

**PAKISTAN
INCOME
ENHANCEMENT
FUND**



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FUNDS' 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. Muhammad Akmal Jameel	Director
Mr. Sirajuddin Cassim	Director
Mr. Muhammad Kashif Habib	Director
Mr. S. Gulrez Yazdani	Director
Syed Ajaz Ahmed	Director

Company Secretary & CFO of the Management Company

Mr. Zeeshan

Audit Committee

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

Trustee

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

Bankers

Summit Bank Limited (formerly: Arif Habib Bank Limited)	Allied Bank Limited
Bank Al Habib Limited	Bank Alfalah Limited
Habib Metropolitan Bank Limited	Standard Chartered Bank (Pakistan) 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,
6-cl-10, Beaumont Road,
Civil Lines, Karachi-75530

Registrar

Gangjees Registrar Services (Pvt.) Limited.
Room No. 516, 5th Floor, Clifton Centre,
Kehkashan, Clifton, Karachi.

Rating

PACRA: A+(f) Stability Rating
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 Income Enhancement Fund (PIEF), submits herewith 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 deliver return from aggressive investment strategy in debt and fixed income market.

Fund Profile

PIEF is an Open-end Fund, which is allowed to invest in debt and fixed income instruments and is also allowed to take limited exposure in structured products (subject to SECP approval) and spread transactions in Ready/Future markets. Board has approved the categorization of the Fund as "Aggressive Fixed Income Scheme".

Fund Performance during the quarter ended 30 September 2010

The net assets of the Fund as at 30 September 2010 stood at Rs 2,089.36 million as compared to Rs. 2,223.59 million at 30 June 2010 registering a decrease of 6.04%.

The Net Asset Value (NAV) per unit as at 30 September 2010 stood at Rs. 50.65 per unit as compared to opening Ex-NAV of Rs. 50.87 per unit, registering an increase of Rs. 1.11 per unit. During the period total interim distribution amounted to Rs. 1.33 per unit.

Income Distribution

During the quarter, the Management Company has announced the following interim distributions:

Date of Distribution	Interim payouts during the Quarter	
	(PKR/Unit)	Return as % of opening Ex-NAV
26 July 2010	0.42	9.91% of Ex-NAV of 25 July 2010
26 August 2010	0.51	12.08 % of Ex-NAV of 25 August 2010
27 September 2010	0.40	9.50 % of Ex-NAV of 25 September 2010
Total	1.33	

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 Stock Exchange for their continued cooperation and support. The Directors of the Management Company also acknowledge the efforts put in by the team of the Management Company and for the meticulous management of the Fund.

For and on behalf of the Board

25 October 2010
Karachi

Nasim Beg
Chief Executive



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

Objective

The objective of the fund is to deliver return from aggressive investment strategy in debt and fixed income market.

Fund Profile

Pakistan Income Enhancement Fund (An Aggressive Fixed Income Fund) (referred to as PIEF) is an open end fund which primarily invests in debt and fixed income instruments and may also take limited exposure in structured products. The maximum duration of the fund shall not exceed 3 years. PIEF is a long only fund and cannot undertake leveraged investments. 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

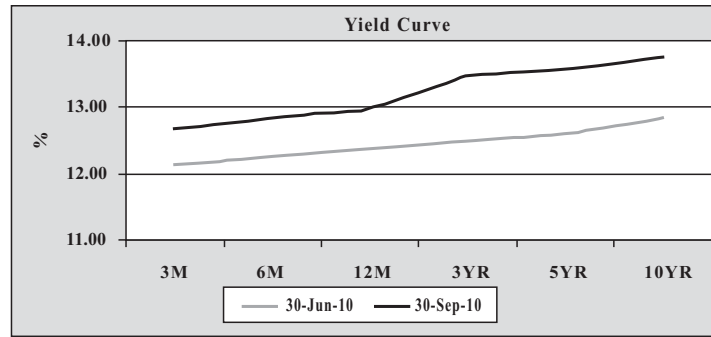
PIEF delivered an annualized return of 8.74% during the quarter ended 30 September 2010, compared to its benchmark (12-month KIBOR-90% & 3-month PKRV-10%) return of 8.46%. Industry average return of Income fund category was 6.51% during 1st quarter 2010. During the period, the return of the Fund was in single digits due to the fall in the TFCs prices generally, with major underperformance in PACE Pakistan Ltd.-TFC which traded at a deep discount in the secondary market. The weighted average credit quality of the Fund was AA+ at the end of the FY2010 while the average duration of its portfolio was 107 days.

Asset Allocation

During the period, the Fund size decreased by 6% to Rs. 2.09 billion from Rs.2.22 billion at the beginning of the period. Due to rising trend in interest rates, exposure in PIBs (7.14% of net assets) was offloaded and replaced by short term T-bills and TDRs. Hence at the end of the period, exposure in T-bills was increased to 62.18% from 56.94% at the beginning of the period while TDR placements were 4.55% of net assets. Exposure in TFCs was slightly increased to 29.15% from 28.94% of net assets at the beginning of the period. TFC portfolio comprised 9.06% fertilizer, 7.33% Commercial banking, 4.44% investment companies and banks, 3.68% technology & communication, and 3.58% real estate sectors by quarter end.

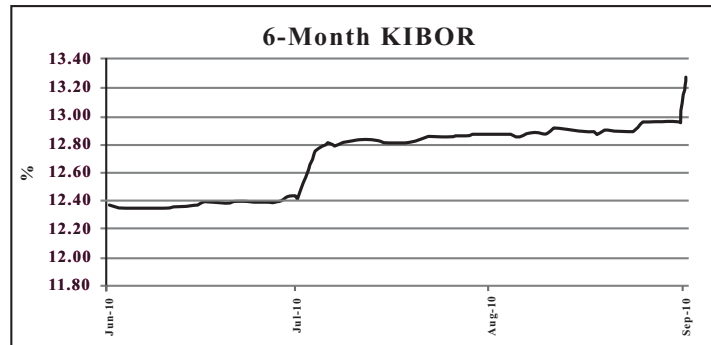
Market Review

During the first quarter of FY 2011, SBP increased the discount rate twice (July and September) by 50 bps each to 13.5% as inflation started creeping up again along with higher government borrowings due to fiscal pressure. As a result, interest rates moved up across all tenors, with the yields on 3 month, 1-year and 10 years instruments increasing by 55 bps, 59 bps and 91 bps to 12.68%, 12.97% and 13.75% respectively.



Total domestic government borrowing from banks and non-banks during quarter ended September, 2010 stood at Rs. 133 billion approximately. Total T-bill worth Rs. 462 billion was accepted against a target of Rs. 535 billion set by the Central Bank amid T-bill maturity of Rs. 500 billion during this period. Major participation was noted in 3-month tenor as the participants were expecting an increase in interest rates during most of the quarter. On the other hand, PIB auctions were rejected twice due to participation at high yields in wake of inflationary pressures and uncertainty over Monetary Policy Statement (MPS).

The benchmark 6-month KIBOR also increased by 90bps to 13.27% MoM (from previous closing at 12.37%), after increase in policy rate and adequate liquidity management by SBP.



Overall TFC prices fell due to increase in interest rates, resulting in higher credit spreads. Activity remained confined in banking, fertilizer and telecommunication sectors mostly whereby banking and fertilizer sectors' listed TFCs were traded at credit spreads of 1.50% to 2.60% and telecommunications sector transactions were concluded at a credit spreads of 6.0% to 9.0% over benchmark 6-month KIBOR.

On the contrary, spreads were comparatively wider in non-traded TFCs. Major price distortion was noted in banking and fertilizer sectors; banking sector TFC prices were marked down (below the prevailing bids for these TFCs) on the basis of price matrix for non-traded TFCs, whereas non-traded TFCs of communication and fertilizer sectors were valued above their actual trading levels (above the prevailing offers).

Limited activity was evident at deep discount after rescheduling of principal and interest payments of Pace Pakistan Limited.

Future Outlook

Interest rates are expected to maintain rising trend due to inflationary pressure and fiscal deficit. The CPI for September10 shows YoY increase of 15.71% over corresponding period last year with fiscal year 2011 SBP expectation of 13.50% to 14.50%. Given this scenario, there will be more investment opportunities at the shorter end of the yield curve. Increase in 6 month KIBOR rate will further enhance the yields of TFCs once they are re-fixed in the high interest rate environment. Selling pressure in TFCs is likely to provide accumulation opportunity for high yielding TFCs. The present investment mix of PIEF's portfolio has ample room for TFC accumulation. Such opportunities will enable the Fund to provide stable returns in the next quarter.

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

	(Unaudited) 30 September 2010	(Audited) 30 June 2010
	----- (Rupees in '000) -----	
	<i>Note</i>	
Assets		
Bank balances	177,490	107,319
Receivable against sale of units	874	27,631
Investments - 'at fair value through profit or loss	5 1,908,302	2,068,284
Loans and receivables	4,653	-
Income and profit receivable	24,076	26,776
Deposits, prepayments and other receivables	951	1,305
Preliminary expenses and floatation costs	581	632
Total assets	<u>2,116,927</u>	<u>2,231,947</u>
Liabilities		
Payable to the Management Company	3,246	3,607
Payable to Trustee	258	257
Payable to Securities & Exchange Commission of Pakistan - Annual Fee	424	1,165
Payable on redemption of units	22,105	2,243
Accrued expenses and other liabilities	1,538	1,083
Total liabilities	<u>27,571</u>	<u>8,355</u>
Net assets	<u>2,089,356</u>	<u>2,223,592</u>
Unit holders' funds	<u>2,089,356</u>	<u>2,223,592</u>
	----- (Number of units) -----	
Number of units in issue	<u>41,254,212</u>	<u>43,274,506</u>
	----- (Rupees) -----	
Net asset value per unit	<u>50.65</u>	<u>51.38</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 INCOME STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED 30 SEPTEMBER 2010**

	Quarter ended 30 September 2010	Quarter ended 30 September 2009
	----- (Rupees in '000) -----	
Income		
Income from term finance certificates and sukuk bonds	28,244	14,947
Income from government securities	42,723	11,079
Income from reverse repurchase transactions	-	206
Income from placements, certificates of investment and term deposit receipts	1,162	4,577
Profit on bank deposits	1,097	3,395
Capital (loss) / gain on sale of investments - net	(1,132)	8,067
Unrealised (diminution)/appreciation in the value of investments - net	(16,028)	831
Total income	56,066	43,102
Provision against non-performing exposure	2,278	-
Total income	58,344	43,102
Expenses		
Remuneration of the Management Company	8,386	3,791
Remuneration of Trustee	811	490
Annual fee - Securities and Exchange Commission of Pakistan	424	189
Securities transaction costs	149	307
Settlement and bank charges	175	81
Fees and subscription	45	40
Legal and professional charges	18	54
Auditors' remuneration	92	107
Printing and related costs	31	32
Amortisation of preliminary expenses and floatation costs	50	51
Total expenses	10,181	5,142
Net income from operating activities	48,163	37,960
Element of (loss)/income and capital (loss)/gains included in prices of units issued less those in units redeemed - net	(1,815)	14,452
Net income for the period	46,348	52,412

Note


5.1

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
COMPREHENSIVE INCOME (UNAUDITED)
FOR THE QUARTER ENDED 30 SEPTEMBER 2010**

	Quarter ended 30 September 2010	Quarter ended 30 September 2009
	(Rupees in '000)	
Net income for the period	46,348	52,412
Other comprehensive income for the period	-	-
Total comprehensive income for the period	46,348	52,412

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 (UNAUDITED)
FOR THE QUARTER ENDED 30 SEPTEMBER 2010**

	Quarter ended 30 September 2010	Quarter ended 30 September 2009
	----- (Rupees in '000) -----	
Undistributed income brought forward	59,869	14,233
Final distribution:		
- Issue of 394,579 bonus units for the period ended 30 June 2010 @ Rs 0.51 per unit (date of distribution: 05 July 2010) (2009: @ Rs 0.37 per unit) (date of distribution: 06 July 2009)	(20,072)	(5,070)
- Cash distribution for the period ended 30 June 2010	(1,998)	(740)
	(22,070)	(5,810)
Undistributed income brought forward less final distribution for the period ended 30 June 2010	37,799	8,423
Net income for the period	46,348	52,412
Interim distribution:		
- Issue of 1,033,563 bonus units and 746,210 bonus units for the period ended 30 September 2010 and period ended 30 September 2009 respectively	(52,384)	(37,699)
- Cash distribution the period ended 30 September 2010 and period ended 30 September 2009 respectively	(5,210)	(6,408)
Net income for the period less distribution	(11,246)	8,305
Undistributed income carried forward	26,553	16,728

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' FUND (UNAUDITED)
FOR THE QUARTER ENDED 30 SEPTEMBER 2010**

	Quarter ended 30 September 2010	Quarter ended 30 September 2009
	----- (Rupees in '000) -----	
Net assets at the beginning of the period	2,223,592	799,337
Issue of 9,094,024 units and 42,297,071 units for the period ended 30 September 2010 and period ended 30 September 2009 respectively	463,617	2,152,787
Redemption of 12,542,460 units and 26,625,397 units for the period ended 30 September 2010 and period ended 30 September 2009 respectively	(638,810)	(1,355,194)
	(175,193)	797,593
Final distribution:		
- Issue of 394,579 bonus units for the period ended 30 June 2010 @ Rs 0.51 per unit (date of distribution: 05 July 2010)	(20,072)	(5,070)
- Cash distribution for the period ended 30 June 2010	(1,998)	(740)
	(22,070)	(5,810)
Capital (loss)/gain on sale of investments - 'at fair value through profit or loss'	(1,132)	8,067
Net Unrealised (diminution)/appreciation in the value of investments - 'at fair value through profit or loss'	(16,028)	831
Other net income for the period	63,508	43,514
	46,348	52,412
Element of income and capital gains included in prices of units issued less those in units redeemed - transferred to the income statement	1,815	(14,452)
Interim distribution:		
- Issue of 1,033,563 bonus units and 746,210 bonus units for the period ended 30 September 2010 and period ended 30 September 2009 respectively	(52,384)	(37,699)
- Cash distribution the period ended 30 September 2010 and period ended 30 September 2009 respectively	(5,210)	(6,408)
	(57,594)	(44,107)
Net income for the period less distributions	2,016,899	1,584,973
Issue of 394,579 bonus units for the period ended 30 June 2010 @ Rs 0.51 per unit (date of distribution: 05 July 2010)	20,072	5,070
Issue of 1,033,563 bonus units and 746,210 bonus units for the period ended 30 September 2010 and period ended 30 September 2009 respectively	52,384	37,699
	72,457	42,769
Net assets at the end of the period	2,089,356	1,627,742

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

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Pakistan Income Enhancement Fund
Managed by: ARIF HABIB INVESTMENTS LIMITED

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

	Quarter ended 30 September 2010	Quarter ended 30 September 2009
	------(Rupees in '000)-----	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the period	46,348	52,412
Adjustments:		
Unrealised diminution/(appreciation) in the value of investments 'at fair value through profit or loss'	16,028	(831)
Amortisation of preliminary expenses and floatation costs	50	51
Net element of loss/(income) and capital loss/(gains) included in prices of units issued less those in units redeemed	1,815	(14,452)
Provision against non-performing exposure	(2,278)	-
	61,964	37,180
Decrease / (increase) in assets		
Receivable against sale of units	26,757	11,127
Investments - 'at fair value through profit or loss'	146,232	(898,319)
Loans and receivable	(4,653)	(125,000)
Income & profit receivable	2,700	(1,112)
Deposits, prepayments and other receivables	354	(2,208)
Preliminary expenses and floatation costs	-	-
	171,391	(1,015,512)
(Decrease) / increase in liabilities		
Payable to the Management Company	(361)	(1,086)
Payable to Central Depository Company of Pakistan Limited - Trustee	1	52
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	(741)	(215)
Payable against purchase of Investments	-	91,897
Payable on redemption of units	19,862	1,413
Accrued expenses and other liabilities	455	(28)
	19,216	92,033
Net cash from (used in)operating activities	252,571	(886,299)
CASH FLOW FROM FINANCING ACTIVITIES		
Net (payments) / receipts made against issuance / redemption of units	(175,193)	797,593
Cash dividend paid	(7,208)	(7,148)
Net cash (used in) / from financing activities	(182,401)	790,445
Net increase / (decrease) in cash and cash equivalents during the period	70,171	(95,854)
Cash and cash equivalents at the beginning of the period	107,319	122,495
Cash and cash equivalents at the end of the period	177,490	26,641

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



**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 SEPTEMBER 2010**

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Income Enhancement Fund (the Fund) was established through a Trust Deed under the Trust Act 1882, executed between Arif Habib Investments Limited as the Management Company and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on 14 July 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 26 June 2008 in accordance with 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 Fund is an open-ended mutual fund listed on the Islamabad Stock Exchange of 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. Unit holders are divided into plan "A" and plan "B". The unit holders under plan "A" are entitled for bonus units as well as cash dividend, whereas unit holders under plan "B" are entitled for cash dividend.

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

The policy of the Fund is to invest in the investment grade term finance certificates and sukuk bonds, certificate of investments, term deposit receipts, spread transactions and with SECP approval structured deposits, notes, interest rate / cross currency swap and arbitrage products, options, derivatives, index linked structures etc. both within and outside Pakistan, international mutual funds, credit linked notes, and any other investment permissible under NBFC Regulations.

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

2. BASIS OF PRESENTATION

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 annual 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 for the year ended 30 June 2010.

	Note	(Unaudited) 30 September 2010	(Audited) 30 June 2010
(Rupees in '000)			
5 INVESTMENTS - 'AT FAIR VALUE THROUGH PROFIT OR LOSS			
Term Finance Certificates and Sukuk Bonds	5.2	609,056	643,419
Government Securities	5.3	1,299,246	1,424,865
		<u>1,908,302</u>	<u>2,068,284</u>
5.1 Net unrealised appreciation / (diminution) in value of investments at fair value through profit or loss - net			
Fair value of investments		1,908,302	2,068,284
Less: Cost of investments		(1,908,086)	(2,052,587)
		216	15,697
Less: Unrealised appreciation in value of investments at fair value through profit or loss at the beginning of the period / year		(15,697)	372
Less: Realised on disposal during the period / year		(547)	(2,894)
		(16,244)	(2,522)
		<u>(16,028)</u>	<u>13,175</u>

5.2 Term Finance Certificates and Sukuk Bonds

Name of the investee company	Maturity	Profit / mark-up percentage	As at 1 July 2010	Purchases during the period	Sales during the period	Matured during the period	As at 30 September 2010	Cost as at 30 September 2010	Market Value as at 30 September 2010	Appreciation / (diminution) in the value of investments	Market value as a percentage of net assets	Outstanding principal value as a percentage of issued debt capital
Term Finance Certificates												
Certificates of Rs.5,000 each unless stated otherwise												
Askari Bank Limited- I	February 2013	6M KIBOR+ 1.5%	425	-	-	-	425	2,094	2,065	(89)	0.00	0.14
Askari Bank Limited- II	October 2013	6M KIBOR+ 1.5%	6,000	-	-	-	6,000	29,235	28,320	(915)	0.01	2.00
Bank Al-Habib Limited- IV	December 2017	6M KIBOR+ 2.5%	11,000	-	-	-	11,000	54,994	55,126	132	0.05	1.10
Bank Al-Habib Limited- II	February 2015	6M KIBOR+ 1.95%	5,000	-	-	-	5,000	24,684	25,122	438	0.01	1.67
Wahid Telecom	October 2013	6M KIBOR+ 1.90%	3,000	-	-	-	3,000	12,900	14,275	1,375	0.01	0.38
PAFC Pakistan Limited	February 2013	6M KIBOR+ 1.5%	15,000	-	-	-	15,000	63,299	51,634	(11,665)	0.02	5.00
Pakistan Ventures Company Limited	February 2013	6M KIBOR+ 1.5%	5,530	-	-	-	5,530	25,916	25,471	(445)	0.01	0.55
JDW Sugar Mills	June 2014	3M KIBOR+ 1.25%	3,000	-	3,000	-	-	-	-	-	-	-
Askari Bank Limited- III	November 2019	6M KIBOR+ 2.5%	9,000	-	-	-	9,000	44,968	42,211	(2,757)	0.02	1.50
Engro Chemical Pakistan Limited - PRP I	March 2018	6M KIBOR+ 1.7%	35,100	-	-	-	35,100	149,299	163,906	14,608	0.08	4.39
KASB Securities Limited	June 2012	6M KIBOR+ 1.9%	8,000	-	-	-	8,000	33,859	38,915	4,957	0.02	8.00
Pakistan Mobile Communication Limited	October 2010	6M KIBOR+ 1.3%	15,650	-	-	-	15,650	36,424	39,638	2,614	0.02	2.24
Pakistan Mobile Communication Limited	October 2013	6M KIBOR+ 1.3%	6,000	-	-	-	6,000	25,850	23,904	(2,446)	0.01	0.53
JS Company Limited	July 2013	6M KIBOR+ 1.7%	3,250	-	-	-	3,250	14,448	15,820	1,372	0.01	1.30
House Building Finance Corporation	May 2014	6M KIBOR+ 1%	10,000	-	-	-	10,000	34,600	38,078	3,478	0.02	2.50
Eden Housing Limited	March 2013	6M KIBOR+ 2.5%	10,415	-	-	-	10,415	32,450	23,263	(9,187)	0.01	7.13
Pak Ektron Limited	September 2012	3M KIBOR+ 1.75%	8,000	-	-	-	8,000	20,329	22,268	2,039	0.01	3.33
										684,638	609,356	4,408

5.3 Government securities

Issue date	Tenure	As at 01 July 2010	Purchases during the period	Sales/ Matures during the period	As at 30 September 2010	Cost as at 30 September 2010	Market Value as at 30 September 2010	Appreciation / (diminution) in the value of investments	Market value as a percentage of net assets	Market value as a percentage of total investment
Pakistan Investment Bonds										
03 rd September 2009	3 years	41,667	-	41,667	-	-	-	-	-	-
03 rd September 2009	3 years	20,833	-	20,833	-	-	-	-	-	-
03 rd September 2009	3 years	41,667	-	41,667	-	-	-	-	-	-
03 rd September 2009	3 years	20,833	-	20,833	-	-	-	-	-	-
22 nd August 2007	5 years	39,000	-	39,000	-	-	-	-	-	-
Treasury Bills										
10 th September 2009	12 months	25,000	-	25,000	-	95,547	95,111	(436)	0.05	0.00
25 th February 2010	3 months	100,000	-	-	100,000	118,334	118,334	(592)	0.06	0.05
11 th March 2010	12 months	125,000	-	-	125,000	251,070	249,704	(1,366)	0.12	0.13
25 th March 2010	12 months	265,000	-	-	265,000	-	-	-	-	0.00
08 th April 2010	3 months	75,000	-	75,000	-	49,905	49,905	-	0.02	0.03
08 th April 2010	6 months	150,000	-	100,000	50,000	49,905	49,905	-	-	0.00
22 nd April 2010	3 months	65,000	-	65,000	-	49,672	49,668	(4)	0.02	0.03
22 nd April 2010	6 months	50,000	-	50,000	-	49,672	49,668	(4)	-	0.00
06 th May 2010	3 months	75,000	-	75,000	-	93,562	92,902	(660)	0.04	0.05
06 th May 2010	12 months	100,000	-	-	100,000	46,582	46,238	(344)	0.02	0.00
20 th May 2010	3 months	150,000	-	150,000	-	-	-	-	-	0.00
20 th May 2010	12 months	50,000	-	-	50,000	-	-	-	-	0.00
17 th June 2010	3 months	50,000	-	50,000	-	-	-	-	-	0.00
17 th June 2010	3 months	50,000	-	50,000	-	-	-	-	-	0.00
15 th July 2010	3 months	-	25,000	-	25,000	24,952	24,952	-	0.01	0.01
21 st July 2010	3 months	-	70,000	-	70,000	69,541	69,535	(6)	0.03	0.04
29 th July 2010	3 months	-	100,000	-	100,000	99,355	99,356	(19)	0.05	0.05
29 th July 2010	12 months	-	125,000	-	125,000	113,626	112,958	(668)	0.05	0.06
13 th August 2010	3 months	-	125,000	-	125,000	123,594	123,547	(47)	0.06	0.06
13 th August 2010	3 months	-	50,000	-	50,000	49,431	49,419	(12)	0.02	0.03
26 th August 2010	3 months	-	35,000	-	35,000	34,439	34,428	(11)	0.02	0.02
09 th September 2010	3 months	-	85,000	-	85,000	83,236	83,209	(27)	0.04	0.04
						1,303,438	1,299,246	(4,192)		
						1,303,438	1,299,246	(4,192)		
						1,908,086	1,908,302	216		

6. INTERIM DISTRIBUTION

The Fund has made following distributions during the period.

Dates	Rate	Bonus *		Cash Distribution **	Total
		Units	Amount		
26 July 2010	Re 0.42 per unit	342,915	17,437	1,645	19,082
26 August 2010	Re 0.51 per unit	388,269	19,662	1,998	21,660
27 September 2010	Re 0.40 per unit	302,378	15,285	1,567	16,852
		1,033,563	52,384	5,210	57,594

* Bonus units have been distributed to unit holders under plan A

** Cash dividend have been distributed to unit holder under plan B

As per clause 12 of Trust Deed and clause 6 of Part VI of Offering Document, the Management Company on behalf of the Fund on monthly basis (except June) distributes bonus / dividend. The Board of Directors on 22nd September 2008 have passed a resolution providing standing authorization to the Chief Executive Officer to approve and declare interim dividends out of profit earned by the Fund upto the 25th of each month. The SECP vide letter no. NBFC - ILDD / AHIL / Misc-734 / 2009 has approved the above arrangement.

7. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited (AHI) being the Management Company, 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 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.

7.1 Transactions during the period with connected persons / related parties

(Unaudited)

	Quarter ended 30 September 2010	Quarter ended 30 September 2009
(Rupees in '000)		
Arif Habib Investments Limited - Management Company		
Remuneration for the period	8,386	3,791
Front-end load for the period	1,249	1,032
Summit Bank Limited (formerly: Arif Habib Bank Limited)		
Mark-up for the period	224	346
Units issued 29,023 units (2009: Nil units)	1,474	-
Units redeemed 1,042,976.72 units (2009: 93,799 units)	1,043	-
Cash dividend	-	4,740
Central Depository Company of Pakistan Limited - Trustee		
Remuneration for the period	811	490
Arif Habib Investment Management Limited - Employee Stock -Beneficial Ownership Trust		
Bonus units issued 318.88 units (2009: 4,170.17 units)	16	211
Units redeemed Nil units (2009: 11,883.54 units) -	-	600
Arif Habib Investment Management Limited - Employee Provident Fund		
Bonus units issued 764.35 units (2009: 19,239.81)	39	971
Units redeemed Nil units	-	-
Purchase / sale of Term Finance Certificates from / to Pakistan Strategic Allocation Fund (Managed by Arif Habib Investments Limited)		
Purchase of Term Finance Certificates: United Bank Limited - IV 20,000 certificates	-	91,897
Directors and executives of the Management Company:		
Units issued 142,848 units (2009: 490,710 units)	7,272	24,977
Units redeemed 151,409 units (2009: 497,233 units)	7,726	25,239
Bonus units distributed 6,128 units (2009: 7,997 units)	311	404

7.2 Amounts outstanding as at the period end with connected persons / related parties:

	(Unaudited) 30 September 2010	(Audited) 30 June 2010
(Rupees in '000)		
Arif Habib Investments Limited		
Remuneration payable	2,639	2,620
Payable in respect of preliminary expenses & floatation costs	600	800
Front-end load payable	7	187
Summit Bank Limited (formerly: Arif Habib Bank Limited)		
Balance as at period end	25,292	51,928
Accrued mark-up as at the period end	39	182
Units held Nil units (30 June 2010: 1,013,953 units)	-	52,097

	(Unaudited) 30 September 2010	(Audited) 30 June 2010
	(Rupees in '000)	
Arif Habib Investment Management Limited - Employee Stock -Beneficial Ownership Trust		
Balance as at period end	<u>455</u>	<u>446</u>
Arif Habib Investment Management Limited - Employee Provident Fund		
Balance as at period end	<u>1,092</u>	<u>1,068</u>
Pakistan Stock Market Fund (Managed by Arif Habib Investments Limited)		
Payable as at the period end	<u>(449)</u>	<u>(482)</u>
Pakistan Cash Management Fund (Managed by Arif Habib Investments Limited)		
Receivable as at the period end	<u>550</u>	<u>957</u>
Pakistan International Element Islamic Fund (Managed by Arif Habib Investments Limited)		
Receivable as at the period end	<u>-</u>	<u>5</u>
Central Depository Company of Pakistan Limited - Trustee		
Security deposit	<u>325</u>	<u>325</u>
Remuneration payable	<u>258</u>	<u>257</u>
Directors and executives of the Management Company		
Units held 177,086 units (30 June 2010: 237,671 units)	<u>8,969</u>	<u>12,212</u>

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

These condensed interim 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.

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

Chief Executive

Director



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