

PAKISTAN
STOCK
MARKET
FUND



QUARTERLY REPORT SEPTEMBER 30, 2010 (Unaudited)

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Asset Manager Rating
'AM2' Positive Outlook (by PACRA)



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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 Mr. Nasim Beg Mr. Sirajuddin Cassim Mr. S. Gulrez Yazdani Mr. Muhammad Akmal Jameel Syed Ajaz Ahmed Mr. Muhammad Kashif Habib	Chairman Chief Executive Director Director Director Director Director
Company Secretary & CFO of the Management Company	Mr. Zeeshan	
Audit Committee	Mr. Muhammad Shafi Malik Mr. Muhammad Akmal Jameel Mr. Muhammad Kashif Habib Syed Ajaz Ahmed	Chairman Member Member Member
Trustee	Central Depository Company of Pakistan Limited (CDC) CDC House, 99-B, S.M.C.H.S. Main Shahrah-e-faisal, Karachi.	
Bankers	Bank AL Habib Limited Summit Bank Limited (formerly: Arif Habib Bank Limited) Deutsche Bank A.G. Standard Chartered Bank (Pakistan) Limited United Bank Limited Habib Metropolitan Bank Limited MCB Bank Limited Soneri Bank Limited Meezan Bank Limited Habib Bank Limited Allied Bank Limited The Royal Bank of Scotland Bank Alfalah Limited Askari Commercial Bank Limited	
Auditors	KPMG Taseer Hadi & Co Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
Legal Adviser	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Registrar	Gangjees Registrar Services (Pvt.) Limited. Room No. 516, 5th Floor, Clifton Centre, Kehkashan, Clifton, Karachi.	
Rating	PACRA: 4 Star (Normal) PACRA: 2 Star (Long Term) 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 Pakistan Stock Market Fund (PSM) is pleased to present its Report together with the Condensed Interim Financial Statements for the quarter ended September 30, 2010.

Fund Objective

The objective of the fund is to provide investors long term capital appreciation from its investment in Pakistani equities.

Fund Profile

Pakistan Stock Market Fund (PSM) is an open end equity fund that invests in quality stocks listed in Pakistan. Board has approved the categorisation of Fund as an "Equity Scheme".

The fund is actively managed and fundamental research drives the investment process. Fundamental outlook of sectors/companies and DCF (discounted cash flow) valuations are the primary factors in sectors' allocation and stock selection. Major portion of the fund's portfolio is invested in high quality liquid stocks. The funds which are not invested in equities are required to be kept in bank deposits and short-term money market instruments/ placements.

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

Fund Performance during the quarter ended September 30, 2010

The Net Assets of the Fund as at September 30, 2010 stood at Rs 1,682.55 million as compared to Rs 1,841.34 million as at June 30, 2010, registering a decrease of 8.62%.

The Net Asset Value (NAV) per unit as at September 30, 2010 was Rs 50.56 as compared to opening Ex NAV of Rs. 49.64 per unit as at June 30, 2010, registering an increase of Re 0.92 per unit during the period.

Future Outlook and Fund Performance

Future Outlook and Fund Performance is fully explained in Fund Manager Report attached to this report.

Acknowledgement

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in Arif Habib Investments Limited. The Board also likes to thank the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee of the Fund) and the management of the Karachi Stock Exchange for their continued cooperation, guidance, substantiation and support.

The Board also acknowledges the efforts put in by the team of the Management Company for the growth and 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

Fund Objective

The objective of the fund is to provide investors long term capital appreciation from its investment in Pakistani equities.

Fund Profile

Pakistan Stock Market Fund (PSM) is an open end equity fund that invests in quality stocks listed in Pakistan.

The fund is actively managed and fundamental research drives the investment process. Fundamental outlook of sectors/companies and DCF (discounted cash flow) valuations are the primary factors in sectors' allocation and stock selection. Major portion of the fund's portfolio is high quality liquid stocks. The funds which are not invested in equities are required to be kept in bank deposits and short-term money market instruments/ placements.

PSM 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's Performance

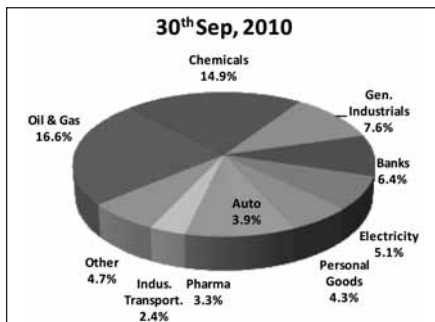
PSM NAV increased 1.85% in 1Q FY11, compared to a rise of 3% in KSE-100 Index. While the Fund had been outperforming the benchmark index for the first two months, the NAV declined 0.26% in September against a rise of 2% in KSE-100 Index. The underperformance was because of lesser return in its key portfolio holdings and a lower exposure in equities amidst a rise in the equity market. Amongst the top portfolio holdings, Packages remained a major drag on portfolio returns, falling by 14.8% during the quarter. Other underperformers include Engro, PSMC and ABL. PPL, POL, FFC, ICI, NML, Nestle and Searle outperformed the index.

	<i>PSM</i>	<i>KSE-100</i>
Jul-10	7.49%	8.20%
Aug-10	-5.00%	-6.71%
Sep-10	-0.26%	2.04%

Asset allocation and Investment Activities during 1Q FY11

With deteriorating macroeconomic outlook and increased political noise, equity exposure was reduced during the quarter. From a beginning exposure of about 86%, the equity exposure was first built to a high of 92% by the beginning of August, adding ICI and PPL in the portfolio. However, as estimates of the severity of the floods started penetrating in the market, the Fund equity exposure was drastically brought down to about 70% at end August, with a further marginal reduction in September. The selling was mostly done in the liquid stocks as average volumes in the market also reduced. Exposure in Fertilizer stocks was reduced due to expected shortfall in fertilizer demand in the near term. PSO was completely eliminated from the portfolio amidst negative outlook on the scrip because of the increased turnover tax. Nestle and Pak Tobacco was offloaded completely, since the stock price moved above their fair values. Besides these, some exposure in PPL, HBL and PSMC was also reduced.

<i>Top 10 holdings on 30th Sep, 2010</i>	
Pakistan Petroleum Ltd.	8.88%
Pakistan Oilfields Ltd.	7.69%
Packages Ltd.	7.65%
Fauji Fertilizer Co. Ltd.	4.69%
ICI Pakistan Ltd.	4.49%
Allied Bank Ltd.	4.17%
Pak Suzuki Motor Co. Ltd.	3.93%
Nishat Mills Ltd.	3.72%
Engro Corporation Ltd.	3.67%
Searle Pakistan Ltd.	3.28%



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 132mn) 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, Sri Lank 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\$9.5bn (approx. 6% of GDP), out of which crops and live stock damages are estimated at US\$5bn 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 Rs35.4bn while net Domestic Assets (NDA) were at Rs-0.5bn. Government borrowing after touching Rs220bn as on Sep 24, 2010 has come down to Rs200bn, 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 Rs68bn. 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

	<i>Note</i>	Unaudited September 30, 2010	Audited June 30, 2010
(Rupees in '000)			
Assets			
Balances with banks		42,723	13,780
Investments	5	1,632,870	1,779,291
Dividend and mark-up receivable		12,675	503
Advances, deposits, prepayments and other receivables		4,265	4,218
Receivable against sale of investments		2,846	51,925
Receivable against sale of units		666	2,669
Total assets		1,696,045	1,852,386
Liabilities			
Payable on redemption of units		7,591	1,580
Payable to Management Company		3,140	3,465
Payable to Central Depository Company of Pakistan Limited - Trustee		227	242
Payable to Securities and Exchange Commission of Pakistan		438	2,050
Accrued expenses and other liabilities		2,102	3,709
Total liabilities		13,498	11,046
Net assets		1,682,547	1,841,340
Unit holders' funds		1,682,547	1,841,340
(Number of units)			
Number of units in issue		33,278,107	31,028,566
(Rupees)			
Net asset value per unit		50.56	59.34

The annexed notes 1 to 9 form an integral part of these condensed interim financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive

Director

**CONDENSED INTERIM INCOME STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

		2010	2009
Income	<i>Note</i>	(Rupees in '000)	
Capital gain on sale of investments		58,790	110,146
Income from Government Securities		10,464	99
Dividend income		17,154	29,336
Profit on deposit accounts with banks		1,076	11,267
Impairment loss on financial assets classified as 'available for sale'		<u>(202)</u>	<u>(461)</u>
		87,282	150,387
Unrealised (diminution) / appreciation in fair value of investments			
'at fair value through profit or loss - net	5.6	<u>(5,875)</u>	<u>332,282</u>
Total income		81,407	482,669
Operating Expenses			
Remuneration of Management Company		9,172	10,577
Remuneration of Central Depository Company of Pakistan Limited - Trustee		711	781
Annual fee - Securities and Exchange Commission of Pakistan		438	503
Securities transaction cost		1,290	1,891
Settlement and bank charges		110	74
Fees and subscriptions		52	52
Legal and professional charges		25	60
Auditors' remuneration		118	128
Printing and related expenditure		56	102
Total expenses		<u>11,973</u>	<u>14,168</u>
Net income from operating activities		69,434	468,501
Element of loss and capital losses included in prices of units sold less those in redeemed		(11,051)	(6,746)
Net income for the period		<u>58,383</u>	<u>461,755</u>
Other comprehensive (loss) / income for the period			
Unrealised (diminution) / appreciation in value of investments classified as 'available for sale'		(34,248)	50,717
Total comprehensive income for the period		<u>24,135</u>	<u>512,472</u>

The annexed notes 1 to 9 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

	2010	2009
	(Rupees in '000)	
Undistributed income / accumulated (loss) brought forward	202,333	(159,341)
Final distribution for the year ended 30 th June 2010: 19.40% (2009: Nil) (Date of distribution: 05 th July 2010)		
Distribution		
Cash distribution	(18,442)	-
Issue of bonus units	(282,535)	-
Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units redeemed - amount representing unrealised appreciation / (diminution)	5,576	(3,829)
Net income for the period	58,383	461,755
	(237,018)	457,926
Accumulated (loss) / undistributed income carried forward	<u>(34,685)</u>	<u>298,585</u>

The annexed notes 1 to 9 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 (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2010

	2010	2009
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income / (loss) for the period	58,383	461,755
Adjustments		
Unrealised (appreciation) / diminution in fair value of investments		
' at fair value through profit or loss - net	5,875	(332,282)
Element of loss / (income) and capital losses / (gains) included in prices of units sold less those in units repurchased	11,051	6,746
Impairment loss on financial assets classified as 'available for sale'	202	461
Remuneration of Management Company	9,172	10,577
Remuneration of Central Depository Company of Pakistan Limited- Trustee	711	781
	<u>85,394</u>	<u>148,038</u>
(Increase) / decrease in assets		
Investments	106,095	47,956
Receivable against continuous funding system	-	-
Dividend and markup receivable	(12,172)	(3,428)
Advances, deposits, prepayments and other receivables	(47)	102
Receivable against sale of investments	49,079	4,260
	<u>142,955</u>	<u>48,890</u>
Increase / (decrease) in liabilities		
Payable against purchase of investments	-	(23,863)
Payable to Management Company	(22)	(22)
Payable to Central Depository Company of Pakistan Limited - Trustee	-	4
Payable to Securities and Exchange Commission of Pakistan	(1,612)	(1,485)
Accrued expenses and other liabilities	(1,607)	963
	<u>(3,241)</u>	<u>(24,403)</u>
Remuneration paid to Management Company	(9,474)	(13,562)
Remuneration paid to Central Depository Company Limited- Trustee	(726)	(744)
Net cash inflow / (outflow) from operating activities	<u>214,908</u>	<u>158,219</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Net payments made against redemption / sale of units	(167,523)	(71,869)
Dividend paid	(18,442)	-
Net cash outflow from financing activities	<u>(185,965)</u>	<u>(71,869)</u>
Net increase / (decrease) in cash and cash equivalents during the period	28,943	86,350
Cash and cash equivalents at the beginning of the period	13,780	364,762
Cash and cash equivalents as at the end of the period	<u>42,723</u>	<u>451,112</u>

The annexed notes 1 to 9 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' FUND (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

Note	2010 (Rupees in '000)	2009
Net assets at the beginning of the year	1,841,340	1,847,886
Issue of units 2,259,291 (2009: 5,438,510 units)	115,207	291,559
Redemption of units 5,701,439 (2009: 6,754,284 units)	(290,744) (175,537)	(367,921) (76,362)
	<u>1,665,803</u>	<u>1,771,524</u>
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed		
- amount representing loss and capital losses		
- transferred to Income Statement	11,051	6,746
- amount representing unrealised (appreciation) / diminution in value of investments transferred directly to Distribution Statement	(5,576) 5,475	3,829 10,575
Net unrealised (diminution) / appreciation in value of investments of investments classified as 'available for sale' 5.7	(34,248)	50,717
Capital gain on sale of investments	58,790	110,146
Unrealised (diminution) / appreciation in value of investments at fair value through profit or loss - net	(5,875)	332,282
Other net income for the period	5,468	19,327
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised diminution	5,576	(3,829)
Final distribution of Rs 9.70 for the year ended June 30, 2010 (2009: Nil)		
- Cash distribution	(18,442)	-
- Issue of bonus units	(282,535) (237,018)	- 457,926
Issue 5,691,689 bonus units for the year ended June 30, 2010 (2009: Nil)	282,535	-
Net assets at end of the period	<u>1,682,547</u>	<u>2,290,742</u>

The annexed notes 1 to 9 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Stock Market Fund (PSM) was established under a Trust Deed executed between Arif Habib Investments Limited (formerly: Arif Habib Investment Management Limited) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 23rd October 2001 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 28th February 2002 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules) [repealed by Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules)].

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

PSM is an open-ended mutual fund, listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned management quality rating of 'AM2' (positive outlook) to the Management Company and 4-Star Normal and 2-Star Long Term to the Fund.

The Fund is a stock market fund, which primarily invests in shares of listed companies.

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. BASIS OF PRESENTATION

- 2.1 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."

- 2.2 These condensed interim financial statements are unaudited.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual 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 were disclosed in the financial statements of the period/ year ended June 30, 2010.

5. INVESTMENTS

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

At fair Value through profit or loss - held for tarding

Investment in shares listed in Pakistan	5.1	970,205	1,318,785
Investment in government securities	5.2	470,358	196,691

Available for Sale

Investment in shares listed in Pakistan	5.3	192,307	263,815
		1,632,870	1,779,291

5.1 Investment in shares listed in Pakistan - 'at fair value through profit or loss'

Name of the investor company	Number of shares					Balance as at September 30, 2010			Market value as a percentage of		Paid up value of shares held as a % of total paid up capital of the investor 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	(Diminution) / Appreciation	Investments	net assets	
(Rupees in 000)											
SHARES OF LISTED COMPANIES - Fully paid ordinary shares / certificates of Rs. 10 each unless stated otherwise											
OIL & GAS PRODUCERS											
Pakistan Oilfield Limited	545,932	-	-	-	545,932	115,797	129,457	13,660	7.93	7.69	0.23
Pakistan Petroleum Limited	718,528	140,000	144,505	136,000	867,033	139,618	149,485	9,867	9.15	8.88	0.07
Pakistan State Oil Company Limited	195,350	-	-	195,350	-	-	-	-	-	-	-
						255,415	278,942	23,527			
CHEMICALS											
Decson oxychem Limited	460,112	-	-	-	460,112	4,601	2,043	(2,558)	0.13	0.12	0.45
Engro Corporation Limited	972,397	-	-	618,000	354,397	48,582	61,740	13,158	3.78	3.67	0.11
Fauji Fertilizer Bin Qasim Limited	534,000	-	-	534,000	-	-	-	-	-	-	-
Fauji Fertilizer Company Limited	523,674	-	-	523,674	-	-	-	-	-	-	-
I.C.I. Pakistan Limited	411,800	233,000	-	-	644,800	92,437	75,506	(16,931)	4.62	4.49	0.46
Sitara Chemical Industries Limited	268,492	-	-	-	268,492	45,186	32,190	(12,997)	1.97	1.91	1.32
						190,806	171,478	(19,328)			
GENERAL INDUSTRIALS											
Packages Limited	859,318	-	-	-	859,318	128,192	86,791	(41,400)	5.32	5.16	1.02
						128,192	86,791	(41,400)			
INDUSTRIAL TRANSPORTATION											
Pakistan International Container Terminal Limited	603,607	-	-	-	603,607	29,252	39,017	9,665	2.44	2.37	0.55
						29,252	39,017	9,665			
AUTOMOBILE AND PARTS											
Pak Suzuki Motor Company Limited	687,096	-	-	50,000	637,096	79,471	44,444	(34,527)	2.70	2.62	0.77
						79,471	44,444	(34,527)			
FOOD PRODUCERS											
Nestle Pakistan Limited	55,813	-	-	55,813	-	-	-	-	-	-	-
						-	-	-			
HOUSEHOLD GOODS											
Pakistan Edibles Limited	1,312,011	-	-	-	1,312,011	2,418	18,348	(6,950)	1.12	1.09	1.12
						2,418	18,348	(6,950)			
PERSONAL GOODS											
Artistic Denim Limited	158,200	-	-	-	158,200	6,803	3,180	(3,623)	0.19	0.19	0.19
Gul Ahmed Textile Mills	64,500	-	-	-	64,500	2,709	1,419	(1,290)	0.09	0.08	0.10
Nishat Mills Limited	1,362,130	-	-	-	1,362,130	61,613	62,658	1,045	3.84	3.72	0.39
						71,125	67,257	(3,868)			
TOBACCO											
Pakistan Tobacco Company Limited	413,200	-	-	413,200	-	-	-	-	-	-	-
						-	-	-			
PHARMA AND BIO TECH											
Searl Pakistan Limited	889,754	-	-	-	889,754	53,448	55,165	1,717	3.38	3.28	2.91
						53,448	55,165	1,717			
FIXED LINE TELECOMMUNICATION											
Watcom Telecom Limited	1,000,000	-	-	-	1,000,000	6,290	4,160	(2,130)	0.25	0.25	0.16
						6,290	4,160	(2,130)			
ELECTRICITY											
Hub Power Company Limited	1,221,266	-	-	-	1,221,266	35,483	40,456	5,173	2.49	2.42	0.11
Kot Addu Power Company Limited	1,086,400	-	-	-	1,086,400	52,615	44,651	(7,964)	2.73	2.65	0.12
						88,098	85,307	(2,791)			
BANKS											
Allied Bank Limited	1,363,377	-	-	-	1,363,377	72,484	70,187	(2,297)	4.30	4.17	0.17
Bank Al Habib Limited	650,000	-	-	-	650,000	21,775	20,183	(1,592)	1.24	1.20	0.09
Habib Bank Limited	246,840	-	-	73,553	173,287	15,167	16,500	1,333	1.01	0.98	0.02
						109,426	106,870	(2,556)			
NON LIFE INSURANCE											
ICI Insurance	164,550	-	-	-	164,550	25,062	11,806	(13,256)	0.72	0.70	0.23
						25,062	11,806	(13,256)			
Total as at September 30, 2010						1,460,604	970,284	(489,790)			

5.2 Government securities - 'at fair value through profit or loss'

Issue Date	Face value					Balance as at September 30, 2010			Market value	
	Tenor	As at July 01, 2010	Purchases during the period	Sales / Matured during the period	As at Sep 30, 2010	Cost	Market Value	Appreciation (Diminution)	as a percentage of net assets	as a percentage of total investment
(Rupees in 000)										
Treasury Bills										
August 13, 2010	3 Months		50,000		50,000	49,431	49,419	(12)	2.94	3.03
August 13, 2010	3 Months		90,000		90,000	88,987	88,953	(34)	5.29	5.45
February 25, 2010	6 Months		200,000	200,000	-	-	-	-	-	-
August 27, 2009	1 Year		75,000	75,000	-	-	-	-	-	-
October 8, 2009	1 Year		25,000	25,000	-	-	-	-	-	-
August 26, 2010	3 Months		187,500		187,500	184,500	184,437	(63)	10.96	11.30
August 26, 2010	3 Months		150,000		150,000	147,600	147,549	(51)	8.77	9.04
September 9, 2010	3 Months		65,000	65,000	-	-	-	-	-	-
May 20, 2010	3 Months		100,000		100,000	-	-	-	-	-
June 3, 2010	3 Months		75,000	75,000	-	-	-	-	-	-
June 17, 2010	3 Months		25,000	25,000	-	-	-	-	-	-
Total as at September 30, 2010			842,500	665,000	477,500	470,518	470,358	(160)		

5.3 Investment in shares listed in Pakistan - 'Available for sale'

Name of the investee company	Number of shares					Balances as at September 30, 2010			Market value as a percentage of		Paid up value of shares held as a % 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 less impairment	Market value	(Diminution) / Appreciation	Investments	net assets	
(Rupees in 000)											
SHARES OF LISTED COMPANIES - Fully paid ordinary shares / certificates of Rs. 10 each unless stated otherwise											
CHEMICALS											
Fajji Fertilizer Company Limited	945,268	-	-	192,175	753,093	39,061	78,954	39,893	4.84	4.69	0.11
						39,061	78,954	39,893			
FORESTRY AND PAPER											
Century Paper & Board Mills Limited	781,220	-	-	-	781,220	9,843	15,367	5,524	0.94	0.91	1.11
Security Paper Limited	76,522	-	-	76,522	-	-	-	-	-	-	-
						9,843	15,367	5,524			
INDUSTRIAL METALS AND MINING											
International Industries Limited	502,012	-	100,402	-	602,414	27,562	29,398	2,036	1.80	1.75	0.50
						27,562	29,398	2,036			
GENERAL INDUSTRIALS											
Packages Limited	415,041	-	-	-	415,041	41,386	41,919	533	2.57	2.49	0.49
						41,386	41,919	533			
AUTOMOBILE AND PARTS											
Pak Suzuki Motor Company Limited	318,300	-	-	-	318,300	17,357	22,055	4,698	1.35	1.31	0.39
						17,357	22,055	4,698			
FOOD PRODUCERS											
Nestle Pakistan Limited	7,300	-	-	7,300	-	-	-	-	-	-	-
PERSONAL GOODS											
Artistic Denim Limited	95,400	-	-	-	95,400	1,948	1,918	(30)	0.12	0.11	0.11
Gul Ahmed Textile Mills Limited	70,291	-	-	-	70,291	1,203	1,546	343	0.09	0.09	0.10
Kohinoor Mills Limited	418,180	-	-	-	418,180	1,522	1,150	(172)	0.07	0.07	0.82
						4,673	4,614	41			
TOBACCO											
Pakistan Tobacco Co. Limited	300,000	-	-	300,000	-	-	-	-	-	-	-
Total as at 30 September 2010						139,582	192,307	52,725			

- 5.4 Investments as at September 30, 2010 include shares with market value of Rs 45.05 million (June 30, 2010: Rs 49.002 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular number 11 dated October 23, 2007 issued by the Securities & Exchange Commission of Pakistan.

5.6 Net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss	(Unaudited) September 30, 2010	(Audited) June 30, 2010
	(Rupees in '000)	
Market value of investments	1,440,563	1,515,476
Less: Cost of investments	<u>(1,530,522)</u>	<u>(1,553,732)</u>
	(89,959)	(38,256)
Less: Net unrealised diminution in fair value of investments at the beginning of period	38,256	403,027
Add: Realised on disposal during the period	45,828	(307,710)
	84,084	95,317
	<u>(5,875)</u>	<u>57,061</u>

5.7 Net unrealised appreciation in fair value of investments classified as 'available for sale'

Market value of investments	192,307	263,815
Cost less impairment	<u>(139,582)</u>	<u>(178,514)</u>
	52,725	85,301
Impairment loss on investment classified as 'available for sale'- transferred to Income Statement	202	1,874
	52,927	87,175
Less: Net unrealised diminution / (appreciation) in fair value of investments at the beginning of period	<u>(87,175)</u>	<u>(63,965)</u>
	<u>(34,248)</u>	<u>23,210</u>

6. 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 Limited (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.

Remunerations to the Management Company and trustee are determined in accordance with the provisions 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.

Details of transactions with connected persons and balances with them at period end are as follows:

	(Unaudited)	
	September 30, 2010	September 30, 2009
	(Rupees in '000)	
Management Company		
Remuneration	9,172	10,577
Sales load	315	331
Arif Habib Limited		
Brokerage *	278	324
Summit Bank (formerly: Arif Habib Bank Limited)		
Markup Income	721	3,667
Central Depository Company of Pakistan Limited-Trustee		
Remuneration of the Trustee	711	781
CDS charges	9	21
Directors and Executive of the Management Company		
Investment in the Fund 200,755 units (2009: 436,898 units)	10,375	24,230
Redemption from the Fund 240,356 units (2009: 398,491 units)	12,386	22,361
Bonus units 38,063 (2009: nil)	1,889	-
Amounts outstanding as at the period / year end	(Unaudited) September 30, 2010	(Audited) June 30, 2010
	(Rupees in '000)	
Summit Bank Limited (formerly: Arif Habib Bank Limited)		
Accrued mark-up	121	401
Bank Balance	6,799	4,869
Management Company		
Management fee payable	2,890	3,193
Sales load payable	250	272
Directors and Executive of the Management Company		
193,251 units (2010: 194,582 units)	9,771	11,546

	(Unaudited) September 30, 2010	(Audited) June 30, 2010
	(Rupees in '000)	
Central Depository Company of Pakistan Limited-Trustee		
Security Deposit	200	200
Trustee fees	268	242
CDS charges	10	-
Pakistan Income Enhancement Fund		
Receivable from Pakistan Income Enhancement Fund	449	482
Pakistan Income Fund		
Payable to Pakistan Income Fund	-	2,406

* 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 transactions with connected persons as the ultimate counter parties are not connected persons.

7. CONTRIBUTION TO WORKERS WELFARE FUND

Through the 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 members 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 opinions from couple of renowned law firms to assess the implications 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 reversed and the terms of the letters suggest that provisioning was neither required 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.

8. DATE OF AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

These condensed interim financial statements have been authorized for issue on October 25, 2010 by the Board of Directors of the Management Company.

9. GENERAL

9.1 Figures have been rounded off to the nearest thousand rupees.

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

Chief Executive

Director