

PAKISTAN CAPITAL MARKET FUND



BRANCHES:

Lahore:

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

Rawalpindi:

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

Islamabad:

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

Multan:

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

Peshawar:

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



CONTENTS

Fund's Information	1
Report of the Directors of the Management Company	2
Report of the Fund Manager	3
Condensed Interim Statement of Assets and Liabilities	7
Condensed Interim Income Statement (Unaudited)	8
Condensed Interim Distribution Statement (Unaudited)	9
Condensed Interim Cash Flow Statement (Unaudited)	10
Condensed Interim Statement Of Movement In Unit Holders' Funds (Unaudited)	11
Notes to and Forming Part of the Condensed Interim Financial Statements (Unaudited)	12



FUND'S INFORMATION

Management Company

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

Board of Directors of the Management Company

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

Company Secretary & CFO of the Management Company

Mr. Zeeshan

Audit Committee

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

Trustee

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

Bankers

Allied Bank Limited
Bank AL-Habib Limited
Bank Alfalah Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
Meezan Bank Limited
Standard Chartered Bank (Pakistan) Limited
The Bank of Punjab

Auditors

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

Legal Adviser

M/s. Bawany & Partners
404, Beaumont Plaza, 6-CL-10,
Beaumont Road, Civil Lines, Karachi-75530

Registrar

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

Rating

PACRA: 2-Star (Normal)
PACRA: AM2 (Positive Outlook) - Management Quality Rating assigned to Management Company



**REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

The Board of Directors of Arif Habib Investments Limited, the Management Company of the Pakistan Capital Market Fund (PCM), is pleased to present its report together with condensed Interim Financial Statements for the quarter ended September 30, 2010.

Fund Objective

The objective of the Fund is to provide investors a mix of income and capital growth over medium to long term from equity and debt investments.

Fund Profile

Pakistan Capital Market Fund (PCM) is an open end balanced fund that invests in a range of asset classes such as equity and debt in Pakistani market.

The asset allocation to equities and debt is made on the basis of relative attractiveness of each asset class. The investment process is driven by fundamental research. For equities investment, fundamental outlook of sectors/companies and DCF (discounted cash flow) valuations are the primary factors in sectors' allocation and stock selection. For debt investment, interest rate outlook is the key determining factor and allocation to this segment is increased when the yields are comparatively higher compare to the total returns on equities. Investment is made in corporate bonds (investment grade) and government bonds. Cash is kept in deposits with highly rated banks. The board has approved the categorization of the Fund as "Balanced Scheme"

PCM is a long only fund and cannot undertake leveraged investments.

Funds Performance during Quarter ended September 30, 2010

The net assets of the Fund as at September 30, 2010 stood at Rs 437.92 million as compared to Rs. 444.55 million at June 30, 2010 registering a slight decrease of 1.49%.

The Net Asset Value (NAV) per unit at the end of the period was Rs 7.24 per unit compared to opening Ex NAV of Rs 7.07 per unit, registering an increase of Re 0.17 per unit.

Future Outlook and Fund Performance

Future outlook and fund performance is fully explained in fund manager report attached to this report.

Acknowledgment

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

For and on behalf of the Board

Karachi
October 25, 2010

Nasim Beg
Chief Executive



**REPORT OF THE FUND MANAGER
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

Objective

The objective of the Fund is to provide investors a mix of income and capital growth over medium to long term from equity and debt investments.

Fund Profile

Pakistan Capital Market Fund (PCM) is an open end balanced fund (as per the new proposed fund classifications) that invests in a range of asset classes such as equity and debt in Pakistani market. The asset allocation to equities and debt is made on the basis of relative attractiveness of each asset class. The investment process is driven by fundamental research. For equities investment, fundamental outlook of sectors/companies and DCF (discounted cash flow) valuations are the primary factors in sectors' allocation and stock selection. For debt investment, interest rate outlook is the key determining factor and allocation to this segment is increased when the yields are comparatively higher compare to the total returns on equities. Investment is made in corporate bonds (investment grade) and government bonds. Cash is kept in deposits with highly rated banks.

PCM is a long only fund. Under the NBFC Rules, it is only allowed to borrow up to 15% of net assets for up to 90 days to meet redemption needs.

Fund Performance

PCM NAV increased 2.40% in 1Q FY11 against an increase of 3.11% in this benchmark during this time. While the Fund had outperformed its benchmark in the first two months, the Fund underperformed in September with a rise of only 0.84%, compared to 1.59% increase in its benchmark. The underperformance was because of lesser return in its key portfolio holdings and a lower exposure in equities amidst a rise in the equity market. Amongst the key portfolio holdings, Packages and PSMC fell sharply, while Kapco, ABL and Engro also dragged returns. PPL, POL, FFC, PEL and ICI were key holdings which outperformed.

	<i>PCM</i>	<i>BM</i>
Jul-10	4.95%	4.94%
Aug-10	-3.23%	-3.29%
Sep-10	0.84%	1.59%

Asset Allocation and investment activities during 1Q FY11

Equity portfolio

With deteriorating macroeconomic outlook and increased political noise, the equity exposure was cut to the minimum allowed in the balanced fund category. From about 53% at end June, the exposure was brought down to about 32% at end September (average exposure at 45%). Holdings in fertilizer companies were completely offloaded; Nestle was also offloaded since the stock had become overvalued. Exposure in POL, PPL, Hubco and PSMC was reduced. Towards the end of September, exposure in ICI was added, after the stock had fallen considerably.

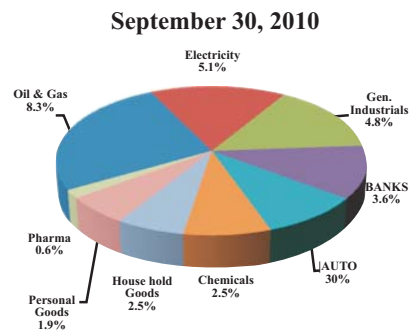
Fixed income portfolio

PCM's fixed income exposure consists of short-dated government paper, corporate bonds and preference shares.

The cash flow realized from offloading equities during the quarter was kept in T-Bills, with its exposure increasing from 21% at the beginning to 49.4% at quarter end. The Fund's TFC portfolio remained unchanged during the quarter. This portfolio comprises exposure in TFCs of UBL (7.8%), World Call (1.7%) and Maple Leaf (1.7%), earning coupon ranging 1.0-2.75% above KIBOR. PCM's preference share exposure was reduced to 3.81% from 5.62% in June. These shares have dividend linked to 6 month KIBOR + 2%.

Top 10 holdings on September 30, 2010

Kot Addu Power Co. Ltd.	5.08%
Packages Ltd.	4.82%
Pakistan Oilfields Ltd.	4.25%
Pakistan Petroleum Ltd.	4.06%
Allied Bank Ltd.	3.65%
Pak Suzuki Motor Co. Ltd.	2.98%
ICI Pakistan Ltd.	2.54%
Pak Elektron Ltd.	2.01%
Suraj Cotton Mills Ltd.	1.69%
Scarle Pakistan Ltd.	0.57%



Stock market review and outlook

The KSE-100 gained 3% to 10,013 during the 1st quarter of FY11 (July-September 2010). Trading activity fell sharply lower to 62 million average daily turnover (compared to last fiscal year average of 132 million) following the introduction of capital gains tax from July, delays in the introduction of margin trading system and declining local investors' confidence due to slowing economy/higher interest rates. The market witnessed sharp correction of 9.5% in August as massive floods hit the country causing huge devastation. However, the market brushed aside all these negative developments and bounced back by September amid continuing strong foreign investors' inflows and no significant direct impact of floods on major corporate entities listed on the stock exchanges. The rebound in KSE also coincided with sharp gains in other emerging markets particularly India, SriLanka and Bangladesh.

Pakistan equity market has shown quite resilience in the recent past to the negative developments on the macroeconomic front with slowing GDP growth and rising domestic interest rates. We have a cautious stance on equities for the near term due to lack of any positive triggers on the economic and political front. Amidst low domestic investors' interest, foreign investors will play a dominant role in setting the market direction and events in emerging market equities will likely have profound impact on the local market. At present local equities are trading at an average PE of 8.3 sharply lower than emerging markets averages ranging between 14.3x - 27.9x. However, given the high domestic equity risk premium coupled with higher interest rates, Pakistani equities might not record any significant upside in the near term.

1Q FY11 Economic Review

Major event during 1QFY11 was the worst ever flood that affected around 10% of the population. The flood related damages and remedial steps were the major concern for policy makers. Preliminary assessment by World Bank and Asian Development Bank indicates a loss of US\$9.5 billion (approx. 6% of GDP), out of which crops and live stock damages are estimated at US\$5 billion approx. The immediate economic effect of the flood has already been reflected in inflation numbers where sharp increase in food prices (particularly perishable items) has jacked up the September, 2010 CPI at 17 months high of 15.7%.

External side remains weak and is highly dependent on IMF and donors' support. Current account deficit has increased by 49% in first 2 months of 1QFY11 on the back of swollen goods and services deficit. Only positive was August, 2010 remittances number which was up 19% on a monthly basis. The concern of rising inflation along with mounting twin deficits were the major reasons behind the SBP's two consecutive rate hikes in the preceding quarter. Discount rate has now reached 13.5% after the September policy action.

Real Sector

The GDP growth targets along with fiscal and external targets have been revised downwards. The government expects GDP to grow between 2.5 - 3.5% from prior-flood estimate of 4.5%. The production number of July has been released where LSM grew by 3.05% as compared to -1.07% growth in the corresponding month of last year. A key area to watch will be the growth numbers in upcoming months which will show the actual production loss due to the floods.

Monetary Sector

Money supply numbers, during the quarter (From June 30 to Oct 1), grew by 0.6% versus negative growth of -0.03% in the corresponding quarter of last year. Net Foreign Assets (NFA) were at Rs 35.4 billion while net Domestic Assets (NDA) were at Rs -0.5 billion. Government borrowing after touching Rs 220 billion as on September 24, 2010 has come down to Rs 200 billion, still a high number and a major cause of concern for the central bank. Credit to private sector and public sector enterprises (PSEs) collectively showed a net retirement of Rs 68 billion. Retirement of loan by PSEs reflects the partial payment release by Ministry of Finance under the circular debt issue. Furthermore, net retirement of credit by private sector in this quarter is a normal phenomenon. Next quarter is crucial where seasonal borrowing of private sector for working capital requirement is at its peak. It will determine the real investment climate and the 'crowding out' effect of government borrowing.

Prices

The CPI inflation posted a considerable increase for September, 2010 to reach 17 months highest number of 15.71% against 10.12% in the corresponding period of last year. On the other hand, core inflation numbers at 9.4% are on an 18 months low. It explains the abnormal movement of energy and food prices. In September food inflation was 21.24% YoY with perishable food items posting a staggering 53.8% increase over September, FY10. This increase in prices is due to the supply shortage of food items after the floods. Overall, SBP has revised CPI estimate to 13.5-14.5% for FY 11 from its initial estimate of 12.5%.

Fiscal Sector

Fiscal deficit of 6.3% for FY10 (numbers released in September) has surpassed the earlier estimates of 4.5%. Given the higher deficit of last year, the initial estimate of 4% for FY11 appears to be unrealistic given the flood shock to the economy, which is likely to lead to both lower-than-targeted tax collection numbers (due to economic slowdown) and rising expenditures for the rehabilitation of flood affectees. Additional external funding and higher donors support could mitigate pressure on fiscal side.

External Sector

External sector has observed deterioration with the beginning of FY11. This is explained by an increase in the Current Account Deficit (CAD), which stands at \$944 million from July - August, FY11 against \$635 million in the same period last year. According to the latest figures available, Foreign Direct Investment (FDI) fell by 50.2% from July-August, FY11 to \$171.4 million against \$344 million in the same period of the preceding year. On the other hand, forex reserves are on an all-time high and stood at \$16.9 billion as of September 30th, 2010 amid inflows from IMF, World Bank and higher remittances. The 1QFY11's remittances were up by 13.5% (\$2.646 billion) against \$2.3312 billion in the same quarter of last year.

**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES
AS AT SEPTEMBER 30, 2010**

	Note	(Un-Audited) September 30, 2010	(Audited) June 30, 2010
(Rupees in '000)			
ASSETS			
Balances with banks		14,680	36,930
Investments	5	421,794	403,321
Dividend and profit receivable		6,072	5,453
Advances, deposits and prepayments		3,355	3,267
Conversion costs		205	575
Total assets		446,106	449,546
 LIABILITIES			
Payable against purchase of investments		2,400	-
Payable on redemption of units		50	141
Payable to Management Company		722	727
Payable to Central Depository Company of Pakistan Limited- Trustee		72	73
Payable to Securities and Exchange Commission of Pakistan		95	463
Accrued expenses and other liabilities		2,038	789
Dividend payable		2,805	2,805
Total liabilities		8,182	4,998
NET ASSETS		437,924	444,548
UNIT HOLDER'S FUND		437,924	444,548
(Number of units)			
Number of units in issue		60,464,247	44,576,814
(Rupees)			
Net asset value per unit		7.24	9.97

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

	Note	Quarter ended	
		September 30,	
		2010	2009
		----- (Rupees in '000) -----	
INCOME			
Capital gain on sale of investments - net		13,659	18,463
Income from investment in government securities		4,413	516
Income from Term Finance Certificates		1,546	4,516
Income from preference shares		649	-
Dividend income		1,515	5,175
Profit on bank accounts		451	1,975
		<u>22,233</u>	<u>30,645</u>
Unrealised (diminution) / appreciation in value of investments 'at fair value through profit or loss' - net		(79)	47,264
Impairment loss on investments classified as 'available-for-sale'	5.9	(2,498)	(417)
Reversal of provision from non-performing Term Finance Certificates and Sukuk bonds		<u>2,471</u>	<u>-</u>
Total income		<u>22,127</u>	<u>77,492</u>
OPERATING EXPENSES			
Remuneration of the Management Company		2,237	3,011
Remuneration of Central Depository Company of Pakistan Limited - Trustee		224	301
Annual fee - Securities and Exchange Commission of Pakistan		95	143
Securities transaction cost		376	244
Bank charges		13	11
Fees and subscriptions		65	90
Legal and professional charges		15	15
Auditors' remuneration		130	118
Amortisation of conversion costs		370	370
Printing charges		88	103
Total operating expenses		<u>3,613</u>	<u>4,406</u>
Net income from operating activities		<u>18,514</u>	<u>73,086</u>
Net element of (losses) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(50,099)	2,324
Net (loss) / income for the period before taxation		<u>(31,585)</u>	<u>75,410</u>
Taxation		-	-
Net (loss) / income for the period after taxation		<u>(31,585)</u>	<u>75,410</u>
OTHER COMPREHENSIVE (LOSS) / INCOME			
Net unrealised (diminution) / appreciation value of investments classified as 'available-for-sale'	5.8	(8,001)	15,987
Total comprehensive (loss) / income for the period		<u>(39,586)</u>	<u>91,397</u>

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

08
PAKISTAN CAPITAL MARKET FUND
Managed by: ARIF HABIB INVESTMENTS LIMITED

**CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

	Quarter ended	
	September 30,	
	2010	2009
	----- (Rupees in '000) -----	
Accumulated losses brought forward	(13,869)	(140,514)
Net element of income / (losses) and capital gains / (losses) included in the prices of units issued less those in units redeemed - amount representing unrealised appreciation / (diminution)	3,360	(1,200)
Unrealised (diminution) / appreciation in value of investments		
Net (loss) / income for the period	(31,585)	75,410
Final distribution for the year ended June 30, 2010: Rs 2.9 per units (2009: Nil)		
- Cash Distribution	-	-
- Bonus units	(129,272)	-
Net (loss) / income for the period	(157,497)	74,210
Accumulated losses carried forward	(171,366)	(66,304)

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

	Quarter ended	
	September 30,	
	2010	2009
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) / income for the period before taxation	(31,585)	75,410
Adjustments for non-cash items :		
Amortisation of conversion costs	370	370
Unrealised diminution in value of investments at fair value through profit or loss' - net	79	(47,264)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	50,099	(2,324)
Dividend income	(1,515)	(5,175)
Impairment loss on equity investments classified as 'available-for-sale'	2,498	417
Reversal of provision from non-performing Term Finance Certificates and Sukuk bonds	(2,471)	-
	17,475	21,434
(Increase) / Decrease in assets		
Receivable against sale of investments	-	11,607
Investments	(26,580)	8,415
Profit receivable	334	(1,782)
Deposits and other receivable	(88)	(118)
	(26,334)	18,122
Increase / (Decrease) in liabilities		
Payable against purchase of investments	2,400	(8,068)
Payable on redemption of units	(91)	(754)
Payable to the Management Company	(5)	(892)
Payable to Central Depository Company of Pakistan Limited - Trustee	(1)	9
Payable to Securities and Exchange Commission of Pakistan	(368)	(440)
Accrued expenses and other liabilities	1,249	184
	3,184	(9,961)
Dividend received	562	4,582
Net cash (used in) / generated from operating activities	(5,113)	34,177
CASH FLOW FROM FINANCING ACTIVITIES		
Net payments against repurchase of units	(17,137)	(20,392)
Dividend paid	-	(3)
Net cash used in financing activities	(17,137)	(20,395)
Net (decrease) / increase in cash and cash equivalents during the period	(22,250)	13,782
Cash and cash equivalents at the beginning of the period	36,930	52,404
Cash and cash equivalents as at the end of the period	14,680	66,186

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

PAKISTAN CAPITAL MARKET FUND
Managed by: ARIF HABIB INVESTMENTS LIMITED

**CONDENSED INTERIM STATEMENT OF MOVEMENT
IN UNIT HOLDERS' FUNDS (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

	Note	Quarter ended	
		September 30,	
		2010	2009
		----- (Rupees in '000) -----	
Net assets at the beginning of the period		444,548	548,937
Issue of 322,721 units (2009: 1,895,686 units) for the quarter		2,353	16,357
Redemption of 2,719,978 units (2009: 4,047,399 units) for the quarter		(19,490)	(36,749)
		(17,137)	(20,392)
Issue of 18,284,690 bonus units (2009: Nil units) for the quarter		129,272	-
Element of income / (losses) and capital (gains) / losses included in prices of units issued less those in units redeemed - net			
- amount representing income and capital gains - transferred to the Income Statement		50,099	(2,324)
- amount representing unrealised Capital (gains) / losses and capital (gains) / losses that form part of the unit holders' fund- transferred to Distribution Statement		(3,360)	1,200
		46,739	(1,124)
Net unrealised (diminution) / appreciation during the period in the value of investments classified as 'available-for-sale'	5.8	(8,001)	15,987
Final distribution for the year ended June 30, 2010: Rs 2.9 per unit (2009: Nil)			
- Cash distribution		-	-
- Bonus units		(129,272)	-
		(129,272)	-
Capital gain / (loss) on sale of investments		13,659	18,463
Net unrealised (diminution) / appreciation in value of Investments 'at fair value through profit or loss'		(79)	47,264
Element of income / (losses) and capital (gains) / losses included in prices of units sold less those in units redeemed - amount representing income / (losses) that form part of the unit holders' fund		3,360	(1,200)
Other (loss) / income for the period		(45,165)	9,683
		(28,225)	74,210
Net assets as at the end of the period		437,924	617,618

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

11

PAKISTAN CAPITAL MARKET FUND
Managed by: ARIF HABIB INVESTMENTS LIMITED



**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM
FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

1 LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Capital Market Fund (PCM) was established under a trust deed executed between Arif Habib Investments Limited (AHI) and Central Depository Company of Pakistan (CDC) as Trustee on October 27, 2003. The Investment Adviser of PCM has obtained the requisite license from the Securities and Exchange Commission of Pakistan (SECP) to undertake investment advisory services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Formation of PCM as a closed-end scheme was authorized by SECP on November 5, 2003.

During the year 2005, the Fund was converted from a closed-end scheme to an open-end scheme. The Fund is listed on all three stock exchanges in Pakistan.

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

The units of the Fund are offered for public subscription on a continuous basis. Units are transferable and can also be redeemed by surrendering to the Fund.

The Fund primarily invests in a mix of listed equity and debt securities, unlisted government securities and secured debt securities, money market transactions and reverse repurchase transactions.

Pakistan Credit Rating Agency Limited (PACRA) has assigned asset management rating of 'AM2' (positive outlook) and '2 Star normal' rating to the Management Company and the Fund respectively.

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

2 STATEMENT OF COMPLIANCE

These unaudited condensed interim 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 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 NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the NBFC Regulations or the directives issued by the SECP prevail. These financial statements are presented in condensed form in accordance with International Accounting Standard, 34 "Interim Financial Reporting". These do not include all the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Fund as at and for the year ended June 30, 2010.

3 ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual published financial statements of the Fund for the year ended June 30, 2010.

4 RISK MANAGEMENT

The Fund's risk management objectives and policies are consistent with those objectives and policies which are disclosed in the financial statements of the period ended June 30, 2010.

	(Un-Audited) September 30, 2010	(Audited) June 30, 2010
	Note	(Rupees in '000)
5 INVESTMENTS		
'At fair value through profit or loss' - designated upon initial recognition		
Listed equity securities	5.1	106,576
Listed preference shares	5.2	16,667
Term Finance Certificates and Sukuk bonds-Listed	5.3	49,030
Government Securities	5.4	216,502
		<u>388,775</u>
'Available-for-sale'		
Listed equity securities	5.5	33,019
		<u>421,794</u>
		<u>403,321</u>

5.1 Listed equity securities- 'at fair value through profit or loss'

Name of the investee company	Number of shares					Balance as at Sep. 30, 2010				Market Value		Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 01, 2010	Purchases during the period	Bonus / Right issue during the period	Sales during the period	As at Sep. 30, 2010	Cost	Market Value	Appreciation / (Diminution)	As a percentage of total investments	As a percentage of net assets		
----- (Rupees in '000) -----												
Shares of listed companies – Fully paid ordinary shares of Rs. 10 each unless stated otherwise												
Oil and Gas Producers												
Pakistan Oilfields Limited	118,569	-	-	40,000	78,569	16,850	18,631	1,781	4.42	4.25	0.03	
Pakistan Petroleum Limited	154,000	24,000	17,200	92,000	103,200	16,671	17,793	1,122	4.22	4.06	0.01	
					<u>33,521</u>	<u>36,424</u>	<u>2,903</u>					
Chemicals												
Engro Corporation Limited	196,240	-	-	196,240	-	-	-	-	-	-	-	
Fauji Fertilizer Bin Qasim Limited	223,451	-	-	223,451	-	-	-	-	-	-	-	
Fauji Fertilizer Company Limited	231,224	-	-	231,224	-	-	-	-	-	-	-	
ICI Pakistan Ltd	-	95,000	-	-	95,000	11,304	11,125	(179)	2.64	2.54	0.07	
					<u>11,304</u>	<u>11,125</u>	<u>(179)</u>					
General Industrials												
Packages Limited	74,624	-	-	-	74,624	8,791	7,537	(1,254)	1.79	1.72	0.09	
					<u>8,791</u>	<u>7,537</u>	<u>(1,254)</u>					
Automobile and Parts												
Pak Suzuki Motor Company Limited	85,000	-	-	56,258	28,742	2,623	1,992	(631)	0.47	0.45	0.03	
					<u>2,623</u>	<u>1,992</u>	<u>(631)</u>					
Household Goods												
Pak Elektron Limited	627,570	-	-	-	627,570	12,593	8,786	(3,807)	2.08	2.01	0.53	
					<u>12,593</u>	<u>8,786</u>	<u>(3,807)</u>					
Pharma and Bio Tech												
Searl Pakistan Ltd	-	40,000	-	-	40,000	2,400	2,480	80	0.59	0.57	0.13	
					<u>2,400</u>	<u>2,480</u>	<u>80</u>					
Electricity												
The Hub Power Company Limited	316,500	-	-	316,500	-	-	-	-	-	-	-	
Kot Addu Power Company Limited	541,470	-	-	-	541,470	25,991	22,254	(3,737)	5.28	5.08	0.06	
					<u>25,991</u>	<u>22,254</u>	<u>(3,737)</u>					
Banks												
Allied Bank Limited	310,384	-	-	-	310,384	18,332	15,978	(2,354)	3.79	3.65	0.04	
					<u>18,332</u>	<u>15,978</u>	<u>(2,354)</u>					
Total as at September 30, 2010						<u>115,555</u>	<u>106,576</u>	<u>(8,979)</u>				

5.2 Listed preference shares- 'at fair value through profit or loss'

Name of the investee company	Number of shares				Balance as at September 30, 2010			Market Value		Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 01 2010	Purchases during the period	Bonus / Right issue during the period	Sales / redemption of during the period	As at Sep 30, 2010	Cost	Market value	Appreciation / (diminution)	As a percentage of total investments	
PERSONAL GOODS										
Masood Textile Mills Limited	2,500,000	-	-	833,333	1,666,667	16,667	16,667	-	3.95	3.81
Total as at September 30, 2010						16,667	16,667	-		

(Rupees in '000)

5.3 Term Finance Certificates and Sukuk bonds

Certificates (TFCs) having a face value of Rs 5,000 each, unless stated otherwise

Name of the investee company	Issue date	Number of certificates				Balance as at September 30, 2010			Market Value		Par value as a percentage of paid up capital of investee company
		As at 1 st July 2010	Purchases during the period	Sales / Matured during the period	As at Sep 30, 2010	Cost	Market value	Appreciation / (diminution)	As a percentage of total investments	As a percentage of net assets	
Worldcall Telecom Limited I	28-Nov-06	3,000	-	-	3,000	7,569	7,375	(194)	1.75	1.68	4.29
United Bank Limited III	8-Sep-06	7,020	-	-	7,020	34,700	34,160	(540)	8.10	7.80	1.76
Maple Leaf Cement Factory Limited	3-Dec-07	2,000	-	-	2,000	6,995	7,495	500	1.78	1.71	0.13
Total as at September 30, 2010						49,264	49,030	(234)			

(Rupees in '000)

5.4 Investment in government securities - 'at fair value through profit or loss'

Issue Date	Tenor	Face value in denomination of Rs. '000				Balance as at September 30, 2010			Investment	
		As at July 01, 2010	Purchases during the period	Sales / Issued during the period	As at September 30, 2010	Cost	Market value	Appreciation / (Diminution)	Market value as a % of total investments	Market value as a percentage of net assets
Treasury Bills										
May 20, 2010	3 Months	50,000	-	50,000	-	-	-	-	-	-
June 03, 2010	3 Months	20,000	-	20,000	-	-	-	-	-	-
June 17, 2010	3 Months	25,000	-	25,000	-	-	-	-	-	-
July 15, 2010	3 Months	-	15,000	-	15,000	14,971	-	-	-	-
August 13, 2010	3 Months	-	50,000	-	50,000	49,419	(11)	(0.00)	(0.00)	(0.00)
August 17, 2010	3 Months	-	80,000	-	80,000	78,720	(27)	(0.01)	(0.01)	(0.01)
August 26, 2010	3 Months	-	80,000	-	80,000	78,720	(27)	(0.01)	(0.01)	(0.01)
September 09, 2010	3 Months	-	75,000	-	75,000	73,445	(26)	(0.01)	(0.01)	(0.01)
Total as at September 30, 2010					216,500	216,502	(64)			

5.5 Listed equity securities - 'available-for-sale'

Name of the Investee company	Number of shares					Balance as at September 30, 2010			Market value			Par value as a percentage of net capital of investee company	
	As at July 01, 2010	Purchases during the period	Revs/ Risk Issue during the period	Sales / Issued during the period	As at September 30, 2010	Cost less impairment	Market Value	Appreciation / (Diminution)	As a percentage of total investments	As a percentage of net assets	Par value as a percentage of net capital of investee company		
Shares of listed companies - Fully paid ordinary shares of Rs 10 each unless stated otherwise													
General Industrials													
Packages Limited	134,307	-	-	-	134,307	13,565	13,565	-	3.22	3.10	0.16		
Automobile and parts													
Pak Suzuki Motors Company Limited	159,305	-	-	-	159,305	8,687	11,038	2,351	2.62	2.52	0.19		
Food Producers													
Nestle Pakistan Limited	5,935	-	-	5,935	-	-	-	-	-	-	-		
Personal Goods													
Kohinoor Mills Limited	361,484	-	-	-	361,484	932	994	62	0.24	0.23	0.71		
Suraj Cotton Mills Limited	211,446	-	-	-	211,446	2,685	7,422	4,737	1.76	1.69	1.17		
Total as at September 30, 2010					644,077	25,869	33,019	71,501					

- 5.6 Investments include quoted equity securities with market value of Rs 26,923,271 (June 30, 2010: Rs 28,584,340) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular No. 11 dated October 23, 2007 issued by the Securities & Exchange Commission of Pakistan.

	(Un-audited) September 30, 2010	(Audited) June 30, 2010
	(Rupees in '000)	
5.7 Net unrealised appreciation / (diminution) in value of investments 'at fair value through profit or loss'		
Market value of investments	388,775	356,972
Less: Cost of investments	<u>(398,052)</u>	<u>(361,570)</u>
	(9,277)	(4,598)
Less: Net unrealised diminution / (appreciation) in the fair value of investments at fair value through profit or loss at the beginning of the period	<u>4,598</u>	<u>48,564</u>
Add: Realised on disposal during the period	<u>7,071</u>	<u>(47,564)</u>
	<u>11,669</u>	<u>1,000</u>
Add: Provision against non-performing debt securities	<u>2,392</u>	<u>(3,598)</u>
	<u>(2,471)</u>	<u>2,471</u>
	<u>(79)</u>	<u>(1,127)</u>
5.8 Net unrealised appreciation / (diminution) in fair value of investments classified as 'available-for-sale'		
Market value of investments	33,019	46,349
Less: Cost less impairment	<u>(25,869)</u>	<u>(34,311)</u>
	7,150	12,038
Impairment loss on financial assets classified as 'available for sale' transferred to income statement	<u>(2,498)</u>	<u>615</u>
	<u>4,652</u>	<u>12,653</u>
Less: Net unrealised appreciation in fair value of investments at the beginning of period	<u>(12,653)</u>	<u>(26,098)</u>
	<u>(8,001)</u>	<u>(13,445)</u>

- 5.9 As at September 30, 2010, the management carried out a scrip wise analysis of impairment in respect of equity securities classified as available-for-sale. Accordingly, the management has charged an impairment loss amounting to Rs 2,498,581 for the quarter ended September 30, 2010.

6 CONTRIBUTION TO WORKERS' WELAFRE FUND

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

The MUFAP, on behalf of its member AMCs, obtained legal opinion from couple of renowned law firms to assess the implication of the letter issued by the ministry of Labour and Manpower. The legal opinions, among other things, stated that mutual funds are not required to provide for contribution to WWF and earlier provisioning, if any, can be reserved and the terms of the letter suggest that provisioning nor necessary. Further, the opinions suggest that the petition filed with the High Court of Sindh be withdrawn.

The Management has not made any provision in respect of WWF based on the letter issued by Ministry of Labour and Manpower, that mutual funds are not establishments and as a result are not liable to pay contribution to WWF.

7 DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. Board has approved the category of the Fund as "Balanced Scheme".

In accordance with clause (v) of the investment criteria laid down for 'Balanced Scheme', the Fund is required to invest in any security having rating not lower than the investment grade (credit rating of BBB and above). Further, clause (v) of the said categorization criteria requires that the ratings of any banks and DFIs with which funds are placed should not be lower than AA- (Double A Minus). However, as at September 30, 2010, the Fund is non-compliant with the above-mentioned requirement in respect of the following investment:

Name of non-compliant investment*	Name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
------(Rupees '000)-----						

Investment in debt securities*	Maple Leaf Cement Factory Limited - Term Finance	7,495	-	7,495	1.71	1.68
Balances with the banks**	Summit Bank Limited (formerly : Arif Habib Bank Limited)	20	-	20	-	-

*At the time of purchase, the said Sukuk was in compliance of the said circular (i.e. investment grade) and was subsequently downgraded to Non investment grade.

** The Fund maintained balances with Summit Bank Limited (formerly : Arif Habib Bank Limited) on account of being the settlement bank of the Fund. In order to be in compliance with circular 7 of 2009, the Fund has changed its settlement bank from Summit Bank Limited (formerly : Arif Habib Bank Limited) to Habib Metropolitan Bank Limited. For some outstanding cheques the Fund holds a small amount of funds with the Summit Bank Limited (formerly : Arif Habib Bank Limited) which shall be closed once the outstanding cheques are cleared.

8 TRANSACTIONS WITH CONNECTED PERSONS

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

Remuneration to the Management Company and Trustee are determined in accordance with the provision of NBFC regulations and Trust Deeds of the Fund. All other transactions with connected persons are in the normal course of business and are carried out on agreed terms

8.1 Transactions during the period

Management Company	Quarter ended September 30	
	2010	2009
	(Rupees in '000)	
Remuneration for the period	2,237	3,011
Sales load for the period	48	1
Issue of units: Nil (2009: Nil units)	-	-
Redemption of Nil units (2009: 1,318,754 units)	-	11,961
Bonus units issued: Nil (2009: Nil units)	-	-
Arif Habib Limited - Brokerage house		
Brokerage paid for the period*	99	37
Summit Bank (Formerly: Arif Habib Bank Limited)		
Mark-up Income for the period	11	1,918

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

**Quarter ended
September 30,
2010 2009
(Rupees in '000)**

**Central Depository Company of Pakistan
Limited - Trustee**

Remuneration for the period	<u>224</u>	<u>301</u>
CDS charges	<u>4</u>	<u>4</u>
CDS induction charges	<u>17</u>	<u>17</u>

Directors and executives of the Management Company

Issue of 5,493 units (2009: Nil units) for the quarter	<u>40</u>	<u>-</u>
Redemption of 6,489 units (2009: 3,700 units) for the quarter	<u>47</u>	<u>33</u>
Bonus units issued: 164,969 units (2009: Nil units) for the quarter	<u>1,166</u>	<u>-</u>

**(Unaudited) (Audited)
September 30, June 30,
2010 2010
(Rupees in '000)**

8.2 Amounts outstanding as at period end

Arif Habib Limited

Brokerage payable	<u>-</u>	<u>-</u>
-------------------	----------	----------

Summit Bank Ltd. (formerly :Arif Habib Bank Limited)

Mark-up receivable	<u>5</u>	<u>131</u>
Bank balance	<u>20</u>	<u>1,345</u>

**Arif Habib Investments Limited
Management Company**

Units held: Nil units (June 30, 2010: Nil units)	<u>-</u>	<u>-</u>
Management fee payable	<u>722</u>	<u>727</u>

	(Unaudited) September 30, 2010	(Audited) June 30, 2010
	(Rupees in '000)	
Directors and executives of the Management Company		
Units held 566,157 units (June 30, 2010: 402,183 units)	<u>4,099</u>	<u>4,010</u>
Payable to Pakistan Income Fund		
Amount due on account of conversion of units	<u>554</u>	<u>-</u>
Payable to Pakistan Income Enhancement Fund		
Amount due on account of conversion of units	<u>550</u>	<u>-</u>
Central Depository Company of Pakistan Limited - Trustee		
Security deposit	<u>300</u>	<u>300</u>
Trustee fee payable	<u>72</u>	<u>73</u>

9 DATE OF AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on October 25, 2010 by the Board of Directors of the Management Company.

10 GENERAL

Figures have been rounded off to the nearest thousand rupees.

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

Chief Executive

Director



HEAD OFFICE:

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

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

Fax: (+92-21) 32470351, 32470337

E-mail: marketing@arifhabib.com.pk

Website: www.arifhabib.com.pk