - |
| | | **479,611,311** | 237,227,299 |

**20.1 From Collective Investment Schemes**

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | ------------- (Rupees) | ------------- |
| Pakistan Income Fund | | **27,679,659** | 296,472 |
| Pakistan Stock Market Fund | | **23,416,092** | 275,476 |
| MetroBank-Pakistan Sovereign Fund | | **72,153,447** | 242,316 |
| Pakistan Premier Fund | | **12,637,448** | 152,794 |
| Pakistan Capital Market Fund | | **8,326,723** | 85,922 |
| Pakistan Strategic Allocation Fund | | **11,615,548** | 141,860 |
| Pakistan International Element Islamic Asset Allocation Fund | | **6,113,939** | 65,071 |
| Pakistan Pension Fund | | **3,837,402** | 35,835 |
| Pakistan Islamic Pension Fund | | **2,367,531** | 20,974 |
| Pakistan Cash Management Fund | | **35,537,012** | 371,653 |
| Pakistan Income Enhancement Fund | | **23,039,228** | 266,785 |
| Pakistan Capital Protected Fund - FIS | | **4,143,157** | 38,890 |
| AH Dow Jones SAFE Pakistan Titans 15 Index Fund | | **1,327,427** | 13,569 |
| MCB Dynamic Cash Fund | | **101,777,575** | 78,255,216 |
| MCB Dynamic Stock Fund | | **21,161,852** | 20,044,600 |
| MCB Dynamic Allocation Fund | | **4,581,753** | 5,508,647 |
| MCB Cash Management Optimizer | | **184,780,977** | 117,174,261 |
| MCB Islamic Income Fund | | **9,010,297** | 50,777 |
| MCB Sarmaya Mehfooz Fund 1 | | **-** | 13,964,978 |
| | | **553,507,067** | 237,006,096 |

**21. ADMINISTRATIVE AND OPERATING EXPENSES**

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | ------------- (Rupees) | ------------- |
| Salaries, allowances and other benefits | 21.1 | **142,212,804** | 81,089,071 |
| Marketing and advertising expenses | | **2,214,427** | 9,566,580 |
| Legal and professional charges | | **17,718,114** | 8,971,476 |
| Traveling and conveyance charges | | **3,558,268** | 1,471,713 |
| Repairs and maintenance | | **25,791,111** | 7,134,748 |
| Office supplies | | **437,370** | 369,921 |
| Auditors' remuneration | 21.2 | **880,000** | 357,081 |
| Directors' meeting fee | | **1,175,002** | 570,000 |
| Insurance | | **1,031,632** | 2,094,551 |
| Depreciation | | **12,780,102** | 9,171,593 |
| Amortisation | | **2,012,315** | 1,657,397 |
| Stamp duty and taxes | | **490,845** | 84,404 |
| Printing and stationery | | **6,763,453** | 2,322,880 |
| Utilities | | **8,171,924** | 4,342,231 |
| Telephone expenses | | **3,228,643** | 2,844,475 |
| Entertainment expenses | | **1,604,457** | 1,130,482 |
| Books, periodicals and subscription | | **7,516,395** | 7,134,576 |
| Registrar Fee | | **2,866,024** | - |
| Miscellaneous expenses | | **2,602,230** | 2,805,746 |
| | | **243,055,116** | 143,118,925 |

**21.1** This amount includes contribution to provident / pension fund amounting to Rupees 4.35 (2011: Rupees 2.315) million.

### 21.2 Auditors' Remuneration

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | ------------- (Rupees) | ------------- |
| Audit fee | | **650,000** | 250,000 |
| Half yearly review | | **140,000** | - |
| Out of pocket expenses | | **30,000** | 50,000 |
| Audit fee Employees' Provident Fund | | **30,000** | 30,000 |
| Other certification | | **30,000** | 27,081 |
| | | **880,000** | 357,081 |

### 22. MANAGEMENT / INVESTMENT ADVISORY FEE/ PROCESSING AND OTHER RELATED INCOME SHARING

The Company shares a percentage of processing income and management fee earned by the Company with its facilitators, sales agents. During the year, the Company shared management fee with MCB Bank Limited, the holding Company, amounting to Rupees 29.914 (2011: Rupees 20.143) million.

### 23. TAXATION

| | Note | 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| | | ------------- (Rupees) | ------------- |
| Current | | **15,121,721** | 2,844,088 |
| Prior | | **(553,146)** | 634,538 |
| Deferred | | **45,991,056** | 15,602,739 |
| | | **60,559,631** | 19,081,365 |
| Relationship between tax expense and accounting profit: | | | |
| Accounting profit | | **205,139,298** | 90,716,313 |
| Tax @ 35% | | **71,798,754** | 31,750,710 |
| Effect of: | | | |
| Tax on seperately chargeable income | | **-** | 5,667 |
| Tax effect of computation adjustments | | **(10,685,978)** | (13,309,550) |
| Effect of prior year adjustment | | **(553,146)** | 634,538 |
| | | **60,559,630** | 19,081,365 |

### 24. EARNINGS PER SHARE - Basic and diluted

| | 2012 | 2011 |
|---|---|---|
| Net income for the year (Rupees) | 144,579,667 | 71,634,948 |
| Shares outstanding as at 30 June 2012 (number of shares) | 72,000,000 | 36,394,521 |
| Earnings per unit - basic (Rupees) | 2.01 | 1.97 |

**24.1** Diluted earnings per share has not been presented as the Company does not have any convertible Instruments in issue at 30 June 2012 and 2011 which would have any effect on the earnings per share if the option to convert is exercised.

## 25. REMUNERATION TO CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for remuneration including all benefits to the Chief Executive Officer, Directors and Executives of the Company was as follows:

| | Year ended 30 June 2012 | | | Year ended 30 June 2011 | | |
|---|---|---|---|---|---|---|
| | Chief Executive Officer | Directors | Executives | Chief Executive Officer | Directors | Executives |
| | ---------- Rupees ---------- | | | | | |
| Managerial remuneration | 4,836,000 | 10,909,200 | 26,404,784 | 4,026,000 | 140,917 | 19,981,971 |
| Bonus | 2,500,000 | - | 11,501,699 | 4,000,000 | - | 10,401,211 |
| Retirement benefits | 407,316 | 1,195,704 | 2,253,723 | 339,817 | - | 1,651,964 |
| Rent and house Maintenance | 2,176,200 | 4,909,080 | 11,882,156 | 1,811,700 | - | 8,918,548 |
| Utilities | 483,600 | 1,090,920 | 2,640,478 | 402,600 | - | 1,982,542 |
| Medical | 471,336 | 1,090,800 | 2,577,605 | 398,976 | - | 2,045,507 |
| Meeting fee | - | 1,175,000 | - | - | 570,000 | - |
| Others | 2,692,464 | 300,000 | 8,606,209 | 224,372 | - | 6,259,374 |
| | **13,566,916** | **20,670,704** | **65,866,654** | 11,203,465 | 710,917 | 51,241,117 |
| Number of persons | **1** | **7** | **24** | 1 | 9 | 25 |

One executive is provided with free use of Company maintained car.

## 26. FINANCIAL RISK MANAGEMENT

### 26.1 Financial risk factors

The Company monitors and manages the financial risks relating to the operations of the Company through internal risk management on an ongoing basis. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. In connection with the Company's financing of operations, the finance function ensures adequate and flexible liquidity. This is guaranteed by placing deposits in cash and extremely liquid negotiable instruments, and/or using binding credit facilities.

The Company seeks to minimise the effects of these risks by managing financial assets and liabilities to minimize the risk exposures. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

### 26.2 Market risk

"Market risk is the risk that changes in the market prices, such as foreign exchange rates, interest rates and equity prices would have an impact on the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the returns.

Company’s policy is to manage market risk through diversification and selection of securities within specified limits set by the Board of Directors.

**26.3 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 liabilities and future cash flow. The Company does not hold any fixed interest based securities that expose the Company to fair value interest rate risk. However, the Company has availed short and long term financing on floating rates that are exposed to interest rate risk.

**Interest rate sensitivity analysis**

The sensitivity analyses below have been determined based on the exposure to interest rates for floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/ lower and all other variables were held constant, the company's profit for the year ended 30 June 2012 would increase / decrease by rupees .0.080 million (2011: Rupees 0.569 million). This is mainly attributable to the company 's exposure to interest rates on its variable rate.

**26.4 Equity price risk**

"The Company’s listed and unlisted equity securities are susceptible to market price fluctuation arising from uncertainties about future values of the investment securities. The Company's significant investment includes investments in Collective Investments Schemes (CIS) managed by the Company itself. Senior management of the Company review the Company's Investments on a regular basis. Further the Board of Directors of the Company also reviews and approves all significant equity investment decisions.

**Equity price sensitivity analysis**

The sensitivity analyses below have been determined based on the exposure to valuation gains and losses for investment portfolio of the Company. The analysis is prepared on the amount of investments at the balance sheet date. 15 percent increase or decrease in equity instrument prices and 0.5 percent increase or decrease in fixed income / money market instrument prices are used when reporting price risk internally to key management personnel and represents management’s assessment of the reasonably possible change in equity and fixed income / money market instruments rates.

If prices in equity instruments had been 15 percent higher/lower and prices in fixed income / money market instruments had been 0.5 percent higher / lower, the Company’s:

- unrealized gain on fair value of available -for-sale investments as on 30 June 2012 would increase / decrease by Rupees 49.203 million ( 2011 : Rupees 46.548 million).

**26.5 Foreign exchange risk**

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. The Company is not exposed to foreign currency risk as transactions are carried out in Pak Rupees.

### 26.6 Credit risk

Credit risk represents the accounting loss that may have been recognized at the reporting date if counter parties fail to perform as contracted. The entire financial assets are subject to the credit risk. Management believes that the Company's credit risk is minimal as major portion of financial assets comprise of investments in or receivables from the Funds which are managed by the Company, and the financial position of these funds is sound.

**Credit policy**

Credit policy of the Company is governed by corporate laws including NBFC Rules & Regulations, Offering documents of Collective Investment Schemes under its management and Company's Personnel Policy.

**Concentration of credit risk**

Out of total receivables from related parties, 53.5% is receivable from funds under management of the Company.

**Credit quality**

The Company's financial assets are neither past due nor impaired as at the reporting date.

**Ratings of Funds from which amounts are receivable.**

| Fund | Star rating | | Rating |
|---|---|---|---|
| | Normal | Long-term | |
| Pakistan Stock Market Fund | 2- star | 4- star | PACRA |
| Pakistan Premier Fund | 3- star | 4- star | PACRA |
| Pakistan Capital Market Fund | 2- star | 3- star | PACRA |
| Pakistan International Element Islamic Asset Allocation Fund | 3- star | 2- star | PACRA |
| Pakistan Strategic Allocation Fund | 3- star | 4- star | PACRA |
| MCB Dynamic Stock Fund | 4- star | 5- star | |
| MCB Allocation Fund | 4- star | 4- star | PACRA |
| | | | PACRA |

| | Stability rating | Rating |
|---|---|---|
| Pakistan Cash Management Fund | AAA (f) | PACRA |
| Pakistan Income Fund | A+ (f) | PACRA |
| MetroBank - Pakistan Sovereign Fund | AA (f) | PACRA |
| Pakistan Income Enhancement Fund | A + (f) | PACRA |
| MCB Dynamic Cash Fund | A + (f) | PACRA |
| MCB Cash Management Optimizer Fund | AA + (f) | PACRA |
| MCB Islamic Income Fund | AA - (f) | |

**Ratings of banks in which deposits are placed.**

| BANK | Rating | | |
|---|---|---|---|
| | Short-term | Long-term | Agency |
| MCB Bank Limited | A1+ | AA+ | PACRA |
| Summit Bank Limited | A-2 | A - | JCR-VIS |
| Bank Al Habib Limited | A1+ | AA+ | PACRA |

## 26.7 Liquidity risk

Liquidity risk reflects the Company's inability in raising funds to meet its commitments. Management closely monitors the Company's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios and rational investment decisions after taking into consideration the current availability of the liquid resources. As at 30 June 2012, the company's cash and bank balances amounted to Rupees 11.591 million.

**Contractual maturities of financial liabilities**

The following are details of the Company's remaining contractual maturity for its financial liabilities.

| 2012 | Less than one year | One to two year | Two to three year | More than three years | Total |
|---|---|---|---|---|---|
| | ---- Rupees ---- | | | | |
| Trade and other payable | 87,809,980 | - | - | - | 87,809,980 |
| | 87,809,980 | - | - | - | 87,809,980 |
| **2011** | | | | | |
| Trade and other payable | 87,013,166 | - | - | - | 87,013,166 |
| | 87,013,166 | - | - | - | 87,013,166 |

## 26.8 Financial instruments by category

Name and amount of financial assets/ financial liabilities on which financial instrument policy is applied.

| | 30 June 2012 | 30 June 2011 |
|---|---|---|
| **Financial Assets** | ---- (Rupees) ---- | |
| **Cash and bank balances** | **11,590,602** | 57,779,770 |
| **Investments** | | |
| Available-for-sale investments - non-current assets | **326,549,333** | 310,324,182 |
| Investments at fair value through profit or loss - current assets | **465,242,143** | 305,785,131 |
| Available-for-sale investments - current assets | **2,417,385** | 841,143 |
| | **794,208,861** | 616,950,456 |
| **Loans and receivables** | | |
| Long-term loans, advances and receivables | **6,547,002** | 6,925,070 |
| Long-term deposits | **849,700** | 624,700 |
| Receivables from related parties | **120,913,283** | 101,600,492 |
| Loans and advances | **1,282,238** | 3,029,899 |
| Deposits and other receivables | **1,723,475** | 3,248,389 |
| Accrued Markup | **184,225** | 1,007,993 |
| | **131,499,923** | 116,436,543 |
| **Financial liabilities at amortised cost** | | |
| Trade and other payables | **87,809,980** | 87,013,166 |
| | **87,809,980** | 87,013,166 |

**26.9 Fair value hierarchy**

The fair values of the financial instruments have been analysed in various fair value levels as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | ---------- Rupees ---------- | | | |
| **Assets** | | | | |
| Available for sale investments | 328,966,718 | - | - | 328,966,718 |
| Investments at fair value through profit or loss | 465,242,143 | - | - | 465,242,143 |
| **Total** | 794,208,861 | - | - | 794.208.861 |

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial instruments held by the Company is the current bid price. These financial instruments are classified under level 1 in above referred table.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value a financial instrument are observable, those financial instruments are classified under level 2 in above referred table. The Company has no such type of financial instruments as on 30 June 2012.

If one or more of the significant inputs is not based on observable market data, the financial instrument is classified under level 3. The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments. The Company has no such type of financial instruments as on 30 June 2012.

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

## 27. CAPITAL MANAGEMENT

The Company’s objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and

- to provide an adequate return to shareholders by pricing products and services that commensurate with the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of return capital to shareholders, issue new shares, or sell assets to reduce debt.

## 28. DISCRETIONARY PORTFOLIO

| | 30 June 2012 | | 30 June 2011 | |
|---|---|---|---|---|
| | Cost | Market value | Cost | Market value |
| | ---------- Rupees ---------- | | | |
| Number of Portfolios | 12 | | 8 | |
| - Equity portfolio | **214,465,167** | **216,001,972** | 96,822,012 | 109,674,282 |
| - Debt portfolio | **1,319,596,652** | **1,366,974,603** | 609,647,676 | 609,005,598 |

## 29. TRANSACTIONS WITH RE LATED PARTIES

The related parties comprise of related group companies, collective investment schemes managed by the company, associated companies, directors and their close family members and retirement benefit plan. Transactions and Balances with related parties/associated undertakings during the period were as follows:

| | 30 June 2012 | 30 June 2011 |
|---|---|---|
| | ------ (Rupees) ------ | |
| **CONTRIBUTION TO PROVIDENT FUND** | **4,359,841** | 2,313,224 |
| **MCB BANK LIMITED** | | |
| Bank balance | **7,182,164** | 16,179,858 |
| Receivable as share of expense | **206,162** | - |
| Commission and other expenses | **29,914,771** | 20,143,321 |
| Commission payable | **7,284,308** | 3,500,000 |
| Mark up receivable | **156,429** | 730,957 |
| Mark up income | **1,057,453** | 1,339,765 |
| Reimbursement for other expenses | **9,154,325** | 3,871,576 |
| Dividend paid | **83,152,728** | 29,998,000 |
| **ARIF HABIB CORPORATION LIMITED** | | |
| Sale of fixed assets | **89,749** | **-** |
| Dividend paid | **48,744,376** | **-** |
| **MCB DYNAMIC CASH FUND** | | |
| Remuneration income | **101,777,575** | 78,255,216 |
| Remuneration receivable | **9,529,989** | 5,780,321 |
| Sale load receivable | **450,789** | 2,836 |
| Purchase of units | **319,000,000** | - |
| Redemption of units | **165,000,000** | 100,000,000 |
| Bonus units 332,318 (2011: 355,979 units) | **28,851,933** | 36,124,658 |
| Closing balance of investment in units | **376,907,202** | 194,616,986 |
| **MCB DYNAMIC STOCK FUND** | | |
| Remuneration income | **21,161,852** | 20,044,600 |
| Remuneration receivable | **1,361,400** | 1,712,517 |
| Sale load receivable | **323,062** | 6,445 |

| | 30 June 2012 | 30 June 2011 |
|---|---|---|
| | ------------- (Rupees) ------------- | |
| **MCB DYNAMIC ALLOCATION FUND** | | |
| Remuneration income | **4,581,753** | 5,508,647 |
| Remuneration receivable | **143,502** | 411,462 |
| Sale load receivable | **18,000** | - |
| **MCB CASH MANAGEMENT OPTIMIZER** | | |
| Remuneration Income | **184,780,977** | 117,174,261 |
| Remuneration receivable | **21,715,351** | 11,111,400 |
| Redemption of units | **51,459,571** | - |
| Bonus units 48,358 units (2011: 72,299) | **4,835,838** | 7,229,900 |
| Closing balance of investment in units | **14,567,804** | 61,041,545 |
| **MCB SARMAYA MEHFOOZ FUND 1** | | |
| Remuneration income | **-** | 13,964,978 |
| Remuneration receivable | **721,399** | 721,399 |
| Bonus units NIL (2011: 1346) | **-** | 134,600 |
| Other receivable | **-** | 55,332,624 |
| **MCB ISLAMIC INCOME FUND** | | |
| Remuneration Income | **9,010,297** | 50,777 |
| Remuneration receivable | **1,455,141** | 50,777 |
| Other receivable | **787,608** | 403,000 |
| Long term receivable - formation cost | **-** | 1,000,000 |
| Bonus units 105,733 units (2011: NIL) | **10,576,512** | - |
| Closing balance of investment in units | **110,716,235** | 100,253,200 |
| **PAKISTAN STOCK MARKET FUND** | | |
| Remuneration Income | **23,416,092** | 275,476 |
| Remuneration receivable | **1,754,585** | 2,096,477 |
| Share of load receivable | **298,321** | 266,702 |
| **PAKISTAN INCOME FUND** | | |
| Remuneration Income | **27,679,659** | 296,472 |
| Remuneration receivable | **1,856,277** | 2,234,200 |
| Share of load receivable | **147,101** | 124,754 |
| **PAKISTAN PREMIER FUND** | | |
| Remuneration Income | **12,637,448** | 152,794 |
| Remuneration receivable | **889,264** | 1,160,319 |
| Conversion cost receivable | **5,679,560** | 5,679,560 |

| | 30 June 2012 | 30 June 2011 |
|---|---|---|
| | ------------- (Rupees) ------------- | |
| **METRO BANK-PAKISTAN SOVEREIGN FUND** | | |
| Remuneration Income | **72,153,447** | 242,316 |
| Remuneration receivable | **6,636,069** | 1,855,296 |
| Bonus units 3,036 units (2011: NIL) | **146,217** | - |
| Closing balance of investment in units | **942,002** | 841,143 |
| Share of load receivable | **446** | 2,968 |
| **PAKISTAN CAPITAL MARKET FUND** | | |
| Remuneration Income | **8,326,723** | 85,922 |
| Remuneration receivable | **672,963** | 652,122 |
| **PAKISTAN STRATEGIC ALLOCATION FUND** | | |
| Remuneration Income | **11,615,548** | 141,860 |
| Remuneration receivable | **667,909** | 1,123,743 |
| Conversion cost receivable | **7,600,157** | 7,600,157 |
| **PAKISTAN PENSION FUND** | | |
| Remuneration Income | **3,837,402** | 35,835 |
| Remuneration receivable | **357,743** | 265,852 |
| Closing balance of investment in units | **126,426,000** | 112,992,000 |
| Share of load receivable | **2,787** | 36,264 |
| **PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND** | | |
| Remuneration Income | **6,113,939** | 65,071 |
| Remuneration receivable | **492,829** | 503,002 |
| Share of load receivable | **38,828** | 45,128 |
| **PAKISTAN CAPITAL PROTECTED FUND-I** | | |
| Others receivable | **-** | 286,155 |
| **PAKISTAN ISLAMIC PENSION FUND** | | |
| Remuneration Income | **2,367,531** | 20,974 |
| Remuneration receivable | **221,353** | 156,708 |
| Closing balance of investment in units | **125,682,000** | 110,991,000 |
| Share of load receivable | **-** | 15,412 |
| **PAKISTAN CAPITAL PROTECTED FUND - FIS** | | |
| Remuneration Income | **4,143,157** | 38,890 |
| Remuneration receivable | **341,426** | 292,377 |
| Bonus units 17,861 units (2011: NIL) | **182,037** | - |
| Closing balance of investment in units | **-** | 1,396,582 |
| **PAKISTAN CASH MANAGEMENT FUND** | | |
| Remuneration Income | **35,537,012** | 371,653 |
| Remuneration receivable | **4,633,730** | 3,203,401 |
| Bonus units 4,477 units (2011: NIL) | **224,271** | - |
| Closing balance of investment in units | **13,115,552** | - |
| Others receivable | **50,029** | 70,769 |
| Formation cost - receivable | **-** | 600,000 |

| | June 30, 2012 | June 30, 2011 |
|---|---|---|
| | ------------- (Rupees) | ------------- |
| **PAKISTAN INCOME ENHANCEMENT FUND** | | |
| Remuneration Income | **23,039,228** | 266,785 |
| Remuneration receivable | **1,469,726** | 2,003,530 |
| Share of load receivable | **135,034** | 133,472 |
| Others receivable | **7,575** | 2,000 |
| Formation cost - receivable | **-** | 600,000 |
| **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND** | | |
| Remuneration Income | **1,327,427** | 13,569 |
| Remuneration receivable | **93,320** | 102,055 |
| Bonus units 37,407 units (2011: NIL) | **2,104,261** | - |
| Closing balance of investment in units | **24,376,683** | 34,818,000 |
| Others receivable | **-** | 2,720,000 |
| Formation cost - receivable | **-** | 1,000,000 |

**30. SUBSEQUENT EVENTS**

The Board of Directors in its meeting held on 15 August 2012 has announced a cash dividend in respect of the year ended 30 June 2012 of Rupees 1.5 per share of Rupees 10 each (15%) [2011 : Rupees 1.5 per share of Rupees 10 each (15%)]. These financial statements do not include the effect of this appropriation which will be accounted for subsequent to the year end.

**31. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were approved and authorised for issue on 15 August 2012 by the Board of Directors of the Company.

**32. GENERAL**

**32.1** No significant reclassification or re-arrangement of the corresponding figures has been made in these financial statements.

**32.2** Figures have been rounded off to the nearest rupee, unless otherwise stated.

CHIEF EXECUTIVE OFFICER

Executive Vice Chairman / Director

# FORM OF PROXY

**TWELVETH ANNUAL GENERAL MEETING**
**ON SEPTEMBER 26, 2012**

The Company Secretary,
**Arif Habib Investments Limited,**
8th Floor, Techno City Corporate Tower ,
Hasrat Mohani Road,
Karachi-Pakistan.

I/We ______________________________________________ of ______________________________________________in the district of ____________________________being a member of Arif Habib Investments Limited, hereby appoint ___________________________________of______________________________________ as my/our proxy to vote for me/us and on my/our behalf at the Twelveth Annual General Meeting of the Company to be held on Wednesday, September 26, 2012 and at any adjournment thereof.

Signed on this _________________________ day of ________ 2012.

| |
|---|
| Signature on five Rupees<br>Revenue Stamp |

(The signature should agree with the specimen registered with the Company)

| **1. WITNESS:** | **2. WITNESS:** |
|---|---|
| Signature: _______________________________ | Signature:_________________________________ |
| Name: __________________________________ | Name: ___________________________________ |
| Address:________________________________ | Address: _________________________________ |
| CNIC/ Passport No. ______________________ | CNIC/ Passport No. ______________________ |

**Shareholder Folio No.**

**CDC Participant ID No & Sub Account No.**

**Notes:**

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company at 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi-Pakistan not less than 48 hours before the time of holding the meeting. A proxy need not be a member of the Company.
2. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of the proxy shall be rendered invalid.
3. CDC shareholders and their proxies are each requested to attach an attested photocopy of their Computerized National Identity Card or Passport with this proxy form before submission to the Company.
4. The proxy shall produce his/her original CNIC or original passport at the time of the meeting.
5. In case of corporate entities, board of directors’ resolution/power of attorney with specimen signature of the nominee shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

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AFFIX
CORRECT
POSTAGE

**ARIF HABIB INVESTMENTS LIMITED**
8th Floor, Techno City Corporate Tower,
Hasrat Mohani Road, Karachi.

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Please find us on

by typing: Bachat Ka Doosra Naam

**Arif Habib Investments Limited (A subsidiary of MCB Bank Limited)**

8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.
UAN: (+92-21) 11-11-622-24 (11-11-MCB-AH), 111-468378 (111-INVEST), Peshawar 091-5852961,
Toll Free: 0800-622-24 (0800-MCB-AH), Fax: (+92-21)32276898, 32276908, URL: www.mcbah.com