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## FUND'S INFORMATION

### Management Company

Arif Habib Investments Limited  
Arif Habib Centre, 23 M. T. Khan Road,  
Karachi -74000.

### Board of Directors of the Management Company

Mr. Muhammad Shafi Malik	Chairman
Mr. Nasim Beg	Chief Executive
Syed Ajaz Ahmed	Director
Mr. Sirajuddin Cassim	Director
Mr. Muhammad Akmal Jameel	Director
Mr. Muhammad Kashif	Director
Mr. S. Gulrez Yazdani	Director
Mr. Samad A.Habib	Director (Subject to the approval of SECP)

### Company Secretary & CFO of the Management Company

Mr. Zeeshan

### Audit Committee

Mr. Muhammad Shafi Malik	Chairman
Syed Ajaz Ahmed	Member
Mr. Muhammad Akmal Jameel	Member
Mr. Samad A.Habib	Member (Subject to the approval of SECP)

### Trustee

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

### Bankers

Arif Habib Bank Limited	Askari Bank Limited
Allied Bank Limited	Bank Al Habib Limited
Bank Alfalah Limited	Faysal Bank Limited
Habib Bank Limited	Habib Metropolitan Bank Limited
MCB Bank Limited	Meezan Bank Limited
NIB Bank Limited	Standard Chartered Bank (Pakistan) Limited
United Bank Limited	

### Auditors

KPMG Taseer Hadi & Co.  
Chartered Accountants  
1st Floor, Sheikh Sultan Trust Building No.2  
Beaumont Road, Karachi-75530

### Legal Adviser

M/s. Bawaney & Partners  
404, 4<sup>th</sup> Floor, Beaumont Plaza, 6-C1-10,  
Beaumont Road, Civil Lines, Karachi-75530

### Registrar

M/s. Gangjees Registrar Services (Pvt.) Limited.  
Room No. 516, 5<sup>th</sup> Floor, Clifton Centre,  
Kehkashan, Clifton, Karachi.

### Rating

PACRA: AA - (f) Stability Rating  
PACRA: AM2 (Positive Outlook) - Management Quality Rating assigned to Management Company



**REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

The Board of Directors of Arif Habib Investments Limited, the Management Company of Pakistan Income Fund (PIF) is pleased to present its Report together with Condensed Interim Financial Statements for the half year ended 31 December 2010.

**Fund Objective**

The objective of the fund is to deliver returns primarily from debt and fixed income investments without taking excessive risk.

**Fund Profile**

Pakistan Income Fund (PIF) is an open end fund, which invests in corporate securities, Government securities; money market placements, TDRs and short maturity reverse repurchase transactions. The overall duration of the portfolio is kept below 1 year, in order to keep interest rate risk at a relatively low and manageable level. The board has approved the categorization of the Fund as "Income Scheme"

**Fund's Performance during the half year ended 31 December 2010**

The net assets of the Fund as at 31 December 2010 stood at Rs 1,936.74 million as compared to Rs 2,101.70 million at 30 June 2010 registering a decrease of 7.85%. The decrease was primarily due to the fact that investors opted to convert their investments in other funds managed by Arif Habib Investments Limited.

The ex-dividend Net Asset Value (NAV) per unit at the beginning of the period was Rs 51.12 and with an increase of Rs 3.41 in the NAV per unit recorded during the period under review; the NAV per unit on 31 December 2010 was Rs 51.96 after interim distribution of Rs 2.57 per unit.

**Income Distribution**

The Management Company on behalf of the Fund has announced interim payouts of an aggregate of Rs 2.57 per unit as follows:

Date of distribution	Interim payouts during the period	
	(PKR / Unit)	Return on opening Ex-NAV
30 Sept 2010	1.15	2.25 % on the EX NAV of 30 June 2010
31 Dec 2010	1.42	2.76 % on the EX NAV of 30 Sep 2010
<b>Total</b>	2.57	

**Explanation With Regards To Emphasis of Matter Paragraph included in the Auditor's Review Report**

The explanation with regard to emphasis of matter paragraph is provided in note 8 to the condensed interim financial statements.

**Future Outlook and Fund Performance**

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

**Acknowledgment**

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

For and on behalf of the Board

Karachi  
19 February 2011

**Nasim Beg**  
Chief Executive



## REPORT OF THE FUND MANAGER FOR THE QUARTER ENDED 31 DECEMBER 2010

### Objective

The objective of the fund is to deliver returns primarily from debt and fixed income investments without taking excessive risk.

### Fund Profile

Pakistan Income Fund (PIF) is an open end fund, which invests in corporate securities, Government securities; money market placements, TDRs and short maturity reverse repurchase transactions. The overall duration of the portfolio is kept below 1 year, in order to keep interest rate risk at a relatively low and manageable level. PIF 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

PIF earned an annualized return of 15.05% during the 2nd quarter FY11 against its benchmark return of 12.10%. Annualized return for 6 months FY11 was 13.41% during the period ended 31 December 2010. The improved return compared to last quarter (11.33% p.a.) was due to valuation gains in its TFC portfolio. The weighted average credit quality of the portfolio was AA+ and the overall average portfolio duration was 63 days at the end of the period.

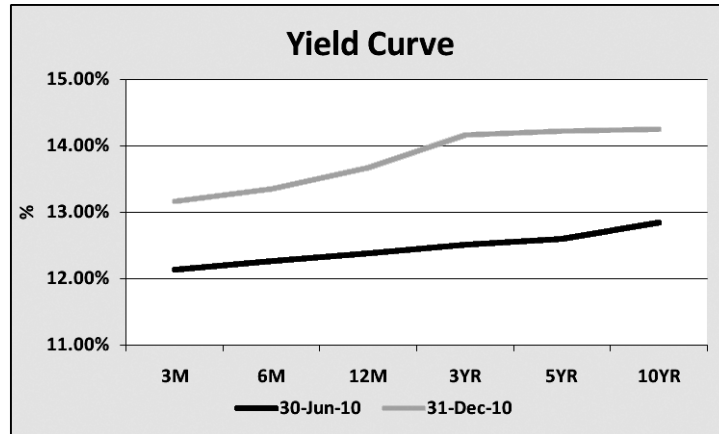
### Asset Allocation

At the end of the period, T-bills were 42.5% of net assets. Exposure in TFCs was 35.09% of net assets which mainly comprised 16.32% banks, 9.00% fertilizer, 4.36% investment banks & companies, 2.50% telecom and 2.44% real estate sectors. Short term TDRs with commercial banks were 15.49% as the year-end deposit demand provided opportunity to earn high returns. In addition, the Fund made fresh investment in Govt. Ijara Sukuk up to 2.59% of net assets, in view of high liquidity and attractive return. Cash in banks were 3.04%.

As a policy, PIF distributes quarterly dividends in order to provide better periodic net-of-tax returns to investors. During this quarter, PIF declared a second interim dividend of Rs1.42/unit (Rs 1.15, 1st quarter FY2011). Hence the total cumulative dividend yield was 10.08% p.a. for the first half FY11.

### Market Review

During 2QFY11, SBP increased the discount rate by 100 bps to 14.0% (in September 10 & November10) as inflation started soaring along with higher fiscal deficit due to elevated government borrowings from the SBP. As a result, interest rates moved up across all tenors, with the yields on 3 month, 1-year and 10 years instruments increasing by 49 bps, 71 bps and 50 bps to 13.17%, 13.68% and 14.25% respectively. During 1HY FY11 the discount rate has been increased by 150 bps.

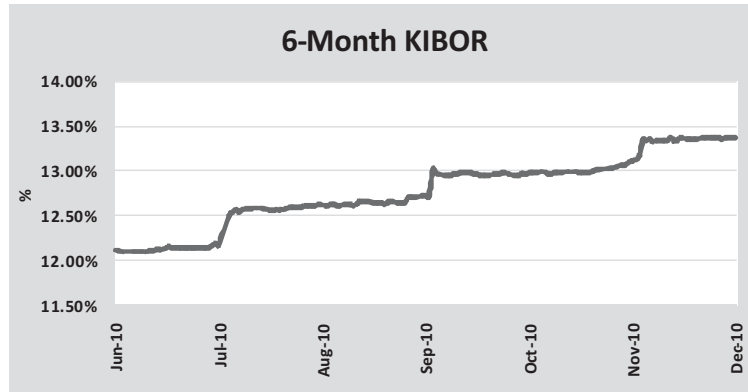


PIB auctions were held twice during the quarter ended 31 December 2010. In the wake of inflationary pressures and expectations of a tight monetary stance by the SBP, participation was seen at high yields; rates on benchmark 10-yr PIB increased by 50 bps. Total target of Rs 40.0 billion was set by the Central Bank and participation received was Rs 49.0 billion out of which Rs 26.0 billion was in 10-yr bond. Secondary market yields on 3, 5 and 10-yr PIBs ended the quarter at 14.16%, 14.22% and 14.25% compared to 13.47%, 13.57% and 13.75% on 30 September 2010.

Expected increase in policy rate restricted activity within the short term maturity papers throughout the quarter; yields (PKRV) ended at 13.17%, 13.36% and 13.68% compared to 12.68%, 12.85% and 12.97% in 3, 6-month and 1-year T-bills respectively at the end of first quarter FY11. Similarly, substantial amount of participation was witnessed in 3-month tenor in T-bill auctions conducted during the quarter. Total T-bill worth Rs 942.0 billion was sold against a target of Rs 860.0 billion amid T-bill maturity of Rs 704.0 billion.

The SBP conducted two Government Ijara Sukuk auctions during this quarter with a total target of Rs 80.0 billion; whereas Rs 89.0 billion was accepted against participation of Rs 123.0 billion. The cut-off was set at 6-month T-bill weighted average yield in both auctions.

The benchmark 6-month KIBOR also increased by 35 bps to 13.62% QoQ (from previous closing at 13.27%), after increase in policy rate and adequate liquidity management by SBP.



Trading remained confined in corporate debt instruments of banking, fertilizer and telecommunication sectors during the 2nd quarter FY11. Among listed TFCs, banking and fertilizer sector TFCs were traded at credit spreads of 1.50% to 2.20% and telecommunications sector transactions were concluded at credit spreads of 6.9-7.5% over benchmark 6-month KIBOR. While, trading in unlisted TFCs was seen at credit spreads of 2.4-8.5% over 6-month KIBOR in Banking, Fertilizers, Electronics, Forestry and NBFC sector TFCs.

#### Future Outlook

Interest rates are expected to increase further during the next quarter amid high inflation numbers, heavy government borrowing and fiscal imbalances. Under the prevailing conditions, PIF will continue to maintain its major exposure in short dated government securities to restrict valuation knocks on the portfolio. Secondary market activity in TFCs (corporate bonds) is expected to remain low and price discovery may remain a cause of concern due to rising interest rates, with expected spread over benchmark KIBOR ranging between 1.5-2.5% for AA rated instruments in the near term.



## 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**

The Pakistan Income Fund (the Fund), an open-end Fund was established under a trust deed dated October 23, 2001, executed between Arif Habib Investments Limited (Formerly Arif Habib Investment Management Limited), as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the six months period ended December 31, 2010 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 23, 2011





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

### *Introduction*

We have reviewed the accompanying condensed interim statement of assets and liabilities of Pakistan Income Fund ("the Fund") as at 31 December 2010 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 to the condensed interim financial information for the six months period ended 31 December 2010 (here-in-after referred to as the "condensed interim financial information"). Management Company of the Fund 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 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 condensed 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 at and for the six months period ended 31 December 2010 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

### *Emphasis of matter*

Without qualifying our conclusion, we draw attention to note 8 to the condensed interim financial information which describes the uncertainties relating to pending outcome of the litigation regarding contribution to Workers' Welfare Fund.

*Other matters*

The figures for the quarter ended 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.

The financial statements of the Fund for the year ended 30 June 2010 and condensed interim financial information of the Fund for the six months period ended 31 December 2009 were audited and reviewed respectively by another firm of auditors who expressed qualified opinion on the financial statements of the Fund for the year ended 30 June 2010 in respect of non provision of Workers' Welfare Fund in the financial statements and unqualified conclusion on the condensed interim financial information of the Fund for the six months period ended 31 December 2009 vide their reports dated 3 August 2010 and 22 February 2010 respectively.

**Date: 19 February 2011**

**Karachi**

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

**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES  
AS AT 31 DECEMBER 2010**

	<b>(Unaudited)</b>	<b>(Audited)</b>
<i>Note</i>	<b>31 December</b>	<b>30 June</b>
	<b>2010</b>	<b>2010</b>
	<b>(Rupees in '000)</b>	
<b>Assets</b>		
Bank balances	58,854	16,396
Receivable against sale of units	703	4,990
Dividend and profit receivable	30,307	32,074
Investments	6 1,552,972	2,045,986
Term deposit Receipts	300,000	-
Advances, deposits, prepayments and other receivables	6,913	9,323
<b>Total assets</b>	<b>1,949,749</b>	<b>2,108,769</b>
<b>Liabilities</b>		
Payable on redemption of units	3,591	1,134
Payable to Arif Habib Investments Limited - Management Company	2,587	2,743
Payable to Central Depository Company of Pakistan Limited - Trustee	251	258
Payable to The Securities and Exchange Commission of Pakistan - Annual fee	784	1,741
Dividend payable	4,014	-
Accrued expenses and other liabilities	1,779	1,198
<b>Total liabilities</b>	<b>13,006</b>	<b>7,074</b>
<b>Contingency</b>	8	
<b>Net assets</b>	<b>1,936,743</b>	<b>2,101,695</b>
<b>Unit holders' funds</b>	<b>1,936,743</b>	<b>2,101,695</b>
	<b>Number of units</b>	
<b>Number of units in issue</b>	<b>37,277,243</b>	<b>40,244,515</b>
	<b>Rupees</b>	
<b>Net asset value per unit</b>	<b>51.96</b>	<b>52.22</b>

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

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

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

\_\_\_\_\_  
Director

**CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED)  
FOR THE SIX MONTHS AND QUARTER ENDED 31 DECEMBER 2010**

	Note	Six months ended		Quarter ended	
		31 December		31 December	
		2010	2009	2010	2009
----- (Rupees in '000) -----					
<b>Income</b>					
Capital (loss) / gain on sale of investments		(466)	23,476	238	12,836
Income from term finance and sukuk certificates		60,085	84,850	30,704	42,091
Income from government securities		75,778	52,628	38,324	35,621
Income from certificates of investment, term deposit receipts and placements		2,255	19,431	1,787	9,769
Income from reverse repurchase transactions		-	1,160	-	382
Profit on bank deposits		1,667	5,685	948	968
Unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'		10,257	23,085	11,481	1,275
Provision against non-performing investment	6.2	-	(1,500)	-	(1,500)
Reversal of income from term finance and sukuk certificates		-	(774)	-	(774)
Reversal of provision against non-performing investment		2,471	-	-	-
<b>Total income</b>		<b>152,047</b>	<b>208,041</b>	<b>83,482</b>	<b>100,668</b>
<b>Expenses</b>					
Remuneration of Arif Habib Investments Limited - Management Company		15,674	18,312	7,739	10,075
Remuneration of Central Depository Company of Pakistan Limited - Trustee		1,549	1,725	768	924
Annual fee - The Securities and Exchange Commission of Pakistan		784	915	387	503
Securities transaction cost		72	558	62	321
Settlement and bank charges		203	850	110	771
Fees and subscriptions		130	230	66	65
Legal and professional charges		28	73	26	25
Auditor's remuneration		269	256	122	110
Printing and related costs		83	101	37	55
<b>Total expenses</b>		<b>18,792</b>	<b>23,020</b>	<b>9,317</b>	<b>12,849</b>
		<b>133,255</b>	<b>185,021</b>	<b>74,165</b>	<b>87,819</b>
Net element of loss and capital losses included in prices of units issued less those in units redeemed		(7,257)	(13,349)	(8,726)	(14,943)
<b>Net income for the period</b>		<b>125,998</b>	<b>171,672</b>	<b>65,439</b>	<b>72,876</b>
<b>Earnings per unit</b>	9				

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

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

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

\_\_\_\_\_  
Director

**CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED)  
FOR THE SIX MONTHS AND QUARTER ENDED 31 DECEMBER 2010**

	Six months ended 31 December		Quarter ended 31 December	
	2010	2009	2010	2009
	----- (Rupees in '000) -----			
Undistributed income brought forward	89,581	136,595	59,293	49,915
Final distribution at the rate of Rs 1.10 per unit for the year ended 30 June 2010 - Date of distribution: 5 July 2010 (2009: Rs 2.35 per unit)				
- Cash Distribution	(3,642)	(4,581)	-	-
- Issue of bonus units	(40,631)	(100,401)	-	-
	(44,273)	(104,982)	-	-
Net income for the period	125,998	171,672	65,439	72,876
Interim distribution at the rate of Rs 1.15 per unit for the quarter ended 30 September 2010 - Date of Distribution: 30 September 2010 (30 September 2009: Rs 1.87 per unit)				
- Cash Distribution	(3,251)	(10,732)	-	-
- Issue of bonus units	(43,323)	(69,762)	-	-
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)	(11,478)	(4,014)	(11,478)
- Issue of bonus units	(47,718)	(73,564)	(47,718)	(73,564)
	(98,306)	(165,536)	(51,732)	(85,042)
Undistributed income carried forward	<u>73,000</u>	<u>37,749</u>	<u>73,000</u>	<u>37,749</u>

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

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

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

\_\_\_\_\_  
Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)  
FOR THE SIX MONTHS AND QUARTER ENDED 31 DECEMBER 2010**

	Six months ended		Quarter ended	
	31 December 2010	2009	31 December 2010	2009
----- (Rupees in '000) -----				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period	125,998	171,672	65,439	72,876
<b>Adjustments for:</b>				
Unrealised appreciation in value of investments classified as 'at fair value through profit or loss'	(10,257)	(23,085)	(11,481)	(1,275)
Net element of loss and capital losses included in prices of units issued less those in units redeemed	7,257	13,349	8,726	14,943
Provision against non performing investment	-	1,500	-	1,500
Reversal of provision against non performing investment	(2,471)	-	-	-
	<u>120,527</u>	<u>163,436</u>	<u>62,684</u>	<u>88,044</u>
<b>Decrease / (increase) in assets</b>				
Receivable against sale of investments	-	-	-	49,637
Dividend and profit receivable	1,767	12,094	(7,021)	(22,828)
Investments	505,742	(10,670)	431,766	587,022
Loans and receivables	(300,000)	(5,000)	(200,000)	(630,295)
Advances, deposits, prepayments and other receivables	2,410	(84)	572	50,505
	<u>209,919</u>	<u>(3,660)</u>	<u>225,317</u>	<u>34,041</u>
<b>Increase / (decrease) in liabilities</b>				
Payable to Arif Habib Investments Limited - Management Company	(156)	(2,271)	(103)	728
Payable to Central Depository Company of Pakistan Limited - Trustee	(7)	11	(5)	35
Payable to The Securities and Exchange Commission of Pakistan - annual fee	(957)	(2,216)	387	504
Accrued expenses and other liabilities	581	(275)	517	(596)
	<u>(539)</u>	<u>(4,751)</u>	<u>796</u>	<u>671</u>
<b>Net cash flow generated from operating activities</b>	<u>329,907</u>	<u>155,025</u>	<u>288,797</u>	<u>122,756</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividend paid	(6,893)	(15,313)	(3,251)	(10,732)
Net payments against redemption of units	(280,556)	(255,769)	(251,560)	(109,801)
<b>Net cash flow used in financing activities</b>	<u>(287,449)</u>	<u>(271,082)</u>	<u>(254,811)</u>	<u>(120,533)</u>
Net increase / (decrease) in cash and cash equivalents during the period	42,458	(116,057)	33,986	2,223
Cash and cash equivalents at the beginning of the period	16,396	145,616	24,868	27,336
<b>Cash and cash equivalents as at the end of the period</b>	<u>58,854</u>	<u>29,559</u>	<u>58,854</u>	<u>29,559</u>

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

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

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

\_\_\_\_\_  
Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT IN  
UNIT HOLDERS' FUNDS (UN-AUDITED)  
FOR THE SIX MONTHS AND QUARTER ENDED 31 DECEMBER 2010**

	Six months ended 31 December		Quarter ended 31 December	
	2010	2009	2010	2009
	(Rupees in '000)			
Net assets at the beginning of the period	2,101,695	2,369,938	2,123,174	2,266,021
Issue of 4,985,657 units (2009: 50,016,098 units) and 2,579,303 units (2009: 25,270,891 units) for the six months and quarter ended respectively	259,184	2,594,594	134,620	1,297,514
Issue of 794,817 bonus units for the year ended 30 June 2010 (2009: 1,979,902 units)	40,631	100,401	-	-
Issue of 842,537 bonus units for the quarter ended 30 September 2010 (2009: 1,365,737 units)	43,323	69,762	-	-
Issue of 919,246 bonus units for the quarter ended 31 December 2010 (2009: 1,447,538 units)	47,718	73,564	47,718	73,564
Redemption of 10,509,529 units (2009: 55,603,325 units) and 7,501,314 units (2009: 27,167,738 units) for the six months and quarter ended respectively	(546,484)	(2,891,373)	(391,202)	(1,408,487)
	(155,628)	(53,052)	(208,864)	(37,409)
Net element of loss and capital losses included in prices of units issued less those in units redeemed:				
- amount representing accrued loss and realised capital losses transferred to the Income Statement	7,257	13,349	8,726	14,943
Final distribution at the rate of Rs 1.10 per unit for the year ended 30 June 2010 (Date of distribution: 5 July, 2010) (2009: Rs. 2.35 per unit)				
- Cash Distribution	(3,642)	(4,581)	-	-
- Issue of bonus units	(40,631)	(100,401)	-	-
Interim distribution at the rate of Rs 1.15 per unit for the quarter ended 30 September 2010 - Date of distribution: 30 September 2010 (30 September 2009: Rs. 1.87 per unit)				
- Cash Distribution	(3,251)	(10,732)	-	-
- Bonus units	(43,323)	(69,762)	-	-
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)	(11,478)	(4,014)	(11,478)
- Bonus units	(47,718)	(73,564)	(47,718)	(73,564)
	(142,579)	(270,518)	(51,732)	(85,042)
Net income for the period (excluding unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital (loss) / gain on sale of investments)	116,207	125,111	53,720	58,765
Capital (loss) / gain on sale of investments	(466)	23,476	238	12,836
Unrealised appreciation in value of investments classified as 'at fair value through profit or loss'	10,257	23,085	11,481	1,275
Net income for the period (including unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital (loss) / gain on sale of investments)	125,998	171,672	65,439	72,876
Net assets as at the end of the period	1,936,743	2,231,389	1,936,743	2,231,389

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

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

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

\_\_\_\_\_  
Director



**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS ( UN-AUDITED)  
FOR THE SIX MONTHS AND QUARTER ENDED 31 DECEMBER 2010**

**1. LEGAL STATUS AND NATURE OF BUSINESS**

Pakistan Income Fund (PIF) 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 23rd October 2001 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 28th February 2002 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules) repealed by Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

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

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.

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 (PACRA) Limited has assigned management quality rating of 'AM2' (positive outlook) to the Management Company and AA-(f) as stability rating to the Fund.

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**

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 year ended 30 June 2010.

This condensed interim financial information comprises of the condensed interim statement of assets and liabilities as at 31 December 2010 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 and quarter ended 31 December 2010. At 31 December 2010, 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 as well as comparative period.

The comparatives in the statement of assets and liabilities presented in the condensed interim financial information as at 31 December 2010 have been extracted from the audited financial statements of the Fund for the year ended 30 June 2010, where as the comparative condensed interim income statement, condensed interim cash flow statement, condensed interim distribution statement and condensed interim statement of movement in unit holders' funds are stated from unaudited condensed interim financial information for the six months and quarter ended 31 December 2009.



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.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and methods of computation followed in the preparation of this condensed interim financial information are the same as those applied in the preparation of financial statements for the year ended 30 June 2010. New interpretations and amendments to certain existing standards / interpretations became effective during the period, however, adoption of such amendments / new interpretations did not have any impact on the accounting policies of the Fund.

**4. ESTIMATES AND JUDGEMENTS**

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 year ended 30 June 2010.

**5. RISK MANAGEMENT**

The Fund's risk management objectives and policies are consistent with those objectives and policies which were disclosed in the financial statements of the year ended 30 June 2010.

**6. INVESTMENTS**

		(Unaudited)	(Audited)
		31 December	30 June
		2010	2010
		(Rupees in '000)	
<b>'At fair value through profit or loss' - 'held for trading'</b>			
- Fixed income and other debt securities	6.1	<u>1,552,972</u>	<u>2,045,986</u>

6.1 Fixed income and other debt securities - 'at fair value through profit or loss' - held for trading

6.1.1 Term finance and sukuk certificates

Name of the investee company	Issue date	As at 1 July 2010	Purchases during the period	Sales / matured during the period	As at 31 December 2010	Cost as at 31 December 2010	Market value as at 31 December 2010	Appreciation/ (diminution) as at 31 December 2010	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	
		----- (Rupees in '000) -----									
		----- Number of certificates -----									
Askari Bank Limited	4 February 2005	14,000	-	-	14,000	69,121	69,455	334	3.59	4.47	4.67
Askari Bank Limited	18 November 2009	13,000	-	-	13,000	65,199	65,949	750	3.41	4.25	2.17
Bank AL Habib Limited	7 February 2007	12,220	-	3,700	8,520	42,540	42,331	(209)	2.19	2.73	2.84
Bank Alfalah Limited	2 December 2009	15,000	-	3,000	12,000	59,976	60,596	620	3.13	3.90	1.20
Engro Corporation Limited (formerly Engro Chemical Pakistan Limited)	18 March 2008	39,400	-	-	39,400	189,789	174,345	(15,444)	9.00	11.23	4.93
Esorts Investment Bank Limited	15 March 2007	3,016	-	-	3,016	7,624	7,427	(197)	0.38	0.48	3.02
KASB Securities Limited	27 June 2007	8,500	-	-	8,500	36,782	41,723	4,941	2.15	2.69	8.50
Maple Leaf Cement Factory Limited	3 December 2007	2,000	-	-	2,000	6,994	6,266	(728)	0.32	0.40	0.13
Maple Leaf Cement Factory Limited	31 March 2010	-	75	-	75	375	264	(111)	0.01	0.02	0.00
Pace Pakistan Limited	15 February 2008	10,000	-	-	10,000	42,616	47,203	4,587	2.44	3.04	3.33
Pakistan Mobile Communications Limited	1 October 2007	19,250	-	19,250	-	-	-	-	-	-	-
Pakistan Mobile Communications Limited	28 October 2008	1,535	-	1,000	535	2,662	2,335	(327)	0.12	0.15	0.05
Searle Pakistan Limited	9 March 2006	4,000	-	-	4,000	2,499	2,486	(13)	0.13	0.16	5.00
Telecard Limited	27 May 2005	19,975	-	-	19,975	36,704	34,642	(2,062)	1.79	2.23	4.16
Trust Investment Bank Limited	15 November 2005	7,500	-	7,500	-	-	-	-	-	-	-
Trust Investment Bank Limited	4 July 2008	10,000	-	-	10,000	37,485	35,205	(2,280)	1.82	2.27	8.33
United Bank Limited	8 September 2006	16,012	-	400	15,612	78,210	77,808	(402)	4.02	5.01	3.90
Worldcall Telecom Limited	28 November 2006	7,000	-	-	7,000	11,774	11,522	(252)	0.59	0.74	10.00
						<b>690,350</b>	<b>679,557</b>	<b>(10,793)</b>			

The above include Term Finance Certificates with fair value aggregating to Rs 246,078 (2010: Rs 329,636) 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.

6.1.2. Government securities

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS ( UN-AUDITED) FOR THE SIX MONTHS AND QUARTER ENDED 31 DECEMBER 2010

Issue date	Tenor	As at 1 July 2010	Purchases during the year	Sales during the year	As at 31 December 2010	Cost as at 31 December 2010	Market value as at 31 December 2010	Appreciation/ (diminution) as at 31 December 2010	Market value as a percentage of net assets	Market value as a percentage of total investments
<b>Pakistan Investment Bond</b>										
3 September 2009	3 Years	25,000	-	25,000	-	-	-	-	-	-
3 September 2009	5 Years	25,000	-	25,000	-	-	-	-	-	-
<b>Total Investment in Pakistan Investment Bond</b>										
<b>Government of Pakistan Ijara Sukuk</b>										
15 November 2010	3 Years	-	50,000	-	50,000	50,000	50,125	125	2.38	2.45
<b>Treasury Bills</b>										
13 August 2009	1 Year	50,000	-	50,000	-	-	-	-	-	-
27 August 2009	1 Year	100,000	50,000	150,000	-	-	-	-	-	-
10 September 2009	1 Year	25,000	-	25,000	-	-	-	-	-	-
26 September 2009	1 Year	50,000	-	50,000	-	-	-	-	-	-
8 October 2009	1 Year	75,000	-	75,000	-	-	-	-	-	-
14 January 2010	6 Month	300,000	-	300,000	-	-	-	-	-	-
11 March 2010	1 Year	50,000	-	50,000	-	-	-	-	-	-
8 April 2010	6 Month	75,000	-	75,000	-	-	-	-	-	-
6 May 2010	1 Year	100,000	-	100,000	100,000	96,304	95,658	(646)	4.94	6.16
6 May 2010	3 Month	100,000	-	100,000	-	-	-	-	-	-
6 May 2010	6 Month	-	100,000	100,000	-	-	-	-	-	-
6 May 2010	3 Month	150,000	-	150,000	-	-	-	-	-	-
20 May 2010	1 Year	150,000	-	25,000	125,000	119,872	118,990	(882)	6.14	7.66
3 June 2010	3 Month	40,000	-	40,000	-	-	-	-	-	-
15 July 2010	6 Month	-	265,000	265,000	-	-	-	-	-	-
29 July 2010	3 Month	-	70,000	70,000	-	-	-	-	-	-
29 July 2010	1 Year	-	125,000	125,000	-	-	-	-	-	-
29 July 2010	3 Month	-	19,000	19,000	-	-	-	-	-	-
13 August 2010	1 Year	-	200,000	200,000	-	-	-	-	-	-
13 August 2010	3 Month	-	145,000	145,000	-	-	-	-	-	-
26 August 2010	3 Month	-	187,500	187,500	-	-	-	-	-	-
9 September 2010	3 Month	-	50,000	50,000	-	-	-	-	-	-
7 October 2010	3 Month	-	200,000	200,000	-	-	-	-	-	-
7 October 2010	3 Month	-	30,000	30,000	-	-	-	-	-	-
21 October 2010	3 Month	-	80,000	80,000	80,000	79,673	79,664	(9)	4.11	5.13
4 November 2010	3 Month	-	375,000	20,000	355,000	351,868	351,760	(108)	18.16	22.65
4 November 2010	3 Month	-	50,000	50,000	-	-	-	-	-	-
16 November 2010	3 Month	-	180,000	50,000	130,000	128,228	128,166	(62)	6.62	8.25
2 December 2010	3 Month	-	50,000	-	50,000	49,058	49,052	(6)	2.53	3.16
<b>Total Investment in Treasury Bills</b>										
						825,003	823,290	(1,713)		
<b>Total Investment in Government Securities</b>										
						875,003	873,415	(1,588)		
<b>Total Investment in fixed income and other debt securities</b>										
						1,565,353	1,552,972	(12,381)		

<b>6.2</b>	<b>Unrealised appreciation in fair value of investments classified as at fair value through profit or loss</b>	<b>(Unaudited)</b> <b>31 December</b> <b>2010</b> <b>(Rupees in '000)</b>	<b>(Audited)</b> <b>30 June</b> <b>2010</b>
	Fair value of investments	1,552,972	2,045,986
	Less: Cost of investments	<u>(1,565,353)</u>	<u>(2,073,555)</u>
		<b>(12,381)</b>	<b>(27,569)</b>
	Unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' at the beginning of the period / year	27,569	83,787
	Add: Provision against non performing investment	-	2,471
	Reversal of provision against non performing investment	<u>(2,471)</u>	-
	Less: Realised on disposal during the period / year	<u>(2,460)</u>	<u>(45,286)</u>
		<b>22,638</b>	<b>40,972</b>
		<u><b>10,257</b></u>	<u><b>13,403</b></u>

**7. 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. The Board of Directors of Management Company has assigned the "Income Scheme" category to the Fund.

In accordance with clause (v) of the investment criteria laid down for 'Income Scheme', the Fund is required to invest in any security having rating not lower than the investment grade (credit rating of BBB and above). However, as at 31 December 2010, the Fund is non-compliant with the above-mentioned requirement in respect of the following investment:

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 million) -----						
Investment in debt securities	Maple Leaf Cement Factory Limited *	6.27	-	6.27	0.32	0.32
Investment in debt securities	Maple Leaf Cement Factory Limited **	0.26	-	0.26	0.01	0.01

\*At the time of purchase, the said sukuk certificate was in compliance of the said circular (i.e. investment grade) and was subsequently downgraded to non investment grade by MUFAP.

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

## 8. CONTINGENCY

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 (the Ministry) issued a letter which states that mutual funds are not liable for WWF. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income of Mutual Fund(s), the product being sold, is exempted under the law *ibid*."

There have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued by Federal Board of Revenue to a number of mutual funds for the recovery of WWF. On 14 December 2010, the Ministry filed its response contesting the said petition. The legal proceedings in respect of the aforementioned petition are currently in progress.

Based on the advice of the legal counsel handling the case, the Management Company is of the view that notwithstanding the show cause notices issued to a number of mutual funds, WWF is not applicable to the Funds due to the clarification issued by the Ministry which creates vested right, hence no provision for WWF having an effect of Re. 0.37 on net asset value per unit has been recognised in this condensed interim financial information.

## 9. EARNINGS PER UNIT

Earnings per unit (EPU) has not been disclosed as the management is of the opinion that determination of weighted average number of units for calculating EPU is impracticable.

## 10. 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. Accordingly, no provision for taxation has been made in this condensed interim financial information.

## 11. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited (AHI) being the Management Company (AMC), Arif Habib Corporation Limited (formerly 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 Pakarab Fertilizers Limited being companies under common directorship, Central Depository Company of Pakistan Limited being the trustee, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.

Remuneration 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.

11.1 Details of the transactions with connected persons are as follows:	Six months ended		Quarter ended	
	31 December	2009	31 December	2009
	----- (Rupees in '000) -----			
<b>Arif Habib Investment Management Limited - Management Company</b>				
Remuneration for the period	15,674	18,312	7,739	10,075
Sales load for the period	442	256	137	111
<b>Summit Bank Limited (formerly Arif Habib Bank Limited)</b>				
Profit on bank deposits	513	951	244	390
Issuance of Nil units (2009: 3,906,250 units) and Nil units (2009: 3,906,250 units) for the six months and quarter ended respectively	-	200,000	-	200,000
Redemption of Nil units (2009: 3,906,250 units) and Nil units (2009: 3,906,250 units) for the six months and quarter ended respectively	-	204,922	-	204,922
<b>Pakistan International Element Islamic Fund</b>				
Sukuk certificates sold Engro Chemical Pakistan Limited (Issue date: 6 September 2007 ) 10,000 units	-	49,194	-	49,194
<b>Other Related Parties</b>				
<b>Directors and executives of the Management Company</b>				
Issue of 524,905 units (2009: 547,685 units) and 244,518 units (2009: 292,754 units) for the six months and quarter ended respectively	27,262	28,383	12,703	15,089
Issue of 27,380 bonus units (2009: 29,948 bonus units) and bonus 9,619 units (2009: 11,978 units) for the six months and quarter ended respectively	1,410	1,523	499	608
Redemption of 564,786 units (2009: 444,873 units) and 308,414 units (2009: 244,631 units) for the six months and quarter ended respectively	29,392	23,106	16,108	12,663
<b>Central Depository Company of Pakistan Limited - Trustee</b>				
Remuneration for the period	1,549	1,725	768	924
CDS charges	3	4	1	2
CDS induction charges	34	34	17	17
<b>Arif Habib Limited</b>				
Brokerage expenses for the period	-	8	-	8

11.2	Amounts outstanding as at period / year end	31 December 2010	30 June 2010
		(Rupees in '000)	
	<b>Arif Habib Investment Management Limited - Management Company</b>		
	Payable to Management Company	<u>2,587</u>	<u>2,743</u>
	<b>Central Depository Company of Pakistan Limited - Trustee</b>		
	Remuneration payable	<u>251</u>	<u>258</u>
	Security deposit	<u>200</u>	<u>200</u>
	<b>Summit Bank Limited (formerly Arif Habib Bank Limited)</b>		
	Bank balance	<u>6,751</u>	<u>3,594</u>
	Profit receivable on bank accounts	<u>55</u>	<u>97</u>
	<b>Directors and executives of the Management Company</b>		
	Units held: 375,761 units (2009: 388,262 units)	<u>19,525</u>	<u>20,275</u>

11.3 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.

12. **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 19 February 2011.

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

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

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Director