

**PAKISTAN  
INCOME FUND**

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## FUND'S INFORMATION

<b>Management Company</b>	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Board of Directors of the Management Company</b>	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)
<b>Chief Financial Officer &amp; Company Secretary of the Management Company</b>	Mr. Muhammad Saqib Saleem	
<b>Audit Committee</b>	Mr. Nasim Beg Mr. Haroun Rashid Mr. Samad A. Habib Mr. Ali Munir	
<b>Trustee</b>	Central Depository Company of Pakistan Limited CDC House, 990B, Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
<b>Bankers</b>	MCB Bank Limited Habib Metropolitan Bank Limited Bank Alfalah Limited Bank Al-Habib Limited Faysal Bank Limited NIB Bank Limited Allied Bank Limited Summit Bank Limited Askari Bank Limited Habib Bank Limited Meezan Bank Limited Standard Chartered Bank (Pakistan) Limited	
<b>Auditors</b>	KPMG Taseer Hadi & Co. Charatered Accountant 1st Floor, Sheikh Sultan Trust Building No.2 Beaumont Road, Civil Lines, Karachi-75530	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
<b>Registrar</b>	Gangjees Registrar Services (Pvt.) Limited. Room No. 516, 5th Floor, Clifton Centre, Kehkashan, Clifton, Karachi.	
<b>Rating</b>	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**

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Dear Investor,

On behalf of the Board of Directors, I am pleased to present Pakistan Income 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 9.2% as against its benchmark return of 10.8%, an under performance of 1.6%.

The fund has increased its exposure towards GoP Ijarah Sukuk to around 28% 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 37% 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,

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Yasir Qadri  
Chief Executive Officer  
Dated: January 27, 2012

## TRUSTEE REPORT TO THE UNIT HOLDERS

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### 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 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

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

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## ***Introduction***

We have reviewed the accompanying condensed interim statement of assets and liabilities of **Pakistan Income Fund** ("the Fund") as at 31 December 2011 and the related condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, condensed interim cash flow statement and notes to the accounts for the six months period then ended (here-in-after referred to as the "condensed interim financial information"). Management Company is responsible for the preparation and presentation of this 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 interim financial information based on our review.

## ***Scope of Review***

We conducted our review in accordance with 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 annexed condensed interim financial information as at and for the six months period ended 31 December 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***

We draw attention to note 7 to the financial information relating to provision for Workers' Welfare Fund (WWF) which refers to the pending outcome of the litigation regarding contribution to WWF in Honourable Sind High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 17.14 million in aggregate is not being maintained by the Fund. Our conclusion is not qualified in respect of this matter.

## ***Other matters***

The figures for the quarter ended 31 December 2011 and 31 December 2010 in the condensed interim income statement, condensed interim cash flow statement, condensed interim distribution statement and condensed interim statement of movement in unit holders' funds have not been reviewed and we do not express a conclusion on them.

**Date: January 27, 2012**

**Karachi**

**KPMG Taseer Hadi & Co.  
Chartered Accountants  
Moneeza Usman Butt**

# CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES (UNAUDITED)

## As at 31 December 2011

	(Unaudited)	(Audited)
Note	31 December 2011	30 June 2011
	(Rupees in '000)	
<b>Assets</b>		
Balances with bank	51,761	32,102
Receivable against sale of investments	103,054	-
Receivable against sale of units	1,624	5,772
Investments	5 1,497,526	1,716,445
Dividend and profit receivable	28,460	24,335
Advances, deposits and other receivables	7,891	42,145
<b>Total assets</b>	<u>1,690,316</u>	<u>1,820,799</u>
<b>Liabilities</b>		
Payable on redemption of units	-	1,389
Payable to Arif Habib Investments Limited - Management Company	2,503	2,338
Payable to Central Depository Company of Pakistan Limited - Trustee	194	196
Payable to The Securities and Exchange Commission of Pakistan - Annual fee	652	1,483
Accrued expenses and other liabilities	2,106	1,813
<b>Total liabilities</b>	<u>5,455</u>	<u>7,219</u>
<b>Contingency</b>	7	
<b>Net assets</b>	<u>1,684,861</u>	<u>1,813,580</u>
<b>Unit holders' funds (as per statement attached)</b>	<u>1,684,861</u>	<u>1,813,580</u>
	(Number of units)	
<b>Number of units in issue</b>	<u>31,457,909</u>	<u>34,090,038</u>
	(Rupees)	
<b>Net asset value per unit</b>	<u>53.56</u>	<u>53.20</u>

The annexed notes 1 to 11 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 SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 2011

	Note	Six months period ended 31 December		Quarter ended 31 December	
		2011	2010	2011	2010
		----- (Rupees in '000) -----			
<b>Income</b>					
Capital gain / (loss) on sale of investments		2,533	(466)	2,654	238
Income from term finance and sukuk certificates		42,055	60,085	26,270	30,704
Income from government securities		66,844	75,778	29,777	38,324
Income from certificates of investment, term deposit receipts and placements		-	2,255	-	1,787
Income from reverse repurchase transactions		-	-	-	-
Profit on bank deposits		3,099	1,667	2,018	948
Unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	5.3	4,857	10,257	3,434	11,481
Provision against non-performing investment		(22,457)	-	(14,383)	-
Reversal of provision against non-performing investment		-	2,471	-	-
<b>Total income</b>		<b>96,931</b>	<b>152,047</b>	<b>49,770</b>	<b>83,482</b>
<b>Expenses</b>					
Remuneration of Arif Habib Investments Limited - Management Company	8	13,032	15,674	6,406	7,739
Services tax charges		2,085	-	1,025	-
Remuneration of Central Depository Company of Pakistan Limited - Trustee		1,166	1,549	577	768
Annual fee - The Securities and Exchange Commission of Pakistan		652	784	321	387
Securities transaction cost		261	72	162	62
Settlement and bank charges		196	203	119	110
Fees and subscriptions		129	130	64	66
Legal and professional charges		54	28	29	26
Auditors' remuneration		277	269	161	122
Printing and related costs		289	83	248	37
<b>Total expenses</b>		<b>18,141</b>	<b>18,792</b>	<b>9,112</b>	<b>9,317</b>
		<b>78,790</b>	<b>133,255</b>	<b>40,658</b>	<b>74,165</b>
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(1,761)	(7,257)	(1,219)	(8,726)
<b>Net income for the period</b>		<b>77,029</b>	<b>125,998</b>	<b>39,439</b>	<b>65,439</b>

The annexed notes 1 to 11 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 (UNAUDITED) FOR THE SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 2011

	Six months period ended 31 December		Quarter ended 31 December	
	2011	2010	2011	2010
	----- (Rupees in '000) -----			
Undistributed income brought forward - realized and unrealized	109,185	89,581	75,091	59,293
Final distribution at the rate of Rs 1.24 per unit for the year ended 30 June 2011 (2010: Rs. 1.10 per unit) - Date of distribution: 4 July 2011 (2010: 5 July 2010)				
- Cash distribution	(3,504)	(3,642)	-	-
- Issue of bonus units	(38,762)	(40,631)	-	-
	(42,266)	(44,273)	-	-
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed- amount representing unrealized appreciation / (diminution) (refer note 3)	(6,078)	-	(2,460)	-
Net income for the period	77,029	125,998	39,439	65,439
Interim distribution at the rate of Re. 0.80 per unit for the quarter ended 30 September 2011 - Date of Distribution: 29 September 2011 (30 September 2010: Rs. 1.15 per unit)				
- Cash Distribution	(1,517)	(3,251)	-	-
- Issue of bonus units	(24,283)	(43,323)	-	-
Interim distribution at the rate of Rs. 1.42 per unit for the quarter ended 31 December 2010 - Date of distribution: 31 December 2010 (31 December 2009: Rs 2.00 per unit)				
- Cash Distribution	-	(4,014)	-	(4,014)
- Issue of bonus units	-	(47,718)	-	(47,718)
	(25,800)	(98,306)	-	(51,732)
Undistributed income carried forward - realized and unrealized	112,070	73,000	112,070	73,000

The annexed notes 1 to 11 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 SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 2011

	Six months period ended 31 December		Quarter ended 31 December	
	2011	2010	2011	2010
	----- (Rupees in '000) -----			
Net assets at the beginning of the period	1,813,580	2,101,695	1,710,615	2,123,174
Issue of 2,100,855 units (2010: 4,985,657 units) and 2,406,354 units (2010: 2,579,303 units) for the six months and quarter ended respectively	111,045	259,184	99,688	134,620
Issue of 745,993 bonus units for the year ended 30 June 2011 (2010: 794,9817 units)	38,762	40,631	-	-
Issue of 465,114 bonus units for the quarter ended 30 September 2011 (2010: 842,537 units)	24,283	43,323	-	-
Issue of NIL bonus units for the quarter ended 31 December 2010 (2010: 919,246 units)	-	47,718	-	47,718
Redemption of 5,944,092 units (2010: 10,509,529 units) and 7,501,314 units (2010: 2,935,877 units) for the six months and quarter ended respectively	(313,533)	(546,484)	(166,100)	(391,202)
	(139,443)	(155,628)	(66,412)	(208,864)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:				
- amount representing accrued (income) / loss and realised capital (gains) / losses transferred to the Income Statement	1,761	7,257	1,219	8,726
- amount representing unrealised capital (gains) / losses transferred to the Distribution Statement	6,078	-	2,460	-
	7,839	7,257	3,679	8,726
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed	(6,078)	-	(2,460)	-
Final distribution at the rate of Rs 1.24 per unit for the year ended 30 June 2011 (2010: Rs. 1.10 per unit) - Date of distribution: 4 July 2011 (2010: 5 July 2010)				
- Cash Distribution	(3,504)	(3,642)	-	-
- Issue of bonus units	(38,762)	(40,631)	-	-
Interim distribution at the rate of Re. 0.80 per unit for the quarter ended 30 September 2011 - Date of distribution: 30 September 2011 (30 September 2010: Rs. 1.15 per unit)				
- Cash Distribution	(1,517)	(3,251)	-	-
- Bonus units	(24,283)	(43,323)	-	-
Interim distribution for the quarter ended 31 December 2011 Rs. NIL - (31 December 2010: Rs. 1.42 per unit)				
- Cash Distribution	-	(4,014)	-	(4,014)
- Bonus units	-	(47,718)	-	(47,718)
	(68,066)	(142,579)	-	(51,732)
Net income for the period (excluding unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital gain / (loss) on sale of investments)	69,639	116,207	33,351	53,720
Capital gain / (loss) on sale of investments	2,533	(466)	2,654	238
Unrealised appreciation in value of investments classified as 'at fair value through profit or loss'	4,857	10,257	3,434	11,481
Net income for the period (including unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital gain / (loss) on sale of investments)	77,029	125,998	39,439	65,439
Net assets as at the end of the period	1,684,861	1,936,743	1,684,861	1,936,743

The annexed notes 1 to 11 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 SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 2011

	Six months period ended 31 December		Quarter ended 31 December	
	2011	2010	2011	2010
	----- (Rupees in '000) -----			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period	77,029	125,998	39,439	65,439
<i>Adjustments for:</i>				
Unrealised appreciation in value of investments classified as 'at fair value through profit or loss'	(4,857)	(10,257)	(3,434)	(11,481)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	1,761	7,257	1,219	8,726
Provision against non performing investment	22,457	-	14,383	-
Reversal of provision against non performing investment	-	(2,471)	-	-
	<b>96,390</b>	<b>120,527</b>	<b>51,607</b>	<b>62,684</b>
<b>Decrease / (increase) in assets</b>				
Receivable against sale of investments	(103,054)	-	(103,054)	-
Dividend and profit receivable	(4,125)	1,767	13,666	(7,021)
Investments	201,319	505,742	156,884	431,766
Loans and receivables	-	(300,000)	-	(200,000)
Advances, deposits and other receivables	34,254	2,410	(980)	572
	<b>128,394</b>	<b>209,919</b>	<b>66,516</b>	<b>225,317</b>
<b>Decrease / (increase) in liabilities</b>				
Payable to Arif Habib Investments Limited - Management Company	165	(156)	303	(103)
Payable to Central Depository Company of Pakistan Limited - Trustee	(2)	(7)	5	(5)
Payable to The Securities and Exchange Commission of Pakistan - Annual fee	(831)	(957)	321	387
Accrued expenses and other liabilities	293	581	(123,888)	517
	<b>(375)</b>	<b>(539)</b>	<b>(123,259)</b>	<b>796</b>
<b>Net cash flow generated from / (used in) operating activities</b>	<b>224,409</b>	<b>329,907</b>	<b>(5,136)</b>	<b>288,797</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividend paid	(5,021)	(6,893)	(1,517)	(3,251)
Net payments from sale and redemption of units	(199,729)	(280,556)	(65,142)	(251,560)
<b>Net cash flow used in financing activities</b>	<b>(204,750)</b>	<b>(287,449)</b>	<b>(66,659)</b>	<b>(254,811)</b>
Net increase / (decrease) in cash and cash equivalents during the period	<b>19,659</b>	<b>42,458</b>	<b>(71,795)</b>	<b>33,986</b>
Cash and cash equivalents at the beginning of the period	<b>32,102</b>	<b>16,396</b>	<b>123,556</b>	<b>24,868</b>
<b>Cash and cash equivalents as at the end of the period</b>	<b>51,761</b>	<b>58,854</b>	<b>51,761</b>	<b>58,854</b>

The annexed notes 1 to 11 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 THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 2011

## 1. LEGAL STATUS AND NATURE OF BUSINESS

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

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules. During the year, the registered office of the Management Company has been shifted to Techno City Corporate Tower, 8th Floor, Hasrat Mohani Road, Karachi, Pakistan.

Based on shareholders' resolutions of MCB-Asset Management Company and Arif Habib Investments Limited the two companies have merged as of 27 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/MCB- AMCL & AHIL/271/2011 dated 10 June 2011 ). Arif Habib Investments Limited being a listed company is the surviving entity and in compliance of the State Bank of Pakistan's approval it is a subsidiary of MCB Bank Limited. However, subsequent to the completion of the merger the SECP issued an order postponing the effective date of the merger to 30 July 2011 (through letter no. SCD/PR & DD/AMCW/ MCB-AMCL & AHIL/348/2011 dated 27 June 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. The Honourable Sindh High Court has held the SECP's subsequent order in abeyance and instructed the SECP to treat the companies as merged pending a final ruling. Irrespective of the final ruling, the Fund's assets and NAV remain unaffected.

Pakistan Income Fund (PIF) is an open-ended mutual fund and is listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. This Fund is income scheme and the policy of the Fund is to invest in a mix of investment-grade debt securities, government securities, money market instruments and short-term reverse repurchase transactions.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of AM2' (Positive Outlook) to the Management Company of the Fund. Currently, the management is awaiting for assignment of stability rating of the Fund from PACRA.

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

## 2. BASIS OF PREPARATION

### Statement of compliance

This condensed interim financial information has been prepared in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. This condensed interim financial information does not include all the information required for full annual financial statements and should be read in conjunction with the financial statements for the period ended 30 June 2011. This condensed interim financial information comprises of the condensed interim statement of assets and liabilities as at 31 December 2011 and the related condensed interim income statement, condensed interim cash flow statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' funds and notes thereto for the six months ended 31 December 2011. At 31 December 2011, the Fund has no item to be reported in other comprehensive income hence the reported net income for the period equals the total comprehensive income for the current period.

The comparatives in the statement of assets and liabilities presented in the condensed interim financial information as at 31 December 2011 have been extracted from the audited financial statements of the Fund for the period ended 30 June 2011, where as condensed interim cash flow statement are stated from unaudited condensed interim financial information for the period ended 31 December 2010.

This condensed interim financial information is unaudited and is presented in Pak Rupees, which is the Fund's functional and presentation currency and has been rounded off to the nearest thousand rupees.

The directors of the Management Company declare that these condensed interim financial information give a true and fair view of the Fund.

## 3. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

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 period ended 30 June 2011.

The preparation of condensed interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed interim financial information, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to financial statements as at and for the period ended 30 June 2011.

During the period, the Fund has revised the calculation 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 calculation, 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 recognized in income statement and the remaining portion of element of income / (loss) and capital gains / (losses) held in separate reserve account at the end of an accounting period (whether gain or loss) is included in amount available for distribution to the unit holders.

The revised calculation, 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 calculation not been changed, the net income for the year ended 31 December 2011 would have been higher by Rs. 6.087 million.

### **3.1 Standards, interpretations and amendments to published approved accounting standards that are effective in the current period:**

The following amendments to existing standards are mandatory for the first time for the financial year beginning 1 July 2011:

IAS 24 (revised), 'Related party disclosures', issued in November 2009. 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 and qualitative disclosures about the nature and extent of risks associated with financial instruments. The Management is currently considering the impact of the stated disclosure on financial statements.

Apart from above, 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 1 July 2011 but are considered not to be relevant or did not have any significant effect on the Fund's operations and are, therefore, not disclosed in this condensed interim financial information.

### **3.2 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 1 July 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.

## **4. FINANCIAL 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 2011.

## **5. INVESTMENTS**

### ***At fair value through profit or loss - held for trading***

#### ***Fixed income and other debt securities***

Term finance and sukuk certificates

Government securities

	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>31 December</b>	<b>30 June</b>
	<b>2011</b>	<b>2011</b>
	<b>(Rupees in '000)</b>	

5.1	<b>622,435</b>	513,184
5.2	<b>875,091</b>	1,203,261
	<b><u>1,497,526</u></b>	<b><u>1,716,445</u></b>

5.1 Term finance and sukuk certificates

Name of the investee company	Issue date	As at 1 July 2011	Purchases during the period	Sales/ matured during the period	As at 31 December 2011	Cost as at 31 December 2011	Market value as at 31 December 2011	Appreciation/ as at 31 December 2011	Market value		Face value percentage in relation to the size of the issue
									as a percentage of net assets	as a percentage of total investments	
Number of certificates (Rupees in '000)											
30 June 2011											
Askari Bank Limited	4 February 2005	14,000	-	-	14,000	69,094	69,762	668	4.14	4.66	2.33
Askari Bank Limited	18 November 2009	6,000	-	-	6,000	30,080	30,689	609	1.82	2.05	2.00
Bank AL Habib Limited	7 February 2007	5,520	-	-	5,520	27,550	28,320	770	1.68	1.89	0.55
Bank AL Habib Limited	30 June 2011	-	15,000	-	15,000	76,985	79,484	2,499	4.72	5.31	2.50
Bank Alfalah Limited (Floating)	2 December 2009	7,000	-	-	7,000	34,972	35,112	140	2.08	2.34	0.70
Bank Alfalah Limited (Fixed)	2 December 2009	-	6,000	-	6,000	30,021	30,886	865	1.83	2.06	0.60
Engro Corporation Limited	18 March 2008	29,400	-	5,100	24,300	117,052	119,902	2,850	7.12	8.01	3.04
Escorts Investment Bank Limited	15 March 2007	3,016	-	-	3,016	4,574	3,328	(1,246)	0.20	0.22	3.02
KASB Securities Limited	27 June 2007	8,500	-	-	8,500	12,266	14,102	1,836	0.84	0.94	8.50
Maple Leaf Cement Factory Limited (refer note 5.1.1)	3 December 2007	2,000	-	-	2,000	6,284	6,111	(173)	0.36	0.41	0.13
Maple Leaf Cement Factory Limited	30 September 2010	75	-	-	75	375	264	(111)	0.02	0.02	0.00
Pace Pakistan Limited (refer note 5.1.2)	15 February 2008	10,000	-	-	10,000	42,590	29,968	(12,622)	1.78	2.00	3.33
Telecard Limited (refer note 5.1.3)	27 May 2005	19,975	-	-	19,975	13,511	31,938	18,427	1.90	2.13	16.65
Trust Investment Bank Limited	4 July 2008	10,000	-	-	10,000	24,990	23,828	(1,162)	1.41	1.59	14.29
United Bank Limited	8 September 2006	15,612	-	-	15,612	78,178	77,650	(528)	4.61	5.19	3.90
Askari Commercial Bank Limited	23 December 2011	-	65	-	65	65,000	65,000	-	3.86	4.34	6.50
						633,522	646,344	12,822			
						(23,909)	(23,909)	(23,909)			
						633,522	622,435	(11,087)			
Provision against non-performing exposure											

Provision against non-performing exposure

5.1.1 During the period, owing to financial difficulties, Maple Leaf Cement Factory Limited has defaulted in the payment of coupon due on 3 September 2011 and 3 December 2011. In accordance with the requirements of Circular 1 of 2009, issued by the SECP, no further mark-up is being accrued on such investment from the date it restructured last year. Further, provision amounting to Rs. 0.706 million has been made in accordance with the provisioning policy approved by the Board of Directors of the Management Company.

5.1.2 During the period, owing to financial difficulties, Pace Pakistan Limited has defaulted in the payment of coupon due on 15 August 2011. In accordance with the requirements of Circular 1 of 2009, issued by the SECP, no further mark-up is being accrued on such investment from the date the coupon was due. Further, provision amounting to Rs. 0.01 million has been made in accordance with the provisioning policy approved by the Board of Directors of the Management Company.

5.1.3 During the period, owing to financial difficulties, Telecard Limited has defaulted in the payment of coupon due on 27 May 2011 and 27 November 2011. In accordance with the requirements of Circular 1 of 2009, issued by the SECP, no further mark-up is being accrued on such investment from the date the coupon was due. Further, provision amounting to Rs. 23.192 million has been made in accordance with the provisioning policy approved by the Board of Directors of the Management Company.

The above include Term Finance Certificates with fair value aggregating to Rs. 0.11 million (2010: Rs. 0.146 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of circular No. 11 dated October 23, 2007, issued by SECP.

5.2 Government securities

Issue date	Tenor	As at 1 July 2011	Purchases during the period	Sales during the period	As at 31 December 2011	Cost as at 31 December 2011	Market value as at 31 December 2011	Appreciation / (diminution) as at 31 December	Market value as a percentage of net assets	Market value as a percentage of total investments
<b>Pakistan Investment Bond</b>										
22 July 2010	5 years	-	50,000	-	50,000	48,928	48,296	(632)	2.87	3.23
<b>Total Investment in Pakistan Investment Bond</b>						48,928	48,296	(632)		
<b>Government of Pakistan Ijarah Sukuk – refer note 5.2.1</b>										
15 November 2010	3 years	500	3,500	-	4,000	403,153	403,153	-	23.93	26.92
16 May 2011	3 years	-	1,610	1,000	610	61,563	61,563	-	3.65	4.11
<b>Total Investment in Government of Pakistan Ijarah Sukuk</b>						464,716	464,716	-		
<b>Treasury Bills</b>										
3 months		547,000	110,000	547,000	110,000	108,735	108,709	(26)	6.45	7.26
6 months		481,000	1,900,000	2,126,000	255,000	252,418	252,405	(13)	14.98	16.85
1 year		170,000	905,000	1,074,000	1,000	966	965	(1)	0.06	0.06
<b>Total Investment in Treasury Bills</b>						362,119	362,079	(40)		
<b>Total Investment in Government Securities</b>						872,047	875,091	(672)		

**5.2.1** During the period the Fund has changed the valuation methodology of GOP Ijarah Sukuk. Previously, the fair value of investment in GOP Ijarah Sukuk was determined by using the average of the mid rates obtained from the Financial Markets Association of Pakistan (FMAP). FMAP is currently in the process of devising a revised benchmark for the purpose of revaluation of GOP Ijarah Sukuk. State Bank of Pakistan (SBP) vide letter no. DMMD/MPRD-FMAP/9329 dated 28 December 2011 has given concurrence on proposal of (FMAP) for devising a revised benchmark for revaluation of GOP Ijarah Sukuk subject to approval of SECP and SBP. Further Mutual Fund Association of Pakistan (MUFAP) has approached SECP vide email dated 30 December 2011 drawing attention towards difficulties in determining pricing for GOP Ijarah Sukuk. In view of above the management has carried the underlying investment at amortized cost till the time the valuation methodology prescribed by the SECP.

Had the Fund valued such investment using mid-rates obtained from Financial Markets Association of Pakistan (FMAP) the net assets of the Fund as at 31 December 2011 would have been lower by Rs. 1.34 million with corresponding effect on Unit Holders' Fund and net income for the period from 1 July 2011 to 31 December 2011.



**5.3 Unrealised appreciation / (diminution) in fair value of investments  
classified as at fair value through profit or loss**

	(Unaudited) 31 December 2011 (Rupees in '000)	(Audited) 30 June 2011 (Rupees in '000)
Fair value of investments	1,497,526	1,716,445
Less: Cost of investments	(1,505,569)	(1,739,736)
	(11,759)	(23,291)
Less: Net unrealised diminution in fair value of investments at beginning of the period	23,291	27,569
Less: Provision against non performing exposure	22,457	1,934
Add: Realised on disposal during the period	(29,132)	(9,013)
	12,900	20,490
	4,857	(2,801)

**6. DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT**

**CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated 6 March 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. Board has approved the category of the fund as "Income Scheme".

In accordance with clause (v) of the investment criteria laid down for 'Income Scheme' in circular no. 7 of 2009, the Fund is required not to invest in any security having rating not lower than the investment grade (credit rating of BBB and above). However, as at 31 December 2011, the Fund is non-compliant with the above mentioned requirement in respect of the following investments:

Name of non-compliant investment	Name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
		(Rupees in '000)		(Rupees in '000)	%	%
Investment in debt securities	Maple Leaf Cement Factory Limited	6,111	706	5,405	0.36	0.32
Investment in debt securities	Maple Leaf Cement Factory Limited *	264	-	264	0.02	0.02
Investment in debt securities	Escorts Investment Bank Limited	3,328	-	3,328	0.22	0.20
Investment in debt securities	Pace Pakistan Limited	29,968	10	29,958	2.00	1.77
Investment in debt securities	Telecard Limited	31,938	22,223	9,715	0.65	0.57

**6.1** At the time of purchase, the said securities were in compliance of the circular (i.e. investment grade) and were subsequently downgraded to non investment grade by MUFAP.

\* This was issued against outstanding markup receivable from Meaple Leaf Cement Factory Limited.

**7. CONTINGENCY**

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 Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for an adjudication.

Subsequent to the year ended 30 June 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 30 June 2011, the Honourable Lahore High 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 Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company in this condensed interim financial information. The aggregate unrecognised amount of WWF as at 31 December 2011 amounted to Rs. 17.14 million.



**8. SERVICE TAX CHARGES**

During the current period the Sindh Government has levied General Sales Tax (GST) at the rate of 16% on the remuneration of the Management Company through Sindh Sales Tax on Service Tax 2011 effective from 1 July 2011.

**9. TAXATION**

The Fund's income is exempt from Income Tax as per clause 99 of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. The management intends to distribute at least 90% of the income earned by the Fund by the year end to the unit holders. The Fund is also exempt from the provision of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. Accordingly, no provision for taxation has been made in this condensed interim financial information.

**10. TRANSACTIONS WITH CONNECTED PERSONS**

Connected persons / related parties of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel and other associated undertaking.

The transactions with related parties / connected persons are in the normal course of business and at contracted rates.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

**10.1 Details of the transactions with  
connected persons are as follows:**

	<b>Six months ended 31 December</b>		<b>Quarter ended 31 December</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>----- (Rupees in '000) -----</b>			
<b>Arif Habib Investment Management Limited - Management Company</b>				
Remuneration for the period	<u>13,032</u>	<u>15,674</u>	<u>6,406</u>	<u>7,739</u>
Service tax charges	<u>2,085</u>	<u>-</u>	<u>1,025</u>	<u>-</u>
<b>Summit Bank Limited</b>				
Profit on bank deposits	<u>250</u>	<u>513</u>	<u>111</u>	<u>244</u>
<b>Other Related Parties</b>				
<b>Directors and executives of the Management Company</b>				
Issue of 33,507 units (2010: 524,905 units) and 28,187 units (2010: 244,518 units) for the six months and quarter ended respectively	<u>1,766</u>	<u>27,262</u>	<u>1,486</u>	<u>12,307</u>
Issue of 5,371 bonus units (2010: 27,380 bonus units) and bonus NIL units (2010: 9,619 units) for the six months and quarter ended respectively	<u>280</u>	<u>1,410</u>	<u>-</u>	<u>499</u>
Redemption of 58,891 units (2010: 564,786 units) and 30,868 units (2010: 308,414 units) for the six months and quarter ended ended respectively	<u>3,105</u>	<u>29,392</u>	<u>1,630</u>	<u>16,108</u>

**Central Depository Company of Pakistan  
Limited - Trustee**

Remuneration for the period	<u>1,166</u>	<u>1,549</u>	<u>577</u>	<u>768</u>
CDS charges	<u>-</u>	<u>3</u>	<u>-</u>	<u>1</u>
CDS induction charges	<u>-</u>	<u>34</u>	<u>-</u>	<u>17</u>

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

**31 December 2011**      **30 June 2011**  
(Rupees in '000)

**Arif Habib Investment Management Limited -  
Management Company**

Payable to Management Company	<u>2,158</u>	<u>2,338</u>
Sales Tax	<u>345</u>	<u>-</u>

**Central Depository Company of Pakistan Limited - Trustee**

Remuneration payable	<u>194</u>	<u>196</u>
Security deposit	<u>200</u>	<u>200</u>

**Summit Bank Limited (formerly Arif Habib Bank Limited)**

Bank balance	<u>9,623</u>	<u>3,594</u>
Profit receivable on bank accounts	<u>67</u>	<u>97</u>

**MCB Bank Limited**

Bank balance	<u>22,346</u>	<u>974</u>
Profit receivable on bank accounts	<u>362</u>	<u>-</u>

Directors and executives of the Management Company  
Units held 124,603 (30 June 2011: 26,844)

<u>6,674</u>	<u>1,428</u>
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- 10.3** The brokerage 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.

**11. DATE OF AUTHORISATION**

This condensed interim financial information has been authorised for issue in the meeting of the Board of Directors of the Management Company held on January 27, 2012.

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

Yasir Qadri  
Chief Executive Officer

Nasim Beg  
Director