

■ STRENGTH WITH STABILITY

An Open-end Income Fund primarily investing in Government issued debt securities; NIT-GBF offers a high degree of security to investors and is an ideal Fund for investors seeking best possible returns with minimum returns.



■ CORPORATE INFORMATION

FUND NAME

NIT - Government Bond Fund

NAME OF AUDITORS

A.F.Ferguson & Co. Chartered Accountants

NAME OF TRUSTEE

Central Depository Company of Pakistan Limited

LIST OF BANKERS

Standard Chartered Bank (Pakistan) Limited
Bank Al Falah Limited
United Bank Limited
Bank Al Habib Limited
Allied Bank Limited
NIB Bank

NIT-GOVERNMENT BOND FUND FUND MANAGER REPORT 2009-10

NIT Government Bond Fund Objective

The objective of NIT Government Bond Fund is to generate best possible return with minimum risk, for its Unit Holders, by investing primarily in the Government Securities.

Profile of Investment Manager

National Investment Trust Ltd. (NITL) is the first Asset Management Company of Pakistan, formed in 1962. NITL is the largest asset management company of Pakistan with approximately Rs. 69 billion assets under management. In order to cater to varied needs of investors, NITL for the very first time in the 48 years history of the company, ventured in to fixed income category by launching two Funds in the FY10. NIT Government Bond Fund, a very low risk product was launched in Nov. 2009 followed by NIT Income Fund which was introduced in Feb. 2010. With the launching of these two funds the family of Funds of NIT has increased to six funds including 4 equity Funds and 2 fixed income Funds. NIT's distribution network comprises of 19 NIT branches, various Authorized bank branches all over Pakistan and Arab Emirates Investment Bank (AEIB) in Dubai (UAE). The Board of Directors of NITL consists of representatives of leading financial institutions, prominent industrialists and nominee of Govt. of Pakistan. During the year rating of NITL has also been improved by one notch to "AM2" by Pakistan Credit Rating Agency (PACRA), which denotes very strong capacity to manage risks inherent in asset management and the asset manager meets very high investment management industry standards and benchmarks. All Investment decisions are taken by the Investment Committee of NITL.

Fund Information NIT GBF

• Fund Type	Open-End	• Category	Income Fund
• Launch Date	November 18,2009	• Listing	KSE, LSE & ISE
• Management Fee	1.25%	• Front End Load	1.00%
• Back End Load	Nil	• Par Value	PKR 10.0000
• Fund Manager	Khurram Aftab Ahmed	• Risk Profile	Low
• Trustee	Central Depository Co. (CDC)	• Auditors	A.F Ferguson & Co.
• Registrar	National Investment Trust Ltd.	• AMC Rating	AM2 (PACRA)
• Min Subscription	Rs.5,000	• Pricing Mechanism	Forward Pricing

2009-10

Fund's Performance at a Glance

Beginning Net Assets (Rs. Million)	2,500
Beginning NAV/Unit (Rs.)	10.0000
Ending Net Assets (Rs. Million)	3,740
Ending NAV/Unit (Rs.)	10.6480
Net Income (Rs. Million)	232
Distribution/Unit (Rs.)	0.65
Income Distribution (% of Net Income)	98%
Annualized Return (%)	10.77%
Benchmark Return (%)	10.42%
Weighted Average Time to Maturity (Year)	0.8

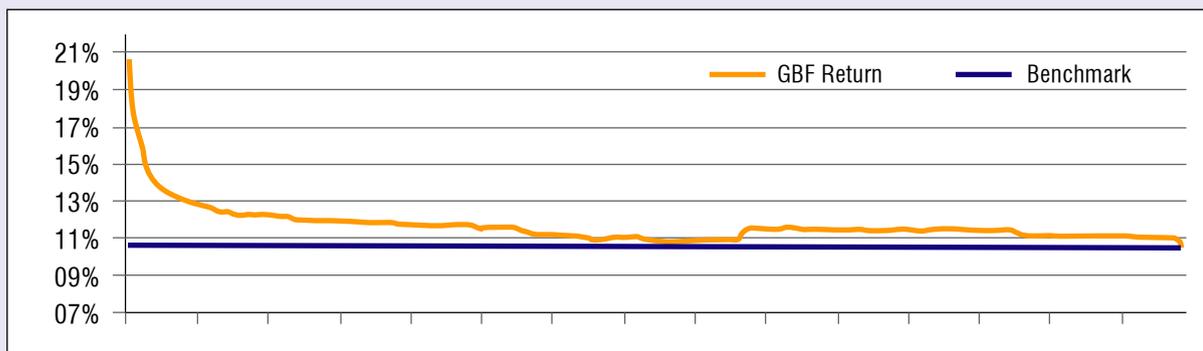
NIT-GOVERNMENT BOND FUND

FUND MANAGER REPORT 2009-10

Benchmark vs. Return

The performance of the scheme is compared against a benchmark based on 70% average of weighted average yield of 6 months T-Bills auctions held during the period and 30% average most recently published 1 month deposit rates of "A" and above rated schedule banks.

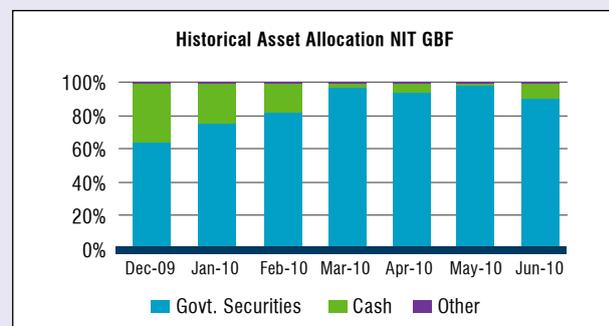
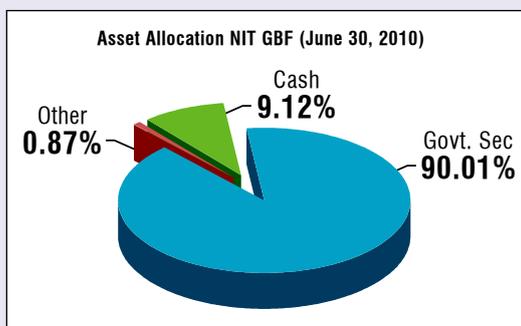
Comparison of Fund's return against benchmark



Investment Strategy

Since its inception, NIT Government Bond Fund has continuously generated healthy returns while its annualized return to date is of 10.77 percent as compared to its benchmark return of 10.42 percent p.a. Hence, the fund has outperformed its benchmark by 35 bps. To achieve such performance the fund has maintained average investment of 80 percent or above mainly in short term marketable Government Securities such as Treasury Bills which gave healthy returns as well as provided sufficient liquidity during the year.

Asset Allocation



The fund as of June 30, 2010 has allocated 90 percent of its net assets in Government Securities where as the remaining 10 percent of net assets are in the form of cash and other receivables/assets. The fund has maintained heavy investments in Government Securities which ranges from 65 percent to as high as 98 percent during the period under discussion. These high exposures in Government Securities, especially in Treasury Bills, helped to minimize the risk to our unit holders while generating competitive returns. Weighted average time to maturity of the fund is around 9.75 months and it has planned to increase or decrease keeping in view the market conditions. During the period under review the size of the fund increased tremendously, from PKR 2.5 billion since its public offering to PKR 3.7 Billion as on June 30, 2010 depicting a growth of 48% in a short span of eight (8) months which depicts growing confidence of investors in the fund.

NIT-GOVERNMENT BOND FUND

FUND MANAGER REPORT 2009-10

Dividend Declaration by the Fund for FY10.

Since launching on November 18, 2009 till June 30, 2010, the fund has earned a net income of Rs. 232 million in only seven and a half months, which translates into an earning of Rs. 0.66 per unit. The fund has declared per unit distribution of Rs. 0.65 for unit its holders for FY10. A per unit distribution of Rs. 0.65 would incur a total payout of Rs. 228 million among its unit holders.

Pattern of Unit Holders:

Category	(Units in million) NIT-IF	Percentage of Holding
Institutional Investors	337.34	96.05%
Individuals	13.88	3.95%
Total	351.22	100.00%

Money Market Review

During FY10 the interest rates remained quite volatile. The first Treasury Bill auction for FY10 saw cut off yields reduce significantly on the 6 month and 12 month paper. Inflationary pressures though on the decline remained inherently vulnerable to oil prices and power tariff hikes, these factors led to anticipation that Policy rates would reduce gradually from its level of 14% in Jun-09. In Aug 09, SBP responded to the expectation by slashing the policy rate by 100 bps to 13.0%. And then it further reduced policy rates by 50 bps to 12.50% in Nov 09. Since then, due to rising government's fiscal imbalances and consistent inflationary pressures, SBP kept the discount rate unchanged at 12.50%.

KIBOR remained on the lower side and traded at an average of 12.46% for 6-Month as compared to last year's average of 14.14% a decline of 168 bps mainly owing to 150 bps cut in the discount rate.

During FY10, the SBP conducted a total of 25 T-Bill auctions (two auctions per month with 3 auctions in Dec-09). The target set by SBP was Rs1.36tr while a total amount of Rs1.55tr was accepted during the year. The cut-off yields for 3M and 6M tenors reduced to 12.10% and 12.30%, from Jun-09 cut-off yields of 12.98% and 12.44% respectively. However, 1Y cut-off yields increased to 12.42% from 12.24% during the year.

Amid expectation of the downward movement in the policy rate, in 1HFY10 market interest from banks involved balancing liquidity needs (shorter tenors) and locking down rates (longer tenors) due to a declining interest rate environment. However, the SBP's stance to cut the policy rate on a gradual basis and only 1.5% cut during FY10, led the market participants to go for the shorter term tenure instead of longer term papers in 2HFY10. The cut-off yield on the benchmark 10 year PIB closed at 12.68%, increasing by 5 bps over last year closing of 12.63%.

Assets under management of the mutual funds industry declined by 3.6% during FY10, however compared to last year the picture is not as gloomy as it was, where the industry witnessed a colossal decline of 39%. Money market funds category had shown tremendous growth with the induction of 9 new funds in this category, taking the total number of money market funds to 14, with total assets under management of Rs. 39 Billion.

Economic Review

Despite several hard challenges, Pakistan's economy has shown resilience and kindled a moderate recovery in the outgoing year. The Economic survey 2009-10 revealed that country's economy grew by a provisional 4.1% as compared to modest growth of 1.2% in the previous year, and against the target of 3.3%.

The economic recovery was mainly driven by the sharp bouncing back of Large Scale Manufacturing (LSM) which posted a growth of 4.4% and pushed the industrial growth to 5.2% also triggered a robust growth in services sector.

■ NIT-GOVERNMENT BOND FUND FUND MANAGER REPORT 2009-10

The Agriculture sector continued to play a pivotal role in Pakistan's economy. It is the second largest sector, accounting for over 21 percent of GDP, employing 45 percent of the country's total work force. The agriculture sector grew an estimated 2%, against a target of 3.8%, and previous year's growth rate of 4%. While the Crops sub sector declined 0.4% over the previous year, Livestock posted a healthy rise of 4.1%.

The Services sector which contributes over 53% of GDP registered a growth of 4.6%, as compared to 1.6% in 2008-09 supported by the growth in transport, storage & communication segment.

Amid still difficult global economic conditions, large costs to exports imposed by the war on terror, and a severe energy crisis faced by Pakistan's economy, the external sector witnessed an overall improvement during 2009-10. The country achieved its highest ever exports mark of USD 19.6 billion in the fiscal year 2009-10 up 4% from the target of USD 18.8 billion and slightly up by 2% from the exports recorded in FY09. The current account deficit for FY10 improved to a provisional USD 3.5 billion, down 62% from the deficit of USD 8.9 billion in the last fiscal year.

After a period of containment, inflationary pressure has intensified since October last year on account of a number of adverse developments, including the washing out of the base effect from the previous year and a sharp spike in global commodity prices that has persisted since 2008 and which is exerting strong upward pressure on domestic prices. As a result, after easing to a recent low of 8.9% in October 2009, overall CPI inflation accelerated to its high in April 10 at 13.3% YoY and ended up at 11.7% in June 10, with food inflation at 12.5% and non-food inflation is recorded at 12.2%.

Foreign direct investment (private) stood at \$2.2 billion during the current fiscal year as against \$3.7 billion in the same period last year thereby showing a substantial decline of 41%. Private portfolio investment on the other hand showed a net inflow of \$588 million as against a net outflow of \$510 million during the comparable period of last year showing an outstanding growth of 215.2% hence embossing a lot of confidence in the Pakistan's equity market.

The medium term prospects for the economy are promising, provided the current path of reform is not abandoned. Pakistan has achieved fairly impressive early success in its efforts to stabilize the economy from a parlous state of affairs in the aftermath of the macroeconomic crisis of 2008. However, challenges of low domestic resource mobilization, low productivity, high inflation, low savings and investments and continued on external borrowings indicate fragility of recovery. Therefore protecting the recovery is of paramount importance, and the government needs to keep a restrictive stance on public spending. Greater realism about the prospects and accurate forecasts about resources and available funds for the development plans at each level of government is needed.

(Economic data source: Economic Survey of Pakistan & SBP Website)

Other Disclosures under NBFC Regulations 2008

The Fund Manager hereby makes the following disclosures as required under the NBFC Regulations 2008;

- a. The Management Company or any of its delegates did not receive any soft commission (goods & services) from any of its brokers / dealers by virtue of transactions conducted by the Fund.
- b. There was no unit split undertaken during the year.

■ TRUSTEE REPORT OF THE UNIT HOLDERS NIT GOVERNEMENT BOND FUND

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

The NIT Government Bond Fund (the Fund), an open-end fund was established under a trust deed dated September 04, 2009, executed between National Investment Trustee Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Funds during the period from October 24, 2009 to June 30, 2010 in accordance with the provisions of the following:

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

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

Karachi, August 26, 2010

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **NIT - Government Bond Fund**, which comprise the statement of assets and liabilities as at June 30, 2010, and the related income statement, statement of comprehensive income, distribution statement, cash flow statement and statement of movement in unit holders' fund for the period from October 24, 2009 to June 30, 2010 and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2010 and of its financial performance and cash flows and transactions for the period from October 24, 2009 to June 30, 2010 in accordance with the approved accounting standards as applicable in Pakistan.

Other matters

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

Sd/-

Chartered Accountants
Engagement Partner: Rashid A. Jafer
Dated: 13-08-2010
Karachi

■ REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **National Investment Trust Limited**, The Management Company of **NIT Government Bond Fund** to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange (Guarantee) Limited, Chapter XI of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange where the Fund is listed.

The responsibility for compliance with the code of Corporate Governance is that of the Board of Directors of the Management Company. 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 of internal control covers all controls and effectiveness of such internal controls.

Further, Sub-regulation (xiii) of Listing Regulation No. 35 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Management Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. All such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of the requirements to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the period from October 24, 2009 to June 30, 2010.

A. F. Ferguson & Co.
Chartered Accountants
Karachi.
Date: 13-08-2010

NIT GOVERNMENT BOND FUND

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

This Statement is being presented to comply with the requirements of the Code of Corporate Governance contained in the Listing Regulations of Karachi, Islamabad and Lahore Stock Exchanges 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.

National Investment Trust Limited, the Management Company, is not listed and hence, the Code is not applicable to it. However, NIT Government Bond Fund (the Fund) being listed at the Karachi, Islamabad and Lahore Stock Exchanges comes under the ambit of the Code. The Fund, being a unit trust scheme, does not have its own Board. The Board of Directors of the Management Company manages the affairs of the Fund and has appointed the Managing Director (MD), Chief Financial Officer (CFO) and the Company Secretary of the Management Company and other necessary personnel to manage its affairs.

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

1. The Company encourages representation of non-executive directors (the Board). Presently, the Board includes eight non-executive directors and one executive director.
2. None of the directors are serving as a director in ten or more listed companies.
3. All the resident directors of the Management Company have confirmed that they 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. None of the directors or their spouses is engaged in the business of stock brokerage.
5. Casual vacancy occurred in the Board due to the sad demise of a director Mr. Abdul Hamid Adamjee on September 29, 2009. (Late) Abdul Hamid Adamjee was a nominee director nominated by Adamjee Foundation. Mr. Abdul Razzak Adamjee was co-opted as a nominee director by Adamjee Foundation on December 21, 2009.
6. During the year, Mr. Wazir Ali Khoja was appointed as the Managing Director of the Management Company in place of Mr. Tariq Iqbal Khan pursuant to a notification of appointment issued by the Government of Pakistan on June 04, 2010.
7. The Management Company has adopted a "Corporate Social Responsibility (CSR) Document" detailing organizational governance and business practices which has been acknowledged by all the directors and employees of the Management Company.
8. The Management Company has developed a vision / mission statement, overall corporate strategy and significant policies of the Management Company which have been approved by the Board. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
9. 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, have been taken by Board.
10. The Meetings of the Board were presided over by the Chairman. The Board of Directors has met nine times during the year and written notices of the 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.

NIT GOVERNMENT BOND FUND
STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE
OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2010

11. 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, if any, and pricing methods for transactions that were made on terms equivalent to those that prevail in a arm's length transactions only if such terms can be substantiated.
12. The Chairman and the Key Management members participated in the orientation course arranged by the Management Company during the year. Arrangements shall also be made for other orientation session.
13. There was no new appointment of Chief Financial Officer, Company Secretary or the Head of Internal Audit during the year. Their remuneration and terms and conditions of employment had been approved by the Board.
14. Director' Report for the year ended June 30, 2010 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
15. The financial statements of the Fund have been prepared in accordance with the approved accounting standards as applicable in Pakistan and were duly endorsed by the Chief Executive Officer and Chief Financial Officer before approval of the Board. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Company other than those disclosed in the Directors' Report.
16. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
17. The Board has formed an Audit Committee which comprises of three members, all of whom are non-executive directors.
18. The meetings of the Audit Committee were held at least every quarter prior to approval of interim and final results of the Fund as required by the Code. The Board has approved terms of reference of the Audit Committee.
19. The Board has set-up an effective internal audit function headed by the Head of Internal Audit & Compliance.
20. 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 (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the ICAP.
21. 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.
22. We confirm that all other material principles contained in the Code have been complied with. The Management Company intends to file its Secretarial Compliance Certificate subsequent to the year ended June 30, 2010.

Wazir Ali Khoja
Chairman & Managing Director

Date: 13-08-2010
Place: Karachi.

NIT-GOVERNMENT BOND FUND
STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2010

	Note	2010
		(Rupees in '000)
ASSETS		
Bank balances	4	341,572
Investments	5	3,382,931
Accrued income	6	28,993
Security deposits	7	350
Preliminary expenses and floatation costs	8	3,277
Total assets		3,757,123
LIABILITIES		
Payable to National Investment Trust Limited - Management Company	9	10,641
Payable to Central Depository Company of Pakistan Limited - Trustee	10	292
Payable to Securities and Exchange Commission of Pakistan	11	1,646
Accrued expenses and other liabilities	12	4,771
Total liabilities		17,350
NET ASSETS		3,739,773
Unit holders' fund (as per statement attached)		3,739,773
Contingencies and commitments (Number of units)	13	
Number of units in issue	14	351,218,756
		(Rupees)
Net asset value per unit		10.6480

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

**For National Investment Trust Limited
(Management Company)**

Sd/-

Managing Director

Sd/-

Director

Sd/-

Director

NIT - GOVERNMENT BOND FUND INCOME STATEMENT

FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

	Note	For the period from October 24, 2009 to June 30, 2010
(Rupees in '000)		
INCOME		
Income from government securities		175,425
Profit on bank deposits		60,313
Markup on fixed income securities	15	28,615
Capital loss on sale of investments		(183)
Total income		264,170
EXPENSES		
Remuneration of National Investment Trust Limited - Management Company	9.1	27,436
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	2,106
Annual fee - Securities and Exchange Commission of Pakistan	11.1	1,646
Amortisation of preliminary expenses and floatation costs	8	458
Bank charges		109
Listing fee		300
Printing charges		448
Auditors' remuneration	16	530
Securities transaction costs		69
Total expenses		33,102
Net income from operating activities		231,068
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		4,995
Provision for workers' welfare fund		(4,321)
Net income for the period before taxation		231,742
Taxation	17	-
Net income for the period after taxation		231,742
Earnings per unit (in Rupees)	18	0.68

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

For National Investment Trust Limited
(Management Company)

Sd/-

Managing Director

Sd/-

Director

Sd/-

Director

■ NIT - GOVERNMENT BOND FUND
STATEMENT OF COMPREHENSIVE INCOME
 FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

	Note	For the period from October 24, 2009 to June 30, 2010
		(Rupees in '000)
Net income for the period after taxation		231,742
Other comprehensive income for the period		
Net unrealised diminution in the fair value of investments classified as 'available for sale'	5.2	(4,156)
Total comprehensive income for the period		<u>227,586</u>

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

**For National Investment Trust Limited
(Management Company)**

Sd/-	Sd/-	Sd/-
Managing Director	Director	Director

■ NIT - GOVERNMENT BOND FUND DISTRIBUTION STATEMENT

FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

	For the period from October 24, 2009 to June 30, 2010
	(Rupees in '000)
Undistributed income at the beginning of the period	-
Net income for the period after taxation	231,742
Undistributed income carried forward	<u>231,742</u>
Undistributed income comprising of:	
Realised income	231,742
Unrealised income	-
	<u>231,742</u>

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

**For National Investment Trust Limited
(Management Company)**

Sd/-

Managing Director

Sd/-

Director

Sd/-

Director

■ NIT - GOVERNMENT BOND FUND
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
 FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

	Note	For the period from October 24, 2009 to June 30, 2010
		(Rupees in '000)
Net assets at the beginning of the period		-
Issue of 682,122,770 units		6,990,612
Redemption of 330,904,014 units		(3,473,430)
		3,517,182
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		(4,995)
Net unrealised diminution in the fair value of investments classified as 'available for sale'	5.2	(4,156)
Capital loss on sale of investments		(183)
Other net income for the period		231,925
		231,742
Net assets at the end of the period		3,739,773

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

**For National Investment Trust Limited
(Management Company)**

<p>Sd/-</p> <hr style="border: 0; border-top: 1px solid black; margin: 0;"/> <p>Managing Director</p>	<p>Sd/-</p> <hr style="border: 0; border-top: 1px solid black; margin: 0;"/> <p>Director</p>	<p>Sd/-</p> <hr style="border: 0; border-top: 1px solid black; margin: 0;"/> <p>Director</p>
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NIT - GOVERNMENT BOND FUND

CASH FLOW STATEMENT

FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

Note	For the period from October 24, 2009 to June 30, 2010
(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income for the period before taxation	231,742
Adjustments for non-cash items	
Remuneration of National Investment Trust Limited - Management Company	27,436
Profit on bank deposits	(60,313)
Capital loss on sale of investments	183
Amortisation of preliminary expenses and floatation costs	458
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(4,995)
	194,511
(Increase) / decrease in assets	
Investments	(3,387,270)
Accrued income	(28,171)
Security deposits	(350)
Preliminary expenses and floatation costs	(3,735)
	(3,419,526)
Increase / (decrease) in liabilities	
Payable to National Investment Trust Limited - Management Company	6,794
Payable to Central Depository Company of Pakistan Limited - Trustee	292
Payable to Securities and Exchange Commission of Pakistan	1,646
Accrued expenses and other liabilities	4,771
	13,503
Remuneration paid to National Investment Trust Limited - Management Company	(23,589)
Profit received on bank deposits	59,491
Net cash outflow on operating activities	(3,175,610)
CASH FLOWS FROM FINANCING ACTIVITIES	
Receipts from issue of units	6,990,612
Payments on redemption of units	(3,473,430)
Net cash inflow from financing activities	3,517,182
Net increase in cash and cash equivalents during the period	341,572
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	341,572
4	

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

For National Investment Trust Limited
(Management Company)

Sd/-

Managing Director

Sd/-

Director

Sd/-

Director

NIT - GOVERNMENT BOND FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

1 LEGAL STATUS AND NATURE OF BUSINESS

The NIT - Government Bond Fund (the Fund) was established under a Trust Deed executed between National Investment Trust Limited (NITL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Fund was approved by the Securities and Exchange Commission of Pakistan (SECP) vide its letter no. NBFC-II/NITL/896/2009 dated September 24, 2009 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Trust Deed was executed on September 4, 2009. The units of the Fund have been initially issued at Rs. 10 per unit.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 6th floor, National Bank of Pakistan Building, I. I. Chundrigar Road, Karachi.

The Fund is an open-ended mutual fund. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The units of the Fund were initially offered for public subscription at par from November 16, 2009 to November 18, 2009 (both days inclusive). Prior to the public offer, units were offered and issued to core investors and pre IPO investors at par value of Rs. 10. However, subsequent to the initial period i.e., after November 18, 2009 units are being offered in accordance with the basis specified in the offering document.

The objective of the Fund is to generate competitive stream of return with moderate level of risk for its unit holders, by investing primarily in government securities.

In accordance with the Trust Deed, the first accounting period of the Fund commenced on the date on which the Trust Property was first paid or transferred to the Trustee i.e., October 24, 2009.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset management rating of 'AM2' to the management company. The rating has not yet been assigned to the Fund due to commencement of operations in the current period.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

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

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

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2.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the 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 (notes 3.1 and 5).

2.4 Accounting convention

These financial statements have been prepared under the historical cost convention except that investments have been carried at fair value.

2.5 Functional and presentation currency

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Financial assets

3.1.1 Classification

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

a) Available for sale

These are those non-derivative financial assets that are designated as available for sale and are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

b) Loans and receivables

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

3.1.2 Regular way contracts

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

3.1.3 Initial recognition and measurement

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

3.1.4 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as 'available for sale' are valued as follows:

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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 Markets Association of Pakistan.

Net gains and losses arising on changes in the fair value of 'available for sale' financial assets are taken to the statement of comprehensive income.

Loans and receivables are carried at amortised cost using the effective interest rate method.

3.1.5 Impairment

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

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

3.1.6 Derecognition

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

3.1.7 Offsetting of financial assets and financial liabilities

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

3.2 Financial liabilities

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

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

3.3 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement include demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

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 are being amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund.

3.5 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.

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3.6 Taxation

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

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

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

3.7 Proposed distributions

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

3.8 Issue and redemption of units

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

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.

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

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

The 'net element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' account is credited with the amount representing net income / (loss) and capital gains / (losses) accounted for in the Net Asset Value and included in the sale proceeds of units. Upon redemption of units, the 'net element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' account is debited with the amount representing net income / (loss) and capital gains / (losses) accounted for in the Net Asset Value and included in the redemption price.

The 'net element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' during an accounting period is transferred to the income statement.

3.10 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.

■ NIT - GOVERNMENT BOND FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

3.11 Revenue recognition

- Capital gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Income from government securities is accrued using the effective interest rate method.
- Profit on bank deposits is recognised on an accrual basis.

4 BANK BALANCES

Saving accounts

	Note	2010
		(Rupees in '000)
	4.1	<u>341,572</u>

4.1 These carry profits at the rates ranging from 6.00% to 12.80% per annum.

5 INVESTMENTS

Available for sale

Government securities:

- Market Treasury Bills
- Pakistan Investment Bond
- National Savings Certificate

	5.1	2,831,059
		47,836
		504,036
		<u>3,382,931</u>

NIT - GOVERNMENT BOND FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

5.1 Investment in government securities - Available for sale

Issue date	Tenor	Face value			Balance as at June 30, 2010			Market value as a percentage of total investments	Market value as a percentage of net assets	
		As at October 24, 2009	Purchases during the period	Sales / matured during the period	As at June 30, 2010	Cost	Market value			Appreciation / (Diminution)
-----Rupees in '000-----										
Market Treasury Bills										
December 17, 2009	03 months	-	62,500	62,500	-	-	-	-	-	
December 17, 2009	06 months	-	512,500	512,500	-	-	-	-	-	
December 31, 2009	06 months	-	25,000	-	25,000	24,992	24,984	(8)	1%	
December 31, 2009	03 months	-	25,000	25,000	-	-	-	-	-	
December 31, 2009	03 months	-	150,000	150,000	-	-	-	-	-	
January 14, 2010	06 months	-	750,000	50,000	700,000	696,954	696,596	(358)	19%	
January 14, 2010	12 months	-	650,000	-	650,000	612,510	609,612	(2,898)	16%	
January 14, 2010	12 months	-	100,000	100,000	-	-	-	-	-	
June 4, 2009	12 months	-	350,000	350,000	-	-	-	-	-	
February 11, 2010	12 months	-	300,000	-	300,000	280,154	278,857	(1,297)	7%	
February 11, 2010	12 months	-	200,000	200,000	-	-	-	-	-	
February 26, 2009	06 months	-	200,000	200,000	-	-	-	-	-	
August 27, 2009	06 months	-	200,000	200,000	-	-	-	-	-	
September 10, 2009	12 months	-	100,000	100,000	-	-	-	-	-	
March 11, 2010	03 months	-	200,000	200,000	-	-	-	-	-	
March 11, 2010	12 months	-	300,000	-	300,000	277,223	276,388	(835)	7%	
March 11, 2010	12 months	-	200,000	200,000	-	-	-	-	-	
March 26, 2009	12 months	-	250,000	250,000	-	-	-	-	-	
April 8, 2010	06 months	-	162,500	-	162,500	157,469	157,319	(150)	4%	
April 8, 2010	12 months	-	437,500	-	437,500	400,693	399,530	(1,163)	11%	
April 8, 2010	12 months	-	250,000	250,000	-	-	-	-	-	
May 6, 2010	12 months	-	212,500	-	212,500	192,987	192,376	(611)	5%	
June 17, 2010	03 months	-	200,000	-	200,000	195,508	195,397	(111)	5%	
June 17, 2010	06 months	-	250,000	250,000	-	-	-	-	-	
June 17, 2010	12 months	-	150,000	150,000	-	-	-	-	-	
		-	6,237,500	3,250,000	2,987,500	2,838,490	2,831,059	(7,431)	75%	84%
Pakistan Investment Bond										
September 3, 2009	10 years	-	50,000	-	50,000	48,597	47,836	(761)	1%	1%
National Savings Certificate	03 years	-	500,000	-	500,000	500,000	504,036	4,036	13%	15%
		-	6,787,500	3,250,000	3,537,500	3,387,087	3,382,931	(4,156)	89%	100%

■ NIT - GOVERNMENT BOND FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

	Note	2010
		(Rupees in '000)
5.2 Net unrealised diminution in the fair value of investments classified as 'available for sale'		
Fair value of investments	5	3,382,931
Less: Carrying value of investments		<u>3,387,087</u>
		<u>(4,156)</u>
6 ACCRUED INCOME		
Profit accrued on savings accounts		822
Markup accrued on fixed income securities		<u>28,171</u>
		<u>28,993</u>
7 SECURITY DEPOSITS		
Security deposits with:		
- Central Depository Company of Pakistan Limited		100
- National Clearing Company of Pakistan Limited		<u>250</u>
		<u>350</u>
8 PRELIMINARY EXPENSES AND FLOATATION COSTS		
Preliminary expenses and floatation costs incurred	8.1	3,735
Less: Amortisation during the period		<u>458</u>
Balance as at June 30, 2010		<u>3,277</u>

8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from November 19, 2009 as per the requirements set out in the Trust Deed of the Fund.

	Note	2010
		(Rupees in '000)
9 PAYABLE TO NATIONAL INVESTMENT TRUST LIMITED - MANAGEMENT COMPANY		
On account of:		
- management remuneration	9.1	3,847
- formation costs and other initial charges		3,835
- sales load		<u>2,959</u>
		<u>10,641</u>

■ NIT - GOVERNMENT BOND FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

- 9.1** Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of 1.25 percent per annum of the average annual net assets of the Fund for the current period. The remuneration is paid on a monthly basis in arrears.

	Note	2010
		(Rupees in '000)
10 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		

Trustee fee	10.1	292
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- 10.1** The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily net assets of the Fund. The remuneration is paid to the Trustee monthly in arrears.

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2010 is as follows:

Net assets	Tariff
Upto Rupees 1 billion	Higher of Rupees 700,000 or 0.15% per annum of NAV
Over Rupees 1 billion to Rupees 10 billion	0.075% per annum of NAV exceeding Rupees 1 billion
Exceeding Rupees 10 billion	0.05% per annum of NAV exceeding Rupees 10 billion

	Note	2010
		(Rupees in '000)
11 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN		

Annual fee	11.1	1,646
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- 11.1** Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, the Fund is required to pay as annual fee to the Securities and Exchange Commission of Pakistan, an amount equal to 0.075 percent of the average annual net assets of the Fund.

	2010
	(Rupees in '000)
12 ACCRUED EXPENSES AND OTHER LIABILITIES	

Provision for workers' welfare fund	4,321
Auditors' remuneration	350
Printing charges payable	50
Brokerage payable	34
Charges payable to National Clearing Company of Pakistan Limited and Central Depository Company of Pakistan Limited	16
	4,771

■ NIT - GOVERNMENT BOND FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

13 CONTINGENCIES AND COMMITMENTS

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

**For the period from
October 24, 2009 to
June 30, 2010**

(Number of units)

14 NUMBER OF UNITS IN ISSUE

Total units in issue at the beginning of the period	-
Add: Units issued during the period	682,122,770
Less: Units redeemed during the period	<u>(330,904,014)</u>
Total units in issue at the end of the period	<u>351,218,756</u>

15 MARKUP ON FIXED INCOME SECURITIES

Markup on:	(Rupees in '000)
- Pakistan Investment Bond	2,416
- National Savings Certificate	<u>26,199</u>
	<u>28,615</u>

16 AUDITORS' REMUNERATION

Statutory audit fee	300
Half yearly review	140
Fee for the review of statement of compliance with best practices of the Code of Corporate Governance	50
Out of pocket expenses	25
Other certification	<u>15</u>
	<u>530</u>

17 TAXATION

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

■ NIT - GOVERNMENT BOND FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

	For the period from October 24, 2009 to June 30, 2010
	(Rupees in '000)
18 EARNINGS PER UNIT - BASIC AND DILUTED	
Net income for the period after taxation	<u>231,742</u>
	(Number of units)
Weighted average number of units outstanding during the period	<u>342,791,314</u>
	(Rupees)
Earnings per unit	<u>0.68</u>

19 FINANCIAL INSTRUMENTS BY CATEGORY

	-----2010-----		
	Loans and receivables	Available for sale	Total
	----- (Rupees in '000) -----		
Assets			
Bank balances	341,572	-	341,572
Investments	-	3,382,931	3,382,931
Accrued income	28,993	-	28,993
Security deposits	350	-	350
	<u>370,915</u>	<u>3,382,931</u>	<u>3,753,846</u>

	-----2010-----		
	Liabilities at fair value through profit or loss	Amortised cost	Total
	----- (Rupees in '000) -----		
Liabilities			
Payable to National investment Trust Limited - Management Company	-	10,641	10,641
Payable to Central Depository Company of Pakistan Limited - Trustee	-	292	292
Payable to Securities & Exchange Commission of Pakistan	-	1,646	1,646
Accrued expenses and other liabilities	-	450	450
	<u>-</u>	<u>13,029</u>	<u>13,029</u>

■ NIT - GOVERNMENT BOND FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

20 TRANSACTIONS WITH CONNECTED PERSONS

- 20.1** Connected persons include National Investment Trust Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, other collective investment schemes managed by the Management Company, any person or company beneficially owning directly or indirectly ten percent or more of the capital of the Management Company or the Fund and directors and officers of the Management Company and the Trustee.
- 20.2** The transactions with connected persons are in the normal course of business, at contracted terms determined in accordance with the market rates.
- 20.3** Remuneration to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.
- 20.4** Remuneration payable to the Trustee is determined in accordance with the provisions of the Trust Deed.

**For the period from
October 24, 2009 to
June 30, 2010**

(Rupees in '000)

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

National Investment Trust Limited - Management Company

Unit issued during the period (119,601,783 units)	1,218,532
Units redeemed during the period (94,558,085 units)	996,196
Front end load on sale of units	2,959
Management fee for the period	27,436

Central Depository Company of Pakistan Limited - Trustee

Trustee fee for the period	2,106
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Directors & management personnel

Unit issued (58,256 units)	600
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2010

(Rupees in '000)

20.6 Amounts outstanding as at period end:

National Investment Trust Limited - Management Company

Units held revalued at current NAV (25,043,698 units)	266,665
Management fee and other payables	10,641

Central Depository Company of Pakistan Limited - Trustee

Trustee fee payable	292
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Directors & management personnel

Unit held revalued at current NAV (58,256 units)	620
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NIT - GOVERNMENT BOND FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

21 FINANCIAL RISK MANAGEMENT

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

21.1 Market risk

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

The Management Company manages the market risk through diversification of the investment portfolio by exposures and by following the internal guidelines established by the investment committee.

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

21.1.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Fund at present is not exposed to currency risk as its operations are geographically restricted to Pakistan and all transactions are carried out in Pakistani Rupees.

21.1.2 Interest rate risk

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

a) Sensitivity analysis for variable rate instruments

As at June 30, 2010, the Fund does not hold any variable rate instrument and is not exposed to cash flow interest rate risk.

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2010, the Fund holds market treasury bills which are classified as 'available for sale', exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Markets Association of Pakistan on June 30, 2010, with all other variables held constant, the net income for the period and net assets would have been lower by Rs. 14.215 million. In case of 100 basis points decrease in rates announced by the Financial Markets Association of Pakistan on June 30, 2010, with all other variables held constant, the net income for the period and net assets would have been higher by Rs. 14.548 million.

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

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

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-----2010-----

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

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

On balance sheet financial instruments

Financial assets

Bank balances	6.00 - 12.80	341,572	-	-	-	341,572
Investments	11.99 - 12.50	916,977	1,914,082	551,872	-	3,382,931
Accrued income		-	-	-	28,993	28,993
Security deposits		-	-	-	350	350
		1,258,549	1,914,082	551,872	29,343	3,753,846

Financial liabilities

Payable to National Investment Trust Limited - Management Company	-	-	-	10,641	10,641	
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	292	292	
Payable to Securities & Exchange Commission of Pakistan	-	-	-	1,646	1,646	
Accrued expenses and other liabilities	-	-	-	450	450	
	-	-	-	13,029	13,029	
On balance sheet gap		<u>1,258,549</u>	<u>1,914,082</u>	<u>551,872</u>	<u>16,314</u>	<u>3,740,817</u>

Off balance sheet financial instruments

	-	-	-	-	-
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Off balance sheet gap

	-	-	-	-	-
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Total interest rate sensitivity gap

	<u>1,258,549</u>	<u>1,914,082</u>	<u>551,872</u>	<u>16,314</u>	<u>3,740,817</u>
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Cumulative interest rate sensitivity gap

	<u>1,258,549</u>	<u>3,172,631</u>	<u>3,724,503</u>	<u>3,740,817</u>	
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21.1.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate 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 30, 2010.

21.2 Credit risk

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in loans and receivables and balances with banks. The credit risk on liquid fund is limited because the counter parties are financial institutions with reasonably high credit ratings.

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The analysis below summarizes the credit quality of the Fund's bank balances as at June 30, 2010:

Name of the bank	Balance as at June 30, 2010	Rating agency	Published rating	Percentage of total bank balances
(Rupees in '000)				
Allied Bank Limited	329,445	PACRA	A1 +	96.45%
United Bank Limited	42	JCR-VIS	A1 +	0.01%
Standard Chartered Bank Limited	10,410	PACRA	A1 +	3.05%
Bank Alfalah Limited	6	PACRA	A1 +	0.00%
Bank Al Habib Limited	1,669	PACRA	A1 +	0.49%
	341,572			100.00%

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

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is mostly concentrated in government sector.

21.3 Liquidity risk

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

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

The Fund has the ability to borrow in the short term to ensure settlement. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates. However, no borrowing was obtained by the Fund during the current period.

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

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

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	-----2010-----			
	Upto three months	Over three months and upto one year	Over one year	Total
	----- (Rupees in '000) -----			
Financial Liabilities				
Payable to National Investment Trust Limited - Management Company	10,641	-	-	10,641
Payable to Central Depository Company of Pakistan Limited - Trustee	292	-	-	292
Payable to Securities & Exchange Commission of Pakistan	1,646	-	-	1,646
Accrued expenses and other liabilities	450	-	-	450
Contractual cash outflows	13,029	-	-	13,029

22 UNIT HOLDERS' FUND RISK MANAGEMENT

The unit holders' fund is represented by redeemable units. These units are entitled to dividends and to payment of a proportionate share based on the Fund's Net Asset Value per unit on the redemption date. The relevant movements are shown on the 'statement of movement in unit holders' fund'.

The Fund has no restriction or specific capital requirement on the subscription and redemption of units.

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

In accordance with the risk management policies as stated in note 21, the Fund endeavours to invest the subscriptions received in appropriate investment avenues while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by disposal of investments or short-term borrowings, where necessary.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

■ NIT - GOVERNMENT BOND FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

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

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

Investments of the Fund carried at fair value are categorised in level 1 category.

24 TRANSACTIONS WITH BROKERS / DEALERS

List of brokers by percentage of commission paid during the period ended June 30, 2010

S. No.	Particulars	Amount of commission	Percentage
		(Rupees)	
1	KASB Securities (Private) Limited	33,573	48.32%
2	Global Securities Pakistan Limited	12,013	17.29%
3	BMA Securities Limited	11,429	16.45%
4	Invisor Securities (Private) Limited	8,731	12.57%
5	Invest Capital Investment Bank	2,438	3.50%
6	JS Global Capital Limited	1,300	1.87%
		69,484	100.00%

25 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

-----As at June 30, 2010-----				
S. No.	Name	Designation	Qualification	Experience in years
1	Mr. Wazir Ali Khoja *	Chairman and Managing Director	B. Com	39
2	Mr. Shahid Anwar	Head of MD's Secretariat / Head of Personnel	MBA & DAIBP	33
3	Mr. Manzoor Ahmed	Senior Executive Vice President / Chief Operating Officer	MBA, DAIBP & candidate for CFA Level III	21
4	Mr. S. Zubair Ahmed	Controller of Branches	M Phil, MBA, PGD-General Management & PGD-Development Policies	37
5	Mr. Aamir Amin	Head of Finance	CA	13
6	Mr. Khurram Aftab	Fund Manager	MBA	08

* Mr. Wazir Ali Khoja has replaced Mr. Tariq Iqbal Khan with effect from June 4, 2010.

■ NIT - GOVERNMENT BOND FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

26 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 274th, 275th, 276th, 277th, 278th, 279th, 280th, 281st, and 282nd meetings of Board of Directors were held on July 6, 2009, July 20, 2009, August 10, 2009, October 12, 2009, October 27, 2009, December 21, 2009, January 20, 2010, February 13, 2010 and April 12, 2010 respectively. Information in respect of attendance by directors in the meetings is given below:

	Name of Director	Number of meetings			Meetings not attended
		Held	Attended	Leave granted	
1	Mr. Tariq Iqbal Khan*	9	9	0	
2	Mr. Abdul Hamid Adamjee**	3	0	3	274th, 275th & 276th meetings
3	Mian Tajammal Hussain	9	9	0	
4	Mr. S. Ali Raza	9	9	0	
5	Ms. Rukhsana Saleem	9	5	4	274th, 275th, 278th & 281st meetings
6	Mr. Jamal Nasim	9	9	0	
7	Mr. Aftab Ahmad Khan	9	4	5	274th, 277th, 279th, 281st & 282nd meetings
8	Mr. Bahauddin Khan	9	8	1	274th meeting
9	Ms. Nazrat Bashir	9	9	0	
10	Mr. Abdul Razzaq Adamjee***	3	2	1	282nd meeting

* Mr. Wazir Ali Khoja was elected as Chairman of the investment committee on June 4, 2010 in place of Mr. Tariq Iqbal Khan

** Mr. Abdul Hamid Adamjee expired on September 29, 2009

*** Mr. Abdul Razzaq Adamjee representing Adamjee Foundation was co-opted on the board of NITL in the 279th BOD meeting held on December 21, 2009

27 PATTERN OF UNIT HOLDING

----- As at June 30, 2010 -----

	Number of units	Investment amount	Percentage of total investment
----- (Rupees in '000) -----			
Individuals	13,882,363	147,815	3.95%
Insurance companies	14,542,315	154,847	4.14%
Banks / DFIs	147,413,525	1,569,659	41.97%
NBFIs	29,098,878	309,845	8.29%
Retirement funds	27,755,233	295,538	7.90%
Public limited companies	10,596,468	112,831	3.02%
Others	107,929,974	1,149,238	30.73%
	<u>351,218,756</u>	<u>3,739,773</u>	<u>100.00%</u>

28 NON - ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 5, 2010 approved a distribution of Rs. 0.65 per unit. The financial statements of the Fund for the year ended June 30, 2010 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2011.

■ NIT - GOVERNMENT BOND FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM OCTOBER 24, 2009 TO JUNE 30, 2010

29 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 13-08-2010 by the Board of Directors of the Management Company.

30 GENERAL

Figures have been rounded off to the nearest thousand rupees.

**For National Investment Trust Limited
(Management Company)**

Sd/-

Managing Director

Sd/-

Director

Sd/-

Director

■ NIT GOVERNMENT BOND FUND PERFORMANCE TABLE Current Year

		<u>JUNE 10</u>
Total Net Asset Value Ex-Dividend	(Rs. In 000's)	3,511,481
Net Asset Value per Unit Ex-dividend	(Rs./ unit)	9.9980
Last Issue Price per Unit *	(Rs./ unit)	10.7545
Last Repurchase Price per Unit *	(Rs./ unit)	10.6480
Highest Issue Price During the Period	(Rs./ unit)	10.7650
Lowest Issue Price During the Period	(Rs./ unit)	10.0000
Highest Repurchase Price During the Period	(Rs./ unit)	10.6584
Lowest Repurchase Price During the Period	(Rs./ unit)	10.0074
Total Return of the Fund	%	10.77
Capital Growth	%	4.27
Income Distributions	%	6.50
Distribution Per Unit (Final)		0.65
Distribution Date		5-Jul-10
Average Annual Return **	%	10.77

Note : NIT GBF price is neither guaranteed nor administered/ managed. It is based on Net Asset Value (NAV) and the NAV of NIT GBF units may go up or down depending upon the factors and forces affecting the market. Past performance is not indicative of future results.

* This is cum-dividend prices of 30th June 2010.

** Note : Fund launched on 18th November 2009.