

PAKISTAN  
INTERNATIONAL  
ELEMENT  
ISLAMIC  
FUND



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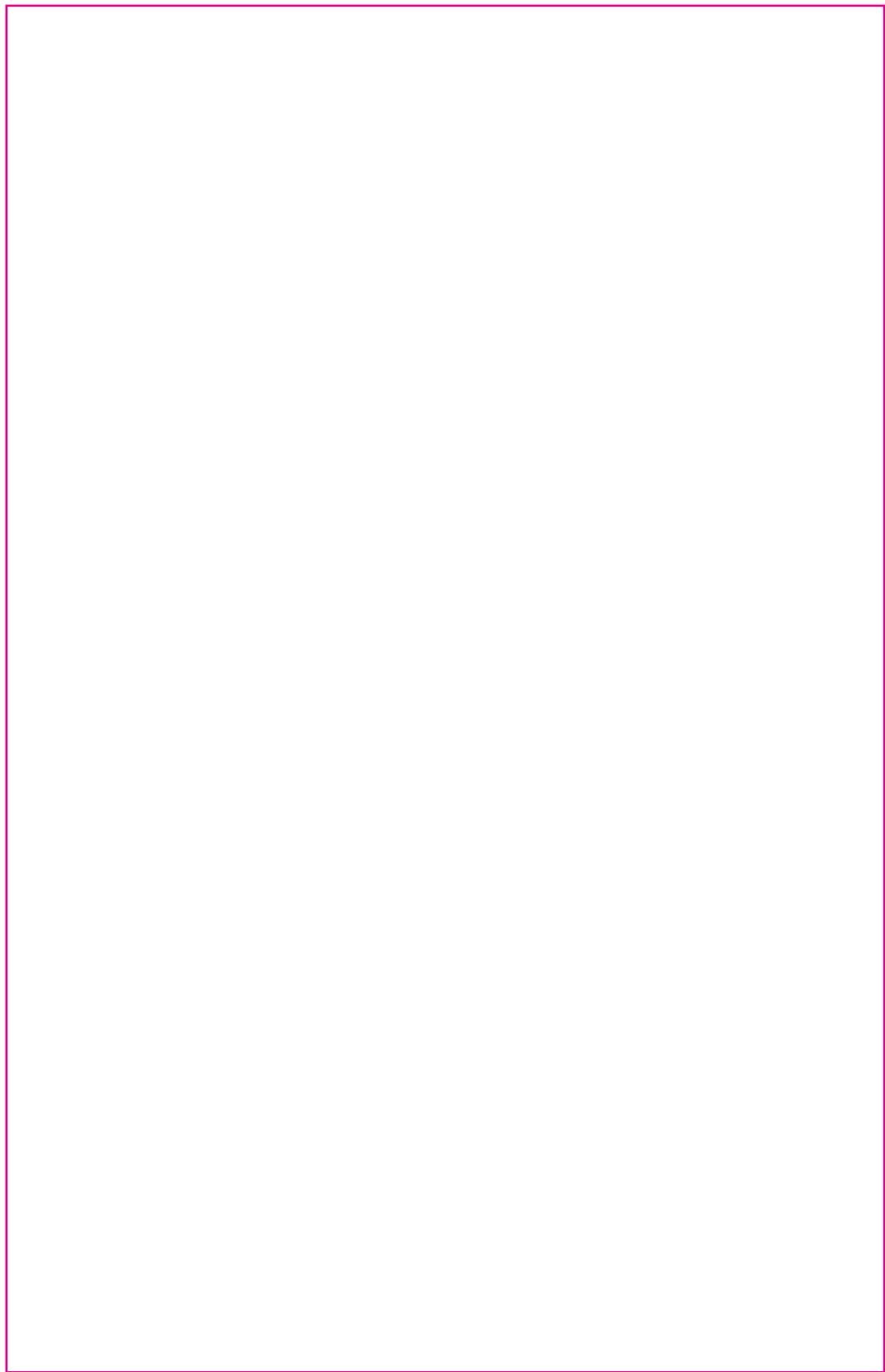
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Asset Manager Rating  
'AM2' Positive Outlook (by PACRA)



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

### Audit Committee

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

### Company Secretary & CFO of the Management Company

Mr. Zeeshan

### Shariah Advisory Council

Justice (Rtd) Muhammad Taqi Usmani  
Mulana Mahmood Ashraf Usmani  
Dr. Muhammad Imran Ashraf Usmani  
Mufti Muhammad Zahid

### Trustee

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

### Bankers

- Summit Bank Limited (formerly Arif Habib Bank Limited)
- Bank Alfalah Limited
- Bank Al Habib Limited
- Al Baraka Islamic Bank
- Meezan Bank Limited

### Auditors

KPMG Taseer Hadi & Co.  
First Floor, Sheikh Sultan Trust Building No. 2  
Beaumont Road, Karachi-75530

### Legal Adviser

M/s. Bawany & Partners  
404, 4th Floor, Beaumont Plaza,  
Beaumont Road, Civil Lines, Karachi-75530

### Registrar

M/s. Gangjees Registrar Services (Pvt.) Limited.  
Room No. 516, 5th Floor, 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 QUARTER ENDED 30 SEPTEMBER 2010

The Board of Directors of Arif Habib Investments Limited, the Management Company of Pakistan International Element Islamic Fund (PIIF) presents its Report together with the Condensed Interim Financial Statements for the quarter ended 30 September 2010.

### **Fund Objective**

The objective of the Fund is to provide medium to long term capital appreciation through investing in Shariah compliant investments in Pakistan and Internationally.

### **Fund Profile**

Pakistan International Element Islamic Fund (PIIF) is an Open-end asset allocation Fund, which seeks to achieve its objective through investing in a portfolio of Shariah compliant investments diversified across the capital markets of Pakistan as well as keeping a limited exposure internationally. The Fund is managed through an active management strategy with dynamic allocations towards different asset classes. Board has approved the categorisation of the Fund as "Shariah Compliant Asset Allocation".

The investment process is driven by fundamental research. The domestic portfolio of the Fund primarily invests in fundamentally strong Shariah compliant equities, while some portion of the Fund is also allocated towards high quality Sukuks and other types of Shariah compliant instruments offering higher comparative returns. For equities investment, 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. International investments up to 30% of the net assets are made in Shariah compliant mutual funds investing into various world markets. Allocation in various international mutual funds is decided on the basis of economic and capital market outlook for major world economies and track record of the Fund managers.

PIIF is a long only Fund and cannot undertake leveraged investments.

### **Fund Performance during Three Months Ended 30 September 2010**

The Net Assets of the Fund as at 30 September 2010 stood at Rs 393.97 million compared to Rs 410.42 million as of 30 June 2010, registering a slight decrease of 4 %.

The Net Asset Value (NAV) per unit as at 30 September 2010 was Rs 38.86 as compared to the opening Ex-NAV of Rs. 37.99 per unit, registering a slight increase of Re 0.87 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 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 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

25 October 2010  
Karachi

Nasim Beg  
Chief Executive

## REPORT OF THE FUND MANAGER OF THE MANAGEMENT COMPANY FOR THE QUARTER ENDED 30 SEPTEMBER 2010

### Fund Objective

The objective of the fund is to provide medium to long term capital appreciation through investing in Shariah compliant investments in Pakistan and internationally.

### Fund Profile

PIIF is an Open-end Fund, which seeks to achieve its objective through investing in a portfolio of Shariah compliant investments diversified across the capital markets of Pakistan as well as keeping a limited exposure internationally. The Fund is managed through an active management strategy with dynamic allocations towards different asset classes. The Board has approved the categorisation of the Fund as "Shariah Compliant Asset Allocation Scheme".

The investment process is driven by fundamental research. The domestic portfolio of the Fund is primarily invested in fundamentally strong Shariah compliant equities, while some portion of the Fund is also allocated towards high quality Sukuks and other types of Shariah compliant instruments offering higher comparative returns. For equity investments, fundamental outlook of sectors / companies and DCF (Discounted Cash Flow) valuations are the primary factors in sectors' allocation and stocks' selection. Major portion of the Fund's portfolio is high quality liquid stocks. International investments of up to 30% of the net assets are made in Shariah compliant mutual funds investing in various world markets. Allocation in various international mutual funds is made on the basis of economic and capital market outlook for major world economies and track record of the fund managers.

### Fund Performance during Quarter Ended 30 September 2010.

Pakistan International Element Islamic Fund NAV increased 2.29% during 1QFY11 as compared to its benchmark return of 9.70%. The benchmark is 70:30 weighted average return of KMI 30 and DJIM. The fund was invested in domestic securities only during the quarter and the comparable domestic KMI-30 Index increased by 7.61% during this time period. A relatively lower return was attributed to the underperformance of key portfolio holdings and a lesser exposure in equity market. Amongst top portfolio holdings, Package remained the major underperformer. It gave negative return of 14.8% during the quarter. The long term fundamentals of the company remain positive and the Fund is likely to continue holding the scrip.

Month	Fund	Benchmark	KMI-30
July '10	6.95%	8.79%	9.61%
Aug '10	-4.18%	-4.45%	-4.81%
Sep '10	-0.18%	5.56%	3.14%

### Major activities during the quarter

With deteriorating macroeconomic outlook and increased political noise, equity exposure was reduced during the quarter. Equity exposure was brought down to 68.6% from 77.6% since the start of the quarter. Funds took following major activities during the quarter under review.

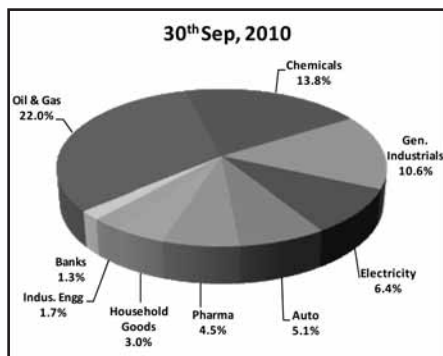
Exposure in Thal Limited and PTCL was offloaded from 1.62% and 4.34% respectively at the start of the quarter. Fund also reduced its holdings in FFBL and FFC to 1.97% and 2.45% respectively due expected negative outlook on fertilizer stocks after the floods. Allocation in Pak Suzuki and Meezan Bank has also been trimmed to 1.73% and 1.29% respectively. Meanwhile, exposure in oil and gas sector was increased to 22.04% from 18.80% by accumulating more PPL (10.84% at the end of quarter from 7.28% previously). Al Ghazi tractors has been added in the portfolio up to 1.74% of net assets.

### Fixed Income

Fixed income exposure remained at 2.13% of net assets. The Fund is invested in PAEL Sukuk which carries floating rate linked to 6 month KIBOR with premium of 1.75%. The remaining 27.4% is in cash and cash equivalents.



As on 30 September 2010	
Pakistan Oilfields Ltd.	11.19
Pakistan Petroleum Ltd.	10.84
Packages Ltd.	10.64
ICI Pakistan Ltd.	7.61
Hub Power Company Ltd.	6.37
Searle Pakistan Ltd.	4.54
Agriauto Industries Ltd.	3.40
Pak Elektron Ltd.	3.03
Fauji Fertilizer Company Ltd.	2.45
Fauji Fertilizer Bin Qasim Ltd.	1.97



### 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\$9.5 billion (approx. 6% of GDP), out of which crops and live stock damages are estimated at US\$5 billion approx. The immediate economic effect of the flood has already been reflected in inflation numbers where sharp increase in food prices (particularly perishable items) has jacked up the September, 2010 CPI at 17 months high of 15.7%.

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

### Real Sector

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

**Monetary Sector**

Money supply numbers, during the quarter (From 30 June to 01 Oct), grew by 0.6% versus negative growth of -0.03% in the corresponding quarter of last year. Net Foreign Assets (NFA) were at Rs35.4 billion while net Domestic Assets (NDA) were at Rs-0.5 billion. Government borrowing after touching Rs220 billion as on 24 Sep 2010 has come down to Rs200 billion, still a high number and a major cause of concern for the central bank. Credit to private sector and public sector enterprises (PSEs) collectively showed a net retirement of Rs68 billion. Retirement of loan by PSEs reflects the partial payment release by Ministry of Finance under the circular debt issue. Furthermore, net retirement of credit by private sector in this quarter is a normal phenomenon. Next quarter is crucial where seasonal borrowing of private sector for working capital requirement is at its peak. It will determine the real investment climate and the 'crowding out' effect of government borrowing.

**Prices**

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

**Fiscal Sector**

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

**External Sector**

External sector has observed deterioration with the beginning of FY11. This is explained by an increase in the Current Account Deficit (CAD), which stands at \$944 million from July - August, FY11 against \$635 million in the same period last year. According to the latest figures available, Foreign Direct Investment (FDI) fell by 50.2% from July-August, FY11 to \$171.4 million against \$344 million in the same period of the preceding year. On the other hand, forex reserves are on an all-time high and stood at \$16.9 billion as of 30 September 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 30 SEPTEMBER 2010**

	<i>Note</i>	<b>Unaudited 30 September 2010</b>	<b>Audited 30 June 2010</b>
<b>(Rupees in '000)</b>			
<b>Assets</b>			
Bank balances		<b>108,126</b>	58,094
Receivable against sale of investments		-	21,264
Receivable against sale of units		<b>159</b>	1,077
Investments	5	<b>278,653</b>	327,737
Dividend and profit receivable		<b>6,183</b>	2,828
Advance, deposits, prepayments and other receivables		<b>3,308</b>	3,198
Preliminary expenses and floatation costs		<b>954</b>	1,370
<b>Total assets</b>		<b>397,383</b>	415,568
<b>Liabilities</b>			
Payable to Management Company		<b>828</b>	874
Payable to Trustee		<b>66</b>	69
Payable to Securities and Exchange Commission of Pakistan		<b>97</b>	522
Payable against purchase of investments		-	2,070
Payable on redemption of units		<b>1,128</b>	27
Accrued expenses and other liabilities		<b>1,292</b>	1,591
<b>Total liabilities</b>		<b>3,411</b>	5,153
<b>Net assets</b>		<b>393,972</b>	410,415
<b>Unit holders' funds</b>		<b>393,972</b>	410,415
<b>(Number of units)</b>			
<b>Number of units in issue</b>		<b>10,138,313</b>	9,101,281
<b>(Rupees)</b>			
<b>Net asset value per unit</b>		<b>38.86</b>	45.09

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

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

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

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

	<b>Quarter ended 30 September 2010</b>	<b>Quarter ended 30 September 2009</b>
	<b>(Rupees in '000)</b>	
<b>Income</b>		
Capital gain on sale of investments - net	4,602	21,016
Exchange gain realised on sale of foreign investments	-	3,831
Income from investment in Sukuk	342	1,770
Dividend income	4,964	9,012
Profit on bank deposits	1,851	1,249
Other income	103	-
	<b>11,862</b>	<b>36,878</b>
Unrealised appreciation on investments at fair through profit or loss - net	<b>2,179</b>	<b>60,485</b>
	<b>14,041</b>	<b>97,363</b>
<b>Expenses</b>		
Remuneration of Management Company	2,968	4,462
Remuneration of Trustee	205	327
Annual fee - Securities and Exchange Commission of Pakistan	97	155
Securities transaction cost	245	335
Settlement and bank charges	57	84
Fees and subscriptions	37	62
Auditors' remuneration	121	143
Printing & related cost	58	58
Professional charges	70	25
Amortisation of preliminary expenses and floatation costs	416	416
<b>Total expenses</b>	<b>4,274</b>	<b>6,067</b>
<b>Net income from operating activities</b>	<b>9,767</b>	<b>91,296</b>
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed	<b>(13,548)</b>	<b>3,369</b>
<b>Net (loss) / income for the period</b>	<b>(3,781)</b>	<b>94,665</b>

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

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

\_\_\_\_\_  
**Chief Executive**

\_\_\_\_\_  
**Director**

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

	<b>Quarter ended 30 September 2010</b>	<b>Quarter ended 30 September 2009</b>
	<b>(Rupees in '000)</b>	
Net (loss) / income for the period	<b>(3,781)</b>	94,665
Other comprehensive income for the period	-	-
<b>Total Comprehensive (loss) / income or the period</b>	<b>(3,781)</b>	94,665

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

For Arif Habib Investments Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

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

	<b>Quarter ended 30 September 2010</b>	<b>Quarter ended 30 September 2009</b>
	<b>(Rupees in '000)</b>	
Undistributed loss brought forward	<b>(44,651)</b>	(112,796)
Final distribution:		
- Issue of 1,322,943 bonus units for the year ended 30 June 2010 @ Rs 7.10 per unit, 05 July 2010 (2009: Nil bonus units)	<b>(50,259)</b>	-
- Cash distribution	<b>(14,360)</b>	-
Net (loss) / income for the period	<b>(3,781)</b>	94,665
	<b>(68,400)</b>	94,665
Undistributed loss carried forward	<b>(113,051)</b>	(18,131)

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

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

\_\_\_\_\_  
**Chief Executive**

\_\_\_\_\_  
**Director**

**CONDENSED INTERIM MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED)  
FOR THE QUARTER ENDED 30 SEPTEMBER 2010**

	<b>Quarter ended 30 September 2010</b>	<b>Quarter ended 30 September 2009</b>
<b>(Rupees in '000)</b>		
Net assets at the beginning of the period	410,415	606,589
Issue of 434,254 units (2009: 828,490 units)	16,576	36,542
Redemption of 720,165 units (2009: 1,996,967 units)	(28,424)	(91,597)
	<b>(11,848)</b>	<b>(55,055)</b>
Final distribution:		
- Issue of 1,322,943 bonus units for the year ended 30 June 2010 @ Rs 7.10 per unit, 05 July 2010 (2009: Nil bonus units)	(50,259)	-
- Cash distribution	(14,360)	-
	<b>(64,619)</b>	<b>-</b>
Issue of 1,322,943 bonus units for the year ended 30 June 2010 (2009: Nil units)	50,258	-
Element of income / (loss) and capital gains / (losses) included in price of units issued less those in units redeemed - transferred to income statement - net	13,548	(3,369)
Capital gain on sale of investments - net	4,602	21,016
Net unrealised appreciation on investments	2,179	64,316
Other net (loss) / income for the period	(10,562)	9,333
	<b>(3,781)</b>	<b>94,665</b>
Net assets at the end of the period	<b>393,972</b>	<b>642,830</b>

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

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

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)  
FOR THE QUARTER ENDED 30 SEPTEMBER 2010**

	<b>Quarter ended 30 September 2010</b>	<b>Quarter ended 30 September 2009</b>
<b>(Rupees in '000)</b>		
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net (loss) / income for the period	(3,781)	94,665
<b>Adjustments</b>		
Dividend income	(4,964)	(9,012)
Unrealised appreciation in the value of investments at fair value through profit or loss - net	(2,179)	(64,316)
Amount of additional units issued to class 'C' & 'D' unit holders	385	495
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed	13,548	(3,369)
Amortisation of preliminary expenses and floatation costs	416	416
	3,424	18,879
<b>Decrease / (increase) in assets</b>		
Receivable against sale of investments	21,264	-
Receivable against sale of units	918	-
Investments	51,263	50,789
Profit receivable	(781)	1,354
Advances, deposits, prepayments and other receivables	(110)	94
	72,553	52,237
<b>(Decrease) / increase in liabilities</b>		
Payable to Management Company	(46)	(1,213)
Payable to Trustee	(3)	10
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	(425)	(482)
Payable against purchase of investments	(2,070)	(18,017)
Payable on redemption of units	1,101	-
Accrued expenses and other liabilities	(299)	287
	(1,743)	(19,415)
Dividend received	2,391	6,895
<b>Net cash flow from operating activities</b>	<b>76,626</b>	<b>58,596</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(14,360)	-
Net payments made against net redemption	(12,233)	(50,156)
Net increase in cash and cash equivalents during the period	50,032	8,440
Cash and cash equivalents at the beginning of the period	58,094	69,046
Cash and cash equivalents at the end of the period	108,126	77,486

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

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

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director



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

## 1. LEGAL STATUS AND NATURE OF BUSINESS

The Pakistan International Element Islamic Fund (the Fund) was established under a Trust Deed executed between Arif Habib Investments Limited as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 14 December 2005 and was approved by the Securities and Exchange Commission of Pakistan (SECP) under the 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 the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at Arif Habib Centre, 23, M.T. Khan Road, Karachi, Pakistan.

The Fund is an open-ended mutual fund, listed on the Karachi, Lahore and Islamabad Stock Exchanges. The principal activity of the Fund is to make investment in shariah compliant investments in securities or instruments both inside and outside Pakistan. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

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

The Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of 'AM2' (Positive Outlook) to the Management Company.

## 2. BASIS OF PREPARATION

The transactions undertaken by the Fund are in accordance with the process prescribed under the Shariah guidelines issued by the Shariah Advisory Board.

### 2.1 Statement of compliance

These un-audited 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 30 June 2010.

## 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 published financial statements of the Fund for the year ended 30 June 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 year ended 30 June 2010.

## 5. INVESTMENTS - 'AT FAIR VALUE THROUGH PROFIT OR LOSS'

	Note	Unaudited 30 September 2010	Audited 30 June 2010
		(Rupees '000)	
Investment in shares listed in Pakistan	5.1	270,265	318,378
Investment in unlisted Sukuk bond	5.3	8,388	9,359
		<b>278,653</b>	<b>327,737</b>

## 5.1 Investment in shares listed in Pakistan

Name of the Investee Company	Number of shares				Balance as at 30 September 2010			Market value as percentage of net assets	Market value as percentage of total investments	Par value as percentage of issued capital of investee	
	As at 1 July 2010	Purchases during the period	Bonus / Right issue	Sales during the period	As at 30 September 2010	Cost	Market Value				(Diminution) / Appreciation
(Rupees in '000)											
<b>SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10 each unless stated otherwise</b>											
<b>Oil and Gas</b>											
Pakistan Oilfields Limited	219,163	-	-	33,200	185,963	40,325	44,097	3,772	0.11	15.83	0.08
Pakistan Petroleum Limited	162,175	89,000	41,295	44,700	247,770	39,833	42,718	2,885	0.11	15.33	0.02
						<b>80,158</b>	<b>86,815</b>	<b>6,657</b>			
<b>Chemicals</b>											
Fauji Fertilizer Company Limited	240,203	-	-	148,179	92,024	8,344	9,648	1,304	0.02	3.46	0.01
Fauji Fertilizer Bin Qasim Limited	722,868	-	-	435,996	286,872	8,925	7,774	(1,151)	0.02	2.79	0.03
ICI Pakistan Limited	255,915	-	-	-	255,915	40,567	29,968	(10,599)	0.08	10.75	0.18
Siara Chemical Industries Limited	59,508	-	-	-	59,508	10,528	7,134	(3,394)	0.02	2.56	0.29
						<b>68,364</b>	<b>54,524</b>	<b>(13,840)</b>			
<b>General Industrials</b>											
Packages Limited	414,989	-	-	-	414,989	67,809	41,914	(25,895)	0.11	15.04	0.49
Thal Limited	70,128	-	-	70,128	-	-	-	-	-	-	-
						<b>67,809</b>	<b>41,914</b>	<b>(25,895)</b>			
<b>Industrial Engineering</b>											
Alghazi Tractors	-	32,001	-	-	32,001	6,923	6,851	(72)	0.02	2.46	0.15
						<b>6,923</b>	<b>6,851</b>	<b>(72)</b>			
<b>Automobile and Parts</b>											
Agrianto Industries	191,227	-	-	-	191,227	13,825	13,386	(439)	0.03	4.80	1.33
Pak Suzuki Motor Company Limited	148,365	-	-	50,000	98,365	22,761	6,816	(15,945)	0.02	2.45	0.12
						<b>36,586</b>	<b>20,202</b>	<b>(16,384)</b>			
<b>Household Goods</b>											
Pakistan Elektron Limited	851,992	-	-	-	851,992	15,869	11,928	(3,941)	0.03	4.28	0.73
						<b>15,869</b>	<b>11,928</b>	<b>(3,941)</b>			
<b>Pharma and Bio Tech</b>											
Searle Pakistan Limited	288,487	-	-	-	288,487	16,824	17,886	1,062	0.05	6.42	0.94
						<b>16,824</b>	<b>17,886</b>	<b>1,062</b>			
<b>Electricity</b>											
Hub Power Company Limited	753,419	-	-	-	753,419	23,763	25,081	1,318	0.06	9.00	0.07
						<b>23,763</b>	<b>25,081</b>	<b>1,318</b>			
<b>Fixed Line Telecommunications</b>											
Pakistan Telecommunication Company Limited	1,000,000	-	-	1,000,000	-	-	-	-	-	-	-
						<b>-</b>	<b>-</b>	<b>-</b>			
<b>Banks</b>											
Meezan Bank	646,331	-	-	300,000	346,331	5,270	5,064	(206)	0.01	1.82	0.05
						<b>5,270</b>	<b>5,064</b>	<b>(206)</b>			
<b>TOTAL</b>						<b>321,566</b>	<b>270,265</b>	<b>(51,301)</b>			

5.1.1 Investments includes shares with market value of Rs. 26,090,220 (30 June 2010: Rs. 28,264,540) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in term of Circular number 11 dated 23 October 2007 issued by the Securities & Exchange Commission of Pakistan.

## 5.2 Investment in unlisted sukuk bonds in Pakistan

Name of the Investee Company	Profit rate %	As at 1 July 2010	Number of certificates			Balance as at 30 September 2010			Market value as percentage of net assets	Market value as percentage of total investment	Outstanding principle value as a percentage of issued debt capital
			Purchases during the period	Sales during the period	As at 30 September 2010	Cost	Market value	Appreciation (diminution)			
(Rupees in '000)											
<b>Unlisted Sukuk bonds of Rs 5,000 unless stated otherwise</b>											
Pak Elektron Limited (28 September 2007) (a)	14.57	3,000	-	-	3,000	7,749	8,388	639	0.02	0.03	0.70
<b>Total</b>						<b>7,749</b>	<b>8,388</b>	<b>639</b>			
<b>GRAND TOTAL</b>						<b>329,315</b>	<b>278,653</b>	<b>(50,662)</b>			

(a) This unlisted sukuk bond carry floating profit rates equal to 3 month ask side Karachi inter bank offer rate plus 1.75% per annum receivable quarterly with no floor or cap. These sukuk bonds are secured against floating charge on all of the issuer's present and future fixed assets.

<b>5.3 Unrealised diminution in the value of investments - net</b>	<b>30 September 2010</b>	<b>30 June 2010</b>
	<b>(Rupees in '000)</b>	
Market value of investments	278,653	327,737
Less: Cost of investments	<u>(329,315)</u>	<u>(389,182)</u>
	<b>(50,662)</b>	<b>(61,445)</b>
Net unrealised diminution in the value of investment at the end of the period	<b>61,445</b>	112,594
Realised on disposal during the period	<b>(8,604)</b>	<b>(84,224)</b>
	<b>52,841</b>	28,370
Net unrealised diminution in the value of investment at the end of the period	<u><b>2,179</b></u>	<u><b>(33,075)</b></u>
	<b>Unaudited</b>	<b>Audited</b>
	<b>30 September</b>	<b>30 June</b>
	<b>2010</b>	<b>2010</b>
	<b>(Number of Units)</b>	
<b>6 NUMBER OF UNITS IN ISSUE</b>		
The units in issue in each class were as follows:		
<b>Classes</b>		
A & B	6,460,944	5,792,116
C & D	<u>3,677,368</u>	<u>3,309,165</u>
	<u><b>10,138,313</b></u>	<u><b>9,101,281</b></u>

#### 7 TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

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 and balances at period end with connected persons, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	<b>Unaudited</b>	<b>30 September</b>	<b>2009</b>
	<b>2010</b>	<b>(Rupees in '000)</b>	
<b>7.1 Amount of transactions during the period</b>	<i>Note</i>		
<b>Arif Habib Investments Limited - Management Company</b>			
Remuneration for the period		<u>2,968</u>	<u>4,462</u>
<b>Arif Habib Limited - Brokerage House</b>			
Brokerage	7.3	<u>30</u>	<u>91</u>
<b>Central Depository Company Limited - Trustee</b>			
Remuneration for the period		<u>205</u>	<u>327</u>
CDS Charges		<u>23</u>	<u>23</u>

7.2 Amounts outstanding as at the period / year end	Unaudited	Audited
	30 September 2010	30 June 2010
	(Rupees '000)	
<b>Arif Habib Investments Limited - Management Company</b>		
Remuneration payable	828	861
Front-end load payable	-	13
<b>Summit Bank Limited (formerly: Arif Habib Bank Limited)</b>		
Balance at the period / year end	2,623	7,683
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	66	68
Security deposit (assets)	200	200
<b>Other Funds managed by Arif Habib Investments Limited</b>		
Payable to Pakistan Income Enhancement Fund	-	5
Payable to Pakistan Income Fund	-	5

Units sold to:	30 September 2010		30 September 2009	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Arif Habib Investments Limited - Management Company	-	-	-	-
Directors and officers	5,723	223	53,635	2,459
Arif Habib Investments Limited - Employees provident Fund	-	-	68,671	3,339
<b>Units redeemed by:</b>				
Arif Habib Investments Limited - Management Company	-	-	2,431	111
Directors and officers	17,424	678	57,390	2,640
<b>Bonus units distributed to:</b>				
Directors and officers	19,134	727	-	-

Units held by:	30 September 2010	30 June 2010
	-----Units-----	
Directors and officers	109,811	122,278

- 7.3 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.

## 8 CONTRIBUTION TO WORKER 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.

## 9 DATE OF AUTHORISATION FOR ISSUE

These condensed financial statements were authorised for issue on 25 October 2010 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 For better presentation, "Exchange gain realised on sale of foreign investments" is presented as a separate line item in income statement which was clubbed in "unrealised appreciation on investments at fair value through profit or loss - net" in the corresponding quarter last year.

For Arif Habib Investments Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director





