

MCB SARMA YA MEHFOOZ FUND 1

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MCB SARMA YA MEHFOOZ FUND 1 FUND'S INFORMATION

Management Company

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

Board of Directors of the Management Company

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

Company Secretary & CFO of the Management Company

Mr. Muhammad Saqib Saleem

Audit Committee

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

Trustee

Central Depository Company of Pakistan Limited
CDC House, 990B, Block 'B', S.M.C.H.S,
Main Shahrah-e-Faisal, Karachi-74400

Bankers

MCB Bank Limited
Bank Alfalah Limited

Auditors

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

Legal Advisor

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

Transfer Agent

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

Rating

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

MCB SARMAYA MEHFOOZ FUND 1 REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

The Board of Directors of Arif Habib Investments Limited, the Management Company of MCB Sarmaya Mehfooz Fund 1 (SMF-1), is pleased to present the Annual Report on the affairs of MCB SMF-1 for the period from July 01, 2010 to June 18, 2011.

Economy & Money Market Overview and Outlook

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

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

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

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

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

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

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

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

We believe that the materialization of sizeable foreign inflows will continue to be the single most important variable especially in the backdrop of sustained oil prices, downward trend in cotton prices and debt repayments including IMF. Going forward, liquidity and interest rate direction will be largely dependent on the magnitude and sources of fiscal funding. In the absence of foreign flows, greater reliance will be on domestic sources - which could rebound inflation and interest rates. In this fast changing interest rates scenario, the fund will remain committed towards superior quality assets while continue to exploit attractive opportunities in the market.

Equities Market Overview and Outlook

Equities recorded second consecutive period of stellar performance with the KSE-100 index rising by about 29% in FY11 on top of 36% return posted in FY10. Pakistan equity market also remained the 3rd best performing market in the region after Indonesia and Thailand which posted 33% and 31% returns respectively.

KSE -100 Index made the fresh start with 76 points plus at 9,740 on its 1st day and closed the first month in same zeal at +8.2%. However the momentum halted abruptly as severe floods hit across provinces causing substantial damages and losses. Economic gloom pulled the index in the negative territory making a low of 9,488 on August 17, 2010. However persistent foreign inflow amounting to USD 105 m in the first quarter, turned the sentiment at KSE positive and second quarter proved to be the best performing period of the period and about 74% of the total annual performance could be attributed to this period. With the exception of initial period, market remained lackluster during most part of the 2nd half of the period where major dampeners included the political unrest in MENA region and highly volatile US-Pak diplomatic relationship. KSE-100 index closed the period at 12,496, down 2.1% from its period high of 12,768 made on Jan 17, 2011; overall 29% up YoY.

MCB SARMAYA MEHFOOZ FUND 1

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY

FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

While returns remained impressive, volumes were unprecedentedly low. In its first year, post imposition of CGT, retail investors remained largely inactive as foreign investors and local institutions including Banks, Corporates and Mutual Funds demonstrated marginal interest. During the year, average daily turnover declined significantly to about 95 million shares, down 40% on YoY basis. KSE Management attempted to enthrone the market by introducing leverage products including Margin Trading System and Market Financing System and made few modifications in futures market, but to no avail.

Macro-economic factors challenging the KSE performance included strong detriments like capital gains tax, a cumulative 150 basis points increase in discount rate in an already high interest rate environment, economic loss due to floods and higher Oil prices and lower foreign flows. Some of the positives that propelled KSE in positive territory included strong external account position on the back of increased textile exports, flood-related foreign aids, coalition support fund and record-high remittances ultimately translating in a relatively stable exchange rate and record FX reserves. Moreover, strong liquidity from booming rural economy and persistent foreign interest in domestic equities, which continued to trade at a discount of around 35-40% despite strong dividend yield (near 7%) and corporate earnings growth (+20% YoY) helped the market to exhibit strong performance.

Sector wise, Food Producers, Metals and Mining, Beverages and Chemicals outperformed the KSE-100 index while the major sectors and index heavy weights including Banks and Oil & Gas Sectors remained among the underperformers while best performing stocks included Nestle, FFC, FFBL, POL and LOTPTA.

We believe that the global economic environment would remain jittery in the near term, which could provide further hiccups to the international as well as local equity markets. An unexpected 50 bps DR cut by the SBP during the early part of FY12 bodes well for the market, however, a ballooning fiscal deficit would continue to 'crowd out' domestic capital markets. Strong earnings growth, sizeable discount to regional markets, high dividend yields and relatively cheaper PE valuations warrant decent returns for long term investors in our view.

Fund's Performance

The primary objective of the fund is to protect the initial investment value of investors at maturity with secondary objective of providing growth over the period. In line with its objective, the fund invested the amount necessary to ensure capital protection at maturity in term deposit with bank while the remaining amount was utilized for providing growth by investing in equities and money market instruments.

The fund had a fixed life and it was matured during the period. During its life, the fund was not only able to protect the capital as committed; it also provided decent returns on the growth segment.

As at June 25th 2011, the fund stood dissolved at a NAV of Rs. 108.8095, thereby providing 9.11% returns over the life of fund whereas the benchmark return during the same period stood at 8.2%.

The Trust deed of the Fund specified that all the units shall be automatically redeemed within thirty days at the redemption price which shall be determined by the Management Company after completion of realisation of all investments. In accordance with the terms of the trust deed, the Board of Directors of the Management Company in their meeting held on June 23, 2011 resolved that the entire earning of the Fund till the date of maturity is to be distributed to the unit holders of the Fund as cash dividend.

This distribution was made by the management company based on net asset value as at June 25, 2011 which was determined after completion of realisation of all investments. A reconciliation of the net assets between June 18, 2011 and June 25, 2011 is as follows:

	Number of Units	Net Assets	Net Assets Value (NAV)
	------(Rupees in '000)-----		
As at June 18, 2011	5,989,062	650,775	108.6605
Income:			
Profit on bank deposits for the period from June 19, 2011 to June 25, 2011	-	912	0.1523
Expenses:			
Provision for Workers' Welfare Fund for the period from June 19, 2011 to June 25, 2011	-	(18)	(0.0033)
Other expenses for the period from June 19, 2011 to June 25, 2011		(2)	
As at June 25, 2011	<u>5,989,062</u>	<u>651,667</u>	<u>108.8095</u>

Update of Workers' Welfare Fund

The amendments made through Finance Act, 2008 to the Workers' Welfare Fund (WWF) Ordinance, 1971, brought Mutual Funds in embed of the said Ordinance. MUFAP on behalf CIS filed a Constitutional Petition in Sindh High Court challenging the applicability of WWF to the CIS. However, after the court order dispensing the filed petition, your Fund has recorded the entire liability and started accruing the provision on daily basis.

MCB SARMAYA MEHFOOZ FUND 1 REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

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

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

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

However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has not decided to continue to maintain the provision for WWF amounting to Rs 1.093 million (including Rs 1.059 million for the current period) in these financial statements. In the event the matter is decided in favour of the Fund, the liability recognized in respect of WWF will be paid to the unit holders who existed on June 18, 2011.

Code of Corporate Governance

The Management Company of MCB SMF 1 is committed to observe the Code of Corporate Governance prescribed for listed companies.

- 1 The financial statements, prepared by the Management Company present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holders' fund. Proper books of account of the Fund have been maintained.
- 2 Appropriate accounting policies have been adopted and consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- 3 International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements.
- 4 The system of internal control is sound in design and has been effectively implemented and monitored.
- 5 As per the Offering Document, the Management Company shall proceed to sell all investments remaining in the hands of the Trustee to repay the principal amount invested by the unit holders, within thirty days of the Fund's maturity.
- 6 Therefore, the financial statements of the Fund have been prepared on a basis other than going concern, which is as follows:
 - All assets are stated at their net realizable value; and
 - All liabilities are stated at amount payable.
- 7 There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- 8 Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- 9 The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company.
- 10 In accordance with the requirements of Code of Corporate Governance the Directors of Management Company have developed and signed the "Statement of Ethics and Business Practices".
- 11 Key financial data is summarized in Fund Manager Report included in this annual Report.
- 12 The detailed pattern of unit holding, as required by the Companies Ordinance, 1984 and the Code of Corporate Governance is annexed.
- 13 Five meeting of Board of Directors of the Management Company of the Fund was held before the maturity date of the fund. Attendance in the same by the Board of directors is given below:

**MCB SARMA YA MEHFOOZ FUND 1
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011**

S.#	Name of persons attending the meetings	Designation	Number of Meetings			
			No. of Meeting Held	Attendance Required	Attended	Leave Granted
1.	Mian Mohammad Mansha	Chairman	5	5	4	1
2.	Mr. U.A. Usmani	Director	5	5	6	-
3.	Mr. Ali Munir	Director	5	5	6	-
4.	Mr. Ahmed Jahangir	Director	5	5	6	-
5.	Mr. Haroun Rashid	Director	5	5	2	3
6.	Mr. Syed Waliullah Shah	Director	5	5	4	1
7.	Mr. Samir Saigol	Director	5	5	6	-
8.	Mr. Ismail Arif Rafi *	Director	5	4	4	-
9.	Mr. Yasir Qadri	Chief Executive	5	5	6	-

* The above director was appointed during the year and only five meetings of the Board were held after his appointment

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

Acknowledgements

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

For and on behalf of the board

Yasir Qadri
Chief Executive

Karachi: September 20, 2011

MCB SARMAYA MEHFOOZ FUND 1 REPORT OF THE FUND MANAGER FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

Fund type and category

MCB Sarmaya Mehfooz Fund - 1 (MCB SMF-1) is an Open End Capital Protected Scheme.

Benchmark

The Benchmark of the fund is 1-year term deposit rate of AA+ rated bank for the same amount and KSE-30 Index in the weightings of Capital Protected Segment and Investment Segment of the fund.

Investment Objective

The primary objective of the fund is to protect the initial investment value of investors at maturity with secondary objective of providing growth over the period.

In line with its objective, your fund invested the amount necessary to ensure capital protection at maturity in term deposit with bank while the remaining amount is being utilized for providing growth by investing in equities and money market instruments.

Investment Strategy

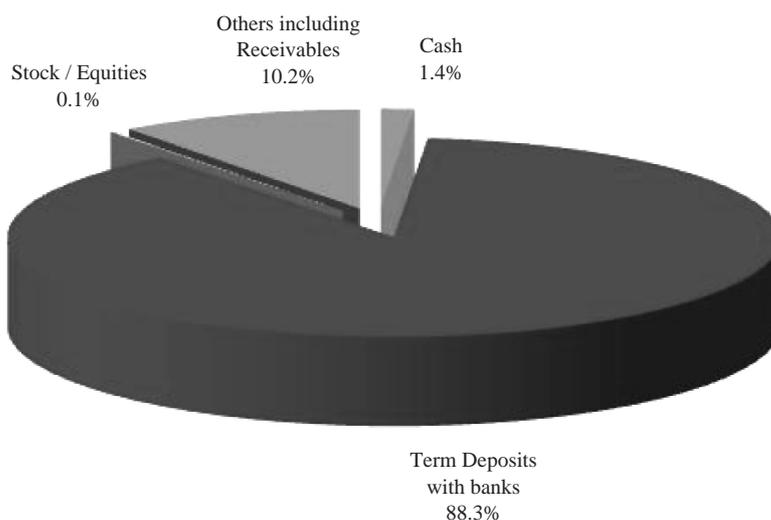
The investment strategy of the fund is such that the Net Realizable Value of investments shall at least be equal to the initial investment value if the units of the funds are held as per the Minimum period requirements.

Manager's Review

The fund being launched on June 14, 2010 had a fixed life and it was matured during the year under review. By keeping a sizeable portion of fund's assets in term deposit receipts for the capital protection segment, the fund was successfully able to protect the capital of unit-holders while also providing decent returns through the investment portion.

As on June 25th 2011, the fund stood dissolved at a Net Asset Value per unit of Rs. 108.8095, providing a return of 9.11% over the life of the fund while meeting its primary objective of capital protection also. The benchmark return during the same period stood at 8.2%, thereby resulting in fund's out-performance of 0.6% during the period.

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



Muhammad Asim, CFA
Fund Manager

Karachi: September 20, 2011

MCB SARMA YA MEHFOOZ FUND 1 TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

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

The MCB Sarmaya Mehfooz Fund 1 (the Fund), an open-end fund was established under a trust deed dated February 25, 2010, executed between MCB Asset Management Company Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee. Moreover, the Fund was matured on June 18, 2011 as per the requirement of the constitutive documents.

In our opinion, the Management Company has in all material respects managed the Fund for the period from July 01, 2010 to June 18, 2011 in accordance with the provisions of the following:

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

Muhammad Hanif Jakhura

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi: October 26, 2011

MCB SARMA YA MEHFOO Z FUND 1

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of **MCB Sarmaya Mehfooz Fund 1** ("the Fund") to comply with the Code of Corporate Governance contained in Chapter XI Regulation No. 35 of Listing Regulations of Lahore Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

MCB Sarmaya Mehfooz Fund 1 is an open end mutual fund and is listed at Lahore Stock Exchange. The Fund, being a unit trust scheme, does not have its own Board of Directors. The former management company, MCB Asset Management Company Limited (now merged with and into Arif Habib Investments Limited) on behalf of the Fund, has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes three independent non-executive directors out of a total of eight directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurred in the Board in the last year which was duly filled in by the appointment of another director during the current year
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer (CEO) and Executive Vice Chairman has been taken by the Board. As on June 30, 2011, there are no other executive directors of the Management Company besides the Executive Vice Chairman and Chief Executive Officer.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated.
9. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. The Company has planned to conduct an orientation course for its directors, in the near future to appraise them of their duties and responsibilities.
11. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive Officer.
12. The Directors' Report of the Fund for this period has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The Directors, CEO and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
14. The financial statements of the Fund were duly endorsed by the CEO and CFO of the Management Company before approval of the Board.
15. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee for the Management Company. It comprises of four members, out of which two are non-executive directors.
17. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.
18. The Management Company (now merged with and into Arif Habib Investments Limited) has outsourced the internal audit function of the Company to M/s Ford Rhodes Sidat Hyder & Co. Chartered Accountants, Karachi.

**MCB SARMA YA MEHFOOZ FUND 1
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011**

19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Management Company or units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the board

**Yasir Qadri
Chief Executive**

Karachi: September 20, 2011

**MCB SARMAYA MEHFOOZ FUND 1
REVIEW REPORT TO THE UNIT HOLDERS ON THE
STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES
OF THE CODE OF CORPORATE GOVERNANCE
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Arif Habib Investments Limited (the Management Company) for and on behalf of **MCB Sarmaya Mehfooz Fund 1** to comply with the requirements of Chapter XI of the Listing Regulations of the Lahore Stock Exchange where the Fund was listed.

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the period from July 01, 2010 to June 18, 2011.

A.F. Ferguson & Co.
Chartered Accountants
Karachi
Dated: October 25, 2011

MCB SARMA YA MEHFOOZ FUND 1

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS

FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

We have audited the accompanying financial statements of MCB Sarmaya Mehfooz Fund 1, which comprise the statement of assets and liabilities as at June 18, 2011, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the period from July 01, 2010 to June 18, 2011 and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at June 18, 2011, and of its financial performance, cash flows and transactions for the period from July 01, 2010 to June 18, 2011 in accordance with the approved accounting standards as applicable in Pakistan.

Emphasis of matter paragraph

We draw attention to note 1.5 to the annexed financial statements which highlights that the annexed financial statements are not prepared on going concern basis as the Fund has matured on June 18, 2011 in accordance with the constitutive documents of the Fund. However, no adjustments are required as the assets and liabilities are stated at values at which these are expected to be realised or settled.

Our opinion is not qualified in respect of the aforementioned matter.

Other matters

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

A.F. Ferguson & Co.
Chartered Accountants
Engagement Partner: Salman Hussain

Dated: October 25, 2011
Karachi

FINANCIAL STATEMENTS

**MCB SARMA YA MEHFOOZ FUND 1
STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 18, 2011**

	Note	June 18, 2011	June 30, 2010
(Rupees in '000)			
ASSETS			
Bank balances	4	650,831	42,383
Investments	5	-	1,210
Term Deposit Receipts	6	-	583,455
Dividend and other receivables	7	212	4,281
Receivable against sale of investments		-	505
Security deposits and prepayments	8	2,600	3,119
Preliminary expenses and floatation costs	9	-	1,256
Total assets		653,643	636,209
LIABILITIES			
Payable to the Management Company	10	721	4,702
Payable to the Trustee	11	64	65
Payable to Securities and Exchange Commission of Pakistan	12	465	25
Payable against purchase of investment		-	316
Accrued expenses and other liabilities	13	1,618	732
Total liabilities		2,868	5,840
NET ASSETS		650,775	630,369
UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)		650,775	630,369
CONTINGENCIES AND COMMITMENTS	14		
(Number of Units)			
Number of units in issue		5,989,062	6,287,005
(Rupees)			
NET ASSET VALUE PER UNIT	15	108.66	100.27

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

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

Chief Executive

Director

**MCB SARMA YA MEHFOOZ FUND 1
INCOME STATEMENT
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011**

	Note	For the period from July 1, 2010 to June 18, 2011	For the period from February 23, 2010 to June 30, 2010
(Rupees in '000)			
INCOME			
Capital gain on sale of investments		5,778	13
Profit on bank deposits		1,010	982
Income from government securities		988	-
Income from term deposit receipts		63,201	2,359
Dividend Income		181	-
Income on redemption of units		1,643	5
Other income		180	-
		72,981	3,359
Net unrealised diminution on re-measurement of investments classified as ' financial assets at fair value through profit or loss '	5.1	-	(12)
Total income		72,981	3,347
EXPENSES			
Remuneration of Management Company		13,965	736
Remuneration of the Trustee		1,241	65
Annual fee - Securities and Exchange Commission of Pakistan		465	25
Brokerage and settlement charges		688	6
Amortisation of preliminary expenses and floatation costs	9	1,256	75
Auditors' remuneration	16	366	325
Other expenses		669	377
Total expenses		18,650	1,609
Net income from operating activities		54,331	1,738
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(1,405)	(36)
Provision for Workers' Welfare Fund	17	(1,059)	(34)
Net income for the period before taxation		51,867	1,668
Taxation	18	-	-
Net income for the period after taxation		51,867	1,668
Other comprehensive income for the period		-	-
Total comprehensive income for the period		51,867	1,668
Earnings per unit	19		

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

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

Chief Executive

Director

**MCB SARMA YA MEHFOOZ FUND 1
DISTRIBUTION STATEMENT
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011**

	For the period from July 1, 2010 to June 18, 2011	For the period from February 23, 2010 to June 30, 2010
	(Rupees in '000)	
Undistributed income brought forward		
- Realised income	1,680	-
- Unrealised loss	(12)	-
	1,668	-
Net income for the period after taxation	51,867	1,668
Undistributed income carried forward	53,535	1,668
Undistributed income comprising of :		
Realised income	53,535	1,680
Unrealised income / (loss)	-	(12)
	53,535	1,668

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

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

Chief Executive

Director

MCB SARMA YA MEHFOOZ FUND 1
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

	For the period from July 1, 2010 to June 18, 2011	For the period from February 23, 2010 to June 30, 2010
	(Rupees in '000)	
Net assets at the beginning of the period	630,369	-
Issue of Nil units (2010: 6,787,676 units)	-	678,768
Redemption of 314,628 units (2010: 500,671 units)	(32,866)	(50,103)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(32,866)	628,665
- amount representing (income) / loss and capital (gains) / losses transferred to income statement	1,405	36
Final distribution of 16,686 bonus units for the year ended June 30, 2010 at Rs 0.27 per unit (2009: Nil bonus units)	1,669	-
Net unrealised diminution on re-measurement of investments classified as ' financial assets at fair value through profit or loss '	-	(12)
Other net operating income for the period	51,867	1,680
Final distribution for the period ended June 30, 2010	51,867	1,668
- 16,686 bonus units (2009: Nil)	(1,669)	-
Net assets as at the end of the period	650,775	630,369

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

For Arif Habib Investments Limited
(Mangement Company)

Chief Executive

Director

MCB SARMAYA MEHFOOZ FUND 1
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

Note	For the period from July 1, 2010 to June 18, 2011	For the period from February 23, 2010 to June 30, 2010
(Rupees in '000)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period before taxation	51,867	1,668
Adjustments for non-cash charges and other items:		
Net unrealised diminution on re-measurement of investments classified as ' financial assets at fair value through profit or loss '	-	12
Amortisation of preliminary expenses and floatation costs	1,256	75
Element of (income) / losses and capital (gains) / losses included in prices of units issued less those in units redeemed	1,405	36
	54,528	1,791
(Increase) / decrease in assets		
Investment	1,210	(1,411)
Term Deposit Receipts	583,455	(583,455)
Dividend and other receivables	4,069	(4,281)
Receivable against sale of investments	505	-
Security deposits and prepayments	519	(3,119)
	589,758	(592,266)
Increase / (decrease) in liabilities		
Payable to the Management Company	(3,981)	3,371
Payable to Trustee	(1)	65
Payable to Securities and Exchange Commission of Pakistan	440	25
Payable against purchase of investment	(316)	-
Accrued expenses and other liabilities	886	732
	(2,972)	4,193
Net cash generated from operating activities	641,314	(586,282)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from issue of units	-	678,768
Payments on redemption of units	(32,866)	(50,103)
Net cash (used in) / generated from financing activities	(32,866)	628,665
Net increase in cash and cash equivalents during the period	608,448	42,383
Cash and cash equivalents at the beginning of the period	42,383	-
Cash and cash equivalents at the end of the period	650,831	42,383

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

For Arif Habib Investments Limited
(Management Company)

Chief Executive

Director

MCB SARMA YA MEHFOOZ FUND 1

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** MCB Sarmaya Mehfooz Fund 1 (the Fund) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and was approved as an investment scheme by the Securities and Exchange Commission of Pakistan (SECP) on March 12, 2010. It was constituted under a Trust Deed dated September 16, 2008 amended by a Supplemental Trust Deed dated February 25, 2010 between MCB Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited as the Trustee, also incorporated under the Companies Ordinance, 1984.
- 1.2** The Management Company of the Fund has been licensed to act as Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.
- 1.3** The Fund was a capital protected open ended mutual fund the units of which were listed on the Lahore Stock Exchange and redeemable subject to a Back-end Load. The Pakistan Credit Rating Agency (PACRA) assigned an asset manager rating of AM2- to the Management Company and a rating of AA+(cp) to the Fund.
- 1.4** The principal activity of the Fund was to invest in deposits with commercial banks and in equity securities. The Fund is a capital protected fund with the objective to protect the Initial Investment value of investors at maturity with secondary objective of providing growth over the period.
- 1.5** According to the Offering Document dated June 3, 2010, the Fund had a maturity period of three hundred and seventy two days which ended on June 18, 2011. The Fund has automatically dissolved after the said maturity period. Since, the Fund will not be able to continue as a going concern for the next twelve months, accordingly, these financial statements are not prepared on a going concern basis. The management has assessed that the dissolution will not result in any impact on the carrying amount of the assets and liabilities of the Fund as these are already stated at the amounts expected to be realised or settled.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

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

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

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the year and are mandatory for accounting periods beginning on or after July 1, 2010 but are considered not to be relevant or did not have any significant effect on the Fund's operations and are, therefore, not detailed in these financial statements.

2.3 Critical accounting estimates and judgments

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

MCB SARMA YA MEHFOOZ FUND 1

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

2.4 Accounting Convention

As stated in note 1.5, the Fund has a maturity period which ended on June 18, 2011. Accordingly, these financial statements have been prepared on the following basis:

- All assets are stated at their net realisable values; and
- All liabilities are stated at the amount payable.

2.5 Functional and presentation currency

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

3.1 Cash and cash equivalents

Cash and cash equivalents include demand deposits with banks and other short term highly liquid investments with original maturities of three months or less and which are subject to insignificant changes in value.

3.2 Financial assets

3.2.1 Classification

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

(a) Financial assets at fair value through profit or loss

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

(b) Loans and receivables

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

3.2.2 Regular way contracts

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. The trade date is the date on which the Fund commits to purchase or sell the assets.

3.2.3 Initial recognition and measurement

(a) Financial assets 'at fair value through profit or loss'

These investments are initially recognised at fair value. Transaction costs are expensed in the Income Statement.

(b)

Loans and receivables

These are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of such assets.

MCB SARMA YA MEHFOOZ FUND 1

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

3.2.4 Subsequent measurement

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

(a) Basis of valuation of government securities

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

(b) Basis of valuation of equity securities

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

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

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

Gain or loss is also recognised in the 'income statement' when financial assets carried at amortised cost are derecognised or impaired, and through the amortisation process.

3.2.5 Impairment of financial assets

The carrying value of the Fund's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

Provision for non-performing exposures is made in accordance with the criteria specified in circular 1 dated January 6, 2009 and circular 13 dated May 4, 2009 issued by SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of the Management Company.

3.2.6 Derecognition

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

3.2.7 Offsetting of financial assets and liabilities

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

3.3 Financial liabilities

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

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

3.4 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs were amortised over a period of three hundred and seventy two days following the last day of the Initial Offering Period which ended on June 11, 2010 in accordance with the Offering Document of the Fund. Accordingly, these costs have been fully amortised.

MCB SARMA YA MEHFOOZ FUND 1

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

3.5 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours of that date. The offer price represents the Net Asset Value per unit as of the close of the business day, provision for transaction costs and any provision for duties and charges, if applicable.

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

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

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

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

3.7 Provisions

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

3.8 Taxation

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

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

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements because it has ceased to operate on June 18, 2011 as mentioned in note 1.5.

3.9 Proposed distributions

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

3.10 Revenue recognition

- Dividend income is recognised when the right to receive dividend is established.
- Realised capital gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on remeasurement of investments classified as 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.

MCB SARMA YA MEHFOOZ FUND 1
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

— Profit on bank deposits and term deposit receipts is recognised on an accrual basis.

— Income from government securities is accrued using the effective interest method.

3.11 Net asset value per unit

The Net Asset Value per unit as disclosed in the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the period end.

4. BALANCES WITH BANKS

	Note	June 18, 2011	June 30, 2010
		(Rupees in '000)	
In current accounts		5	-
In deposit accounts	4.1	650,826	42,383
		<u>650,831</u>	<u>42,383</u>

4.1 Bank balances in saving account carries interest rate ranging from 5% to 13.3% per annum (2010: 5% to 8.25% per annum).

5. INVESTMENTS

	Note	June 18, 2011	June 30, 2010
		(Rupees in '000)	
At fair value through profit or loss			
Listed equity securities	5.2	-	1,210
Government securities	5.3	-	-
		<u>-</u>	<u>1,210</u>

5.1 Net unrealised diminution in value of investments at fair value through profit or loss

Market value of investments	-	1,210
less: carrying value of investments	-	(1,222)
	<u>-</u>	<u>(12)</u>

MCB SARMA YA MEHFOOZ FUND 1
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

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

Shares of listed companies - Fully paid up ordinary shares of Rs 10 each unless otherwise stated

Name of the Investee company	Number of shares				Balance as at June 18, 2011		Market value as percentage of net assets	Market value as percentage of total investments	Percentage of paid up capital of investee company held
	As at July 1, 2010	Purchases during the period	Sales during the period	As at June 18, 2011	Cost	Market value			
Banks									
------(Rupees in '000)-----									
Allied Bank Limited	-	13,574	13,574	-	-	-	-	-	-
Habib Bank Limited	-	10,000	10,000	-	-	-	-	-	-
United Bank Limited	-	30,000	30,000	-	-	-	-	-	-
National Bank of Pakistan	10,000	136,000	146,000	-	-	-	-	-	-
MCB Bank Limited	-	37,500	37,500	-	-	-	-	-	-
Oil and Gas									
Attock Petroleum Limited	-	9,000	9,000	-	-	-	-	-	-
Oil & Gas Development Company Limited	-	2,000	2,000	-	-	-	-	-	-
Pakistan Petroleum Limited	-	35,500	35,500	-	-	-	-	-	-
Pakistan State Oil Company Limited	-	121,438	121,438	-	-	-	-	-	-
Pakistan Oilfields Limited	-	44,210	44,210	-	-	-	-	-	-
Construction and Materials									
D.G. Khan Cement Company Limited	-	88,900	88,900	-	-	-	-	-	-
Lucky Cement Limited	-	15,000	15,000	-	-	-	-	-	-
Chemicals									
Engro Polymer & Chemicals Limited	-	32,500	32,500	-	-	-	-	-	-
I.C.I. Pakistan Limited	-	30,000	30,000	-	-	-	-	-	-
Lotte Pakistan PTA Limited	-	540,000	540,000	-	-	-	-	-	-
Fertilizers									
Fauji Fertilizer Company Limited	-	15,500	15,500	-	-	-	-	-	-

MCB SARMA YA MEHFOOZ FUND 1
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

Name of the Investee company	Number of shares				Balance as at June 18, 2011		Market value as percentage of net assets	Market value as percentage of total investments	Percentage of paid up capital of investee company held
	As at July 1, 2010	Purchases during the period	Sales during the period	As at June 18, 2011	Cost	Market value			

----- (Rupees in '000) -----

Textile

Nishat Mills Limited	-	86,500	86,500	-	-	-	-	-	-
Nishat (Chunian) Limited	-	155,916	155,916	-	-	-	-	-	-

Electricity

Kot Addu Power Company Limited	-	5,000	5,000	-	-	-	-	-	-
Hub Power Company Limited	10,000	18,000	28,000	-	-	-	-	-	-
Nishat Power Limited	25,000	1,555,161	1,580,161	-	-	-	-	-	-
Nishat Chunian Power Limited	-	610,547	610,547	-	-	-	-	-	-

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June 18, 2011

June 30, 2010

1,222 1,210 0.19% 100.00% 0.01%

5.3 Investment in Government securities

Name of security	----- Face Value -----					Balance as at June 18, 2011			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2010	Purchased during the period	Disposed of during the period	Matured during the period	As at June 25, 2011	Carrying value	Market value	Appreciation / (Dumunation)		

----- (Rupees in 000) -----

Treasury Bill - 3 months	-	95,000,000	35,000,000	60,000,000	-	-	-	-	-
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Total - 2011

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MCB SARMA YA MEHFOOZ FUND 1
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

6. TERM DEPOSIT RECEIPTS	June 18, 2011	June 30, 2010
	(Rupees in '000)	
Term deposit receipts	-	583,455
7. DIVIDEND AND OTHER RECEIVABLE		
Dividend receivable	12	-
Profit on saving deposits	187	1,922
Income on term deposit receipts	-	2,359
Others	13	-
	<u>212</u>	<u>4,281</u>
8. SECURITY DEPOSITS AND PREPAYMENTS		
Security Deposits with		
- National Clearing Company of Pakistan Limited	2,500	3,000
- Central Depository Company of Pakistan Limited	100	100
Prepayments	-	19
	<u>2,600</u>	<u>3,119</u>
9. PRELIMINARY EXPENSES AND FLOATATION COSTS		
Opening: Preliminary expenses and floatation costs	1,256	1,331
Less: amortisation for the period	1,256	75
Balance as at June 18, 2011	<u>-</u>	<u>1,256</u>

9.1 Preliminary expenses and floatation costs represented expenditure incurred prior to the commencement of operations of the Fund. This expenditure has been amortised over the life of the fund commencing from June 10, 2010 as per the requirements set out in the Trust Deed of the Fund.

10. PAYABLE TO THE MANAGEMENT COMPANY	Note	June 18, 2011	June 30, 2010
		(Rupees in '000)	
Management fee	10.1	721	736
Formation cost payable		-	1,331
Security deposits paid by management company on behalf of the Fund		-	2,600
Others		-	35
		<u>721</u>	<u>4,702</u>

10.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of 2.25 percent per annum for the current period. The remuneration is paid to the Management Company on a monthly basis in arrears.

11. PAYABLE TO THE TRUSTEE	Note	June 18, 2011	June 30, 2010
		(Rupees in '000)	
Trustee fee	11.1	64	65

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

MCB SARMA YA MEHFOOZ FUND 1
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

11.2 Based on the Trust Deed, the tariff structure applicable to the Fund is as follows:

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

12. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

	Note	June 18, 2011	June 30, 2010
(Rupees in '000)			
Annual fee	12.1	465	25

12.1 Under the provision of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (The NBFC Regulations), the Fund is required to pay as annual fee to the SECP, an amount equal to the 0.075 percent of the average annual net assets of the Fund.

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	June 18, 2011	June 30, 2010
(Rupees in '000)		
Auditors' remuneration payable	225	325
Printing charges payable	300	350
Provision for workers' welfare fund	1,093	34
Others	-	23
	1,618	732

14. CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 18, 2011 and June 30, 2010.

15. NET ASSET VALUE PER UNIT

The Net Asset Value per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the period end.

16. AUDITORS' REMUNERATION

	For the period from July 1, 2010 to June 18, 2011	For the period from February 23, 2010 to June 30, 2010
(Rupees in '000)		
Statutory Audit Fee	175	225
Half year Review	100	-
Other certification	50	100
Out of pocket	41	-
	366	325

MCB SARMA YA MEHFOOZ FUND 1
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

17. PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements for the year ended June 30, 2010.

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

Subsequent to the period ended June 18, 2011, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to continue to maintain the provision for WWF amounting to Rs 1.093 million (including Rs 1.059 million for the current year) in these financial statements. In the event the matter is decided in favour of the Fund, the liability recognised in respect of WWF will be paid to the unit holders who existed on June 18, 2011.

18. TAXATION

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

19. EARNINGS PER UNIT

Earnings per unit (EPU) for the period ended June 18, 2011 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

20. FINANCIAL INSTRUMENTS BY CATEGORY

-----As at June 30, 2011-----		
Loans and receivables	Assets 'as fair value through profit or loss'	Total

------(Rupees in '000)-----

Financial Assets

Balances with banks	650,831	-	650,831
Dividend and other receivables	212	-	212
Security deposits and prepayments	2,600	-	2,600
	<u>653,643</u>	<u>-</u>	<u>653,643</u>

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-----As at June 30, 2011-----		
Liabilities at fair value through profit or loss	Amortised cost	Total

----- (Rupees in '000) -----

Financial liabilities

Payable to the Management Company	-	721	721
Payable to the Trustee	-	64	64
Accrued expenses and other liabilities	-	525	525
	-	1,310	1,310

-----As at June 30, 2010-----		
Loans and receivables	Assets 'as fair value through profit or loss'	Total

----- (Rupees in '000) -----

Financial Assets

Balances with banks	42,383	-	42,383
Investments	-	1,210	1,210
Term Deposit Receipts	583,455	-	583,455
Profit receivable	4,281	-	4,281
Receivable against sale of investments	505	-	505
Security deposits	3,100	-	3,100
	633,724	1,210	634,934

-----As at June 30, 2010-----		
Liabilities at fair value through profit or loss	Amortised cost	Total

----- (Rupees in '000) -----

Financial liabilities

Payable to the Management Company	-	4,702	4,702
Payable to the Trustee	-	65	65
Payable against purchase of investment	-	316	316
Accrued expenses and other liabilities	-	698	698
	-	5,781	5,781

21. TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES

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

21.2 The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

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

21.4 Remuneration payable to the Trustee is determined in accordance with the provisions of the NBFC regulations and the Trust Deed.

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

	For the period from July 1, 2010 to June 18, 2011	For the period from February 23, 2010 to June 30, 2010
	(Rupees in '000)	
Management Company		
Management fee expense for the period	13,965	736
Preliminary expenses and floatation cost paid by the Management Company on behalf of the Fund	-	1,331
Issue of Nil units (2010: 1,006,823 units)	-	100,682
Issuance of 1,346 bonus units	135	-
Redemption of Nil units (2010: 499,642)	-	50,000
MCB Employees Pension Fund		
Issuance of 1,350 bonus units	135	-
Issue of Nil units (2010: 508,625 units)	-	50,863
MCB Bank Limited		
Profit on bank deposits	229	913
Encashment of Term deposit Receipts	583,455	-
Profit on term deposit receipts	65,560	2,359
Central Depository Company of Pakistan Limited - Trustee		
Remuneration for the period	1,241	65
Adamjee Insurance Company Limited		
Issuance of 404 bonus units	40	-
Issue of Nil units (2010: 152,385 units)	-	15,239

21.6 Amount outstanding as at the period end

	June 18, 2011	June 30, 2010
	(Rupees in '000)	
Management Company		
508,527 units held in Funds (2010: 507,181 units)	55,257	50,853
Management fee payable	721	736
Formation cost payable	-	1,331
Security deposit payable	-	2,600
Others	-	35
MCB Bank Limited		
Balance in current account	5	-
Balance in saving account	641,643	283
Profit receivable on bank deposits	135	1,853
Term deposit receipts	-	583,455
Profit receivable on term deposit receipts	-	2,359

MCB SARMA YA MEHFOOZ FUND 1
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	June 18, 2011	June 30, 2010
	(Rupees in '000)	
Adamjee insurance Company Limited		
152,789 units held in Funds (2010: 152,385 units)	16,602	15,279
Hub Power Company Limited		
Nil shares held by the Fund as at June 30, 2011 (2010: 10,000 shares)	-	320
Nishat Power Limited		
Nil shares held by the Fund as at June 30, 2010 (2010: 25,000 shares)	-	249
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	64	65
Security deposit	100	100
MCB Employees Pension Fund		
509,975 units held in Fund (2010: 508,625 units)	55,414	50,997

22. PARTICULARS OF THE INVESTMENT COMMITTEE AND THE FUND MANAGER

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

Name	Designation	Experience in years	Qualification
1 Mr. Yasir Qadri	Chief Executive Officer	16	MBA
2 Mr. Kashif Rafi	Fund Manager - Fixed Income	10	MBA, CFA - Level 1
3 Mr. Muhammad Asim	Fund Manager - Equity Funds	8	MBA & CFA
4 Mr. Syed Akbar Ali	Senior Research Analyst	6	MBA & CFA

22.1 Muhammad Asim was the Fund Manager. He is also managing MCB Dynamic Allocation Fund and MCB Dynamic Stock Fund.

23. BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

		June 18, 2011 Percentage
1	Invest & Finance Securities (Pvt) Limited	28.10%
2	Next Capital Limited	17.64%
3	Next Capital Limited	15.34%
3	I.I. Kodvai Securities (Pvt) Ltd	10.66%
4	Topline Securities (Pvt) Ltd	10.42%
5	Fortune Securities (Pvt) Ltd	9.78%
6	Arif Habib Limited	7.73%
7	Invisor Securities (Pvt) Limited	0.20%
8	Summit Capital Markets (Pvt) Limited	0.07%
9	JS Global Capital Limited	0.07%
10	KASB Securities Limited	100.00%
		<hr/> <hr/>
		June 30, 2010 Percentage
1	Invest & Finance Securities (Private) Limited	89.74%
2	Fortune Securities (Private) Limited	10.26%
		<hr/> <hr/>
		100.00%

MCB SARMA YA MEHFOOZ FUND 1
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

24. PATTERN OF UNIT HOLDING

Pattern of unit holding in the Fund as at June 18, 2011 is as follows :

Category	Number of Unit Holders	Number of Unit Held	Net asset value of the amount invested	Percentage of total investment
----- (Rupees in '000) -----				
Individuals	317	4,756,674	516,863	79.42
Associated companies / Directors	3	1,171,293	127,273	19.56
Insurance companies	-	-	-	-
Banks / DFIs	-	-	-	-
NBFCs	-	-	-	-
Retirement funds	-	-	-	-
Public limited companies	-	-	-	-
Others	2	61,095	6,639	1.02
	322	5,989,062	650,775	100.00

Pattern of unit holding in the Fund as at June 30, 2010 is as follows :

Category	Number of Unit Holders	Number of Unit Held	Net asset value of the amount invested	Percentage of total investment
----- (Rupees in '000) -----				
Individuals	352	5,057,879	507,130	80.45
Associated companies / Directors	3	1,168,192	117,129	18.58
Insurance companies	-	-	-	-
Banks / DFIs	-	-	-	-
NBFCs	-	-	-	-
Retirement funds	-	-	-	-
Public limited companies	-	-	-	-
Others	2	60,934	6,110	0.97
	357	6,287,005	630,369	100.00

25. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 20th, 21st, 22nd, 23rd, 24th and 25th BoD meetings of the Fund were held on July 1, 2010, September 7, 2010, October 18, 2010, January 28, 2011 and April 27, 2011 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of Persons attending the meetings	Number of Meetings				Meeting not attended
	Held	Attendance required	Attended	Leave Granted	
1 Mr. Mian Umer Mansha	5	5	4	1	21st meeting
2 Mr. U.A. Usmani	5	5	5	-	-
3 Mr. Ali Munir	5	5	5	-	-
4 Mr. Ahmed Jahangir	5	5	5	-	-
5 Mr. Haroun Rashid	5	5	2	3	20th, 21st, 23rd meeting
6 Mr. Syed Waliullah Shah	5	5	4	1	23rd meeting
7 Mr. Samir Saigol	5	5	5	-	-
8 Mr. Ismail Arif Rafi *	5	4	4	-	-
9 Mr. Yasir Qadri (Chief Executive Officer)	5	5	5	-	-
10 Mr. Saqib Saleem (CFO & Company Secretary)	5	5	5	-	-

* The above director was appointed during the year and only five meetings of the Board were held after his appointment

MCB SARMA YA MEHFOOZ FUND 1

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

26. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks stated as follows:

26.1 Market risk

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

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

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

26.1.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at June 18, 2011, is not exposed to currency risk as all transactions are carried out in Pakistani Rupee.

26.1.2 Yield / Interest rate risk

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

a) Sensitivity analysis for variable rate instruments

As at June 18, 2011, the Fund does not hold any variable rate instruments that expose it to yield / interest rate risk.

b) Sensitivity analysis for fixed rate instruments

As at June 18, 2011, the Fund does not hold any fixed rate instruments that expose to yield / interest rate risk.

26.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Fund is not exposed to equity securities price risk as the Fund does not hold any equity securities as at June 18, 2011.

26.2 Credit risk

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. The Fund is exposed to counterparty credit risks on loans and receivables, balances with banks, profit receivable, deposits and other receivables. The credit risk on bank balances and loans and receivables is limited because the counter parties are financial institutions with reasonably high credit ratings. Credit risk on dividend receivables (if any) is minimal due to statutory protection. All transactions in listed securities are settled / paid for upon delivery using central clearing company. In addition, The Fund has a policy is to enter into financial instrument contracts by following internal guidelines such as approved counterparties, obtaining adequate collateral and transacting through approved brokers.

Out of total financial assets, bank balances of Rs 650,831 million have been placed with banks having a short term credit rating of A1+.

26.3 Liquidity risk

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

MCB SARMAYA MEHFOOZ FUND 1
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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The following table analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

----- June 18, 2011 -----			
Total	Upto three months	Over three months and upto one year	Over one year

----- (Rupees in '000) -----

Financial Liabilities

Payable to Management Company	721	721	-	-
Payable to Trustee	64	64	-	-
Accrued expenses and other liabilities	525	525	-	-
	<u>1,310</u>	<u>1,310</u>	<u>-</u>	<u>-</u>

----- June 30, 2010 -----			
Total	Upto three months	Over three months and upto one year	Over one year

----- (Rupees in '000) -----

Financial Liabilities

Payable to Management Company	4,702	736	3,966	-
Payable to Trustee	65	65	-	-
Payable against purchase of investment	316	316	-	-
Accrued expenses and other liabilities	698	698	-	-
	<u>5,781</u>	<u>1,815</u>	<u>3,966</u>	<u>-</u>

27. UNIT HOLDERS' FUND RISK MANAGEMENT

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

The Fund's objectives when managing unit holders' funds were to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong base of assets under management.

However, as more fully stated in note 1.5, the Fund has ceased to operate with effect from June 18, 2011.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

However, as more fully explained in note 1.5, since the Fund will not be able to continue as a going concern, the presumption underlying the definition of fair value is not valid for the Fund.

29. SUBSEQUENT EVENTS

29.1 Non-adjusting event after the reporting date

MCB SARMAYA MEHFOOZ FUND 1
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2010 TO JUNE 18, 2011

The Trust deed of the Fund specified that all units shall be automatically redeemed within thirty days at the redemption price which shall be determined by the Management Company after completion of realisation of all investments. In accordance with the terms of the trust deed, the Board of Directors of the Management Company in their meeting held on June 23, 2011 resolved that the entire earning of the Fund till the date of maturity is to be distributed to the unit holders of the Fund as cash dividend.

This distribution was made by the management company based on net asset value as at June 25, 2011 which was determined after completion of realisation of all investments. A reconciliation of the net assets between June 18, 2011 and June 25, 2011 is as follows:

	Number of Units	Net Assets	Net Assets Value (NAV)
	------(Rupees in '000)-----		Rupees
As at June 18, 2011	5,989,062	650,775	108.66
Income:			
Profit on bank deposits for the period from June 19, 2011 to June 25, 2011	-	912	-
Expenses:			
Provision for Workers' Welfare Fund for the period from June 19, 2011 to June 25, 2011	-	(18)	-
Other expenses for the period from June 19, 2011 to June 25, 2011	-	(2)	-
As at June 25, 2011	5,989,062	651,667	108.81

29.2 Merger of MCB Asset Management Company Limited with and into Arif Habib Investments Limited

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

The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of AM2 (positive outlook) to Arif Habib Investments Limited.

30. DATE OF AUTHORIZATION FOR ISSUE

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

31. GENERAL

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

For Arif Habib Investments Limited
(Mangement Company)

Chief Executive

Director

**MCB SARMA YA MEHFOOZ FUND 1
PATTERN OF HOLDING AS PER REQUIREMENT OF
CODE OF CORPORATE GOVERNANCE
AS AT JUNE 30, 2011**

Category	No. of Unit Holders	Units
Associated Company, Undertakings, and Related Parties		
Adamjee Insurance Co. Ltd.	1	152,790
MCB Employees Pension Fund	1	509,975
Arif Habib Investments Limited	1	508,528
Individuals	318	4,756,674
Others	2	61,095
	323	5,989,062

**MCB SARMAYA MEHFOOZ FUND 1
PATTERN OF UNIT HOLDING (SIZE)
AS AT JUNE 30, 2011**

No. of Unit Holders	Units Range	Total Units Held
181	1 - 10000	620,931
133	10001 - 100000	3,137,822
9	100001 - onwards	2,230,309
<u>323</u>		<u>5,989,051</u>

MCB SARMA YA MEHFOOZ FUND 1 PERFORMANCE TABLE

Performance Information	Period from July 01, 2010 to June 25, 2011	June 30, 2010
Total Net Assets Value - Rs. in million - as of June 25, 2011	651.775	630.369
Net Assets value per unit - Rupees - as of June 25, 2011	108.81	100.27
Highest offer price per unit	N/a	N/a
Lowest offer price per unit	N/a	N/a
Highest Redemption price per unit	103.2025	95.2521
Lowest Redemption price per unit	95.0150	95.0175
Distribution per unit (annual) - Rs.	8.81	0.27
Net Assets Value before distribution	108.81	100.27
Net Assets Value after distribution	100.00	100.00
Average Annual Return - %		
One year (2011: till final distribution of fund on June 25, 2011)	8.81	0.3
Two year (inception date June 12, 2010 till June 25, 2011)	9.11	N/a
Net income for the period - Rs. in million	52.758	1.668
Income Distribution - Rs. in million	52.758	1.668

Disclaimer

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