

PAKISTAN INCOME FUND



BRANCHES:

Lahore:

Contact Person: Mr. Tanweer Ahmad Haral
16, Block-A, Hali Road, Gulberg II, Lahore.
Tel: (+92-42) 35714958, 35714959
Fax: (+92-42) 35714957
E-mail: lhr.mkt@arifhabib.com.pk

Rawalpindi:

Contact Person: Mr. Zahiruddin Khan
60-A, Canning Road, Rawalpindi-46000.
Tel: (+92-51) 111-468-378 (111-INVEST), 5564093
E-mail: rwp.mkt@arifhabib.com.pk

Islamabad:

Contact Person: Mr. Nadeem Ishtiaq
15 Beverly Centre, 2nd Floor,
Blue Area, Jinnah Avenue, Islamabad.
Tel: (+92-51) 2875939-2814189
Fax: (+92-51) 2814199
E-mail: isl.mkt@arifhabib.com.pk

Multan:

Contact Person: Syed Nawazish Ali Zaidi
143-144, Mall Plaza, Multan Cantt., Multan.
Tel: (+92-61) 111-468-378 (111-INVEST), 4546235, 6014125
Fax: (+92-61) 4546235
E-mail: mul.mkt@arifhabib.com.pk

Peshawar:

Contact Person: Mr. Iltifatullah Khan
1st Floor, State Life Building, 34 The Mall, Peshawar.
Tel: (+92-91) 111-468-378 (111-INVEST), 5287696
Fax: (+92-91) 5287697
E-mail: psw.mkt@arifhabib.com.pk



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FUND'S INFORMATION

Management Company

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

Board of Directors of the Management Company

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

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. Muhammad Kashif Habib	Member

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, 4th Floor, Beaumont Plaza, 6-C1-10,
Beaumont Road, Civil Lines, Karachi-75530

Registrar

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

Rating

PACRA: 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 QUARTER ENDED SEPTEMBER 30, 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 quarter ended September 30, 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 quarter ended September 30, 2010

The net assets of the Fund as at September 30, 2010 stood at Rs 2,123.17 million as compared to Rs 2,101.70 million at June 30, 2010 registering a slight increase of 1.02%.

The Net Asset Value (NAV) per unit as at Sep 30, 2010 stood at Rs 51.43 per unit compared to opening Ex NAV of Rs 51.12 per unit, registering an increase of Rs 1.46 per unit. During the period interim distribution amounted to Rs 1.15 per unit.

Income Distribution

The Management Company has announced an interim distribution of Rs 1.15 per unit in the form of bonus units to A class units and equivalent cash dividend for B class units for the period ended September 30, 2010.

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, guidance, substantiation 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
October 25, 2010

Nasim Beg
Chief Executive

REPORT OF THE FUND MANAGER FOR THE QUARTER ENDED SEPTEMBER 30, 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 delivered an annualized return of 11.33% during the Quarter ended September 30, 2010, compared to its benchmark (6-month KIBOR-75% & 3-month PKRV-25%) return of 10.72%. Industry average return of Income fund category was 6.51% during 1st quarter 2010. The weighted average credit quality of the Fund was AA+ at the end of the period while the average duration of its portfolio was 96 days.

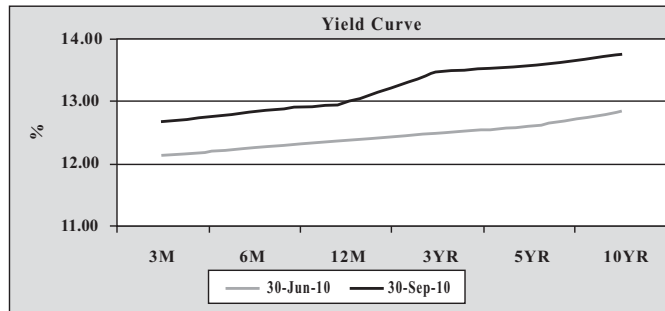
Asset Allocation

During the period, funds under management increased slightly by 1% to Rs. 2.12 billion from Rs 2.1 billion as on June 30, 2010. Due to rising trend in interest rates, exposure in PIBs was offloaded and replaced by short term T-bills and TDRs. At quarter's end T-bills were 56.84% and TDR placements were 4.71% of net assets. On the other hand, exposure in TFCs was mostly unchanged at 36.09% compared to 36.87% at the beginning of the period. TFC portfolio comprised 16.14% Commercial banking, 8.67%, Fertilizer, 5.13% technology & communication, 4.07% investment companies and banks and 1.62% real estate sectors by quarter end.

The Fund declared its 1st Quarterly dividend of Rs. 1.15 with the dividend yield of 9.02%.

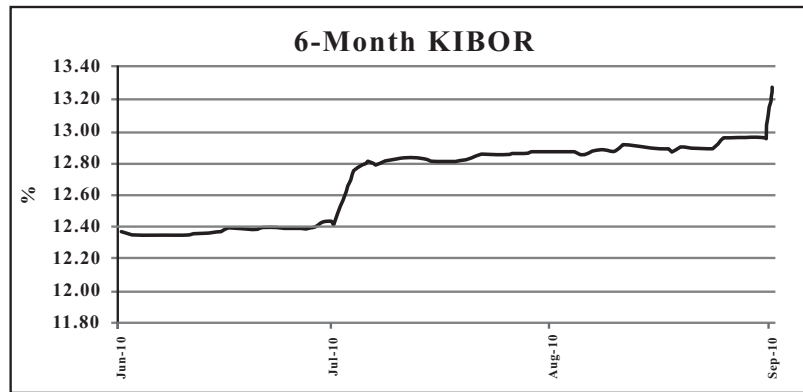
Market Review

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



Total domestic government borrowing from banks and non-banks during quarter ended September, 2010 stood at Rs 133.0 billion approximately. Total T-bill worth Rs 462.0 billion was accepted against a target of Rs 535.0 billion set by the Central Bank amid t-bill maturity of Rs 500 billion during this period. Major participation was noted in 3-month tenor as the participants were expecting an increase in interest rates during most of the quarter. On the other hand, PIB auctions were rejected twice due to participation at high yields in wake of inflationary pressures and uncertainty over Monetary Policy Statement (MPS).

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



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

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

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

Future Outlook

Interest rates are expected to maintain rising trend due to inflationary pressure and fiscal deficit. The CPI for September 10 shows YoY increase of 15.71% over corresponding period last year with fiscal year 2011 SBP expectation of 13.50% to 14.50%. Given this scenario, there will be more investment opportunities at the shorter end of the yield curve. Increase in 6 month KIBOR rate will further enhance the yields of TFCs once they are re-fixed in the high interest rate environment. Selling pressure in TFCs is likely to provide accumulation opportunity for good quality TFCs. The present investment mix of PIF's portfolio may enable the Fund to give stable returns during the next quarter.

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

	Note	Unaudited September 30, 2010	Audited June 30, 2010
(Rupees in '000)			
ASSETS			
Balances with banks		24,868	16,396
Receivable against sale of units		5,644	4,990
Investments	5	1,973,257	2,045,986
Loans and receivables		100,000	-
Dividend and profit receivable		23,286	32,074
Advances, deposits, prepayments and other receivables		7,485	9,323
Total assets		2,134,540	2,108,769
LIABILITIES			
Payable to the Management Company		2,690	2,743
Payable to Central Depository Company of Pakistan Limited - Trustee		256	258
Payable to Securities and Exchange Commission of Pakistan		397	1,741
Dividend Payable		3,251	-
Payable on redemption of units		3,510	1,134
Accrued expenses and other liabilities		1,262	1,198
Total liabilities		11,366	7,074
NET ASSETS		2,123,174	2,101,695
Unit Holders' Fund (AS PER STATEMENT ATTACHED)		2,123,174	2,101,695
Number of units			
Number of units in issue		41,280,008	40,244,515
Rupees			
Net asset value per unit		51.43	52.22

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

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

Chief Executive

Director

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

	Note	2010	2009
		(Rupees in '000)	
INCOME			
Capital (loss)/gain on sale of investments-net		(704)	10,640
Income from Term Finance Certificates and Sukuk Bonds		29,381	42,759
Income from Government Securities		37,454	17,007
Income from Certificates of Investment, Term Deposit Receipts and Placements		468	9,662
Income from reverse repurchase transactions		-	778
Profit on bank accounts		719	4,717
Unrealised (diminution) / appreciation in the value of investments at fair value through profit or loss - net	5.1	(1,224)	21,810
		66,094	107,373
Reversal of Provision against non performing exposure		2,471	
Total Income		68,565	107,373
EXPENSES			
Remuneration to Management Company		7,935	8,237
Remuneration to Trustee		781	801
Annual fee - Securities and Exchange Commission of Pakistan		397	412
Securities transaction cost		10	237
Settlement and bank charges		93	79
Fees and Subscription		64	165
Legal and Professional Charges		2	48
Auditors' Remuneration		147	146
Printing and related cost		46	46
Total Expenses		9,475	10,171
Net income from operating activities		59,090	97,202
Element of income and capital gains included in prices of units issued less those in units redeemed		1,469	1,594
Net income for the period before taxation		60,559	98,796
Taxation		-	-
Net income for the period after taxation		60,559	98,796
Other comprehensive income for the period		-	-
Total comprehensive income for the period		60,559	98,796

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

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

Chief Executive

Director

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

	2010	2009
	(Rupees in '000)	
Undistributed income brought forward	89,581	136,595
Final distribution for the year ended June 30, 2010: Rs 1.10 per unit (Date of distribution: July 5, 2010) (2009: Rs 2.35 per unit: July 6, 2009)		
- Cash Distribution	(3,642)	(4,581)
- Bonus units	(40,631)	(100,401)
Net income for the period	60,559	98,796
Interim distribution for the quarter ended September 30, 2010: Rs 1.15 per unit, date: Sep 30, 2010 (Sep 2009: Rs 1.87 per unit)(Date of distribution: September 30, 2009)		
- Cash Distribution	(3,251)	(10,732)
- Bonus units	(43,323)	(69,762)
Undistributed income carried forward	<u>59,293</u>	<u>49,915</u>

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

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

Chief Executive

Director

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

	2010	2009
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the period	60,559	98,796
Adjustments		
Unrealised diminution/(appreciation) on investments at fair value through profit or loss - net	1,224	(21,810)
Remuneration of Management Company	7,935	8,237
Remuneration of Trustee	781	801
Reversal of Provision against non performing exposure	(2,471)	-
Net element of income and capital (gains) / losses included in prices of units issued less those in units redeemed	<u>(1,469)</u>	<u>(1,594)</u>
	66,559	84,430
(Increase) / decrease in assets		
Receivable against sale of Investments	-	(49,637)
Advances, deposits, prepayments and other receivables	1,838	(50,589)
Investments	73,976	(597,692)
Loans and receivables	(100,000)	625,295
Dividend and profit receivable	8,788	34,922
	(15,398)	(37,701)
Increase / (decrease) in liabilities		
Accrued expenses and other liabilities	64	321
Payable to the Management Company	(20)	6
Payable to Securities and Exchange Commission of Pakistan	(1,344)	(2,720)
	(1,300)	(2,393)
Remuneration paid to Management Company	(7,968)	(11,242)
Remuneration paid to Trustee	(783)	(825)
Dividend Paid	(3,642)	(4,581)
Net cash inflow from operating activities	37,468	27,688
CASH FLOW FROM FINANCING ACTIVITIES		
Net (payment) from sale and repurchase of units	(28,996)	(145,968)
Net increase / (decrease) in cash and cash equivalents during the period	8,472	(118,280)
Cash and cash equivalents at the beginning of the period	16,396	145,616
Cash and cash equivalents at the end of the period	24,868	27,336

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

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

Chief Executive

Director

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

	2010	2009
	(Rupees in '000)	
Net assets at the beginning of the period	2,101,695	2,369,938
Issue of units 2,406,354 (2009: 24,745,206 units)	124,564	1,297,080
Redemption of 3,008,215 units (2009: 28,435,587 units)	(30,718)	(185,806)
Element of income and capital gains included in prices of units issued less those in units redeemed-transferred to Income Statement	(1,469)	(1,594)
Issue of 794,817 Final bonus units for the year ended June 30, 2010 @ Rs 1.10 Per Unit. (2009: 1,979,902 bonus units @ Rs 2.35 Per Unit.	40,631	100,401
Issue of 842,537 interim bonus units @ Rs 1.15 Per Unit for the quarter ended September 30, 2010 (2009: 1,365,737 @ Rs 1.87 Per Unit).	43,323	69,762
Final distribution @ Rs 1.10 per unit for the year ended June 30, 2010 announced on July 5, 2010 (2009: @ Rs 2.35 per unit announced on July 6, 2009)	(3,642)	(4,581)
Cash Distribution	(40,631)	(100,401)
Issue of bonus units		
Net income for the period	60,559	98,796
Interim distribution @ Rs 1.15 per unit announced on September 30, 2010 (2009: Rs 1.87 per unit)	(3,251)	(10,732)
Cash Distribution	(43,323)	(69,762)
Issue of bonus units		
	(30,288)	(86,680)
Net assets at the end of the period	2,123,174	2,266,021

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

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

Chief Executive

Director



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

1 LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Income Fund (PIF) was established under a Trust Deed executed between Arif Habib Investments Limited (Formerly: Arif Habib Investment Management Limited), as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on October 23, 2001 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on February 28, 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 through a certificate of registration issued by SECP. The registered office of the Management Company has been shifted to 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 Continuous Funding System (CFS) transactions, 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

2.1 Statement of compliance

These un-audited condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, The requirements of the Trust Deed, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the NBFC Regulations or the directives issued by the SECP prevail. These financial statements are presented in condensed form in accordance with International Accounting Standard, 34 "Interim Financial Reporting". These do not include all the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Fund as at and for the year ended June 30, 2010.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual published financial statements of the Fund for the year ended June 30, 2010.

4 RISK MANAGEMENT

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

	Note	Unaudited September 30, 2010	Audited June 30, 2010
5 INVESTMENTS		(Rupees in '000)	
Investments at fair value through profit or loss			
Term Finance Certificates	5.1	766,355	774,816
Government Securities	5.2	<u>1,206,902</u>	<u>1,271,170</u>
		<u>1,973,257</u>	<u>2,045,986</u>

Government securities - At fair value through profit or loss

Issue date	Tenor	Face value			Balance as at September 30, 2010			Market value		
		As at July 1, 2010	Purchases during the year	Sales / Maturity during the year	As at Sep 30, 2010	Cost	Market Value	Appreciation / (Diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----										
Pakistan Investment Bond										
September 3, 2009	3 Years	25,000	-	25,000	-	-	-	-	-	-
September 3, 2009	5 Years	25,000	-	25,000	-	-	-	-	-	-
Total Investment in Pakistan Investment Bond										

Issue date	Tenor	Face value			Balance as at September 30, 2010			Market value		
		As at July 1, 2010	Purchases during the Period	Sales / Maturity during the Period	As at Sep 30, 2010	Cost	Market Value	Appreciation / (Diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----										
Treasury Bills										
August 13, 2009	1 Year	50,000	-	50,000	-	-	-	-	-	-
August 27, 2009	1 Year	100,000	50,000	150,000	-	-	-	-	-	-
September 10, 2009	1 Year	25,000	-	25,000	-	-	-	-	-	-
September 26, 2009	1 Year	50,000	-	50,000	-	-	-	-	-	-
October 8, 2009	1 Year	75,000	-	75,000	75,000	74,857	-	-	3.53	3.79
January 14, 2010	6 Month	300,000	-	300,000	-	-	-	-	-	-
March 11, 2010	1 Year	50,000	-	50,000	50,000	47,571	(2,377)	(2,377)	2.23	2.40
April 8, 2010	6 Month	75,000	-	75,000	75,000	74,858	(1)	(1)	3.53	3.79
May 6, 2010	1 Year	100,000	-	100,000	100,000	93,562	(6,600)	(6,600)	4.38	4.71
May 6, 2010	3 Month	100,000	-	100,000	-	-	-	-	-	-
May 20, 2010	3 Month	150,000	-	150,000	-	-	-	-	-	-
May 20, 2010	1 Year	150,000	-	150,000	150,000	139,745	(1,030)	(1,030)	6.53	7.03
June 3, 2010	3 Month	40,000	-	40,000	-	-	-	-	-	-
July 15, 2010	6 Month	-	265,000	100,000	165,000	164,679	(667)	(667)	7.76	8.35
July 29, 2010	3 Month	-	70,000	70,000	70,000	69,541	(667)	(667)	3.28	3.52
July 29, 2010	1 Year	-	125,000	-	125,000	112,959	(667)	(667)	5.32	5.72
August 13, 2010	1 Year	-	200,000	-	200,000	197,723	(48)	(48)	9.31	10.02
August 26, 2010	3 Month	-	187,500	-	187,500	184,437	(63)	(63)	8.69	9.35
September 9, 2010	3 Month	-	50,000	-	50,000	48,945	(17)	(17)	2.31	2.48
Total Investment in Treasury Bills										
					1,209,624	1,206,502	(2,722)			
Total Investment					1,999,232	1,973,537	(25,975)			

5.3 Net unrealised (diminution) / appreciation in value of investments at fair value through profit or loss - net

Market value of investments	1,973,257	2,045,986
Less: Cost of investments	<u>(1,999,232)</u>	<u>(2,073,555)</u>
	<u>(25,975)</u>	<u>(27,569)</u>
Less: Net unrealised diminution /(appreciation) in value of investments at fair value through profit or loss at the beginning of the period / year	27,569	83,787
Provision against non performing exposure	-	2,471
Reversal of Provision against non performing exposure	<u>(2,471)</u>	-
Less: Realised on disposal during the period / year	<u>(347)</u>	<u>(45,286)</u>
	<u>24,751</u>	<u>40,972</u>
	<u>(1,224)</u>	<u>13,403</u>

6 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited (AHI) being the Management Company (AMC), Arif Habib Securities Limited being the holding company of AHI, Arif Habib Limited and Thatta Cement Limited being companies under common control, Arif Habib Bank Limited and Pak Arab Fertilizer being companies under common directorship, Central Depository Company of Pakistan Limited being the trustee, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.

Remunerations to the Management Company and trustee are determined in accordance with the provisions of NBFC regulations and Trust Deeds of the fund. All other transactions with connected persons are in the normal course of business and are carried out on agreed terms..

Details of the transaction with connected persons are as follows:

	Unaudited September 30, 2010	Unaudited September 30, 2009
	(Rupees in '000)	
Management Company		
Remuneration	<u>7,935</u>	<u>8,237</u>
Sales load	<u>305</u>	<u>145</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	<u>781</u>	<u>801</u>
CDS charges	<u>2</u>	<u>2</u>
Summit Bank Limited (Formerly : Arif Habib Bank Limited)		
Profit on Bank Deposit	<u>269</u>	<u>561</u>
Directors and Officers of the Management Company		
Investment in the Fund 280,387 units (2009: 254,931 units)	<u>14,559</u>	<u>13,294</u>
Redemption from the Fund 256,372 units (2009: 200,242 units)	<u>13,284</u>	<u>10,443</u>
Bonus 17,761 units (2009: 17,970 units)	<u>911</u>	<u>915</u>

6.2	Balances with related parties	Unaudited	Audited
		September 30,	June 30,
		2010	2010
	Management Company		
	Payable to Management Company	<u>2,690</u>	<u>2,743</u>
	Central Depository Company of Pakistan Limited - Trustee		
	Remuneration payable	<u>256</u>	<u>258</u>
	Security Deposit	<u>200</u>	<u>200</u>
	Summit Bank Limited (Formerly : Arif Habib Bank Limited)		
	Bank Balance	<u>6,343</u>	<u>3,594</u>
	Profit receivable on bank accounts	<u>87</u>	<u>97</u>
	Amounts due on account of Conversion /		
	Transfer of units		
	Receivable from Pakistan International Element Islamic Fund	<u>-</u>	<u>5</u>
	Receivable from Pakistan Stock Market Fund	<u>-</u>	<u>2,406</u>
	Receivable from Pakistan Capital Market Fund	<u>554</u>	<u>-</u>
	Directors and Officers of the Management Company		
	Unit held 430,039 units (2010: 388,262 units)	<u>22,117</u>	<u>20,275</u>

7 CONTRIBUTION TO WORKERS WELFARE FUND

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honorable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with the SHC by some of Mutual Funds through their Trustees along with few investors. However, subsequent to filing of the petition, the Ministry of Labour and Manpower issued a letter which states that mutual funds are not liable for WWF.

The MUFAP, on behalf of its member AMCs, obtained legal opinions from couple of renowned law firms to assess the implications of the letter issued by the Ministry of Labour and Manpower. The legal opinions, among other things, stated that mutual funds are not required to provide for contribution to WWF and earlier provisioning, if any, can be reversed and the terms of the letters suggest that provisioning was neither required nor necessary. Further, the opinions suggest that the petition filed with the High Court of Sindh be withdrawn.

The management has not made any provision in respect of WWF based on the letter issued by Ministry of Labour and Manpower, that mutual funds are not establishments and as a result are not liable to pay contribution to WWF.

8. 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 March 6, 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', 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 September 30, 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 (Rs Mn)	Provision held, if any (Rs Mn)	Value of investment after provision (Rs Mn)	Percentage of net assets	Percentage of gross assets
Investment in debt securities	Maple Leaf Cement Factory Limited - Term Finance Certificate	7.50	-	7.50	0.35%	0.35%

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

9. DATE OF AUTHORISATION

These condensed interim financial statements have been authorised for issue on October 25, 2010 by the Board of Directors of the Management Company.

10. GENERAL

Figures have been rounded off to the nearest thousand Rupees unless specified other wise

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

Chief Executive

Director



HEAD OFFICE:

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

Tel: (+92-21) 111-468-378 (111-INVEST)

Fax: (+92-21) 32470351, 32470337

E-mail: marketing@arifhabib.com.pk

Website: www.arifhabib.com.pk