

MCB
DYNAMIC ALLOCATION FUND

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FUND'S INFORMATION

Management Company	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors of the Management Company	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
Chief Financial Officer & Company Secretary of the Management Company	Mr. Muhammad Saqib Saleem	
Audit Committee	Mr. Nasim Beg Mr. Haroun Rashid Mr. Samad A. Habib Mr. Ali Munir	
Trustee	Central Depository Company of Pakistan Limited CDC House, 990B, Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	MCB Bank Limited Bank Alfalah Limited Faysal Bank Limited NIB Bank Limited	
Auditors	A.F. Ferguson & Co. - Chartered Accountants State Life Building No. 1-C, I.I. Chundrigar Road, Karachi-74000.	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	Arif Habib Investments Limited 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.	
Rating	AM2 (Positive Outlook) Management Quality Rating assigned by PACRA	

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE QUARTER ENDED SEPTEMBER 30, 2011

Dear Investor,

On behalf of the Board of Directors, I am pleased to present MCB Dynamic Allocation Fund's accounts review for the first quarter ended September 30th 2011.

ECONOMY AND MONEY MARKET OVERVIEW

On the macroeconomic front, inflation has remained lower during the period with CPI inflation averaging 11.5% amid change in CPI methodology as well as high base-effect of last year. Like the major part of last year, external current account has also remained comfortable with a marginal deficit of US\$ 189 million during first two months of FY12. Fiscal side, on the other hand, has remained a cause of concern for the economic managers with FY11 deficit touching a level of 6.6% of the GDP (Rs. 1.2 trillion deficit size in absolute term). The government, however, has been able to keep its borrowing from SBP at lower levels, which coupled with lower inflation and contained current account deficit has compelled the central bank to lower its policy discount rate by 50 bps in Jul'11 monetary policy to bring it down to 13.5%.

In the money market, short term market rates remained on the higher side amid tight liquidity scenario in the system. Due to depletion in net foreign assets (NFA) as well as net retirement in government borrowing from SBP, money supply (M2) has witnessed contraction during the period under review, thereby keeping market liquidity tight almost throughout the period. The SBP has constantly been injecting significant amount of money in the system through OMOs in order to calm down the market.

EQUITIES MARKET OVERVIEW

Local equities market opened the year on a low with KSE100 index posting return of -5.87% during the period under review. Alongside negative returns, the market continued to remain dull with consistently low turnover throughout the period remained indicative of investor's shyness towards equity asset class. Even an unexpected 50 bps cut in DR by the SBP in July 2011 failed to generate strong momentum among equity investors due to fear of aggressive sell off by foreign investors. Global equities market went down significantly during the quarter, especially in August, which also had an adverse impact on emerging and frontier markets including Pakistan. Other resistive forces that played a dampening role for the market were political unrest, worsened law and order situation, strained Pak-US relations, floods in Sindh and energy crisis. Better corporate results and payouts by index heavy weights as well as expectations of a major cut in DR in upcoming monetary policy gave much needed support to the market towards the end of quarter and concentrated buying in selective high yielding and defensive stocks helped market to recover around 8.5% of its losses. Chemicals, Oil and Gas and Energy sectors remained centre of major activity although interest was also seen in few other stocks related to various sectors based on individual financial performance.

FUND PERFORMANCE

The fund posted a return of 0.6% during the period under review while since inception return of fund stood at -4.9%. The fund has maintained a defensive investment strategy and has reduced its equity exposure to around 35% by quarter-end. The fund has remained focused on maintaining a balance between defensive high yielding and growth stocks. During the quarter, the fund reduced its exposure significantly within Chemical sector from 13.0% to 6.2%, while also lowering its banking exposure to around 20% at quarter-end.

On the fixed income side, exposure towards GoP Ijarah Sukuk was built during the quarter on the back of attractive yields as well as capital gains potential. The fund, on the other hand, reduced its TFC allocations from 13.5% to 11.7%, while reducing its entire Treasury Bills exposure at quarter-end.

FUTURE OUTLOOK

Given declining trend in CPI inflation coupled with a comfortable external account position, the Central bank has decided to lower its policy DR further by 150 bps to 12.0% for Oct'11 - Nov'11 period to trigger growth stimulus in the economy. We continue to flag foreign inflow as the single most important variable especially in the backdrop of sustained oil prices, downward trend in cotton prices and debt repayments including IMF. In our opinion, the absence of foreign flows and government's greater reliance on domestic sources for fiscal funding could result in rebound of inflation and interest rates going forward.

On the equities front, negative factors viz. alarming political and geopolitical scenario, deteriorating law and order situation, scarcity of energy, weak macroeconomic fundamentals and bearish trend in big global economies are deep rooted and not expected to reverse in short term. However sizeable cuts in discount rate cuts coupled with strong corporate results of key listed stocks are expected to provide the thrust required to keep the wheel rolling. Moreover strong earnings growth, high dividend yields and relatively cheaper valuation offer decent returns for long term investors.

ACKNOWLEDGMENT

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

On behalf of Directors,

Yasir Qadri
Chief Executive Officer

Dated: 26 October, 2011
Karachi.

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT SEPTEMBER 30, 2011

Note	Unaudited September 30, 2011	Audited June 30, 2011
Rupees in '000		
ASSETS		
Bank balances	78,150	102,768
Investments	279,570	224,137
Loans and receivables	-	-
Receivable against sale of investment	-	-
Dividend and other receivables	13,646	4,890
Security deposits and prepayments	4,100	4,100
Preliminary expenses and floatation cost	1,458	1,710
Total assets	376,924	337,605
LIABILITIES		
Payable to the Management Company	464	411
Payable to the Trustee	62	64
Annual fee payable to Securities and Exchange Commission of Pakistan	78	349
Payable against redemption of units	10	10
Payable against purchase of investments	41,877	725
Accrued and other liabilities	3,137	3,466
Total liabilities	45,628	5,025
NET ASSETS	331,296	332,580
Unit holders' fund (as per statement attached)	331,296	332,580
COMMITMENTS		
Number of units		
NUMBER OF UNITS IN ISSUE	4,715,625	4,762,337
Rupees		
NET ASSET VALUE PER UNIT	70.25	69.84

The annexed notes form an integral part of these financial statements.

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

Chief Executive

Director

CONDENSED INTERIM INCOME STATEMENT (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2011

	Note	September 30, 2011	September 30, 2010
Rupees in '000			
INCOME			
Capital gain / (loss) on sale of investments		(7,413)	9,689
Dividend income		2,307	963
Profit on bank deposits and term deposit receipts		2,105	1,392
Income from money market placements		-	-
Income from government securities		244	3,876
Income from Term Finance Certificates		3,009	1,911
		252	17,831
Net unrealised diminution on re-measurement of investments classified as ' financial assets at fair value through profit or loss'		4,672	2,224
Total loss		4,924	20,055
EXPENSES			
Remuneration of the Management Company	5	1,424	1,512
Remuneration of the Trustee		176	202
Annual fee - Securities and Exchange Commission of Pakistan		78	96
Brokerage and settlement charges		660	730
Amortisation of preliminary expenses and floatation costs		252	252
Auditors' remuneration		191	131
Other expenses		198	224
		2,979	3,147
Net loss from operating activities		1,945	16,908
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed		31	(157)
Provision for Workers' Welfare Fund	6	-	(335)
Net loss for the period before taxation		1,976	16,415
Taxation	7	-	-
Net income for the period after taxation		1,976	16,415
Other comprehensive income for the period		-	-
Total comprehensive income for the period		1,976	16,415
Earnings / (loss) per unit	8		

The annexed notes form an integral part of these financial statements.

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

Chief Executive

Director

CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2011

	September 30, 2011	September 30, 2010
	Rupees in '000	
Loss Brought forward	(143,654)	(112,192)
Final distributions during the period ended June 30, 2010:		
On July 01, 2010 at Rs 1.8903 per unit		
- Cash distribution	-	(12,849)
- Bonus distribution	-	(39,133)
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - amount forms part of the unit holders' fund	1,409	(15,851)
Net Income for the period after taxation	1,976	16,415
Loss carried forward	(140,269)	(163,610)

The annexed notes form an integral part of these financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2011**

	September 30, 2011	September 30, 2010
	Rupees in '000	
Net assets at beginning of the period	332,580	403,041
Issue of 28,547 (2010: 6,356 units)	1,943	446
Issue of Nil Bonus units (2010: 574,336 units)	-	39,133
Redemption of 75,259 (2010: 83,218 units)	(5,172)	(5,840)
	(3,229)	33,739
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		
- amount representing (income) / loss and capital (gains) / losses - transferred to income statement	(31)	157
- amount representing income that forms part of unit holders' fund - transferred to distribution statement	(1,409)	15,851
	(1,440)	16,009
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised income	1,409	(15,851)
Net unrealised diminution on re-measurement of investment classified as 'financial assets at fair value through profit or loss'	4,672	2,224
Loss from other operating activities	(2,696)	14,191
Net loss for the period	1,976	16,415
Final distributions during the period ended June 30, 2010: On July 01, 2010 at Rs 10.0890 per unit		
- Cash distribution	-	(12,849)
- Bonus distribution	-	(39,133)
	-	(51,982)
Net assets as at the end of the period	331,296	401,371

The annexed notes form an integral part of these financial statements.

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

Chief Executive

Director

CONDENSED INTERIM CASH FLOWS STATEMENT (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2011

	September 30, 2011	September 30, 2010
	Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period before taxation	1,976	16,415
Adjustments for non-cash charges and other items:		
Dividend income	(2,307)	(963)
Profit on bank deposits and term deposits	(2,105)	(1,392)
Net unrealised diminution on remeasurement of investment classified as 'financial assets at fair value through profit or loss'	(4,672)	(2,224)
Remuneration of Management Company	1,424	1,512
Remuneration of Trustee	176	202
Amortisation of preliminary expenses and floatation costs	252	252
Element of (income) / loss and capital (gains) / losses included in the prices of units issued less those in units redeemed	(31)	157
	(5,287)	13,960
Increase / (decrease) in assets		
Investments - net	(9,609)	138,164
Other receivable	(4,344)	453
Security deposits and prepayments	-	(22)
	(13,953)	138,595
Increase / (decrease) in liabilities		
Payable against redemption of units	-	-
Payable to Management Company	(1,371)	(1,539)
Annual fee payable to Securities and Exchange Commission of Pakistan	(271)	(478)
Accrued and other liabilities	(507)	91
	(2,149)	(1,926)
Net cash used in operating activities	(21,389)	150,629
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts from issue of units	1,943	446
Net payments on redemption of units	(5,172)	(5,840)
Distribution during the period	-	(12,849)
Net cash generated from financing activities	(3,229)	(18,243)
Net increase in cash and cash equivalents	(24,618)	132,386
Cash and cash equivalents at the beginning of the period	102,768	116,796
Cash and cash equivalents at the end of the period	9 78,150	249,182

The annexed notes form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive

Director

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2011

1 LEGAL STATUS AND NATURE OF BUSINESS

MCB Dynamic Allocation Fund (the Fund) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) and Non Banking Finance Companies and Notified Entities Regulations, 2008 and was approved as an open end investment scheme by the Securities and Exchange Commission of Pakistan (SECP) on July 30, 2009. It was constituted under a Trust Deed dated July 10, 2009 between MCB Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited as the Trustee, also incorporated under the Companies Ordinance, 1984.

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

- 1.1 The Management Company of the Fund has been licensed to act as Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.
- 1.2 The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units of the Fund can be transferred to / from the funds managed by the Management Company and can also be redeemed by surrendering to the Fund. The units are listed on the Lahore Stock Exchange.

The Fund is an asset allocation fund and is allowed to shift total exposure into debt or equity instruments as per market conditions and the discretion of the Management Company. The objective of the Fund is to provide a high return which commensurate the higher risk taken due to pro-active allocation of funds across various asset and debt classes.

- 1.3 The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of 'AM2' (positive outlook) to the Management Company and Short Term Star ranking of 4-Star Normal and Long Term ranking of 4-Star Normal to the Fund.

2 STATEMENT OF COMPLIANCE

2.1 These 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 (IFRSs) 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) and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by SECP 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'.

2.2 These condensed interim financial statements are unaudited.

2.3 The directors of the asset management company declare that these financial statements give a true and fair view of the Fund.

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, 2011.

4 INVESTMENTS

Financial assets at fair value through profit or loss

	Note	September 30, 2011	June 30, 2011
Rupees in '000			
- Listed equity securities	4.1	184,928	150,485
- Debt securities			
- Listed Debt securities	4.2	39,013	40,612
- Unlisted Debt securities	4.3	5,067	5,067
- Government Securities	4.4	50,500	24,756
- Derivatives		62	11
		279,570	220,931

4.1 Listed equity securities

Name of investee company	Number of shares				Balance as at September 30, 2011				Market value as a percentage of total investment	Percentage of paid up capital of investee company held
	As at July 1, 2011	Purchased during the year	Bonus/ rights shares	Disposed off during the year	As at September 30, 2011	Cost	Market value	Appreciation/ (diminution)		
(Rupees in '000)										
Auto Mobile & Parts										
Agrigauto Industries Limited	10,000	-	-	-	10,000	695	653	(42)	0.20%	0.23%
						695	653	(42)	0.20%	0.23%
Construction & Materials										
Lucky Cement Limited	-	363,000	-	228,000	135,000	9,913	10,195	282	3.08%	3.65%
						9,913	10,195	282	3.08%	3.65%
Chemicals										
Engro Corporation Limited	85,000	328,500	-	388,500	25,000	3,619	3,585	(34)	1.08%	1.28%
Fatima Fertilizers Limited	773,995	-	300,000	300,000	473,995	7,887	8,935	1,048	2.70%	3.20%
Fauji Fertilizer Bin Qasim Limited	10,000	5,000	-	15,000	-	-	-	-	0.00%	0.00%
Fauji Fertilizer Company Limited	106,011	60,000	-	100,000	66,011	10,341	10,687	346	3.23%	3.82%
						21,847	23,207	1,360	7.00%	8.30%
Food and Personal Care Products										
Engro Foods Limited	-	20,000	-	20,000	-	-	-	-	-	-
Banks										
Allied Bank Limited	104,923	75,000	-	65,000	114,923	7,205	6,953	(252)	2.10%	2.49%
Meezan Bank Limited	401,136	-	-	-	401,136	7,008	8,063	1,055	2.43%	2.88%
Soneri Bank Limited	770,000	58,000	-	-	828,000	4,136	3,983	(153)	1.20%	1.42%
Bank Al-Habib Limited	291,206	100	60,000	60,000	231,306	6,817	6,909	92	2.09%	2.47%
MCB Bank Limited	5,870	21,000	-	5,870	21,000	3,656	3,639	(17)	1.10%	1.30%
National Bank of Pakistan	27,213	200,000	-	175,000	52,213	2,288	2,911	103	0.72%	0.86%
United Bank Limited	136,583	-	-	131,851	4,732	293	285	(8)	0.09%	0.10%
						31,403	33,223	820	9.73%	11.53%
Sugar and Allied Industries										
JDW Sugar	10,000	-	1,000	-	11,000	875	903	28	0.27%	0.32%
						875	903	28	0.27%	0.32%
Personal goods										
Nishat Mills Limited	65,000	115,000	-	180,000	-	-	-	-	-	-
Oil and gas										
Attock Petroleum Limited	5,000	16,346	-	13,000	8,346	3,018	3,320	302	1.00%	1.19%
Pakistan Oil Fields Limited	33,713	255,500	-	140,900	148,313	54,733	54,633	(100)	16.49%	19.54%
Pakistan Petroleum Limited	25,000	28,200	2,820	35,000	21,020	4,011	3,985	(26)	1.20%	1.43%
Pakistan Stee Oil Company Limited	58,009	25,000	-	45,000	38,009	9,428	9,676	248	2.92%	3.46%
						71,190	71,614	424	21.62%	25.62%
General Industries										
Packages Limited	17,950	-	-	17,000	950	105	97	(8)	0.03%	0.03%
						105	97	(8)	0.03%	0.03%
Refinery										
Attock Refinery Limited	-	25,000	-	25,000	-	-	-	-	-	-
National Refinery Limited	-	15,000	-	15,000	-	-	-	-	-	-
Technology and Communication										
Pakistan Telecommunication Company Limited	-	1,040,128	-	-	1,040,128	11,632	12,086	454	3.65%	4.32%
						11,632	12,086	454	3.65%	4.32%
Electricity										
HUB Power Company Limited	207,333	200,000	-	-	407,333	15,880	16,904	1,024	5.10%	6.05%
Kot Adda Power Company Limited	237,798	10,000	-	205,791	42,007	1,785	1,895	110	0.57%	0.68%
Nishat Chuanan Power Limited	165,799	50,000	-	75,000	140,799	1,896	2,009	113	0.61%	0.72%
Nishat Power Limited	564,746	350,000	-	45,000	869,746	13,161	13,142	(19)	3.97%	4.70%
						32,722	33,950	1,228	10.25%	12.14%
Total - September 2011						180,382	184,928	4,546	55.82%	66.15%
Total - June 2011						148,412	150,485	2,073	45.40%	66.78%

Unless stated otherwise, the holdings are in ordinary shares having a face value of Rs. 10 each

Listed Debt Securities

4.2

Name of investee company	Number of Certificates			Balance as at September 30, 2011			Market value as a percentage of total investment		
	As at July 01, 2011	Purchased during the year	Disposed during the year	As at September 30, 2011	Cost	Market value		Appreciation/ (Diminution)	
Certificates having a face value of Rs. 5,000 each unless stated otherwise									
Bank Alfalah Limited - II	2,000	-	-	2,000	10,044	10,020	(24)	3.02%	3.58%
Askari Bank Limited - III	5,000	-	-	5,000	25,843	25,843	-	7.80%	9.24%
United Bank Limited - I	1,000	-	-	1,000	3,063	3,150	87	0.95%	1.13%
Total - September 30, 2011					38,950	39,013	63	11.78%	13.95%
Total - June 30, 2011					39,329	40,612	1,283	10.79%	16.01%

Unlisted Debt Securities

4.3

Name of investee company	Number of Certificates			Balance as at September 30, 2011			Market value as a percentage of total investment		
	As at July 01, 2011	Purchased during the year	Disposed during the year	As at September 30, 2011	Cost	Market value		Appreciation/ (Diminution)	
Certificates having a face value of Rs. 5,000 each unless stated otherwise									
Bank Alfalah Limited - IV	1,000	-	-	1,000	5,067	5,067	-	1.53%	1.81%
Total - September 30, 2011					5,067	5,067	-	1.53%	1.81%
Total - June 30, 2011					5,067	5,067	-	2.00%	2.00%

Investment in government securities - 'At fair value through profit or loss'

4.4

Name of investee company	Face value			Balance as at September 30, 2011			Market value as a percentage of total investment		
	As at July 01, 2011	Purchased during the year	Disposed during the year	As at September 30, 2011	Cost	Market value		Appreciation/ (Diminution)	
Certificates having a face value of Rs. 5,000 each unless stated otherwise									
Treasury bills - 3 months	25,000	-	25,000	-	-	-	-	0.00%	0.00%
GoP Ijara Sukuk Certificate	-	50,000	-	50,000	50,500	50,500	-	15.24%	18.06%
Total - September 30, 2011					50,500	50,500	-	15.24%	18.06%
Total - June 30, 2011					24,765	24,756	(9)	7.44%	11.21%

5 REMUNERATION OF MANAGEMENT FEE

During the period, through Sindh sales tax on services Act 2011, General Sales Tax on Fund management services has been imposed @ 16%, effective from July 01, 2011.

6 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements for the year ended June 30, 2011.

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

Subsequent to 30 June 2011, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has not reversed the provision of Rs. 2.375 million for WWF but decided not to accrue further provision against WWF. The aggregate unrecognised amount of WWF as at September 30, 2011 amounted to Rs. 0.0395 million.

7 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded a tax liability in respect of income relating to the current period as the management company intends to distribute more than 90 percent of the Fund's accounting income for the period as reduced by capital gains (whether realised or unrealised) to its unit holders.

8 EARNINGS / (LOSS) PER UNIT

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

9 CASH AND CASH EQUIVALENTS

	September 30, 2011	September 30, 2010
Bank balances	78,150	32,536
Term deposit receipts	-	-
Treasury Bills	-	216,646
	<u>78,150</u>	<u>249,182</u>

10 TRANSACTIONS WITH CONNECTED PERSONS

10.1 Connected persons of the Fund include the Management Company, other collective investment, schemes being managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel, other associated undertaking and investors holding 10% or more units of the Fund.

10.2 The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

10.3 Remuneration payable to the Management Company and the fee payable to the Trustee are determined in accordance with the the provisions of the NBFC Rules 2003, the NBFC Regulations 2008 and Trust Deed respectively.

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

	September 30, 2011	September 30, 2010
10.5 Details of the transactions with the connected persons during the period are as follows:		
	Rupees in '000	Rupees in '000
MCB Bank Limited		
- Dividend Paid	-	10,089
- Profit received on saving accounts	36	1,155
Management Company		
- Remuneration of the Management Company	1,424	1,539
Central Depository Company of Pakistan Limited		
- Remuneration of the Trustee	176	201
- CDC settlement charges	7	13
D.G Khan Cement Company Limited - Employee Provident Fund		
- Issued of Nil Bonus units (September 30, 2010: 2,270 units)	-	155
Siddiqsons Tin Plate Ltd-Staff Provident Fund		
- Issued of Nil Bonus units (September 30, 2010: 2,221 units)	-	151
Trustee Karachi Electric Provident Fund		
- Issued of Nil Bonus units (September 30, 2010: 222,106 units)	-	15,133
Capital Development Authority		
- Issued of Nil Bonus units (September 30, 2010: 111,913 units)	-	7,625
	September 30, 2011	June 30, 2011
10.6 Amount outstanding as at period end	Rupees in '000	
MCB Bank Limited		
- Bank balances	5,946	93,233
- Profit receivable on saving accounts	1,245	125
- 21,000 shares held by the Fund as at September 30, 2011 (June 30, 2011: 5,870 shares)	3,639	1,170
Management Company		
- Remuneration payable to Management Company	464	411
Central Depository Company of Pakistan Limited		
- Remuneration payable to Trustee	464	55
- CDC settlement charges	5	9
- Security Deposits	100	100
Central Depository Company of Pakistan Limited - Gratuity Fund		
- 1,023,207 units held as at September 30, 2011 (June 30, 2011: 1,023,707 units)	71,330	71,456
D.G Khan Cement Company Limited - Employee Provident Fund		
- 20,760 units held as at September 30, 2011 (June 30, 2011: 20,760 units)	1,447	1,450
Hub Power Company Limited		
- 407,333 shares held by the Fund as at September 30, 2011 (June 30, 2011: 207,333 shares)	16,904	7,775

Nishat Mills Limited

- Nil shares held by the Fund as at September 30, 2009 (June 30, 2011: 65,000 units)	-	3,272
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Siddiqsons Tin Plate Ltd-Staff Provident Fund

- 20,307 units held as at September 30, 2011 (June 30, 2011: 20,307 units)	1,416	1,418
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Trustee Karachi Electric Provident Fund

- 2,030,698 units held as at September 30, 2011 (June 30, 2011: 2,030,698 units)	141,564	141,815
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11 PARTICULARS OF THE INVESTMENT COMMITTEE AND THE FUND MANAGER

These financial statements were authorised for issue on October 26, 2011 by the Board of Directors of the Management Company.

12 GENERAL

Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

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

Chief Executive

Director