

**PAKISTAN
INCOME ENHANCEMENT FUND**

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FUND'S INFORMATION

Management Company	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors of the Management Company	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
Chief Financial Officer & Company Secretary of the Management Company	Mr. Muhammad Saqib Saleem	
Audit Committee	Mr. Nasim Beg Mr. Haroun Rashid Mr. Samad A. Habib Mr. Ali Munir	
Trustee	Central Depository Company of Pakistan Limited CDC House, 990B, Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	MCB Bank Limited Habib Metropolitan Bank Limited Bank Alfalah Limited Bank Al-Habib Limited Faysal Bank Limited Summit Bank Limited Allied Bank Limited	
Auditors	A.F. Ferguson & Co. - Chartered Accountants State Life Building No. 1-C, I.I. Chundrigar Road, Karachi-74000.	
Legal Advisor	Bawaney & 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	AM2 (Positive Outlook) Management Quality Rating assigned by PACRA	

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

Dear Investor,

On behalf of the Board of Directors, I am pleased to present **Pakistan Income Enhancement Fund's** accounts review for the first half ended December 31st 2011.

ECONOMY AND MONEY MARKET OVERVIEW

On the macroeconomic front, inflationary pressures have remained largely on the lower side during the period with YoY CPI inflation averaging 10.9% amid change in CPI methodology as well as high base-effect of last year. External account, however, has started deteriorating significantly with 1H FY12 current account balance posting a sizeable deficit of US\$ 2.2 billion amid higher trade deficit despite record remittances flows. On the fiscal side, the government posted a budget deficit of 1.2% of GDP during 1Q FY12 with its entire funding coming from the domestic sources. Non-realization of official flows is not only hurting the BOP position, it would continue to affect the funding profile of fiscal deficit - which would have its implications on the monetary mechanism as well as exchange rate. Citing some improvements in key macro variables, the SBP decided to ease its monetary stance by lowering its policy discount rate cumulatively by 200 bps to 12.0% during early part of the period. Significant deterioration in macroeconomic balances, however, has compelled them to keep DR unchanged during the latter part.

In the money market, short term market rates remained on the higher side amid tight liquidity scenario in the system. Due to sizeable depletion in net foreign assets (NFA) of the banking system, market liquidity remained largely tight almost throughout the period - compelling the SBP to constantly inject significant amount of money in the system through OMOs in order to calm down the market.

FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 10.5% as against its benchmark return of 12.2%, an under performance of 1.7%.

The fund has significantly increased its exposure during the period towards GoP Ijarah Sukuk to around 26% as against 3% at the beginning of the period, mainly on the back of decent yield as well as capital gains potential. The fund has increased its exposure in good quality TFCs especially of banking sector to the tune of around 42% while actively managed its exposure and duration in Treasury bills throughout the period to capitalize on the fluctuating liquidity and interest rates in the market.

FUTURE OUTLOOK

Despite continued improvement on inflation front, fragile external and fiscal accounts would continue to keep a check on the SBP's future monetary direction. We continue to flag realization of foreign flows as the single most important variable especially in the backdrop of sustained oil prices, downward trend in cotton prices and debt repayments including IMF. In our opinion, the absence of foreign flows and government's greater reliance on domestic sources for fiscal funding could result in rebound of inflation and interest rates going forward.

In a fast changing interest rate environment, the fund would continue to maintain its focus on the credit quality of the portfolio while exploiting attractive opportunities in the market.

ACKNOWLEDGMENT

The Board is thankful to the Fund's valued investors, the Securities and Exchange Commission of Pakistan and the Trustees of the Fund for their continued cooperation and support. The Directors also appreciate the efforts put in by the management team.

On behalf of Directors,

Yasir Qadri
Chief Executive Officer
Dated: January 27, 2012

TRUSTEE REPORT TO THE UNIT HOLDERS

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

We Central Depository Company of Pakistan Limited, being the Trustee of **Pakistan Income Enhancement Fund** (the Fund) are of the opinion that Arif Habib Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the six months period ended December 31, 2011 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

Muhammad Hanif Jakhura

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi: February 24, 2012

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

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **Pakistan Income Enhancement Fund** as at December 31, 2011, and the related condensed interim income statement, condensed interim distribution statement, condensed interim cash flow statement and condensed interim statement of movement in unit holders' fund together with the notes forming part thereof (here-in-after referred to as the 'condensed interim financial information'), for the half year ended December 31, 2011. The Management Company (Arif Habib Investments Limited) is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim income statement, condensed interim distribution statement, condensed interim cash flow statement and condensed interim statement of movement in unit holders' fund for the quarters ended December 31, 2011 and 2010 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2011.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2011 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Emphasis of matter paragraph

We draw attention to note 5.1 to the condensed interim financial information which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers Welfare Fund which litigation is currently pending adjudication at the Honorable High Court of Sindh. Our conclusion is not qualified in respect of this matter.

Other information

The financial statements of the Fund for the year ended June 30, 2011 and half year ended December 31, 2010 were audited and reviewed respectively by another auditor whose reports dated September 20, 2011 and February 19, 2011 expressed unqualified opinion / conclusion on those financial statements.

Chartered Accountants
Dated: January 27, 2012
Karachi

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES (UNAUDITED)

As at 31 December 2011

	Note	Unaudited December 31, 2011	Audited June 30, 2011
Rupees in '000			
ASSETS			
Balances with banks		61,912	32,062
Investments	4	1,046,631	1,556,161
Term Deposit Receipt		100,000	-
Receivable against sale of units		1,011	14,292
Receivable against sale of investments		103,076	678
Balance Receivable under margin trading system		-	7,707
Profit receivable		22,965	20,322
Security deposits and prepayments		1,764	796
Preliminary expenses and floatation cost		331	432
Total assets		1,337,690	1,632,450
LIABILITIES			
Payable to the Management Company		1,938	2,683
Payable to Central Depository Company of Pakistan Limited - Trustee		166	183
Payable to Securities and Exchange Commission of Pakistan		542	1,402
Payable against redemption of units		-	2,297
Accrued expenses and other liabilities		2,851	1,473
Total liabilities		5,497	8,038
NET ASSETS		<u>1,332,193</u>	<u>1,624,412</u>
Unit holders' fund (as per statement attached)		<u>1,332,193</u>	<u>1,624,412</u>
CONTINGENCIES AND COMMITMENTS			
	5		
Number of units			
NUMBER OF UNITS IN ISSUE		<u>25,521,585</u>	<u>31,124,731</u>
Rupees			
NET ASSET VALUE PER UNIT	3.4	52.20	52.19

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM INCOME STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

Note	Half year ended		Quarter ended	
	December 31		December 31	
	2011	2010	2011	2010
	(Rupees in '000)		(Rupees in '000)	
INCOME				
Capital gain / (loss) on sale of investments - net	3,157	(1,829)	725	(697)
Profit on bank deposits and term deposit receipts	4,654	4,976	2,291	2,717
Income from investments in government securities	52,810	80,435	21,052	37,712
Income from margin trading system	35	-	(2)	-
Income from term finance certificates and sukuk bonds	35,397	53,430	16,189	25,186
	96,053	137,012	40,255	64,918
Net unrealised appreciation / (diminution) on re-measurement of investments classified as financial assets at 'fair value through profit or loss'	(3,719)	(1,293)	4,739	14,735
Total Income	92,334	135,719	44,994	79,653
EXPENSES				
Remuneration of the management Company	10,846	15,387	5,007	7,001
Sindh sales tax on remuneration of the Management Company	1,735	-	801	-
Remuneration of Central Depository Company of Pakistan Limited -Trustee	1,042	1,530	491	719
Annual fee - Securities and Exchange Commission of Pakistan	542	774	250	350
Brokerage and settlement charges	743	564	352	240
Amortization of preliminary expenses and floatation costs	101	101	51	51
Auditors' remuneration	340	201	245	109
Printing of annual accounts	184	63	153	32
Fees and subscription	74	89	28	44
Professional charges	38	50	20	32
Total Expenses before provision for non-performing exposure	15,645	18,759	7,398	8,578
Provision for non-performing exposure	4.5 2,441	(2,278)	2,441	-
Net Income from operating activities	74,248	119,238	35,155	71,075
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed	(2,078)	(9,999)	(1,897)	(8,184)
Provision for Workers' Welfare Fund	-	-	-	-
Net Income / (loss) for the period before taxation	72,170	109,239	33,258	62,891
Taxation	-	-	-	-
Net income/ (loss) for the period after taxation	72,170	109,239	33,258	62,891
Other comprehensive income/ (loss) for the period	-	-	-	-
Total comprehensive income/ (loss) for the period	72,170	109,239	33,258	62,891
Earnings / (loss) per unit	3.5			

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

Note	Half year ended December 31,		Quarter ended December 31,	
	2011	2010	2011	2010
	----- Rupees in '000 -----			
Undistributed income brought forward	68,060	59,869	56,039	26,553
Final Distribution for the year ended June 30, 2011 Re 0.3309 per unit (Date of Distribution: July 4, 2011) (2010: Re 0.51) per unit				
- Bonus units	(9,130)	(20,072)	-	-
- Cash distribution	(1,169)	(1,998)	-	-
	57,761	37,799	56,309	26,553
Net element of income losses / gains 'included in the prices of units issued less those in units 'redeemed	(10,422)	-	(4,050)	-
Net income for the period	72,170	109,239	33,258	62,891
Interim Distribution				
Interim distribution for the period ended December 31, 2011:				
- Bonus units	8 (57,074)	(85,357)	(26,480)	(32,973)
- Cash distribution	8 (6,437)	(9,599)	(3,039)	(4,389)
Undistributed income carried forward	55,998	52,082	55,998	52,082

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

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

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

Note	Half year ended December 31,		Quarter ended December 31,	
	2011	2010	2011	2010
	Rupees in '000			
Net assets at beginning of the period	1,624,412	2,223,592	1,456,492	2,089,356
Issue of 6,617,162 units (2010: 13,042,078 units) and 3,608,177 units (2010: 3,948,054 units) for the half year and quarter respectively	345,334	664,873	188,585	201,254
Redemption of 13,493,691 units (2010: 25,670,956 units) and 6,604,477 units (2010: 13,128,496 units) for the half year and quarter respectively	(704,195) (358,861)	(1,307,905) (643,032)	(344,999) (156,414)	(669,095) (467,841)
Issue of 1,273,384 bonus units (2010: 2,074,516 bonus units) and 513,286 bonus units (2010: 646,374 bonus units) for the half year and quarter respectively.	66,204 (292,657)	105,429 (537,603)	26,480 (129,934)	32,973 (434,868)
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed transferred to income statement - net				
- Amount representing loss and losses transferred to income statement	2,078	9,999	1,896	8,184
- Amount representing loss and capital losses that form part of unitholders' fund transferred to distribution statement	10,422	-	4,050	-
Capital gain / (loss) on sale of investments - net	3,157	(1,829)	725	(697)
Unrealised (diminution) / appreciation in value of investments at market value through profit or loss - net	3,719	(1,293)	(4,739)	14,735
Other net income for the period	65,294	112,361	37,272	48,853
	72,170	109,239	33,258	62,891
- Amount representing loss and capital losses that form part of unitholders' fund transferred to Distribution Statement	(10,422)	-	(4,050)	-
Final Distribution				
Final Distribution for the year ended June 30, 2011:				
Re 0.3309 per unit (2010: Re 0.51 per unit)				
(Date of Distribution: July 5, 2011)				
- Bonus units	(9,130)	(20,072)	-	-
- Cash Distribution	(1,169)	(1,998)	-	-
Interim Distribution				
Issue of 1,097,335 bonus units (2010: 1,679,937 bonus units) and 508,286 bonus units (2010: 646,374 bonus units) for the half year and quarter respectively.				
- Bonus Distribution	8 (57,074)	(85,357)	(26,480)	(32,973)
- Cash Distribution	8 (6,437)	(9,599)	(3,039)	(4,389)
Net assets as at end of the period	<u>1,332,193</u>	<u>1,688,201</u>	<u>1,332,193</u>	<u>1,688,201</u>

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

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

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

	Half year ended December 31,		Quarter ended December 31,	
	2011	2010	2011	2010
	(Rupees) '000'			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period before taxation	72,170	109,239	33,258	62,891
Adjustments for non-cash charges and other items:				
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	2,078	1,293	1,897	8,184
Amortization of preliminary expenses	101	101	51	51
Net unrealised (appreciation) / diminution on re - measurement of investments classified as 'financial assets at fair value through profit or loss'	3,719	9,999	(4,739)	(14,735)
Provision for non-performing exposure	2,441	(2,278)	2,441	-
	80,509	118,354	32,908	56,391
Decrease / (increase) in assets				
Investments - net	400,972	758,680	332,110	612,448
Receivable against sale of units	(1,011)	27,049	(14,756)	292
Balance Receivable under margin trading system	7,707	-	-	-
Loans and receivables	-	(350,000)	-	(345,347)
Income receivable	11,649	4,561	32,851	1,861
Prepayments	(968)	(1,305)	(1,066)	(1,659)
	418,349	438,985	349,139	267,595
(Decrease) / increase in liabilities				
Payable to the Management Company	(745)	(795)	(775)	(434)
Payable to the Trustee	(17)	(25)	(14)	(26)
Annual fee payable to the Securities and Exchange Commission of Pakistan	(860)	(391)	250	350
Payable against purchase of investments	-	-	(73,342)	-
Payable against redemption of units	(2,297)	9,833	(3,550)	(10,031)
Accrued expenses and other liabilities	1,378	345	751	(111)
	(2,541)	8,967	(76,680)	(10,252)
Net cash generated from / (used in) from operating activities	496,317	566,306	305,367	313,734
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts against issue of units	345,334	(643,032)	547,780	(467,839)
Payment against redemption of units	(704,195)	-	(704,195)	-
	(358,861)	(643,032)	(156,415)	(467,839)
Dividend paid	(7,606)	(11,597)	(3,039)	(4,389)
Net cash (used in) / generated from financing activities	(366,467)	(654,629)	(159,454)	(472,228)
Net increase / (decrease) in cash and cash equivalents during the period	129,850	(88,323)	145,913	(158,494)
Cash and cash equivalents at beginning of the period	32,062	107,319	15,999	177,490
Cash and cash equivalents at end of the period	161,912	18,996	161,912	18,996

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

1 LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Income Enhancement Fund ("the Fund") was established under a Trust Deed executed between Arif Habib Investments Limited (the Management Company) and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on 26 June 2008 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules, 2003).

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 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

Based on shareholders' resolutions of MCB Asset Management Company Limited and Arif Habib Investments Limited the two companies have merged as of 27th June 2011 through operation of an order from the SECP issued under Section 282L of the Companies Ordinance 1984 (Order through letter no. SCD/NBFC-II/MCBAMCL & AHIL/271/2011 dated June 10, 2011). Arif Habib Investments Limited being a listed company is the surviving entity and it is a subsidiary of MCB Bank. However subsequent to the completion of the merger, the SECP issued an order postponing the effective date of the merger to 30th July 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AH/348/2011 dated June 27, 2011). Since the merger had already taken place and the subsequent order of the SECP could not be complied with, the Company has sought a ruling by the honourable Sindh High Court (SHC). The SHC has held the SECP's subsequent order in abeyance and instructed SECP to treat the companies as merged pending a final ruling. Irrespective of the final ruling, the Fund's assets and NAV remain unaffected.

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 Fund has been categorized as Aggressive Fixed Income scheme by the Board of Directors of the Asset Management Company.

Pakistan Credit Rating Agency (PACRA) has assigned asset manager rating of 'AM2' (positive outlook) to the Management Company and AA- as stability rating to the Fund.

The policy of the Fund is to invest in investment grade term finance certificates and sukuk bonds, certificates of investment, 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 the NBFC Regulations.

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

2 BASIS OF PREPARATION

2.1 Statement of Compliance

This condensed interim financial information has been prepared in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. Approved accounting standards comprise of International Accounting Standard (IAS) 34: 'Interim Financial Reporting', the Trust Deed, Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules), Non Banking Finance Companies and Notified Entities Regulations 2008 (NBFC Regulations) and the directives issued by the SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IAS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.2 This condensed interim financial information does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual published financial statements of the Fund for the year ended June 30, 2011.

2.3 This condensed interim financial information is unaudited. However, a limited scope review has been performed by the external auditors in accordance with the requirements of the Code of Corporate Governance. Accordingly, the Board of Directors of the Management Company declare that this condensed interim financial information gives a true and fair view of the state of affairs of the Fund.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied for the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual published financial statements of the Fund for the year ended June 30, 2011.

3.1 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed

During the period the Fund has revised the methodology for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised methodology, element of income / (loss) and capital gains / (losses)

included in the prices of units issued less those in units redeemed to the extent that it is represented by income earned during the year is recognised in the income statement and the remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is included in the distribution statement. Previously, the proportion of opening undistributed income received / paid on issue / redemption of units was being recognised in the income statement.

The revised methodology, in the opinion of the management, would ensure that continuing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the management not revised its methodology:

- profit for the year would have been lower by Rs 10.422 million.
- amount taken to distribution statement would have been higher by Rs 10.422 million.

3.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current period

The following new standards are amendments to existing standards are mandatory for the first time for the financial periods beginning July 1, 2011

IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of the revised standard did not have any impact on the Fund's condensed interim financial information.

IFRS 7 (amendment) 'Financial instruments: Disclosures'. This amendment was part of the IASB's annual improvement project published in May 2010. The amendment emphasises the interaction between quantitative disclosures about the nature and extent of risks associated with financial instruments. Adoption of this amendment did not have any impact on the Fund's condensed interim financial information. The management is in the process of assessing the impact of this amendment on the Fund's condensed interim financial information.

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the period and are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or did not have any significant effect on the Funds operations and are, therefore, not disclosed in this condensed interim financial information.

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

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in this condensed interim financial information.

3.4 Net Asset Value per unit

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

3.5 Earnings per unit

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

	Note	(Un-audited) December 31, 2011	(Audited) June 30, 2011
		Rupees in '000	
4 INVESTMENTS			
At fair value through profit or loss			
- Government securities	4.1	489,800	1,062,209
- Debt securities	4.2		
- Listed Debt securities		212,928	237,022
- Unlisted Debt securities		343,903	212,515
- Advance against subscription of Term finance certificates		-	25,000
		<u>1,046,631</u>	<u>1,536,746</u>
Available for sale			
- Commercial paper		-	19,415
		<u>1,046,631</u>	<u>1,556,161</u>

**NOTES TO AND FORMING PART OF THE CONDENSED
INTERIM FINANCIAL INFORMATION (UN-AUDITED)**

**FOR THE HALF YEAR AND
QUARTER ENDED DECEMBER 31, 2011**

4.1 Government Securities

Issue date	Rate of Profit	Tenor	Face value				Balance as at December 31, 2011			Market value as a percentage of net assets	Market value as a percentage of total investments
			Balance as at July 1, 2011	Purchases during the period	Sales / Matured during the period	Balance as at December 31, 2011	Carrying Value	Market value	Appreciation / (Diminution)		
Rupees in '000											
Market Treasury Bills											
Treasury bills - 1 months		1 Months	50,000	-	(50,000)	-	-	-	-	-	-
Treasury bills - 3months		3 Months	425,000	110,000	(535,000)	-	-	-	-	-	-
Treasury bills - 6months		6 Months	567,500	780,000	(1,247,500)	100,000	98,770	98,754	(16)	7.41	9.4
Treasury bills - 12months		12 Months	-	1,261,000	(1,259,000)	2,000	1,841	1,833	(8)	0.14	0.2
							100,611	100,587	(24)		
Pakistan Investment Bonds											
Pakistan Investment Bonds		10 Years	-	240,000	(240,000)	-	-	-	-	-	-
Pakistan Investment Bonds		5 Years	-	50,000	-	50,000	48,928	48,296	(632)	3.6	4.6
							48,928	48,296	(632)		
Government Ijara Sukuk											
Government Ijara Sukuk	11.79%	4 Years	-	183,200	(100,000)	83,200	84,040	84,040	-	6.3	8.0
Government Ijara Sukuk	11.79%	3 Years	50,000	280,000	(75,000)	255,000	256,877	256,877	-	19.3	24.5
							340,917	340,917	-		
Total as at December 31, 2011							490,456	489,800	(656)		
Total as at June 30, 2011							1,062,659	1,062,209	(450)		

4.2 Debt Securities

Name of the investee company	Rate of Profit	Issue date	As at June 30, 2011	Purchases during the year	Sales / matured during the year	As at December 31, 2011	Balance as at December 31, 2011			---- Market Value ----		Percentage in relation to the size of issue
							Carrying Value	Market value	Appreciation / (diminution)	As a percentage of total investments	As a percentage of net assets	
-----Number of certificates-----							----- (Rupees in '000) -----					
Certificates having a face value of Rs. 5,000 each unless stated otherwise												
<u>Listed</u>												
Bank Alhabib Limited	6 Month KIBOR + 1.95%	7-Feb-07	5,000	-	-	5,000	25,649	25,652	3	2.45	1.93	1.67
Askari Commercial Bank	6 Month KIBOR + 1.5%	31-Oct-05	6,000	-	-	6,000	30,288	29,800	(488)	2.85	2.24	1.99
PACE Pakistan Ltd (Note 4.5)	6 Month KIBOR + 2%	15-Feb-08	15,000	-	-	15,000	49,380	44,937	(4,443)	4.29	3.37	3.29
Pak Arab Fertilizer Ltd	6 Month KIBOR + 1.5%	28-Feb-08	4,703	-	-	4,703	17,472	17,479	7	1.67	1.31	0.35
Askari Commercial Bank	6 Month KIBOR + 2.50%	18-Oct-09	4,000	-	3,000	1,000	5,168	5,115	(53)	0.49	0.38	0.17
Askari Commercial Bank	6 Month KIBOR + 1.50%	4-Feb-05	425	-	-	425	2,126	2,118	(8)	0.20	0.16	0.14
Escorts Investment Bank	8%		6,000	-	-	6,000	7,880	6,620	(1,260)	0.63	0.50	1.32
United Bank Limited	6 Month KIBOR + 0.85%	14-Feb-08	5,000	-	5,000	-	-	-	-	-	-	-
NIB Bank Limited	6 Month KIBOR + 1.15%	5-Mar-08	-	7,399	-	7,399	35,835	36,207	372	3.46	2.72	1.21
Askari Commercial Bank	6 Month KIBOR + 1.15%	23-Dec-11	-	9,000	-	9,000	45,000	45,000	-	4.30	3.38	4.50
							218,798	212,928	(5,870)			
<u>Unlisted</u>												
Engro Chemical (Perpetual 1)	6 Month KIBOR + 1.7%	18-Mar-08	27,200	-	4,100	23,100	108,570	113,980	5,410	10.89	8.56	2.85
KASB Securities	6 Month KIBOR + 1.9%	27-Jun-07	8,000	-	-	8,000	15,064	13,272	(1,792)	1.27	1.00	4.00
Bank Alfalah Limited (Floating)	6 Month KIBOR + 2.5%	2-Dec-09	11,000	-	-	11,000	55,726	55,176	(550)	5.27	4.14	1.10
JS Company Limited	6 Month KIBOR + 1.7%	4-Jul-07	3,250	-	-	3,250	16,240	16,209	(31)	1.55	1.22	1.30
Bank Al Habib Limited	Fixed 15%	30-Jun-11	-	10,000	-	10,000	76,985	79,484	2,499	7.59	5.97	2.65
Bank Al Falah Limited (Fixed)	Fixed 15%	2-Dec-09	-	6,000	-	6,000	30,021	30,886	865	2.95	2.32	0.62
							302,606	309,007	6,401			
<u>Sukuk Bonds - Unlisted</u>												
Eden Housing Limited (note 4.5)	6 Month KIBOR+ 2.5%	31-Mar-08	10,415	-	-	10,415	21,849	19,421	(2,428)	1.86	1.46	0.78
Pak Elektron Limited	3 Month KIBOR + 1.75%	28-Sep-07	8,000	-	-	8,000	16,641	15,475	(1,166)	1.48	1.16	1.29
							40,931	34,896	(3,594)			
Total as at December 31, 2011							562,335	556,831	(3,063)			
Total as at June 30, 2011							448,781	449,537	756			

- 4.3 Government Ijarah sukuks have been carried at cost by the Fund as in the opinion of the management, there is no external source available for their accurate valuation. Financial Markets Association of Pakistan (FMAP) is currently developing a mechanism for revaluation of these sukuks. Once developed, this mechanism will be forwarded to the Securities and Exchange Commission of Pakistan (SECP) and State Bank of Pakistan (SBP) for their consideration. Mutual Funds Association of Pakistan (MUFAP) has also informed the SECP that the mechanism of pricing of these sukuks is currently being studied by MUFAP and has requested SECP to allow status quo to the Funds in valuation of these securities.
- 4.4 During the period PACE Pakistan Limited has been classified as non - performing debt security. In accordance with Circular no. 1 of 2009 and Circular no. 3 of 2010 issued by the Securities and Exchange Commission of Pakistan the principal & interest income amounting to Rs 5.915 million has been provided for and markup accrual has been suspended. Further, in accordance with circular 1 of 2009, the investment committee has made a further provision of Rs 4.477 million.
- 4.5 During the period, Eden housing Limited has been classified as a non - performing debt security. In accordance with Circular no. 1 of 2009 and Circular no. 3 of 2010 issued by the Securities and Exchange Commission of Pakistan the principal redemption due on 29th December amounting to Rs 2.441 million has been provided and since the accrual of income was suspended, therefore, no provision against the income has been made. Additionally, in accordance with circular 1 of 2009, the investment committee has made a further provision of Rs 3.300 million.

5 CONTINGENCIES AND COMMITMENTS

- 5.1 The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honorable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication.

Subsequent to the year ended June 30, 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However, on December 14, 2010, the Ministry filed its response against the constitutional petition requesting the Court to dismiss the petition. According to the legal counsel who is handling the case there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

Subsequent to the year ended June 30, 2011, the Honourable Lahore Court, (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company believes that the Pakistan Income Enhancement Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company. The aggregate unrecognized amount of WWF as at December 31, 2011 amounted to Rs 11.686 million (including Rs. 1.443 million for half year ended December 31, 2011 and Rs.10.243 million for year ended June 30, 2011).

- 5.2 There were no other contingencies and commitments outstanding as at December 31, 2011.

6 REMUNERATION OF THE MANAGEMENT COMPANY

During the current period the provincial government has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company through the Sindh Sales Tax on Services Act 2011 effective from July 1, 2011.

7 TAXATION

The income of the Fund is exempt from income tax under Clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded provision for taxation as the Management Company, on behalf of the Fund, intends to distribute at least 90 percent of the Fund's accounting income for the current year as reduced by capital gains (whether realised or unrealised) to its unit holders.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

8 INTERIM DISTRIBUTIONS

The Fund makes distribution on a monthly basis and has made the following distributions during the period.

Date	Rate Per Unit	Bonus *		Cash Distribution**	Total
		Units	Amount		
				Rupees in '000	
July 25, 2011	Re. 0.4000	208,325	10,812	1,413	12,225
August 25, 2011	Re. 0.4800	238,365	12,383	1,237	13,620
September 25, 2011	Re. 0.2900	142,358	7,400	747	8,147
October 25, 2011	Re. 0.3200	137,033	7,127	825	7,952
November 25, 2011	Re. 0.3600	152,788	7,953	927	8,880
December 25, 2011	Re. 0.5000	218,466	11,399	1,288	12,687
		1,097,335	57,074	6,437	63,511

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

** Cash dividends have been distributed to unit holders under plan B

As per clause 12 of the Trust Deed and clause 6 of Part VI of the Offering Document, the Management Company, on behalf of the Fund, on a 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 profits earned by the Fund upto the 25th of each month. SECP vide letter no. NBFC - ILDD / AHIL / Misc-734 / 2009 has approved the above arrangement.

9 TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, the Trustee, directors and key management personnel and other associated undertakings.

Remuneration payable to the Management Company is determined in accordance with the provisions of the Non Banking Finance Companies and Notified Entities Regulation, 2008 and constitutive documents of the Fund.

Other transactions with connected persons are in the normal course of business and are carried out on agreed terms.

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

9.1 Transactions during the period

	Half year ended December 31,		Quarter ended December 31,	
	2011	2010	2011	2010
	Rupees in '000			
Management Company				
Remuneration fee for the period	10,846	15,387	5,007	7,001
Summit Bank Limited				
Profit on bank deposits	193	342	103	118
MCB Bank Limited				
Profit on bank deposits	1,145	-	-	-
Central Depository Company of Pakistan Limited - Trustee				
Remuneration for the period	1,042	1,530	491	719
CDS charges	13	3	3	1
Directors / officers and employees of the management company				
Issue of 102,644 units (2010: 385,968 units) and 60,254 (2010: 243,120) for the half year and quarter respectively	5,388	19,691	3,178	12,419
Redemption of 86,313 units (2010: 421,614 units) and 13,910 (2010: 270,205) for the half year and quarter respectively	4,533	21,527	755	13,801
Issue of 7.964 bonus units (2010: 9,985 units) and 3,747 (2010: 3,857) for the half year and quarter respectively	414	508	195	197

	(Un-audited) December 31, 2011 (Rupees in '000)	(Audited) June 30 2011 (Rupees in '000)
9.2 Balances outstanding as at period end		
Management Company		
Management fee payable	1,934	2,004
Payable in respect of preliminary expenses & floatation cost	-	600
Front end load payable	4	79
Summit Bank Limited		
Bank balance at the end of the period / year	4,289	5,300
Profit receivable	49	30
	(Un-audited) December 31, 2011 (Rupees in '000)	(Audited) June 30 2011 (Rupees in '000)
MCB Bank Limited		
Bank balance at the end of the period / year	48,781	-
Profit receivable	831	-
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	166	183
Security deposit	325	325
Amounts due on account of Conversion / Transfer of units		
Payable to MCB Dynamic Cash Fund	302	-
Payable to Pakistan Cash Management Fund	-	957
Receivable from Pakistan Stock Market Fund	-	482
Receivable from Pakistan International Element Islamic Asset Allocation Fund	-	5
Payable to MCB Islamic Income Fund	305	-
Directors / officers and employees of the management company		
Units held 181,456 units (2010: 157,141 units)	9,472	8,149

10 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified wherever necessary, for the purpose of comparison. No significant changes to corresponding figures have been made during the period.

11 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on January 27, 2012 by the Board of Directors of the Management Company.

12 GENERAL

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

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

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director