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## 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
Syed Ajaz Ahmed	Director
Mr. Sirajuddin Cassim	Director
Mr. Muhammad Akmal Jameel	Director
Mr. Muhammad Kashif	Director
Mr. S. Gulrez Yazdani	Director
Mr. Samad A.Habib	Director (Subject to the approval of SECP)

### Company Secretary & CFO of the Management Company

Mr. Zeeshan

### Audit Committee

Mr. Muhammad Shafi Malik	Chairman
Syed Ajaz Ahmed	Member
Mr. Muhammad Akmal Jameel	Member
Mr. Samad A.Habib	Member (Subject to the approval of SECP)

### 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. Bawaney & 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: 4-Star (Normal)  
PACRA: AM2 (Positive Outlook) - Management Quality Rating assigned to Management Company



## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE SIX MONTHS ENDED DECEMBER 31, 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 six months ended December 31, 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 higher compared 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 and cannot undertake leveraged investments.

### **Funds Performance during six months ended December 31, 2010**

The net assets of the Fund as at December 31, 2010 stood at Rs 447.20 million as compared to Rs. 444.55 million at 30 June 2010 registering a slight increase of 0.60%.

The Net Asset Value (NAV) per unit at the end of the period was Rs 7.82 per unit compared to opening Ex NAV of Rs 7.07 per unit, registering an increase of Re 0.75 per unit.

### **Explanation With Regards To Emphasis of Matter Paragraph included in the Auditor's Review Report**

The explanation with regard to emphasis of matter paragraph is provided in note 6 to the condensed interim financial statements.

### **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, Lahore and Islamabad Stock Exchanges for their continued cooperation and support. The Directors of the Management Company also



**REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2010**

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

19 February, 2011

**Nasim Beg**  
Chief Executive



## REPORT OF THE FUND MANAGER FOR THE QUARTER ENDED DECEMBER 31, 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 8.01% in 2Q FY11 against an increase of 12.49% in this benchmark during this time. The underperformance was because of lower equity exposure (against benchmark equity exposure of 50%) and underperformance of some key portfolio holdings. The fund, on average, remained 40% invested in equities. Portfolio constituting 18% of net assets, including Kapco, PSO, PSMC, Engro underperformed. About 22% (on average) of portfolio, including ABL, POL, PPL, ICI and Packages outperformed the KSE-100 Index.

For the half year ended December 31, 2010, the Fund NAV has increased 10.61%, compared to 15.99% of its benchmark. During the half year, Packages, Kapco, PSMC and Searle have been major drag on the portfolio return, while Engro and PSO also underperformed the market.

	<i>PCM</i>	
	<b>Fund</b>	<b>BM</b>
<b>Oct-10</b>	1.66	3.66
<b>Nov-10</b>	2.31	3.86
<b>Dec-10</b>	3.85	4.49
<b>QoQ</b>	8.01	12.49
<b>FY</b>	10.61	15.99

## Asset Allocation and investment activities during 2Q FY11

### Equity portfolio

The equity market continued to rally on stock specific triggers-good corporate earnings, improved demand-supply outlook, continued foreign portfolio inflows-despite persistent fiscal issues and political noise at the macro level. Amidst these developments, equity exposure in PCM was carefully added in select fundamentally strong and undervalued companies, increasing from 31.88% at the beginning of the quarter to 54.81% at the end. More specifically, PSO was added in the portfolio post resolution of the turnover tax issue of the company. Exposure in ICI was enhanced on improved earnings and dividend outlook. Further exposure in Engro was added on expectations that COD of its plant expansion is likely to improve market sentiments on the stock. Searl was added in the portfolio on expectations of growth earnings growth.

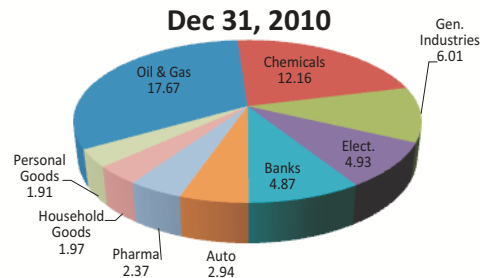
At the end of the quarter, oil & gas sector is the top holding with 17.67% allocation, followed by Chemicals (12.16%), General Industries (Packages: 10.01%), Banks (8.26%). P/E of the portfolio is 8.51x on 2010 earnings.

### Fixed income portfolio

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

A portion of the fund's T-Bill portfolio was offloaded to invest in the equity market. As a result, T-Bill exposure reduced from 49.44% to 27.50% during the quarter. The Fund's TFC portfolio remained unchanged during this time. This portfolio consist of exposure in TFCs of UBL (7.82%), World Call (1.10%) and Maple Leaf (1.46%), earning coupon ranging 1.0-2.75% above KIBOR. PCM's preference share exposure also remained unchanged at 3.73% of net assets. These shares have dividend linked to 6 month KIBOR + 2%.

<b>Top 10 Equity holdings on 31st Dec, 2010</b>	
Pakistan State Oil	7.46
ICI Pakistan	6.18
Packages Limited	6.01
Engro Corp	5.98
Pakistan Oilfields	5.20
Pakistan Petroleum	5.01
Kot Addu Power Company	4.93
Allied Bank	4.87
Pak Suzuki Motor Company	2.94
Searle Pakistan	2.37



## Equity Market Review

The KSE-100 index gained 20% in the second quarter of this fiscal year, with overall 23% gain in the first half ended December 2010. From its August 2010 lows of 9500, when it fell by 10% amid devastating monsoon floods in the country, the market has shown consistent rising trend with gains of 26% by December end. The rally in domestic equity market has coincided with strong gains in global equities and most importantly emerging market equities. The equities have defied the negative developments on the macroeconomic front with focus turning towards relatively attractive domestic equity valuations. Given the 50% average lower earnings multiples and higher dividend yields, foreigners have been aggressively bidding up the prices, by making net investments of USD 144mn in the second quarter compared to USD 106mn in the preceding quarter. Oil and gas sectors have been at the forefront of strong market performance, with all leading stocks in the exploration, refinery and oil marketing sub sectors showing strong gains. Market heavy weight OGDC, which accounts for 25% of the KSE100 index has risen by 18.30% during the quarter. Fertilizer stocks recorded strong gains amid expectations of improvement in manufacturers' margins and higher profits as fertilizer demand picked up following heavy floods in August. Large banks, after lagging behind the market during the past one year, have rebounded due to expected positive earnings announcement for the accounting year ended December 2010. During the quarter, average daily turnover increased to 124mn compared to that of 62mn in the first quarter of FY11. Volumes have been gradually on the rise, with activity in the month of December picking up amid expectations of introduction of new margin trading system in the near future.

## Economic review

1H FY11 continued to bring some key challenges for the restoration of a stable economy; continued rising government expenditure amid falling tax/GDP ratio and high inflation in a soaring interest rate scenario. SBP has responded by using a tight monetary policy, thus raising the discount rate by 150 bps to 14% in the last three consecutive Monetary Policy Statements (MPS).

## Fiscal Side

Fiscal account figures released by the Finance Ministry for July - September 2010 posted a deficit of 1.6% (Rs 276 billion) of GDP against a full year target of 4.7%. Given the persistent high government borrowing due to shortfall in revenue collection and higher expenditures on account of floods and electricity sector subsidies, we could see fiscal deficit for FY11 crossing 6.5% of GDP. Tax collection figures for July - November, 2010 showed a growth of 8.8% to Rs 500.07 billion over the corresponding period of last year which is way below the revised target of Rs1604 billion for the full FY11. The delay in the implementation of RGST has reduced the prospects of meeting the revenue targets for the current fiscal year. Furthermore, government has been unable to pass on the rise in international oil prices due to political pressure, which has adversely affected the petroleum levy account of the government. According to some official sources, the subsidy elimination on power of 2% monthly has also been delayed for an indefinite period of time which will result in further slippage of an already fragile fiscal account.

**Monetary Sector**

Money supply (M2) for 1HFY11 has grown compared to the same period last year, but this expansion is majorly due to high government borrowing from the SBP. M2 expanded by Rs550 billion as compared to an increase of Rs300 billion in 1HFY10. Net Foreign Assets (NFA) of the banking system increased by Rs131 billion on the back of better external account position. Net Domestic Assets (NDA) also increased by Rs419 billion from July - December 2010 against an increase of Rs295 billion in the same period of preceding year. This growth was merely due to elevated government borrowing which contributed Rs291 billion to NDA.

**Inflation**

CPI inflation, after starting off at 12.34%, climbed up to 15.46% YoY in December, 2010 due to high government borrowing and structural adjustments (subsidy elimination). The economy also witnessed serious supply side issues due to destruction of crop and infrastructure amid flood crisis. On the other hand Non-food Non-Energy (NFNE) inflation has been consistent at 9.5% which is 80 bps lower than what it was in July, 2010(10.3%). Going forward, inflation is expected to be persistent due to high government borrowing, elevated prices of agriculture commodities and higher international oil prices. With CPI inflation range of 15%-16% for FY 2011 along with higher fiscal deficit up to 6.5%, interest rates are expected to remain high and a possible further monetary tightening in the form of hike in the discount rate by 100 bps from the existing 14%.

**Real Sector**

Growth in large scale manufacturing sectors was negative 2.3% in the first five months of this fiscal year compared to the corresponding period of last year mainly due to devastating floods in August 2010. Cement production fell by 11.2%, followed by a negative 10.6% production in petroleum products, -10.1% in textile sector and lastly 5.0% contraction in fertilizer sector, while automobile sector enjoyed a positive growth of 12.9% along with Chemicals sector which produced 1.8% more over the same period of previous year. Overall domestic demand is likely to improve in the coming months due to two factors; first rehabilitation/reconstruction in flood affected areas and second, improvement in agriculture and rural income on account of expected higher wheat and other agriculture outputs/prices. However, prevailing inflationary pressures (15%+), higher interest rates (lending rates in excess of 16%) along with crippling electricity/gas shortages amid increasing tariffs are hurting the prospects of a significant rebound in manufacturing sector growth in the near future.

**External Side**

External side has seen marked improvement during the first half of this fiscal year, with current account position showing a surplus of US\$26 million (against a deficit of USD\$2570 million in the same period last year) mainly on account of reduction in trade deficit and higher remittances. Exports have increased by 21% to US\$11.071 billion on the back of strong performance of textiles exports. At the same time, imports have increased by 20% to US\$19.149 billion mostly due to higher international oil prices. Estimates for total exports and remittances have been revised upward to US\$22 billion and US\$10 respectively for the fiscal year ending June 2011. Overall, Pakistan's foreign exchange reserves increased from US\$16.48bn to US\$ 17.197 billion from July - January FY11. While external side is expected to be comfortable in the near term, Pakistan still requires to remain under the umbrella of IMF funding support given the weak fiscal position, declining direct foreign investments and vulnerability on account of high external debt.



**IMF support and RGST implementation**

IMF has stopped the disbursement of last two tranches of US\$3.4 billion as the Government of Pakistan reneged on its commitment to implement the reformed general sales tax amid strong opposition from the coalition partners of the government and opposition parties. Given the severity of fiscal situation, the government has no choice but to increase the tax revenue base and therefore, political consensus is likely to be achieved for the implementation of RGST not later than next annual budget of the government. Overall we expect that IMF will disburse the last tranches of the existing Standby arrangement (SBA) and Pakistan will negotiate for another SBA post FY 11.

**Future outlook**

At present local equities are trading at an average PE of 9.8x, lower than the emerging market PE that is in the range of 14.2x - 23.8x. Therefore, foreign liquidity driven rally may continue in the near future given the relatively lower valuations of Pakistani stocks in general. However, there are lingering serious macroeconomic concerns most particularly rising budget deficit, higher inflation/interest rates, electricity shortages and slow manufacturing sector growth. As a result, equity risk premium for Pakistani equities is expected to remain high compared to other emerging markets. Furthermore, interest rates are expected to increase further during the next quarter amid high inflation numbers, heavy government borrowing and fiscal imbalances.



## TRUSTEE REPORT TO THE UNIT HOLDERS

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

The Pakistan Capital Market Fund (the Fund), an open-end Fund was established under a trust deed dated October 27, 2003, executed between Arif Habib Investments 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 Fund during the six months period ended December 31, 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: February 23, 2011



## AUDITORS' REPORT TO THE UNIT HOLDERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

### *Introduction*

We have reviewed the accompanying condensed interim statement of assets and liabilities of **Pakistan Capital Market Fund** as at December 31, 2010, and the related condensed interim income statement, condensed interim distribution statement, condensed interim cash flow statement and condensed interim statement of movement in unit holders' fund together with the notes forming part thereof (here-in-after referred to as the 'condensed interim financial information'), for the half year ended December 31, 2010. The Management Company (Arif Habib Investments Limited) is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim income statement, condensed interim distribution statement, condensed interim cash flow statement and condensed interim statement of movement in unit holders' fund for the quarters ended December 31, 2010 and 2009 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2010.

### *Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2010 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

### *Emphasis of matter paragraph*

Without qualifying our conclusion, we draw attention to note 6 to the condensed interim financial statements which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers Welfare Fund which litigation is currently pending adjudication at the Honorable High Court of Sindh.

A.F. Ferguson & Co.  
Chartered Accountants  
Dated: February 19, 2011  
Karachi

**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES  
AS AT DECEMBER 31, 2010**

	Note	(Un-Audited) December 31, 2010	(Audited) June 30, 2010
(Rupees in '000)			
<b>ASSETS</b>			
Bank balances		14,777	36,930
Investments	4	431,228	403,321
Dividend and profit receivable		3,080	5,453
Advances, deposits and prepayments		3,345	3,267
Receivable against sale of units		110	-
Conversion costs		-	575
<b>Total assets</b>		452,540	449,546
<b>LIABILITIES</b>			
Payable to the Management Company		750	727
Payable to Central Depository Company of Pakistan Limited - Trustee		75	73
Annual fee payable to Securities and Exchange Commission of Pakistan		189	463
Payable on redemption of units		782	141
Accrued expenses and other liabilities		742	789
Dividend payable		2,798	2,805
<b>Total liabilities</b>		5,336	4,998
<b>NET ASSETS</b>		447,204	444,548
<b>Unit holders' funds (As per statement attached)</b>		447,204	444,548
<b>CONTINGENCIES AND COMMITMENTS</b>			
	6	(Number of units)	
<b>Number of units in issue</b>		57,160,693	44,576,814
		(Rupees)	
<b>NET ASSET VALUE PER UNIT</b>	3.3	7.82	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 HALF YEAR AND QUARTER ENDED DECEMBER 31, 2010**

	Note	Half year ended December 31,		Quarter ended December 31,	
		2010	2009	2010	2009
----- (Rupees in '000) -----					
<b>INCOME</b>					
Capital gain / (loss) on sale of investments - net		13,637	48,122	(22)	29,659
Income from Preference Shares		1,253	1,253	604	-
Income from Term Finance Certificates		3,475	9,148	1,929	4,632
Dividend income		5,630	15,603	4,115	11,681
Income from government securities		10,004	1,314	5,591	798
Profit on bank accounts		810	3,305	359	1,330
Income from other money market transactions		-	43	-	43
		<u>34,809</u>	<u>78,788</u>	<u>12,576</u>	<u>48,143</u>
Unrealised appreciation / (diminution) in fair value of investments at fair value through profit or loss - net	4.7	20,759	19,701	20,838	(27,563)
Impairment loss on equity investments classified as 'available-for-sale'		(2,498)	(417)	-	-
Reversal of provision / (provision) against non-performing debt securities		2,471	(1,500)	-	(1,500)
Reversal of mark-up income from non-performing debt securities		-	(774)	-	(774)
<b>Total income</b>		<u>55,541</u>	<u>95,798</u>	<u>33,414</u>	<u>18,306</u>
<b>OPERATING EXPENSES</b>					
Remuneration of the Management Company		4,458	5,721	2,221	2,710
Remuneration of Central Depository Company of Pakistan Limited - Trustee		446	572	222	271
Annual fee - Securities and Exchange Commission of Pakistan		189	272	94	129
Securities transaction cost		615	815	239	571
Bank charges		40	29	27	18
Fees and subscriptions		129	430	64	340
Legal and professional charges		30	30	15	15
Auditors' remuneration		247	217	117	99
Amortisation of conversion costs		575	740	205	370
Printing and related costs		199	122	111	19
<b>Total operating expenses</b>		<u>6,928</u>	<u>8,948</u>	<u>3,315</u>	<u>4,542</u>
<b>Net income from operating activities</b>		<u>48,613</u>	<u>86,850</u>	<u>30,099</u>	<u>13,764</u>
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(41,452)	16,679	8,647	14,355
<b>Net income for the period before taxation</b>		<u>7,161</u>	<u>103,529</u>	<u>38,746</u>	<u>28,119</u>
Taxation	5	-	-	-	-
<b>Net income for the period after taxation</b>		<u>7,161</u>	<u>103,529</u>	<u>38,746</u>	<u>28,119</u>
<b>OTHER COMPREHENSIVE (LOSS) / INCOME</b>					
Net unrealised (diminution) / appreciation in fair value of investments classified as 'available-for-sale'	4.8	(4,105)	9,852	3,896	(6,135)
<b>Total comprehensive income for the period</b>		<u>3,056</u>	<u>113,381</u>	<u>42,642</u>	<u>21,984</u>
Earnings per unit	3.4				

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 DISTRIBUTION STATEMENT (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2010**

	Half year ended December 31,		Quarter ended December 31,	
	2010	2009	2010	2009
	----- (Rupees in '000) -----			
<b>(Accumulated loss) / undistributed income brought forward</b>				
- Realised loss	(9,271)	(91,950)	(162,089)	(80,253)
- Unrealised (loss) / gain	(4,598)	(48,564)	(9,277)	13,949
	<u>(13,869)</u>	<u>(140,514)</u>	<u>(171,366)</u>	<u>(66,304)</u>
Net income for the period	7,161	103,529	38,746	28,119
Net element of income and capital (losses) / gains included in the prices of units issued less those in units redeemed	3,034	(10,907)	(326)	(9,707)
Final distribution for the year ended June 30, 2010: Rs 2.9 per unit (2009: Nil)				
- Cash Distribution	-	-	-	-
- Bonus units	(129,272)	-	-	-
Net (loss) / income for the period less distribution	(119,077)	92,622	38,420	18,412
	<u>(132,946)</u>	<u>(47,892)</u>	<u>(132,946)</u>	<u>(47,892)</u>
<b>Accumulated loss carried forward</b>				
- Realised loss	(144,507)	(53,540)	(144,507)	(53,540)
- Unrealised gain	11,561	5,648	11,561	5,648
	<u>(132,946)</u>	<u>(47,892)</u>	<u>(132,946)</u>	<u>(47,892)</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**

**CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2010**

	Half year ended December 31,		Quarter ended December 31,	
	2010	2009	2010	2009
----- (Rupees in '000) -----				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period before taxation	7,161	103,529	38,746	28,119
<b>Adjustments for non-cash items :</b>				
Amortisation of conversion costs	575	740	205	370
Unrealised (appreciation) / diminution in fair value of investments 'at fair value through profit or loss' - net	(20,759)	(19,701)	(20,838)	27,563
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed	41,452	(16,679)	(8,647)	(14,355)
Dividend income	(5,630)	(16,856)	(4,115)	(11,681)
Impairment loss on equity investments classified as 'available-for-sale'	2,498	417	-	-
(Reversal of provision) / provision against non-performing debt securities	(2,471)	1,500	-	1,500
Reversal of mark-up income from non-performing debt securities	-	774	-	774
	22,826	53,724	5,351	32,290
<b>(Increase) / decrease in assets</b>				
Receivable against Sale of Units	(110)	-	(110)	-
Investments	(11,280)	141,021	15,300	132,606
Interest receivable	2,373	(189)	2,039	1,593
Advances, deposits and prepayments	(78)	(204)	10	(86)
Receivable against sale of investments	-	11,976	-	369
	(9,095)	152,604	17,239	134,482
<b>(Decrease) / Increase in liabilities</b>				
Payable against purchase of investments	-	(3,314)	(2,400)	4,754
Payable to Arif Habib Investments Limited - Management Company	23	(681)	28	211
Payable to Central Depository Company of Pakistan Limited - Trustee	2	(9)	3	(18)
Annual fee payable to Securities and Exchange Commission of Pakistan	(274)	(311)	94	129
Payable on redemption of units	641	(841)	732	(87)
Accrued expenses and other liabilities	(47)	(57)	(1,296)	(241)
	345	(5,213)	(2,839)	4,748
Dividend Received	5,630	18,775	5,068	14,193
<b>Net cash inflow from operating activities</b>	19,706	219,890	24,819	185,713
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Net payments against redemption of units	(41,852)	(162,210)	(24,715)	(141,818)
Dividend paid	(7)	(4)	(7)	(1)
<b>Net cash outflow on financing activities</b>	(41,859)	(162,214)	(24,722)	(141,819)
<b>Net (decrease) / increase in cash and cash equivalents during the period</b>	(22,153)	57,676	97	43,894
Cash and cash equivalents at the beginning of the period	36,930	52,329	14,680	66,111
<b>Cash and cash equivalents as at the end of the period</b>	14,777	110,005	14,777	110,005

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 STATEMENT OF MOVEMENT IN  
UNIT HOLDERS' FUNDS (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2010**

Note	Half year ended December 31,		Quarter ended December 31,	
	2010	2009	2010	2009
	----- (Rupees in '000) -----			
<b>Net assets at the beginning of the period</b>	444,548	548,937	437,924	617,618
Issue of 364,123 units ( 2009: 2,022,825 units) and 41,402 units (2009: 127,139 units) for the half year and quarter respectively	2,665	17,589	312	1,232
Redemption of 6,064,935 units ( 2009: 18,826,810 units) and 3,344,956 units (2009: 14,779,411 units) for the half year and quarter respectively	(44,517)	(179,859)	(25,027)	(143,110)
	(41,852)	(162,270)	(24,715)	(141,878)
Issue of 18,284,691 bonus units (2009: Nil units) for the half year and quarter respectively	129,272	-	-	-
Element of losses / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed - net				
- amount representing loss / (income) and capital losses / (gains) - transferred to income statement	41,452	(16,679)	(8,647)	(14,355)
- amount representing unrealised capital (gains) losses and capital (gains) / losses that from part of the unit holders' fund - transferred to distribution statement	(3,034)	10,907	326	9,707
	38,418	(5,772)	(8,321)	(4,648)
Net unrealised (diminution) / appreciation during the period in fair value of securities classified as 'available-for-sale'	4.7 (4,105)	9,852	3,896	(6,135)
Capital gain / (loss) on sale of investments - net	13,637	48,122	(22)	29,659
Net unrealised appreciation / (diminution) in value of investments 'at fair value through profit or loss' - net	20,759	19,701	20,838	(27,563)
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing income / (loss) that form part of the unit holders' fund	3,034	(10,907)	(326)	(9,707)
Other net (loss) / income for the period	(27,235)	35,706	17,930	26,023
	10,195	92,622	38,420	18,412
Final distribution for the year ended June 30, 2010: Rs 2.9 per unit (2009: Nil)				
- Cash distribution	-	-	-	-
- Bonus distribution	(129,272)	-	-	-
	(129,272)	-	-	-
<b>Net assets as at the end of the period</b>	<u>447,204</u>	<u>483,369</u>	<u>447,204</u>	<u>483,369</u>

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

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



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

**Chief Executive**

**Director**





**NOTES TO AND FORMING PART OF THE CONDENSED  
INTERIM FINANCIAL STATEMENTS ( UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2010**

**1 LEGAL STATUS AND NATURE OF BUSINESS**

Pakistan Capital Market Fund (PCMF) was established under a trust deed executed between Arif Habib Investments Limited (AHIL) as an Management Company and Central Depository Company of Pakistan (CDC) as Trustee on October 27, 2003. The Investment Adviser of PCMF 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 PCMF 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.

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 (PACRA) has assigned asset management rating of 'AM2' (Positive outlook) and '4 Star Normal' to the Management Company and the Fund respectively.

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

**2 STATEMENT OF COMPLIANCE**

These 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 provisions of the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Regulations or the directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Regulations or the directives issued by the SECP prevail. The disclosures made in these condensed interim financial statements have, however, been limited based on the requirements of the International Accounting Standard 34: 'Interim Financial Reporting'.

These condensed interim financial statements are unaudited. However, limited scope review has been performed by the external auditors in accordance with the requirements of the Code of Corporate Governance.

### **3 SIGNIFICANT 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.

#### **3.1 Standards, interpretations and amendments to published approved accounting standards effective from July 1, 2010**

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

#### **3.2 Standards, interpretations and amendments to published approved accounting standards as adopted in Pakistan, that are not yet effective**

The following revised standard has been published and is mandatory for accounting periods beginning on or after January 1, 2011:

IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund will apply the revised standard from July 1, 2011. The Fund is currently in the process of assessing the impact, if any, of the revised standard on the related party disclosures.

There are other amendments to the standards, improvements to International Financial Reporting Standards 2010 and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these condensed interim financial statements.

#### **3.3 Net Asset Value per unit**

The net asset value (NAV) per unit, as disclosed on the Statement of Assets and Liabilities, is calculated by dividing the net assets of the Fund by the number of units in circulation at the period end.

#### **3.4 Earnings per unit**

Earnings per unit has not been disclosed as in the opinion of the management determination of cumulative weighted average number of outstanding units for calculating earnings per unit is not practicable.

(Un-Audited) (Audited)  
Note December 31, June 30,  
2010 2010  
(Rupees in '000)

#### 4 INVESTMENTS

##### At fair value through profit or loss

Listed equity securities	4.1	208,194	191,078
Listed preference shares	4.2	16,667	25,000
Term Finance Certificates and Sukuk bonds-listed	4.3	46,454	47,513
Government Securities	4.4	122,997	93,381
		<u>394,312</u>	<u>356,972</u>

##### Available for sale

Listed equity securities	4.5	36,916	46,349
		<u>431,228</u>	<u>403,321</u>

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

Name of the investee company	Number of shares					Balance as at December 31, 2010			Market Value		Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 1, 2010	Purchases during the period	Bonus / Right issue during the period	Sales during the period	As at December 31, 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

<b>Oil and Gas</b>												
Pakistan Oilfields Limited	118,569	-	-	40,000	78,569	16,850	23,253	6,403	5.39	5.20	0.03	
Pakistan Petroleum Limited	154,000	24,000	17,200	92,000	103,200	16,729	22,410	5,681	5.20	5.01	0.01	
Pakistan State Oil Company Limited	-	113,000	-	-	113,000	31,850	33,356	1,506	7.74	7.46	0.07	
						<u>65,429</u>	<u>79,019</u>	<u>13,590</u>				
<b>Chemicals</b>												
Engro Corporation Limited	196,240	138,000	-	196,240	138,000	26,267	26,746	479	6.20	5.98	0.04	
Fauji Fertilizer Bin Qasim Limited	223,451	-	-	223,451	-	-	-	-	-	-	-	
Fauji Fertilizer Company Limited	231,224	-	-	231,224	-	-	-	-	-	-	-	
ICI Pakistan Limited	-	191,500	-	-	191,500	25,087	27,622	2,535	6.41	6.18	0.14	
						<u>51,354</u>	<u>54,368</u>	<u>3,014</u>				
<b>General Industrials</b>												
Packages Limited	74,624	-	-	-	74,624	8,791	9,597	806	2.23	2.15	0.09	
						<u>8,791</u>	<u>9,597</u>	<u>806</u>				
<b>Automobile and Parts</b>												
Pak Suzuki Motor Company Limited	85,000	-	-	56,258	28,742	2,623	2,007	(616)	0.47	0.45	0.03	
						<u>2,623</u>	<u>2,007</u>	<u>(616)</u>				
<b>Household Goods</b>												
Pak Elektron Limited	627,570	-	-	-	627,570	12,593	8,811	(3,782)	2.04	1.97	0.53	
						<u>12,593</u>	<u>8,811</u>	<u>(3,782)</u>				
<b>Pharma and Bio Tech</b>												
Searle Pakistan Limited	-	176,495	-	-	176,495	10,830	10,591	(239)	2.46	2.37	0.58	
						<u>10,830</u>	<u>10,591</u>	<u>(239)</u>				
<b>Electricity</b>												
The Hub Power Company Limited	316,500	-	-	316,500	-	-	-	-	-	-	-	
Kot Addu Power Company Limited	541,470	-	-	-	541,470	25,990	22,027	(3,963)	5.11	4.93	0.06	
						<u>25,990</u>	<u>22,027</u>	<u>(3,963)</u>				
<b>Banks</b>												
Allied Bank Limited	310,384	-	-	-	310,384	18,332	21,774	3,442	5.05	4.87	0.04	
						<u>18,332</u>	<u>21,774</u>	<u>3,442</u>				
<b>Total as at December 31, 2010</b>						<u>195,942</u>	<u>208,194</u>	<u>12,252</u>				
Total as at June 30, 2010						193,883	191,078	(2,805)				

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

Name of the investee company	Number of shares					Balance as at December 31, 2010			Market Value		Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 1, 2010	Purchases during the period	Bonus / Right issue during the period	Sales / redeemed during the period	As at December 31, 2010	Cost	Market value	Appreciation / (diminution)	As a percentage of total investments	As a percentage of net assets	
----- Number of certificates -----											
----- (Rupees in '000) -----											
<b>PERSONAL GOODS</b>											
Masood Textile Mills Limited	2,500,000	-	-	833,333	1,666,667	16,667	16,667	-	3.87	3.73	2.78
<b>Total as at December 31, 2010</b>						<b>16,667</b>	<b>16,667</b>	<b>-</b>			
Total as at June 30, 2010						25,000	25,000	-			

4.3 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	As at July 1, 2010	Purchases during the period	Sales / Matured during the period	As at December 31, 2010	Balance as at December 31, 2010			Market Value		Par value as a percentage of issued debt capital of investee company
						Cost	Market value	Appreciation / (diminution)	As a percentage of total investments	As a percentage of net assets	
----- Number of certificates -----											
----- (Rupees in '000) -----											
Worldcall Telecom Limited I	28-Nov-06	3,000	-	-	3,000	5,046	4,938	(108)	1.15	1.10	4.29
United Bank Limited III	8-Sep-06	7,020	-	-	7,020	34,700	34,986	286	8.11	7.82	1.76
Maple Leaf Cement Factory Limited	3-Dec-07	2,000	-	-	2,000	6,994	6,266	(728)	1.45	1.40	0.13
Maple Leaf Cement Factory Limited	31-Mar-10	-	75	-	75	375	264	(111)	0.06	0.06	0.00
<b>Total as at December 31, 2010</b>						<b>47,115</b>	<b>46,454</b>	<b>(661)</b>			
Total as at June 30, 2010						49,273	47,513	(1,760)			

4.3.1 During the period, Maple Leaf Cement Factory Limited has been classified as performing debt security in accordance with circular no. 1 of 2009 and circular no. 3 of 2010 issued by the Securities and Exchange Commission of Pakistan and accordingly provision amounting to Rs 2.471 million has been reversed during the period.

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

Issue Date	Tenor	As at July 1, 2010	Purchases during the period	Sales / Matured during the period	As at December 31, 2010	Balance as at December 31, 2010			Investment		
						Cost	Market value	Appreciation / (Diminution)	Market value as a % of total investments	Market value as a percentage of net assets	
----- (Rupees in '000) -----											
<b>Treasury Bills</b>											
20-May-10	3 months	50,000	-	50,000	-	-	-	-	-	-	
3-Jun-10	3 months	20,000	-	20,000	-	-	-	-	-	-	
17-Jun-10	3 months	25,000	-	25,000	-	-	-	-	-	-	
15-Jul-10	3 months	-	15,000	15,000	-	-	-	-	-	-	
13-Aug-10	3 months	-	50,000	50,000	-	-	-	-	-	-	
29-Jul-10	3 months	-	10,000	10,000	-	-	-	-	-	-	
27-Aug-09	1 year	-	50,000	50,000	-	-	-	-	-	-	
26-Aug-10	3 months	-	80,000	80,000	-	-	-	-	-	-	
9-Sep-10	3 months	-	75,000	75,000	-	-	-	-	-	-	
4-Nov-10	3 months	-	25,000	-	25,000	24,781	24,772	(9)	5.74	5.54	
16-Nov-10	3 months	-	75,000	50,000	25,000	24,659	24,647	(12)	5.72	5.51	
2-Dec-10	3 months	-	75,000	-	75,000	73,587	73,578	(9)	17.06	16.45	
<b>Total as at December 31, 2010</b>						<b>123,027</b>	<b>122,997</b>	<b>(30)</b>			
Total as at June 30, 2010						93,414	93,381	(33)			

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

Name of the Investee company	Number of shares					Balance as at December 31, 2010			---Market Value---		Par value as a percentage of issued capital of investee company
	As at July 1, 2010	Purchases during the period	Bonus / Right issue during the period	Sales during the period	As at December 31, 2010	Cost less impairment	Market Value	(Diminution) / Appreciation	As a percentage of total investments	As a percentage of net assets	
<b>Shares of listed companies - Fully paid ordinary shares of Rs 10 each unless stated otherwise</b>											
<b>General Industrials</b>											
Packages Limited	134,307	-	-	-	134,307	18,351	17,273	(1,078)	4.01	3.86	0.16
						<b>18,351</b>	<b>17,273</b>	<b>(1,078)</b>			
<b>Automobile and parts</b>											
Pak Suzuki Motors Company Limited	159,305	-	-	-	159,305	8,688	11,123	2,435	2.58	2.49	0.19
						<b>8,688</b>	<b>11,123</b>	<b>2,435</b>			
<b>Food Producers</b>											
Nestle Pakistan Limited	5,935	-	-	5,935	-	-	-	-	-	-	-
						-	-	-			
<b>Personal Goods</b>											
Kohinoor Mills Limited	361,484	-	-	-	361,484	1,142	1,063	(79)	0.25	0.24	0.71
Suraj Cotton Mills Limited	211,446	-	-	-	211,446	2,685	7,457	4,772	1.73	1.67	1.17
						<b>3,827</b>	<b>8,520</b>	<b>4,693</b>			
<b>Total as at December 31, 2010</b>						<b>30,866</b>	<b>36,916</b>	<b>6,050</b>			
Total as at June 30, 2010						34,311	46,349	12,038			

4.6 Investments include quoted equity securities with market value of Rs 30.127million (June 30, 2010: Rs 28.584 million 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) December 31, 2010	(Audited) June 30, 2010
<b>4.7 Net unrealised appreciation / (diminution) in value of investments 'at fair value through profit or loss'</b>	(Rupees in '000)	
Market value of investments	394,312	356,972
Less: Cost of investments	(382,751)	(361,570)
	11,561	(4,598)
Net unrealised diminution in the fair value of investments at the beginning of the period	4,598	48,564
Realised on disposal during the period	7,071	(47,564)
	11,669	1,000
	23,230	(3,598)
(Reversal of provision) / provision against non-performing debt securities	(2,471)	2,471
	20,759	(1,127)
<b>4.8 Net unrealised diminution in fair value of investments classified as 'available-for-sale'</b>		
Market value of investments	36,916	46,349
Less: Cost less impairment	(30,866)	(34,311)
	6,050	12,038
Impairment loss on financial assets classified as 'available for sale'- transferred to income statement	2,498	615
	8,548	12,653
Less: Net unrealised appreciation in fair value of investments at the beginning of period	(12,653)	(26,098)
	(4,105)	(13,445)

4.9 As at December 31, 2010, the management has 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 million for the half year ended December 31, 2010.

	(Un-Audited) December 31, 2010	(Audited) June 30, 2010
<b>4.10 Movement in provision against debt securities</b>	(Rupees in '000)	
Opening balance	2,471	-
Charge for the year	-	2,471
Less: Reversal of provision	(2,471)	-
Write Off	-	-
<b>Closing balance</b>	<b>-</b>	<b>2,471</b>

## 5 TAXATION

No provision for taxation has been made as the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Management Company on behalf of the Fund intends to distribute at least 90 percent of such accounting income relating to the year ending June 30, 2011 to its unit holders. Accordingly, no tax liability has been recorded in the current period.

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.

## 6 CONTINGENCIES AND COMMITMENTS

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 mutual funds are not establishments and as a result are not liable to pay contribution to the WWF. The honourable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with the SHC by some of mutual funds through their Trustees alongwith few investors. However, subsequent to filing of the petition, the ministry of Labour and Manpower (the Ministry) issued a letter which states that mutual funds are not liable for WWF. Further, in a subsequent letter dated July 5, 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income of Mutual Fund(s), the product being sold, is exempted under the law *ibid*."

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

Based on the advice of the legal council handling the case, the Management Company is of the view that notwithstanding the show cause notices issued to a number of mutual funds, WWF is not applicable to the Funds due to the clarification issued by the Ministry which creates vested right, hence no provision of Rs 0.0518 per unit has been made in respect of WWF.

There were no other contingencies and commitments outstanding as at December 31, 2010.

**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. The Board of Directors of the Management Company 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 December 31, 2010, the Fund is non-compliant with the above-mentioned requirement in respect of the following investments:

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 Certificate	6,266	-	6,266	1.40	1.38
Investment in debt securities**	Maple Leaf Cement Factory Limited - Term Finance Certificate	264	-	264	0.06	0.06

\* 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.

\*\* This was issued against outstanding markup receivable from Maple Leaf cement Factory Limited.

**8 TRANSACTIONS WITH CONNECTED PERSONS**

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

Remunerations to the management company and trustee are determined in accordance with the provisions of the NBFC Regulations and Trust Deed 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**

	Half year ended December 31,		Quarter ended December 31,	
	2010	2009	2010	2009
	----- (Rupees in '000) -----			
<b>Arif Habib Investments Limited - Management Company</b>				
Remuneration for the period	4,458	5,721	2,221	2,710
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)	-	-	-	-
<b>Arif Habib Limited - Brokerage house</b>				
Brokerage expense for the period	99	121	-	84
<b>Summit Bank (Formerly: Arif Habib Bank Limited)</b>				
Mark-up Income for the period	18	3,109	7	1,191
<b>Central Depository Company of Pakistan Limited - Trustee</b>				
Remuneration for the period	446	572	222	271
CDS Charges	7	13	3	9
CDS Eligibility charges	34	34	17	17
<b>Directors and executives of the Management Company</b>				
Issue of 17,397 units (2009: 6,993 units) and 11,904 units (2009: 6,993) for the half year and quarter respectively	128	68	88	68
Redemption of 17,294 units (2009: 10,693 units) and 10,805 units (2009: 6,993) for the half year and quarter respectively	128	101	81	68
Bonus units issued: 164,969 (2009: Nil) and Nil bonus units (2009: Nil) for the half year and quarter respectively	1,166	-	-	-

**8.2 Amounts outstanding as at period / year end**

	(Un-Audited) December 31, 2010	(Audited) June 30, 2010
	----- (Rupees '000) -----	
<b>Arif Habib Limited</b>		
Brokerage payable	-	-
<b>Summit Bank (Formerly: Arif Habib Bank Limited)</b>		
Accrued mark-up Receivable	-	131
Bank Balance	31	1,344
<b>Arif Habib Investments Limited - Management Company</b>		
Units held: Nil (June 30, 2010: Nil units)	-	-
Payable to Management Company	750	727
<b>Directors and executives of the Management Company</b>		
Units held 567,256 (June 30, 2010: 402,183 units)	4,436	4,010
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Security deposit	300	300
Trustee Payable	75	73
Prepaid CDS eligibility charges	33	-



**9 DATE OF AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS**

These financial statements were authorised for issue on 19 February 2011 by the Board of Directors of the Management Company.

**10 GENERAL**

**10.1** Figures have been rounded off to the nearest thousand rupees.

**10.2** Corresponding figures have been rearranged and reclassified wherever necessary, for the purposes of comparison and better presentation. No significant changes to corresponding figures have been made during the period.

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

**Chief Executive**

**Director**