

**AH DOW JONES
SAFE PAKISTAN
TITANS 15
INDEX FUND**



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FUNDS' INFORMATION

Management Company

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

Board of Directors of the Management Company

Mr. Muhammad Shafi Malik	Chairman
Mr. Nasim Beg	Chief Executive
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

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

Trustee

MCB Financial Services Limited
3rd Floor, Adamjee House,
I.I.Chundrigar Road, Karachi.

Bankers

Habib Metropolitan Bank Limited

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust, Building No. 1,
Beaumont Road, Karachi.

Legal Adviser

Bawaney & Partners
404, 4th Floor, Beaumont Plaza,
Beaumont Road, Civil Lines, Karachi-75530

Registrar

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

Rating

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



REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE PERIOD FROM AUGUST 16, 2010 TO MARCH 31, 2011

The Board of Directors of Arif Habib Investments Limited, the Management Company of AH Dow Jones SAFE Pakistan Titans 15 Index Fund (AHDJPF) is pleased to present its Report together with the Condensed Interim Financial Statements for the period from August 16, 2010 to March 31, 2011.

Fund Objective

The objective of the Fund is to provide investors with a total return that before expenses, closely corresponds to the return of the Dow Jones SAFE Pakistan Titans 15 IndexSM by tracking the return of Dow Jones SAFE Pakistan Titans 15 IndexSM, thus providing exposure to the constituents of Dow Jones SAFE Pakistan Titans 15 IndexSM in a single security.

Fund Profile

AH Dow Jones SAFE Pakistan Titans 15 Index Fund (AHDJPF) is an Open End Index Tracker Fund which aims to provide investors with a total return that closely corresponds to the return of the Dow Jones SAFE Pakistan Titans 15 IndexSM.

The AHDJPF employs a passive management approach to replicate the performance of the constituents of Dow Jones SAFE Pakistan Titans 15 IndexSM. The Fund invests all or substantially all, of its assets in securities that make up the target index. Excess cash, if any, is kept in daily-return bank deposits or short term money market instruments. The Fund is not allowed to take leveraged investment positions.

This fund, by its structure, provides a low cost exposure to a portfolio primarily holding blue chip liquid stocks selected on the basis of free float market capitalization and liquidity.

Fund Performance for the period from August 16, 2010 to March 31, 2011

During the period the Fund has received Rs 100 million as core investment and Rs 1.38 million during the initial public offer. The net assets of the Fund as at March 31, 2011 stood at 121.45 million.

The Net Asset Value (NAV) per unit as at March 31, 2011 was Rs 57.18.

Future Outlook

Future outlook has been fully explained in the Fund Manager Report attached to the Financial Statements.

Acknowledgement

The Board of directors of the management company is thankful to core investors for their reliance and trust in Arif Habib Investments Limited. The Board also likes to thank the Securities and Exchange Commission of Pakistan, MCB Financial Services Limited (formerly: Muslim Commercial Financial Services (Pvt.) Limited (the Trustee of the Fund) for their continued cooperation and support. The Board also acknowledges the efforts put in by the team of the management company.

For and on behalf of the Board

April 23, 2011
Karachi

Nasim Beg
Chief Executive



REPORT OF THE FUND MANAGER FOR THE QUARTER ENDED MARCH 31, 2011

Fund Objective

The objective of the Fund is to provide investors with a total return that before expenses, closely corresponds to the return of the Dow Jones SAFE Pakistan Titans 15 IndexSM by tracking the return of Dow Jones SAFE Pakistan Titans 15 IndexSM, thus providing exposure to the constituents of Dow Jones SAFE Pakistan Titans 15 IndexSM in a single security.

Fund Profile

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The AHDJPF employs a passive management approach to replicate the performance of the constituents of Dow Jones SAFE Pakistan Titans 15 IndexSM. The Fund will invest all or substantially all, of its assets in securities that make up the target index. Excess cash, if any, may be kept in daily-return bank deposits or short term money market instruments. The Fund is not allowed to take leveraged investment positions.

This fund, by its structure provides a low cost exposure to a portfolio primarily holding blue chip liquid stocks selected on the basis of free float market capitalization and liquidity.

Fund Performance and Asset Allocation

AHDJPF NAV ended the quarter flat against 1.09% rise in the underlying index, Dow Jones Safe Pakistan Titans 15 IndexSM. The difference in return is partly because of Fund expenses (0.7%) while the remaining is a result of weight difference, asset allocation and pricing differences. During this time KSE-100 Index dropped 1.77%. Amongst the top portfolio holdings, Dawood Hercules, FFC, Engro, POL, MCB, Hubco and NBP outperformed. However, a 20.6% drop in OGDC, wiped out most of the gains from the Fund. Moreover, PPL and PSO also underperformed the benchmark.

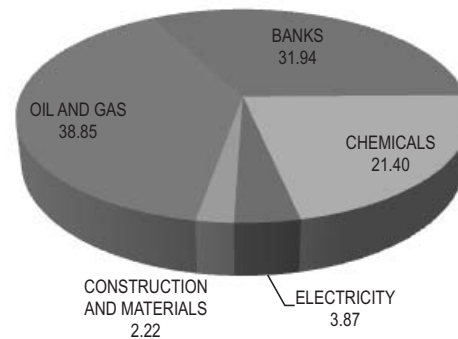
Since inception (October 14, 2010) to March 2011, the Fund NAV has increased 14.36%, compared to 17.19% of the benchmark index. Fund expenses accounted for about 1.74% of the difference and remaining is due to weight, asset allocation and pricing differences. During this time, KSE-100 Index increased 13.45%.

The Fund assets remained on average, more than 98% invested in the constituents of the underlying index in proportions consistent with that of the benchmark. In March, there was a change in Dow Jones SAFE Pakistan Titans 15 IndexSM. JSCL was excluded from the Index, while HBL was added in its place. Changes were made in AHDJPF accordingly.

Overall fund size has increased to Rs. 121.45 million from Rs. 123.58 million at the beginning of the quarter.

	<i>AHDJPF</i>	
	Fund	BM
Jan'11	2.43	2.16
Feb'11	-8.71	-7.40
Mar'11	6.94	6.86
QoQ	0.00	1.09
FY	14.36	17.19

<i>Top 10 holdings on 31st March, 2011</i>	
MCB Bank	21.13
Oil & Gas Development Company	20.89
Fauji Fertilizer Company	9.38
Pakistan Petroleum	7.82
Engro Corp	7.17
Pakistan Oilfields	5.09
Pakistan State Oil	5.04
Hub Power Company	3.87
National Bank of Pakistan	3.41
Dawood Hercules	3.06



Equity market review

The KSE 100 index finished the third quarter of current fiscal year (first quarter of 2011) in negative, falling by 1.77% to 11,809. The market started 2011 on a positive note with the index gaining 6% by January 18, 2011 and touched the level of 12,768 due to higher inflows from foreign investors in index heavy weight stocks. However, the market reversed its course in February, when worsening situation in Egypt and Tunisia led to sharp fall in global equities. The index made its low on February 25, 2011 near 11,200, before bouncing back in the first week of March after the announcement of MTS implementation.

Key driver in the index performance remained its heavy weight stock OGDC (24% weight), which has started to retreat and fallen by 27% after peaking at Rs. 185 (intraday high) on January 10, 2011. Minus OGDC, majority of other leading stocks finished the quarter with fresh gains. Top performing sectors during the quarter were Fertilizer, Oil & Gas (with the exception of OGDC), Banks and Cement. Foreign investors remained net buyers in Pakistan with net inflow of US\$ 52 million during the quarter, with March seeing an outflow of US\$ 16 million mainly due to selling in OGDC.

Total outstanding leveraged investment in MTS was only Rs 228 million by quarter end (started March 14), an indication of cautious initial response of participants (finances and financiers). During the quarter, average daily turnover increased to 129 million shares compared to 124 million in the second quarter of FY11, however, trading volumes after hitting highs over 200 million daily in January witnessed a declining trend and had fallen below 100 million daily by March end.

Market outlook

We expect the equity market to move in a narrow band ahead of the budget announcement in early June. Given the continuing high fiscal deficit (approximately 6% of GDP) new taxes, withdrawal of tax exemptions and implementation of RGST are on the cards for the next fiscal year. At the same time, inflation remains a key threat in the backdrop of rising commodity prices in particular oil. Therefore, interest rates are expected to remain at elevated levels with policy rate remaining at 14% for the next few months. On relative valuation downside appears to be less for equities as stock prices of major companies are trading in the range of 7x-9x on 2011 earnings. On the basis of consensus forecast, amongst listed sectors, chemicals/fertilizer, oil and gas exploration, cement (select stocks), major banks and FMCGs are expected to show improvement in earnings growth in 2011.

3QFY11 Economic Review

During the third quarter of the fiscal year, pick up in textile exports and higher remittances helped in reducing the pressure from rising international oil prices and keeping the current account deficit in check. The rate of increase in inflation has reduced during the quarter to 13.16% in March compared to 15.45% YoY growth in December, therefore allowing the central bank to keep the discount rate unchanged at 14% during the last two monetary policy reviews. Following the last round of talks with IMF in March, the government has finally taken additional taxation measures to reduce the rising fiscal gap for the current fiscal year.

Fiscal Side

Given the rising fiscal deficit (2.8% of GDP during 1HFY11 against the full year target of 5.5%), GoP introduced new taxation measures in March which would collect Rs 53 billion through removal of subsidies and/or further taxes on income, imports, agriculture, and domestic sales of zero-rated export-oriented items, while Rs 67 billion is expected to be saved from the government expenditure side. Of Rs 53 billion, Rs 20 billion will be collected through 15% flood surcharge on income-tax, Rs 25 billion revenue will be accumulated through withdrawal of sales tax exemptions on fertilizers, pesticides and tractors, Rs 6 billion revenue through increase in special excise duty on imports from 1% - 2.5% and Rs 2 billion proceeds from increase in tax on sugar.

Total tax collection from July - February, 2011 summed up to Rs 876 billion against a target of Rs 1,600 billion for the full FY. With the above mentioned measures, it is now expected that tax revenue target for the current fiscal year is likely to be met. However, given the additional expenditures on last year floods, the fiscal deficit is expected to be higher than the government target of 5.5% for the year ending June 2011.

Inflation

Inflation figures for 3QFY11 came down considerably from 15.45% YoY in December, 2010 to 13.16% YoY in March 2011. This was due to the following reasons: first, high base-effect of last year starting January, 2010, and second, containment of government borrowing from the SBP within agreed limits. Nonetheless, inflation is expected to edge higher over the next few months given the outlook of an increase in international commodity prices especially oil prices, higher domestic commodity prices with the introduction of 'mini-budget' to enhance the tax base, and expectations of an increase in government borrowing to fund fiscal deficit.

Real Sector

Large Scale Manufacturing (LSM) figures for July - January 2011 showed an increase of 2.34% over the corresponding period of last year. The growth in manufacturing is restricted to few sectors, with majority of the industries showing decline. Textiles, Pakistan's largest industry having one fourth of the total weight could only increase by 0.6%. Major contribution has come from sugar sector (4.15% weight) showing a growth of 8.1% till January and which is likely to improve further as recent reports suggest that total output of sugar for this year has exceeded 4 m tones compared to only 3.1 m tones in the previous year. Other growth sectors have been automobile production (+16.8%), pharmaceuticals (+5.8%), chemicals (+3.5%) and leather products (14.2%). All other manufacturing sectors were in decline including food and beverages (-2%), petroleum products (-6.2%), metal industries (-8.1%), non metallic minerals (-11.8%), fertilizers (-7.2%) and cement (-10.6%).

External Side

External sector continued to post encouraging figures in 3QFY11. Current Account Deficit (CAD) from July - February, 2011 equalled US\$ 98 million against US\$ 3,027 million deficit in the same period of preceding year, thus showing a decrease of almost 97%. This is explained by an improvement in balance on Goods & Services & Income account where deficit decreased from US\$ 11.2 billion in July-February 2010, to US\$ 9.9 billion in the same period of current FY. Remittances also played a key role in uplifting the CAD as US\$ 8.02 billion were received from July- March, 2011 against US\$ 6.54 billion in the corresponding period of last year, thus showing a growth of 22.39%. The SBP expects current account deficit for FY 11 in the range of 1 - 1.5%. Exports from July - March, 2011 were US\$ 18.1 billion against a US\$ 14.3 billion exports in the same period last year, posting a robust growth of 26.6% YoY. Textile export was yet once again the major determinant of this growth as US\$ 9.92 billion was contributed by textiles. Imports for the same period equalled US\$ 29.1 billion against US\$ 25.1 billion in the first 9 months of last FY. This translates into a growth 15.97%. Petroleum group imports stood at US\$ 8.15 billion from July - March, 2011 showing a growth of 11%. Forex reserves YtD (March19, 2011) closed at US\$ 17.5 billion against US\$ 16.75 billion at the end of FY10. Moreover, Asian Development Bank approved a US\$ 650 million loan which will be used to build the damaged infrastructure due to the floods which hit the country early FY11.

**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES (UNAUDITED)
AS AT MARCH 31, 2011**

	<i>Note</i>	March 31, 2011 (Rupees in '000)
Assets		
Bank balances		1,365
Investments	4	119,354
Dividend and profit receivable		1,458
Advances, deposits, prepayments and other receivables		2,628
Preliminary expenses and floatation costs		908
Total assets		125,713
Liabilities		
Payable to the Management Company		3,822
Payable to MCB Financial Services Limited - Trustee		59
Payable to Securities and Exchange Commission of Pakistan - Annual Fee		51
Accrued expenses and other liabilities		330
Total liabilities		4,262
Contingencies and commitments	5	
Net assets		121,451
Unit holders' funds		121,451
		(Number of units)
Number of units in issue		2,124,100
		(Rupees)
Net asset value per unit		57.18

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM INCOME STATEMENT (UNAUDITED)
FOR THE PERIOD FROM AUGUST 16, 2010 TO MARCH 31, 2011**

	For the period from August 16, 2010 to March 31, 2011	Quarter ended March 31, 2011
	(Rupees in '000)	
Income		
Profit on bank deposits	373	64
Dividend income	3,610	2,310
Capital gain on sale of investments	953	953
Unrealised appreciation / (diminution) in the value of investments 'at fair value through profit or loss'	11,947	(2,489)
Total income	16,883	838
Expenses		
Remuneration of the Management Company	541	304
Remuneration of MCB Financial Services Limited - Trustee	322	173
Annual fee - Securities and Exchange Commission of Pakistan	51	28
Securities transaction cost	299	48
Settlement and bank charges	106	51
Fees and subscriptions	52	28
Auditor's remuneration	280	169
Professional charges	57	34
Printing and related cost	81	44
Amortisation of preliminary expenses and floatation costs	92	49
Total expenses	1,881	928
Net income / (loss) from operating activities	15,002	(90)
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed	243	(183)
Net income / (loss) carried forward	15,245	(273)

Earning per unit 6

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM STATEMENT
OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE PERIOD FROM AUGUST 16, 2010 TO MARCH 31, 2011**

	For the period from August 16, 2010 to March 31, 2011	Quarter ended March 31, 2011
	(Rupees in '000)	
Net income / (loss) for the period	15,245	(273)
Other comprehensive income for the period	-	-
Total comprehensive income / (loss) for the period	15,245	(273)

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)
FOR THE PERIOD FROM AUGUST 16, 2010 TO MARCH 31, 2011**

	For the period from August 16, 2010 to March 31, 2011	Quarter ended March 31, 2011
	(Rupees in '000)	
Undistributed income brought forward	-	15,518
Comprehensive income / (loss) for the period	15,245	(273)
Undistributed income carried forward	15,245	15,245

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE PERIOD FROM AUGUST 16, 2010 TO MARCH 31, 2011**

	For the period from August 16, 2010 to March 31, 2011	Quarter ended March 31, 2011
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss) for the period	15,245	(273)
Adjustments		
Dividend income	(3,610)	(2,310)
Unrealised (appreciation) / diminution in the value of investments - 'at fair value through profit or loss'	(11,947)	2,489
Amortisation of preliminary expenses and floatation costs	92	49
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	<u>(243)</u>	<u>183</u>
	(463)	138
(Increase) / Decrease in assets		
Investments - 'at fair value through profit or loss'	(107,407)	(416)
Profit receivable	(18)	3
Advances, deposits, prepayments and other receivables	(3,628)	28
	(111,053)	(385)
Increase in liabilities		
Payable to the Management Company	3,822	2
Payable to MCB Financial Services Limited - Trustee	59	-
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	51	28
Accrued expenses and other liabilities	330	118
	4,262	148
Dividend received	2,170	1,573
Net cash (used in) / from operating activities	(105,084)	1,474
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts / (payments) against issuance / (redemption) of units	106,449	(2,041)
Net cash generated from / (used in) financing activities	106,449	(2,041)
Net increase / (decrease) in cash and cash equivalents during the period	1,365	(567)
Cash and cash equivalents at the beginning of the period	-	1,932
Cash and cash equivalents at the end of the period	1,365	1,365

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT
IN UNIT HOLDERS' FUND (UNAUDITED)
FOR THE PERIOD FROM AUGUST 16, 2010 TO MARCH 31, 2011**

	For the period from August 16, 2010 to March 31, 2011	Quarter ended March 31, 2011
	(Rupees in '000)	
Net assets at the beginning of the period	-	123,582
Issue of 2,364,919 and 136,183 units for the period from August 16, 2010 to March 31, 2011 and quarter ended March 31, 2011 respectively	120,196	8,063
Redemption of 240,819 and 173,367 units for the period from August 16, 2010 to March 31, 2011 and quarter ended March 31, 2011 respectively	(13,747)	(10,104)
	106,449	(2,041)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - transferred to the income statement	(243)	183
Net income / (loss) for the period	15,245	(273)
Net assets at the end of the period	121,451	121,451
	(Rupees)	
Net asset value per unit at the end of the period	57.18	57.18

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director



**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD FROM AUGUST 16, 2010 TO MARCH 31, 2011**

1. LEGAL STATUS AND NATURE OF BUSINESS

AH Dow Jones SAFE Pakistan Titans 15 Index Fund (the Fund) was established under a Trust Deed executed on March 30, 2010 between Arif Habib Investments Limited as Management Company and MCB Financial Services Limited (formerly: Muslim Commercial Financial Services (Private) Limited) as Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on March 19, 2010 in accordance with the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations).

Formation of the Fund as open end fund was authorized by SECP on April 22, 2010. The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules) through a certificate of registration issued by SECP. The registered office of the management company is situated at Arif Habib Centre, 23 M.T Khan Road, Karachi, Pakistan.

The Fund is an index tracker scheme and aims to provide investors with a total return that before , expenses closely corresponds to the return of the Dow Jones SAFE Pakistan Titans 15 IndexSM by tracking the return of Dow Jones SAFE Pakistan Titans 15 IndexSM, thus providing exposure to the constituents of Dow Jones SAFE Pakistan Titans 15 IndexSM in a single security.

The Fund invests in local equity stocks in respective weightages of Dow Jones SAFE Pakistan Titans 15 IndexSM to achieve the investment objective. The fund manager monitors the performance of the Fund and the benchmark index on a continuous basis. Upon Rebalancing of the Index the Management Company may also rebalance the portfolio within 21 Dealing Days with the objective to minimize the tracking error.

The Fund shall strive to remain fully invested in accordance with the stated index; however, under no circumstances shall it be invested less than 85% of its net assets in securities covered in the index during the year based on monthly average investment calculated on daily basis. The uninvested amount shall be kept in:

- (a) Cash and/ or near cash instruments where near cash instruments include cash in bank account (excluding TDRs) and;
- (b) Treasury Bills not exceeding 90 Days maturity.

The duration of the Fund is perpetual. It offers and redeem units on a continuous basis. The initial offering / launch period was from October 12, 2010 to October 14, 2010 (both days inclusive).

The initial offer price of the units was Rs 50 per unit.

Titles to the assets of the Fund are held in the name of MCB Financial Services Limited (formerly Muslim Commercial Financial Services (Private) Limited) as trustee of the Fund.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

These condensed interim financial statements have been prepared in accordance with the 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 (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.

The disclosures made in these condensed interim financial statements have, however, been limited based on the requirements of the International Accounting Standard 34: 'Interim Financial Reporting'. These condensed interim financial statements are unaudited.

2.2 Basis of measurement

These condensed interim financial statements have been prepared on the basis of historical cost convention except that investments have been included at fair value.

2.3 Functional and presentation currency

These condensed interim financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

2.4 Critical accounting estimates and judgments

The preparation of these condensed interim financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of these condensed interim financial statements are set out below:

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) *Financial instruments at fair value through profit or loss*

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Financial instruments at fair value through profit or loss are measured at fair value, and changes there in are recognised in Income Statement. All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivative in a net payable position (negative fair value), are reported as financial liabilities held for trading.

b) *Available-for-sale*

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any other category.

c) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as fair value through profit or loss or available for sale and are carried at amortised cost using effective yield method, less impairment losses, if any.

d) *Financial liabilities*

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective yield method.

Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial instruments not at 'fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instruments. Transaction costs on financial instrument at fair value through profit or loss are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as at 'fair value through profit or loss' and available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement.

Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Funds until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Funds are included in the Income Statement. Unquoted securities are carried at investment price or break-up value which ever is lower, except for government and debt securities which are stated at fair value.

Fair value measurement principles

The investment of the Fund in equity securities is valued on the basis of quoted market prices available at the stock exchange.

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Markets Association of Pakistan.

Impairment

Financial assets not carried at fair value through profit or loss are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

If in subsequent period the amount of impairment loss decreases, the reduction in impairment loss on financial assets other than the securities classified as available-for-sale are recognised in the income statement. However, the decrease in impairment loss on securities classified as available-for-sale is recognised in unit holders' fund.

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial asset expires or it transfers the financial asset and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments: Recognition and Measurement. A financial liability will be derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.2 Unit holders' Fund

Unit holders' Fund represents the units issued by the Fund, carried at the redemption amount representing the investors' right to a residual interest in the Fund assets.

3.3 Issue and redemption of units

Units issued are recorded at the offer price determined by the Management Company for the application received by the distributors during business hours on that date. The offer price represents the net assets value per units as of the close of business day plus the allowable front-end load, provision for transaction cost and any provision for duties and charges, if applicable. The front-end load is payable to the investment facilitator, distributors and the Management Company.

Units redeemed are recorded at the redemption price applicable to units for which the distributors receive redemption requests during the business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

3.4 Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units repurchased

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' will be created, in order to prevent the dilution of per unit of income and distribution of income already paid out on redemption.

The Fund records the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period in the Income Statement, while the portion of the element of income / (loss) and capital gains / (losses) that relates to unrealised gains / (losses) held by the Fund in unit holders' fund is recorded in a separate reserve account and any amount remaining in this reserve account at the end of accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders.

3.5 Provisions

A provision is recognised in the balance sheet when the Fund has a legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

3.6 Preliminary expenses and floatation cost

Preliminary expenses and floatation costs represents expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over the period of five years from October 15, 2010.

3.7 Net asset value per unit

The net asset value per unit is calculated by dividing the net assets of the Fund by the number of units in issue.

3.8 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than ninety percent of its accounting income of the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst its unit holders.

The Fund provides for deferred taxation using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits. As the Fund intends to avail tax exemption by distributing at least ninety percent of its accounting income for the year, hence, no deferred tax has been recognized in these condensed interim financial statements.

3.9 Revenue recognition

Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.

Unrealised gains / (losses) arising on revaluation of investments classified as financial assets at fair value through profit or loss and derivatives are included in the Income Statement in the period in which they arise.

Dividend income is recognised when the right to receive the payment is established.

Income on government securities is recognised on accrual basis using the effective interest rate method.

Profit on bank deposit is recognised on time proportion basis taking in to account effective yield.

Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.10 Expenses

All expenses are recognised in the income statement on an accrual basis.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

3.12 Other assets

Other assets are stated at cost less impairment losses, if any.

3.13 Proposed dividend and transfer between reserves

Dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such dividends are declared / transfers are made.

(Unaudited)
March 31, 2011
(Rupees in '000)

4.1 119,354

4. INVESTMENTS - 'AT FAIR VALUE THROUGH PROFIT OR LOSS'

Investment in shares listed in Pakistan

4.1 Investment in shares listed in Pakistan

Name of the investee company	Number of shares		As at August 16, 2010	Purchases during the period	Bonus / right issue	Sales during the period	As at March 31, 2011	Balance as at March 31, 2011		Market value as percentage of net assets	Market value as percentage of total investments	Par value as percentage of issued capital of investee company
	Cost	Market value / (diminution)										
------(Rupees in '000)-----												
SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10 each unless stated otherwise												
Construction and Materials												
Lucky Cement Limited	-	43,174	-	-	-	3,235	39,939	2,907	2,695	2.22	2.26	0.01
Chemicals												
Dawood Hercules Chemicals Limited	-	13,886	36,963	1,009	-	1,009	49,840	2,157	3,713	3.06	3.11	0.04
Fauji Fertilizer Company Limited	-	71,638	16,761	5,775	-	5,775	82,624	7,326	11,393	9.38	9.55	0.01
Fauji Fertilizer Bin Qasim Limited	-	56,825	-	4,258	-	4,258	52,567	1,617	2,177	1.79	1.82	0.01
Engro Corporation Limited	-	38,208	7,155	3,035	-	3,035	42,328	6,396	8,710	7.17	7.30	0.01
								<u>17,496</u>	<u>25,993</u>			
Electricity												
Hub Power Company Limited	-	134,909	-	-	-	10,107	124,802	4,244	4,697	3.87	3.94	0.01
Oil and gas producers												
Pakistan State Oil Company Limited	-	23,865	-	1,786	-	1,786	22,079	6,099	6,127	5.04	5.13	0.01
Pakistan Oilfields Limited	-	20,570	-	1,539	-	1,539	19,031	4,787	6,187	5.09	5.18	0.01
Pakistan Petroleum Limited	-	48,537	-	3,637	-	3,637	44,900	8,463	9,493	7.82	7.95	0.00
Oil and Gas Development Company Limited	-	202,185	-	15,141	-	15,141	187,044	28,563	25,376	20.89	21.26	0.00
								<u>47,912</u>	<u>47,183</u>			
Banks												
Bank Al-Habib Limited	-	113,125	21,187	8,991	-	8,991	125,321	3,431	3,638	3.00	3.05	0.02
MCB Bank Limited	-	121,638	11,402	9,392	-	9,392	123,648	22,611	25,662	21.13	21.50	0.02
National Bank of Pakistan	-	62,906	14,349	4,699	-	4,699	72,556	3,826	4,137	3.41	3.47	0.01
United Bank Limited	-	41,344	-	3,098	-	3,098	38,246	2,085	2,352	1.94	1.97	0.00
Habib Bank Limited	-	26,839	-	-	-	-	26,839	2,895	2,997	2.47	2.51	0.00
								<u>34,848</u>	<u>38,786</u>			
Financial Services												
Jahangir Siddiqui and Company Limited	-	65,998	-	-	-	65,998	-	-	-	-	-	-
Total		<u>1,058,808</u>					<u>1,024,925</u>	<u>107,407</u>	<u>119,354</u>			

4.1.1 Investments include shares with market value of Rs. 42,454,136 which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in term of Circular number 11 dated 23 October 2007 issued by the Securities & Exchange Commission of Pakistan.

		(Unaudited) March 31, 2011 (Rupees in '000)
4.2	Unrealised diminution in the value of investments 'at fair value through profit or loss'	
	Fair value of investments	119,354
	Cost of investments	<u>(107,407)</u>
		<u><u>11,947</u></u>

5. CONTINGENCIES AND COMMITMENTS

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 July 15, 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 to a number of mutual funds for the recovery of WWF. On December 14, 2010, the Ministry filed its response contesting the said petition. SHC has concluded its hearing and judgement has been reserved.

Based on the advice of the legal counsel handling the case, the Management Company is of the view that WWF is not applicable to the Funds due to the clarification issued by the Ministry which creates vested right, hence provision has not been made in respect of WWF, which, if liable, would amount to Re 0.14 per unit.

6. EARNINGS PER UNIT

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

7. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons / related parties include Arif Habib Investments Limited being the Management Company of the Fund, Arif Habib Corporation Limited (formerly: Arif Habib Securities Limited) being the holding company of the Management Company, all other Collective Investment Schemes managed by the Management Company, Arif Habib Limited and Thatta Cement Limited being companies under common management, Pak Arab Fertilizer and Summit Bank Limited (formerly: Arif Habib Bank Limited) being companies under common directorship, MCB Financial Services Limited (formerly: Muslim Commercial Financial Services (Private) Limited) being the Trustee of the Fund, and Directors and Executives of the Management Company.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provision of the NBFC Regulations 2008 and Constitutive documents of the Fund.

The transactions with connected persons / related parties are in the normal course of business and are carried out on agreed terms.

Details of transactions and balances at period end with connected persons / related parties, other than those which have been disclosed elsewhere in these condensed interim financial statements, are as follows:

7.1 Transactions during the period with connected persons / related parties

	(Unaudited)	
	For the period from August 16, 2010 to March 31, 2011	Quarter ended March 31, 2011
	(Rupees in '000)	
Arif Habib Investments Limited - Management Company		
Remuneration for the period	541	304
Front end load for the period	54	4
Mark-up on core investment	475	-
Units issued - 600,000 units for the period from August 16, 2010 to March 31, 2011	30,000	-
Arif Habib Limited		
Brokerage for the period	60	19
MCB Financial Services Limited (formerly: Muslim Commercial Financial Services (Private) Limited - Trustee		
Remuneration for the period	322	173
Directors and executives of the Management Company		
Units issued - 27,453 and 1,618 units for the period from August 16, 2010 to March 31, 2011 and quarter ended March 31, 2011 respectively	1,434	93
Units redeemed - 23,603 and 1,136 units for the period from August 16, 2010 to March 31, 2011 and quarter ended March 31, 2011 respectively	1,254	65

7.2	Balance outstanding as at the period end	(Unaudited) March 31, 2011 (Rupees in '000)
	Arif Habib Investments Limited - Management Company	
	Remuneration payable	102
	Payable against Formation Costs	<u>3,720</u>
	Units held - 600,000 units	<u>34,308</u>
	MCB Financial Services Limited (formerly: Muslim Commercial Financial Services (Private) Limited - Trustee	
	Remuneration payable	<u>59</u>
	Directors and executives of the Management Company	
	Units held - 3,850 units	<u>220</u>

8. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on April 23, 2011 by the Board of Directors of the Management Company.

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

Chief Executive

Director

Asset Manager Rating
'AM2' Positive Outlook (by PACRA)



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