

## **PAKISTAN STOCK MARKET FUND CONTENTS**

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## **PAKISTAN STOCK MARKET FUND FUND'S INFORMATION**

<b>Management Company</b>	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi
<b>Board of Directors of the Management Company</b>	Mian Mohammad Mansha Chairman(subject to the approval of SECP) Mr. Nasim Beg Executive Vice Chairman Mr. Yasir Qadri Chief Executive (subject to the approval of SECP) Syed Salman Ali Shah Director (subject to the approval of SECP) Mr. Haroun Rashid Director (subject to the approval of SECP) Mr. Ahmed Jahangir Director (subject to the approval of SECP) Mr. Samad A. Habib Director Mr. Mirza Mahmood Ahmad Director (subject to the approval of SECP)
<b>Company Secretary &amp; CFO of the Management Company</b>	Mr. Muhammad Saqib Saleem
<b>Audit Committee</b>	Mr. Nasim Beg Mr. Haroun Rashid Mr. Samad A. Habib Mr. Ali Munir
<b>Trustee</b>	Central Depository Company of Pakistan Limited CDC House, 990B, Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400
<b>Bankers</b>	Bank AL Habib Limited Summit Bank Limited Deutsche Bank A.G. Standard Chartered Bank (Pakistan) Limited United Bank Limited Habib Metropolitan Bank Limited MCB Bank Limited Soneri Bank Limited Meezan Bank Limited Habib Bank Limited Allied Bank Limited The Royal Bank of Scotland Bank Alfalah Limited Askari Bank Limited
<b>Auditors</b>	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530
<b>Registrar</b>	Gangjees Registrar Services (Pvt.) Limited. Room No. 516, 5th Floor, Clifton Centre, Kehkashan, Clifton, Karachi.
<b>Rating</b>	AM2 (Positive Outlook) – Management Quality Rating assigned by PACRA

# PAKISTAN STOCK MARKET FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011

The Board of Directors of Arif Habib Investment Limited, the Management Company of Pakistan Stock Market Fund (PSMF), is pleased to present the Annual Report on the affairs of PSMF for the year ending 30th June, 2011.

## Equities Market Overview

Equities recorded second consecutive year of stellar performance with the KSE-100 index rising by about 29% in FY11 on top of 36% return posted in FY10. Pakistan equity market also remained the 3rd best performing market in the region after Indonesia and Thailand which posted 33% and 31% returns respectively.

KSE -100 Index made the fresh start with 76 points plus at 9,740 on its 1st day and closed the first month in same zeal at +8.2%. However the momentum halted abruptly as severe floods hit across provinces causing substantial damages and losses. Economic gloom pulled the index in the negative territory making a low of 9,488 on August 17, 2010. However persistent foreign inflow amounting to USD 105 m in the first quarter, turned the sentiment at KSE positive and second quarter proved to be the best performing period of the year and about 74% of the total annual performance could be attributed to this period. With the exception of initial period, market remained lackluster during most part of the 2nd half of the year where major dampeners included the political unrest in MENA region and highly volatile US-Pak diplomatic relationship. KSE-100 index closed the year at 12,496, down 2.1% from its year high of 12,768 made on Jan 17, 2011; overall 29% up YoY.

While returns remained impressive, volumes were unprecedentedly low. In its first year, post imposition of CGT, retail investors remained largely inactive as foreign investors and local institutions including Banks, Corporates and Mutual Funds demonstrated marginal interest. During the year, average daily turnover declined significantly to about 95 million shares, down 40% on YoY basis. KSE Management attempted to enthrone the market by introducing leverage products including Margin Trading System and Market Financing System and made few modifications in futures market, but to no avail.

Macro-economic factors challenging the KSE performance included strong detriments like capital gains tax, a cumulative 150 basis points increase in discount rate in an already high interest rate environment, economic loss due to floods and higher Oil prices and lower foreign flows. Some of the positives that propelled KSE in positive territory included strong external account position on the back of increased textile exports, flood-related foreign aids, coalition support fund and record-high remittances ultimately translating in a relatively stable exchange rate and record FX reserves. Moreover, strong liquidity from booming rural economy and persistent foreign interest in domestic equities, which continued to trade at a discount of around 35-40% despite strong dividend yield (near 7%) and corporate earnings growth (+20% YoY) helped the market to exhibit strong performance.

Sector wise, Food Producers, Metals and Mining, Beverages and Chemicals outperformed the KSE-100 index while the major sectors and index heavy weights including Banks and Oil & Gas Sectors remained among the underperformers while best performing stocks included Nestle, FFC, FFBL, POL and LOTPTA.

## Future Outlook

We believe that the global economic environment would remain jittery in the near term, which could provide further hiccups to the international as well as local equity markets. An unexpected 50 bps DR cut by the SBP during the early part of FY12 bodes well for the market, however, a ballooning fiscal deficit would continue to 'crowd out' domestic capital markets. Strong earnings growth, sizeable discount to regional markets, high dividend yields and relatively cheaper PE valuations warrant decent returns for long term investors in our view.

## Fund's Performance

The investment objective of the fund is to provide investors long term capital appreciation from its investment in Pakistani equities. Overall the fund maintained its exposure in those sectors and stocks that are largely immune fundamentally from weak macroeconomic indicators and offering strong earnings growth and dividend yield potential. The fund remained committed towards its philosophy of top-down investment approach, where macroeconomic factors play a critical role in setting the overall strategy of the fund.

The fund generated a return of 21.1% during the year as against its benchmark KSE-100 Index return of 28.5%. A significant under-performance of 7.4% during the year was due to some major holding stocks that failed to perform well in the market such as PKGS, PSO and PSMC etc. Since inception return of the fund has been staggering at 701.6% as against its benchmark return of 567.3%.

The Fund yields for the period under review remained as follows:

Performance Information (%)	PSMF	Benchmark
Last twelve Months Return	21.1%	28.5%
Since Inception	701.6%	567.3%

During the year your fund earned net income of Rs 255.96 million. The Board in the meeting held on 4th July, 2011 has declared final distribution amounting to Rs. 130.424 million (i.e. Rs. 6.3036 per unit).

During the period, units worth Rs.0.386 billion (including Rs. 282.535 million worth of bonus units) were issued and units with a value of Rs. 0.998 billion were redeemed. As on 30th June, 2011 the NAV of the Fund was Rs. 60.10 per unit.

# **PAKISTAN STOCK MARKET FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011**

## **Update on 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. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party.

Subsequently, clarifications were 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. These clarifications were forwarded by the Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal.

Further, a fresh Constitutional Petition filed with the Honorable High Court of Sindh by a CIS / mutual fund and a pension fund through their trustee and an asset management company inter alia praying to declare that mutual funds / voluntary pension funds being pass through vehicles / entities are not industrial establishments and hence, are not liable to contribute to the WWF under the WWF Ordinance. The proceedings of the Honorable Court in this matter have concluded and the Honorable Court has reserved its decision.

Subsequent to the year ended June 30, 2011, the Honorable 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. 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.

In view of the afore mentioned developments, the Management Company firmly believes that there is no compelling reason to make provision on account of WWF contribution in the financial statements. Further, the Management Company also expects that the constitutional petition pending in the Honourable High Court of Sindh on the subject as referred above will be decided in favour of the Mutual Funds. However the auditor of the Fund because of pending adjudication of the Constitutional petition in Honourable Sindh High Court and included an emphasis of matter paragraph in auditor report highlighting the said issue.

The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs.12.824 million.

## **Corporate Governance**

The Fund is committed to high standards of corporate governance and the Board of Directors of the Management Company is accountable to the unit holders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Karachi Stock Exchange.

The following specific statements are being given to comply with the requirements of the Code of Corporate Governance:

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements.  
Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company, hence the disclosure has been made in the Directors' Report of the Management Company.

**PAKISTAN STOCK MARKET FUND  
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY  
FOR THE YEAR ENDED JUNE 30, 2011**

- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. As per note 1 of financial statements, MCB Asset Management Company Limited merged with and into Arif Habib Investments Limited on June 27, 2011. Statement showing attendance of Board Meeting is as under:-

**Attendance of Board Meeting from 1st July 2010 to 30th June 2011.**

S.#	Name	Designation	Meetings			
			Total	Attended	Eligible to Attend	Leave Granted
1.	Mr. Shafi Malik *	Former Chairman	15	15	15	-
2.	Mr. Nasim Beg **	E. Vice Chairman	15	15	15	-
3.	Mr. Muhammad Akmal Jameel *	Former Director	15	15	15	-
4.	Mr. Muhammad Kashif *	Former Director	15	11	15	4
5.	Syed Ajaz Ahmed *	Former Director	15	13	15	2
6.	Mr. Sirajuddin Cassim *	Former Director	15	4	15	11
7.	Mr. S. Gulrez Yazdani *	Former Director	15	13	15	2
8.	Mr. Samad A. Habib ***	Director	15	5	5	-
9.	Mian Mohammad Mansha ****	Chairman	15	1	1	-
10.	Mr. Yasir Qadri ****	Chief Executive	15	1	1	-
11.	Syed Salman Ali Shah ****	Director	15	1	1	-
12.	Mr. Haroun Rashid ****	Director	15	1	1	-
13.	Mr. Ahmed Jahangir ****	Director	15	1	1	-
14.	Mr. Mirza Mahmood Ahmad ****	Director	15	1	1	-

\* Resigned on 27th June, 2011  
 \*\* Mr. Nasim Beg resigned as Chief Executive on 27th June, 2011 and appointed as Executive Vice Chairman on the same date.  
 \*\*\* Mr. Samad A. Habib was elected as director on 7th February, 2011 and his appointment approved by SECP on 31st March, 2011.  
 \*\*\*\*Appointed on 27th June, 2011 and their approval of appointment from SECP is awaited.

- m. The trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary of the management company and their spouses and minor children, as are under:-

S. #	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Baig	Executive Vice Chairman	-	297.0817	48.5624
2.	Syed Ajaz Ahmed		-	3322.957	543.1864

**External Auditors**

The fund's external auditors, Messers KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2012. The audit committee of the Board has recommended reappointment of Messers KPMG Taseer Hadi & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2012.

**Acknowledgement**

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**

**Yasir Qadri**  
Chief Executive

Karachi: September 20, 2011

# PAKISTAN STOCK MARKET FUND REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2011

## Fund Type and Category

Pakistan Stock Market Fund PSMF is an Open-End Equity Scheme.

## Fund Benchmark

The benchmark for PSMF is KSE 100 Index.

## Investment Objective

The objective of the fund is to provide investors long term capital appreciation from its investment in Pakistani equities

## Investment Strategy

Pakistan Stock Market Fund (PSM) is an open end equity fund that invests in quality stocks listed in Pakistan. The fund is actively managed and fundamental research drives the investment process. Fundamental outlook of sectors/companies and DCF (discounted cash flow) valuations are the primary factors in sectors' allocation and stock selection. Major portion of the fund's portfolio is high quality liquid stocks. The funds which are not invested in equities are required to be kept in bank deposits and short-term money market instruments/ placements.

## Manager's Review

PSM delivered 21.1% return vis-à-vis KSE100 return of 28.5% in FY11. Net assets of the fund which were Rs 1.841bn at the beginning of the period were reduced by 32.4% to Rs 1.245bn. Average equity allocation of the fund comes out to be around 86% for the year.

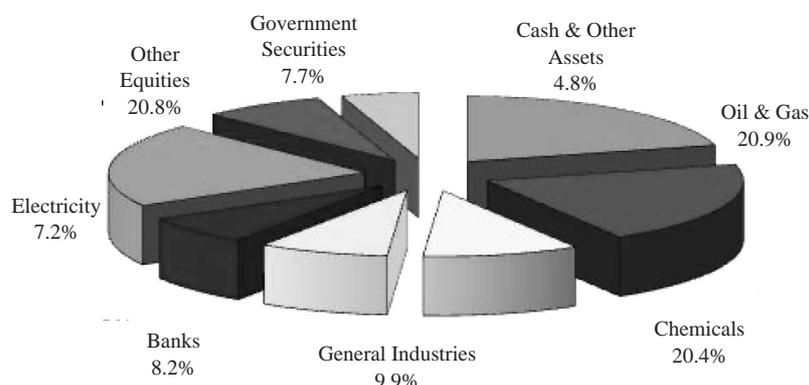
During the year fund liquidated its positions in HBL, ADMM, GATM, WTCL, NESTLE, PAKT, SEARL, DOL, FFBL, ICI and SEPL. Some of these companies had become fundamentally feeble while others were overvalued as per fund manager's estimation. Fund took new positions in LUCK and FATIMA. Apart from these major changes, exposures of various holdings were adjusted considering varying market conditions and changing risk profiles of companies and sectors. In August 2010 fund manager used prudence and aggressively reduced equity allocation in anticipation of the potential damages due to worst ever flood in the history of Pakistan which could have negative implication on the economy. When the dust settled fund manager gradually retrieved fund's equity allocation to 98.2% in January 2011.

Substantial portion of the portfolio remained concentrated in Oil and Gas and Chemicals sectors during the year which performed well. Out of the major holdings NESTLE, FFC, POL, PPL, FATIMA and ICI outperformed the benchmark KSE100 while ABL, NML, LUCK, PICT, PSO, KAPCO, HUBC, PAKT, PKGS, SEARL, SITC and PSMC underperformed the Index.

Underperformance of the fund is mainly attributed to PKGS, ABL, HUBC, PICT, PAKT and PSMC in which fund has major investments and which could not perform up to the mark. Another reason for underperformance remained aggressive reduction in equity allocation after the flood as market didn't respond as anticipated.

PSM's portfolio mostly consists of fundamentally strong profitable companies which have good earnings growth prospects in future. Moreover we are in process of realigning portfolio to the new economic developments. Although dependent on market conditions, we are confident to deliver better performance in future on the back of strategic changes we are making in the portfolio.

Asset Allocation as on June 30, 2011 (% of total assets)



Syed Akbar Ali, CFA  
Fund Manager

Karachi: September 20, 2011

# **PAKISTAN STOCK MARKET FUND TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2011**

## **Report of the Trustee pursuant to Regulation 41(h) and clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

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

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2011 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the management company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

**Muhammad Hanif Jakhura**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

**Karachi: October 26, 2011**

## **PAKISTAN STOCK MARKET FUND STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011**

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of **Pakistan Stock Market Fund** ("the Fund") to comply with the Code of Corporate Governance contained in Listing Regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes three independent non-executive directors out of a total strength of eight directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year Mr. Muhammad Shafi Malik, Mr. Sirajuddin Cassim, Mr. Muhammad Akmal Jameel, Mr. Muhammad Kashif, Mr. S. Gulrez Yazdani and Syed Ajaz Ahmed had resigned and were replaced by Mian Mohammad Mansha, Mr. Haroun Rasheed, Mr. Ahmed Jahangir, Mr. Yasir Qadri, Dr. Salman Shah and Mr. Mirza Mehmood Ahmad, respectively, as directors of the Management Company, on the same day due to merger as fully explained in note 1 to the financial statements.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive (CE) has been taken by the Board. As on June 30, 2011, there are no other executive directors of the Management Company besides the Executive Vice Chairman and Chief Executive.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated and signed by the Chairman of the Board of Directors.
9. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. The Company has planned to conduct an orientation course for its directors, in the near future to appraise them of their duties and responsibilities.
11. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive.
12. The Directors' Report of the Fund for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The Directors, CE and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
14. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
15. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee for the Management Company. It comprises of four members, out of which two are non-executive directors.
17. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.
18. The Company has an effective internal audit function which was headed by the Head of Internal Audit who resigned on amalgamation. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.

**PAKISTAN STOCK MARKET FUND  
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2011**

19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

**On behalf of the board**

**Yasir Qadri  
Chief Executive**

**Karachi: September 20, 2011**

# **PAKISTAN STOCK MARKET FUND REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Arif Habib Investments Limited, "the Management Company" of the Fund to comply with the Listing Regulations of Karachi Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all the controls and the effectiveness of such internal controls.

Further, sub-regulation (xiii-a) of Listing Regulations 35 notified by the Karachi Stock Exchange (Guarantee) Limited requires the Management Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2011.

**Date: September 20, 2011**

**Karachi**

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

## **PAKISTAN STOCK MARKET FUND INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS**

We have audited the accompanying financial statements of **Pakistan Stock Market Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2011, and the income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year ended 30 June 2011 and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the financial statements*

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2011, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### *Emphasis of matter*

We draw attention to note 12 to the financial statements relating to provision for Workers' Welfare Fund (WWF) which refers to the pending outcome of the litigation regarding contribution to WWF in Honourable Sind High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 12.824 million is not being maintained by the Fund. Our opinion is not qualified in respect of this matter.

### *Other matters*

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

The financial statements of the Fund for the year ended 30 June 2010 were audited by another firm of Chartered Accountants who vide their report dated 03 August 2010 issued an qualified report thereon in respect of non provision of Workers' Welfare Fund in the financial statements.

**Date: September 20, 2011  
Karachi**

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

# **FINANCIAL STATEMENTS**

**PAKISTAN STOCK MARKET FUND  
STATEMENT OF ASSETS AND LIABILITIES  
AS AT JUNE 30, 2011**

	Note	2011	2010
<b>(Rupees in '000)</b>			
<b>Assets</b>			
Balances with banks	4	28,285	13,780
Receivable from sale of investments		560	51,925
Receivable against sale of units		26,432	2,669
Investments	5	1,215,783	1,779,291
Dividend and profit receivable	6	3,299	503
Advances, deposits and other receivables	7	3,736	4,218
<b>Total assets</b>		<b>1,278,095</b>	<b>1,852,386</b>
<b>Liabilities</b>			
Payable against redemption of units		27,765	1,580
Payable to Management Company	8	2,348	3,465
Payable to Central Depository Company of Pakistan Limited - Trustee	9	202	242
Payable to Securities and Exchange Commission of Pakistan	10	1,487	2,050
Accrued expenses and other liabilities	11	2,729	3,709
<b>Total liabilities</b>		<b>34,531</b>	<b>11,046</b>
<b>Contingency</b>	12		
<b>Net assets</b>		<b>1,243,564</b>	<b>1,841,340</b>
<b>Unit holders' funds (as per statement attached)</b>		<b>1,243,564</b>	<b>1,841,340</b>
<b>(Number of Units)</b>			
<b>Number of units in issue</b>		<b>20,690,345</b>	<b>31,028,566</b>
<b>(Rupees)</b>			
<b>Net asset value per unit</b>	3.7	<b>60.10</b>	<b>59.34</b>

The annexed notes from 1 to 22 form an integral part of these financial statements.

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

Chief Executive

Director

**PAKISTAN STOCK MARKET FUND  
INCOME STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2011**

	Note	2011	2010
<b>(Rupees in '000)</b>			
<b>Income</b>			
Capital gain on sale of investments		150,391	315,443
Dividend income		80,373	95,730
Income from government securities		21,682	9,443
Profit on bank deposits		4,407	22,180
Income from placements with financial institutions		-	7,848
Impairment loss on financial assets classified as 'available for sale'		(970)	(1,874)
Unrealised appreciation in value of investments at fair value through profit or loss - net	5.5	111,039	57,061
<b>Total income</b>		<b>366,922</b>	<b>505,831</b>
<b>Expenses</b>			
Remuneration of the Management Company	8.1	31,084	43,150
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9.1	2,554	3,158
Annual fee - Securities and Exchange Commission of Pakistan	10	1,487	2,050
Securities transaction cost		3,533	5,306
Settlement and bank charges		379	632
Fees and subscriptions		207	207
Legal and professional charges		100	123
Auditors' remuneration	13	474	401
Printing and related costs		264	296
<b>Total expenses</b>		<b>40,082</b>	<b>55,323</b>
		<b>326,840</b>	<b>450,508</b>
Net element of income / (loss) and capital gain / (losses) for the year included in prices of units issued less those in units redeemed		<b>(70,885)</b>	<b>(65,272)</b>
<b>Net income for the year</b>		<b>255,955</b>	<b>385,236</b>
<b>Other comprehensive (loss) / income for the year</b>			
Net element of income / (loss) and capital gain / (losses) for the year included in prices of units issued less those in units redeemed - amount representing unrealized appreciation / (diminution)		<b>(24,307)</b>	<b>(23,562)</b>
Unrealised (diminution) / appreciation in value of investments classified as 'available for sale'	5.6	<b>(11,489)</b>	23,210
<b>Total comprehensive income for the year</b>		<b>220,159</b>	<b>384,884</b>

The annexed notes from 1 to 22 form an integral part of these financial statements.

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

Chief Executive

Director

**PAKISTAN STOCK MARKET FUND  
DISTRIBUTION STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>2011</b>	<b>2010</b>
	<b>(Rupees in '000)</b>	
Undistributed income / (loss) brought forward		
- Realised gains	<b>240,589</b>	243,686
- Unrealised losses	<b>(38,256)</b>	(403,027)
	<b>202,333</b>	(159,341)
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed - amount representing unrealised appreciation / (diminution)	<b>(24,310)</b>	(23,562)
Net income for the year	<b>255,955</b>	385,236
Final distribution at the rate of Rs. 9.7 per unit for the year ended 30 June 2010		
- Issue of bonus units	<b>(282,535)</b>	-
- Cash dividend	<b>(18,442)</b>	-
	<b>(300,977)</b>	-
Undistributed income carried forward	<b>133,001</b>	202,333
Undistributed income carried forward		
- Realised gains	<b>56,693</b>	240,589
- Unrealised gains / (losses)	<b>76,308</b>	(38,256)
	<b>133,001</b>	202,333
The annexed notes from 1 to 22 form an integral part of these financial statements.		

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

Chief Executive

Director

**PAKISTAN STOCK MARKET FUND  
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>2011</b>	<b>2011</b>
	<b>(Rupees in '000)</b>	
Net assets at the beginning of the year	<b>1,841,340</b>	1,847,886
Issue of 8,681,790 units (2010: 18,432,500 units)	<b>104,242</b>	1,089,870
Issue of 5,691,689 bonus units (2010: Nil)	<b>282,535</b>	-
Redemption of 19,020,013 units (2010: 26,261,130 units)	<b>(998,927)</b>	(1,570,134)
	<b>(612,150)</b>	(480,264)
Net element of income / (loss) and capital gain / (losses) for the year included in prices of units issued less those in units redeemed		
- amount representing accrued (income) / loss and realised capital (gains) / losses - transferred to the Income Statement	<b>70,885</b>	65,272
- amount representing unrealised capital (gains) / losses - transferred directly to Other Comprehensive Income	<b>24,310</b>	23,562
	<b>95,195</b>	88,834
Net unrealised (diminution) / appreciation in value of investments classified as 'available for sale'	<b>(11,489)</b>	23,210
Distribution during the year:		
- Issue of bonus units	<b>(18,442)</b>	-
- Cash dividend	<b>(282,535)</b>	-
	<b>(300,977)</b>	-
Net unrealised element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amounts representing unrealised appreciation / (diminutions)	<b>(24,310)</b>	(23,562)
Net (loss) / income for the year (excluding unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital gains)	<b>(5,475)</b>	12,732
Capital gain on sale of investments	<b>150,391</b>	315,443
Unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	<b>111,039</b>	57,061
Net income for the year (including unrealized appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital gains)	<b>255,955</b>	361,674
Net assets at the end of the year	<b>1,243,564</b>	1,841,340
	<b>(Rupees)</b>	
Net asset value per unit as at beginning of the year	<b>59.34</b>	47.56
Net asset value per unit as at end of the year	<b>60.10</b>	59.34
The annexed notes from 1 to 22 form an integral part of these financial statements.		

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

Chief Executive

Director

**PAKISTAN STOCK MARKET FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011**

	2011	2010
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	255,955	385,236
<b>Adjustments for:</b>		
Net realised element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	70,885	65,272
Impairment loss on financial assets classified as 'available for sale'	970	1,874
Unrealised (appreciation) / diminution in fair value of investments classified as 'at fair value through profit or loss'	(111,039)	(57,061)
	<b>216,771</b>	<b>395,321</b>
<b>Decrease / (increase) in assets</b>		
Receivable from investments	51,365	-
Investments	662,088	(221,492)
Dividend and profit receivable	(2,796)	15,494
Advances, deposits and prepayments	482	3,403
	<b>711,139</b>	<b>(202,595)</b>
<b>(Decrease) / increase in liabilities</b>		
Payable against purchase of investments	-	(23,863)
Payable to Management Company	(1,117)	208
Payable to MCB Financial Services Limited - Trustee	(40)	5
Payable to Securities and Exchange Commission of Pakistan	(563)	62
Accrued expenses and other liabilities	(980)	(1,477)
	<b>(2,700)</b>	<b>(25,065)</b>
<b>Net cash generated from operating activities</b>	<b>925,210</b>	<b>167,661</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(18,442)	-
Net payments from sale and redemption of units	(892,263)	(518,643)
<b>Net cash used in financing activities</b>	<b>(910,705)</b>	<b>(518,643)</b>
Net increase / (decrease) in cash and cash equivalents during the year	<b>14,505</b>	<b>(350,982)</b>
Cash and cash equivalents at beginning of the year	<b>13,780</b>	<b>364,762</b>
Cash and cash equivalents at end of the year	<b>28,285</b>	<b>13,780</b>

The annexed notes from 1 to 22 form an integral part of these financial statements.

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

Chief Executive

Director

# PAKISTAN STOCK MARKET FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

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

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

NBFC Rules through a certificate of registration issued by SECP. During the year the registered office of the Management Company has been shifted to Techno City Corporate Tower, 8th Floor, Hasrat Mohani Road, Karachi, Pakistan.

Based on shareholders' resolutions of MCB Asset Management Company Limited and Arif Habib Investments Limited 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). Arif Habib Investments Limited 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 Sindh High Court (SHC). The honourable Sindh High Court (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.

Pakistan Stock Market Fund (PSM) is an open-ended mutual fund, 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 Fund is a stock market fund, which primarily invests in shares of listed companies. Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as trustee of the Fund.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned management quality rating of 'AM2' (positive outlook) to the Management Company and 4-Star Normal and 4-Star Long Term to the Fund.

#### 2. BASIS OF PREPARATION

##### 2.1 Statement of compliance

These 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 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.

##### 2.2 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to Standards or new interpretations became effective during the year. However, the amendments or interpretation did not have any material effect on the financial statements of the Fund.

##### 2.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are only effective for annual periods beginning from the dates specified below. These standards are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements, other than increased disclosures in certain cases:

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1: Presentation of Financial Statements) effective for annual periods beginning on or after 1 July 2012.
- Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12) effective for annual periods beginning on or after 1 January 2012.
- IAS 19 Employee Benefits (amended 2011) effective for annual periods on or after 1 January 2013

# PAKISTAN STOCK MARKET FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

- Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14) effective for annual periods beginning on or after 1 January 2011.
- IAS 24 Related Party Disclosures (revised 2009) effective for annual periods beginning on or after 1 January 2011.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) effective for annual periods beginning on or after 1 July 2011.

#### 2.4 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that certain financial assets are measured at fair value.

#### 2.5 Functional and presentation currency

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

#### 2.6 Critical accounting estimates and judgments

The preparation of 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 results 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. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amount recognised in the financial statements are as follows:

##### *Investments stated at fair value and derivative financial instruments*

The management company has determined fair value of certain investments by using quotations from active market valuation done by Mutual Fund Association of Pakistan. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgements (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

##### *Other assets*

Judgement is also involved in assessing the realisability of the assets balances.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of these financial statements. These accounting policies have been applied consistently to all years presented.

#### 3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

An instrument is classified as '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 as '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.

**PAKISTAN STOCK MARKET FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

Financial instruments as 'at fair value through profit or loss' are measured at fair value, and changes therein are recognised in Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

a) *'Available-for-sale'*

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

b) *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 'at fair value through profit or loss' or 'available for sale'.

c) *Financial liabilities*

Financial liabilities, other than those as '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 instruments.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

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 instrument not as '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 instruments '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 as '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.

***Fair value measurement principles***

The fair value of a security listed on a stock exchange, local or foreign as the case may be, and derivatives is valued at its last sale price on such exchange on the date on which it is valued or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date the security is valued at an amount neither higher than the closing ask price nor lower than the closing bid price.

***Basis of valuation of Government Securities***

The fair value of the investments in government securities is determined by reference to the quotations obtained from the PKRV sheet on the Reuters page.

# **PAKISTAN STOCK MARKET FUND**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED JUNE 30, 2011**

#### *Securities under repurchase/ resale agreements*

Transactions of purchase under resale (reverse-repo) of marketable and government securities, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the Statement of Assets and Liabilities. Amounts paid under these agreements are recognised as receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the agreement. All reverse repo transactions are accounted for on the settlement date.

#### *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.

Any subsequent decrease in impairment loss on debt securities classified as 'available for sale', is recognised in the income statement.

The Board of Directors of the Management Company has formulated a comprehensive policy for making provision against non performing investments in compliance with Circular 13 of 2009 issued by SECP.

#### *Derecognition*

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial assets expires or it transfers the financial assets and the transfer qualifies for derecognising in accordance with International Accounting Standard 39: Financial Instruments: Recognition and Measurement.

A financial liability is 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' funds**

Unit holders' funds representing the units issued by the Fund, is carried at the net asset value 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 applications received by the distributors during business hours on that day. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company.

Units redeemed are recorded at the redemption price, applicable on units for which the distributors receive redemption applications during business hours on 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 issued less those in units redeemed**

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

# PAKISTAN STOCK MARKET FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

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' Funds is recorded in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to unit holders.

#### 3.5 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortised over a period of five years commencing from the last day after the close of the IPO period as per the Trust Deed of the Fund.

#### 3.6 Provisions

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

#### 3.7 Net asset value per unit

The net asset value per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in issue at the year end.

#### 3.8 Taxation

##### *Current*

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 that year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the Fund's unit holders.

##### *Deferred*

The Fund provides for deferred taxation using the balance sheet liability method on all major 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.

However, the Fund has previously availed the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders. Accordingly, no current tax and deferred tax has been recognized in these 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.
- Income on reverse repurchase transactions and debt securities is recognised on a time proportion basis using effective interest rate method.
- Unrealised gains / (losses) arising on valuation of investments classified as financial assets 'at fair which they 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 dividend is established.
- Profit on bank deposit is recognised on time proportion basis using effective interest rate method.
- 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.

**PAKISTAN STOCK MARKET FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**3.10 Expenses**

All expenses including management fee, trustee fee and Securities Exchange Commission of Pakistan fee are recognised in the Income Statement on an accrual basis.

**3.11 Cash and cash equivalents**

Cash and cash equivalents comprise of deposits and current accounts maintained with banks. 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 Dividend distributions and appropriations**

Dividend distributions and appropriations are recorded in the period in which the distributions and appropriations are approved.

**4. BALANCES WITH BANKS**

	Note	2011	2010
		(Rupees in '000)	
In current accounts		6,081	2,515
In deposit accounts	4.1	22,204	11,265
		<u>28,285</u>	<u>13,780</u>

4.1 These accounts carry profit at the rate ranging from 8% to 11.5% (2010: 5% to 11.25%) per annum.

**5. INVESTMENTS**

At fair value through profit or loss - held for trading

Quoted equity securities	5.1	924,380	1,318,785
Fixed income securities	5.2	98,772	196,691
Available for sale			
Quoted equity securities	5.3	192,631	263,815
		<u>1,215,783</u>	<u>1,779,291</u>

**PAKISTAN STOCK MARKET FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**5.1 Quoted equity securities - at fair value through profit and loss - held for trading**

Shares of listed companies - fully paid ordinary shares of Rs. 10 each unless stated otherwise

Name of the Investee company	As at July 1, 2010	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at June 30, 2011	Cost as at 30 June 2011	Market value 30 June 2011	(Diminution) / Appreciation 30 June 2011	Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of the investee company
									investments	net assets	
(-----Number of Shares-----)						-----Rupees in '000-----					
<b>OIL &amp; GAS</b>											
Pakistan Oilfields Limited	545,932	-	-	206,300	339,632	72,039	121,931	49,892	0.10	0.10	0.14
Pakistan Petroleum Limited	718,528	140,000	144,505	505,000	498,033	80,537	103,128	22,591	0.08	0.08	0.04
Pakistan State Oil Company Limited	195,350	424,000	-	458,350	161,000	45,280	42,597	(2,683)	0.04	0.03	0.09
						<b>197,856</b>	<b>267,656</b>	<b>69,800</b>			
<b>CHEMICALS</b>											
Descon Oxychem Limited	460,112	-	-	460,112	-	-	-	-	-	-	-
Engro Corporation Limited	972,397	309,880	112,255	752,000	642,532	87,107	104,893	17,786	0.09	0.08	0.16
Fatima Fertilizer Company Limited	-	2,597,589	-	-	2,597,589	32,057	43,224	11,167	0.04	0.03	0.13
Fauji Fertilizer Bin Qasim Limited	534,000	-	-	534,000	-	-	-	-	-	-	-
Fauji Fertilizer Company Limited	523,674	-	-	523,674	-	-	-	-	-	-	-
I.C.I. Pakistan Limited	411,800	460,950	-	872,750	-	-	-	-	-	-	-
Sitara Chemical Industries Limited	268,492	-	13,424	-	281,916	45,186	28,138	(17,048)	0.02	0.02	1.32
						<b>164,350</b>	<b>176,255</b>	<b>11,905</b>			
<b>GENERAL INDUSTRIALS</b>											
Packages Limited	859,318	-	-	127,552	731,766	109,164	80,494	(28,670)	0.07	0.06	0.87
						<b>109,164</b>	<b>80,494</b>	<b>(28,670)</b>			
<b>INDUSTRIAL METALS AND MININGS</b>											
International Industries Limited	-	163,041	-	-	163,041	8,641	8,071	(570)	0.01	0.01	0.14
						<b>8,641</b>	<b>8,071</b>	<b>(570)</b>			

**PAKISTAN STOCK MARKET FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Name of the Investee company	As at July 1, 2010	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at June 30, 2011	Cost as at 30 June 2011	Market value 30 June 2011	(Diminution) / Appreciation 30 June 2011	Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of the investee company
									investments	net assets	
(-----Number of Shares-----)						-----Rupees in '000-----					
<b>CONSTRUCTION AND MATERIALS</b>											
Lucky Cement Limited	-	686,488	-	-	686,488	48,029	48,631	602	0.04	0.04	0.21
						<b>48,029</b>	<b>48,631</b>	<b>602</b>			
<b>INDUSTRIAL TRANSPORTATION</b>											
Pakistan International Container Terminal Limited	603,607	-	-	-	603,607	29,252	49,043	19,791	0.04	0.04	0.55
						<b>29,252</b>	<b>49,043</b>	<b>19,791</b>			
<b>AUTOMOBILE AND PARTS</b>											
Pak Suzuki Motor Company Limited	687,096	-	-	649,270	37,826	4,659	2,366	(2,293)	0.004	0.002	0.05
						<b>4,659</b>	<b>2,366</b>	<b>(2,293)</b>			
<b>FOOD PRODUCERS</b>											
Nestle Pakistan Limited	55,813	-	-	55,813	-	-	-	-	-	-	-
						<b>-</b>	<b>-</b>	<b>-</b>			
<b>HOUSEHOLD GOODS</b>											
Pak Elektron Limited	1,312,011	500,146	-	192,548	1,619,609	28,221	10,738	(17,483)	0.01	0.01	1.33
						<b>28,221</b>	<b>10,738</b>	<b>(17,483)</b>			
<b>PERSONAL GOODS</b>											
Artistic Denim Limited	158,200	-	-	158,200	-	-	-	-	-	-	-
Gul Ahmed Textile Mills	64,500	-	-	64,500	-	-	-	-	-	-	-
Nishat Mills Limited	1,362,130	-	-	-	1,362,130	61,613	68,570	6,957	0.06	0.06	0.39
						<b>61,613</b>	<b>68,570</b>	<b>6,957</b>			

**PAKISTAN STOCK MARKET FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Name of the Investee company	As at July 1, 2010	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at June 30, 2011	Cost as at 30 June 2011	Market value 30 June 2011	(Diminution) / Appreciation 30 June 2011	Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of the investee company
									investments	net assets	
(-----Number of Shares-----)						-----Rupees in '000-----					
<b>TOBACCO</b>											
Pakistan Tobacco Company Limited	413,200	-	-	413,200	-	-	-	-	-	-	-
<b>PHARMA AND BIO TECH</b>											
Searle Pakistan Limited	889,754	-	-	889,754	-	-	-	-	-	-	-
<b>FIXED LINE TELECOMMUNICATION</b>											
Wateen Telecom Limited	1,000,000	-	-	1,000,000	-	-	-	-	-	-	-
<b>ELECTRICTY</b>											
Hub Power Company Limited	1,221,266	-	-	-	1,221,266	35,483	45,797	10,314	0.04	0.04	0.11
Kot Addu Power Company Limited	1,086,400	-	-	-	1,086,400	52,615	46,292	(6,323)	0.04	0.04	0.12
						<b>88,098</b>	<b>92,089</b>	<b>3,991</b>			
<b>BANKS</b>											
Allied Bank Limited	1,363,377	-	115,337	210,000	1,268,714	61,319	81,375	20,056	0.07	0.07	0.15
Bank Al Habib Limited	650,000	-	130,000	-	780,000	21,775	22,987	1,212	0.02	0.02	0.09
Habib Bank Limited	246,840	-	-	246,840	-	-	-	-	-	-	-
						<b>83,094</b>	<b>104,362</b>	<b>21,268</b>			
<b>NON LIFE INSURANCE</b>											
IGI Insurance Limited	164,550	-	-	-	164,550	25,062	16,105	(8,957)	0.01	0.01	0.23
						<b>25,062</b>	<b>16,105</b>	<b>(8,957)</b>			
<b>Total as at 30 June 2011</b>						<b>848,039</b>	<b>924,380</b>	<b>76,341</b>			

**PAKISTAN STOCK MARKET FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

SHARES OF LISTED COMPANIES - Fully paid ordinary shares / certificates of Rs. 10 each unless stated otherwise

Name of the Investee company	Number of Shares					Balance as at 30th June 2010			Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 1, 2009	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at June 30, 2010	Cost as at 30 June 2010	Market value 30 June 2010	(Diminution) / Appreciation 30 June 2010	investments	net assets	
	(-----Number of Shares-----)					-----Rupees in '000-----					
<b>OIL &amp; GAS PRODUCERS</b>											
Oil & Gas Development Company Limited	2,058,400	-	-	2,058,400	-	-	-	-	-	-	-
Pakistan Oilfield Limited	119,600	655,000	-	228,668	545,932	115,797	117,867	2,070	6.62	6.42	0.23
Pakistan Petroleum Limited	-	831,628	-	113,100	718,528	136,974	132,295	(4,679)	7.44	7.21	0.07
Pakistan State Oil Company Limited	438,800	125,550	-	369,000	195,350	60,156	50,830	(9,326)	2.86	2.77	0.11
						<b>312,927</b>	<b>300,992</b>	<b>(11,935)</b>			
<b>CHEMICALS</b>											
Descon Oxychem Limited	460,112	-	-	-	460,112	4,601	2,098	(2,503)	0.12	0.11	0.45
Engro Corporation Limited	350,000	808,808	115,880	302,291	972,397	133,300	168,789	35,489	9.49	9.20	0.30
Fauji Fertilizer Bin Qasim Limited	-	534,000	-	-	534,000	11,603	13,906	2,303	0.78	0.76	0.06
Fauji Fertilizer Company Limited	1,006,638	-	-	482,964	523,674	47,401	53,975	6,574	3.03	2.94	0.08
I.C.I. Pakistan Limited	441,800	-	-	30,000	411,800	64,711	48,823	(15,888)	2.74	2.66	0.30
Sitara Chemical Industries Limited	28,160	240,332	-	-	268,492	45,186	36,228	(8,958)	2.04	1.97	1.32
						<b>306,802</b>	<b>323,819</b>	<b>17,017</b>			
<b>CONSTRUCTION AND MATERIALS</b>											
Attock Cement Pakistan Limited	396,300	-	-	396,300	-	-	-	-	-	-	-
Lucky Cement Limited	1,732,100	-	-	1,732,100	-	-	-	-	-	-	-
<b>GENERAL INDUSTRIALS</b>											
Packages Limited	491,850	381,249	-	13,781	859,318	128,192	101,829	(26,363)	5.72	5.55	1.02
						<b>128,192</b>	<b>101,829</b>	<b>(26,363)</b>			

**PAKISTAN STOCK MARKET FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Name of the Investee company	Number of Shares					Balance as at 30th June 2010			Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 1, 2009	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at June 30, 2010	Cost as at 30 June 2010	Market value 30 June 2010	(Diminution) / Appreciation 30 June 2010	investments	net assets	
	(-----Number of Shares-----)					-----Rupees in '000-----					
<b>INDUSTRIAL TRANSPORTATION</b>											
Pakistan International Container Terminal Limited	702,400	-	140,480	239,273	603,607	29,252	45,271	16,019	2.54	2.47	0.55
						<b>29,252</b>	<b>45,271</b>	<b>16,019</b>			
<b>AUTOMOBILE AND PARTS</b>											
Pak Suzuki Motor Company Limited	400,950	286,146	-	-	687,096	84,630	54,466	(30,164)	3.06	2.97	0.83
						<b>84,630</b>	<b>54,466</b>	<b>(30,164)</b>			
<b>FOOD PRODUCERS</b>											
Nestle Pakistan Limited	38,000	17,813	-	-	55,813	73,789	94,045	20,256	5.29	5.13	0.12
						<b>73,789</b>	<b>94,045</b>	<b>20,256</b>			
<b>HOUSEHOLD GOODS</b>											
Pakistan Elektron Limited	-	1,084,308	227,703	-	1,312,011	24,418	15,547	(8,871)	0.87	0.85	1.12
						<b>24,418</b>	<b>15,547</b>	<b>(8,871)</b>			
<b>PERSONAL GOODS</b>											
Artistic Denim Limited	158,200	-	-	-	158,200	6,803	3,230	(3,573)	0.18	0.18	0.19
Gul Ahmed Textile Mills Limited	64,500	-	-	-	64,500	2,709	1,195	(1,514)	0.07	0.07	0.10
Nishat Mills Limited	2,100,000	672,730	-	1,410,600	1,362,130	61,613	58,735	(2,878)	3.30	3.20	0.39
						<b>71,125</b>	<b>63,160</b>	<b>(7,965)</b>			
<b>TOBACCO</b>											
Pakistan Tobacco Company Limited	235,200	178,000	-	-	413,200	37,073	42,977	5,904	2.42	2.34	0.16
						<b>37,073</b>	<b>42,977</b>	<b>5,904</b>			
<b>PHARMA AND BIO TECH</b>											
Searl Pakistan Limited	-	805,684	84,070	-	889,754	53,448	52,496	(952)	2.95	2.86	2.91
						<b>53,448</b>	<b>52,496</b>	<b>(952)</b>			

**PAKISTAN STOCK MARKET FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Name of the Investee company	Number of Shares					Balance as at 30th June 2010			Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 1, 2009	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at June 30, 2010	Cost as at 30 June 2010	Market value 30 June 2010	(Diminution) / Appreciation 30 June 2010	investments	net assets	
	(-----Number of Shares-----)					-----Rupees in '000-----					
<b>FIXED LINE TELECOMMUNICATION</b>											
Pakistan Telecommunication Company Limited. "A"	3,995,200	-	-	3,995,200	-	-	-	-	-	-	-
Wateen Telecom Limited	-	1,000,000	-	-	1,000,000	6,290	6,230	(60)	0.35	0.34	-
						<b>6,290</b>	<b>6,230</b>	<b>(60)</b>			
<b>ELECTRICITY</b>											
Hub Power Company Limited	2,442,500	-	-	1,221,234	1,221,266	35,483	39,032	3,549	2.19	2.13	0.11
Kot Addu Power Company Limited	1,086,400	-	-	-	1,086,400	52,615	45,346	(7,269)	2.55	2.47	0.12
						<b>88,098</b>	<b>84,378</b>	<b>(3,720)</b>			
<b>BANKS</b>											
Allied Bank Limited	1,093,969	765,012	54,396	550,000	1,363,377	72,484	77,644	5,160	4.36	4.23	0.17
Bank Al Habib Limited	-	650,000	-	-	650,000	21,775	20,475	(1,300)	1.15	1.12	0.09
Habib Bank Limited	-	618,100	22,440	393,700	246,840	21,605	24,005	2,400	1.35	1.31	0.02
MCB Bank Limited	118,000	432,400	34,840	585,240	-	-	-	-	-	-	-
United Bank Limited	1,303,120	-	-	1,303,120	-	-	-	-	-	-	-
						<b>115,864</b>	<b>122,124</b>	<b>6,260</b>			
<b>NON LIFE INSURANCE</b>											
Adamjee Insurance Company Limited	-	250,000	-	250,000	-	-	-	-	-	-	-
IGI Insurance Limited	137,125	-	27,425	-	164,550	25,062	11,451	(13,611)	0.64	0.62	0.23
						<b>25,062</b>	<b>11,451</b>	<b>(13,611)</b>			
<b>FINANCIAL SERVICES</b>											
Arif Habib Securities Limited	668,750	-	-	668,750	-	-	-	-	-	-	-
						<b>-</b>	<b>-</b>	<b>-</b>			
<b>Total as at 30 June 2010</b>						<b>1,356,970</b>	<b>1,318,785</b>	<b>(38,185)</b>			

**PAKISTAN STOCK MARKET FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

5.2 Fixed income securities - Government Securities - 'at fair value through profit or loss' - held for trading

Isseu Date	Face Value				Balance as at 30 June 2011			Market value		
	Tenor	As at 1 July, 2010	Purchases during the year	Sales / Matured during the year	As at June 30, 2011	Cost	Market value	(Diminution)	as a percentage of net assets	as a percentage of total investment
------(Rupees in 000)-----										
13 August 2010	3 Months	-	50,000	50,000	-	-	-	-	-	-
13 August 2010	3 Months	-	90,000	90,000	-	-	-	-	-	-
25 February 2010	6 Months	-	200,000	200,000	-	-	-	-	-	-
27 August 2009	1 Year	-	75,000	75,000	-	-	-	-	-	-
08 October 2009	1 Year	-	25,000	25,000	-	-	-	-	-	-
26 August 2010	3 Months	-	187,500	187,500	-	-	-	-	-	-
26 August 2010	3 Months	-	150,000	150,000	-	-	-	-	-	-
09 September 2010	3 Months	-	65,000	65,000	-	-	-	-	-	-
20 May 2010	3 Months	100,000	-	100,000	-	-	-	-	-	-
03 June 2010	3 Months	75,000	-	75,000	-	-	-	-	-	-
17 June 2010	3 Months	25,000	-	25,000	-	-	-	-	-	-
07 October 2010	3 Months	-	15,000	15,000	-	-	-	-	-	-
16 November 2010	3 Months	-	300,000	300,000	-	-	-	-	-	-
04 November 2010	3 Months	-	50,000	50,000	-	-	-	-	-	-
10 February 2011	3 Months	-	100,000	100,000	-	-	-	-	-	-
05 May 2011	3 Months	-	75,000	-	75,000	74,296	74,268	(28)	0.06	0.06
02 June 2011	3 Months	-	25,000	-	25,000	24,509	24,504	(5)	0.02	0.02
<b>Total as at 30 June 2011</b>			<b>1,407,500</b>	<b>1,507,500</b>	<b>100,000</b>	<b>98,805</b>	<b>98,772</b>	<b>(33)</b>		

**PAKISTAN STOCK MARKET FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**5.2 Fixed income securities - Government Securities - 'at fair value through profit or loss' - held for trading**

Isseu Date	Face Value					Balance as at 30 June 2010			Market value	
	Tenor	As at 1 July, 2010	Purchases during the year	Sales / Matured during the year	As at June 30, 2010	Cost	Market value	(Diminution)	as a percentage of net assets	as a percentage of total investment

------(Rupees in 000)-----

**Treasury Bills**

12 March 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
07 May 2009	6 Months	-	200,000	200,000	-	-	-	-	-	-
04 June 2009	1 Year	-	25,000	25,000	-	-	-	-	-	-
10 September 2009	6 Months	-	100,000	100,000	-	-	-	-	-	-
26 September 2009	3 Months	-	100,000	100,000	-	-	-	-	-	-
08 October 2009	1 Year	-	60,000	60,000	-	-	-	-	-	-
08 October 2009	6 Months	-	75,000	75,000	-	-	-	-	-	-
08 October 2009	3 Months	-	100,000	100,000	-	-	-	-	-	-
05 November 2009	3 Months	-	50,000	50,000	-	-	-	-	-	-
11 March 2010	3 Months	-	200,000	200,000	-	-	-	-	-	-
20 May 2010	3 Months	-	100,000	-	100,000	98,670	98,626	(44)	5.38	5.54
03 June 2010	3 Months	-	125,000	50,000	75,000	73,655	73,633	(22)	4.01	4.14
17 June 2010	3 Months	-	25,000	-	25,000	24,437	24,432	(5)	1.33	1.37

**Total as at 30 June 2010**

<b>1,260,000</b>	<b>1,060,000</b>	<b>200,000</b>	<b>196,762</b>	<b>196,691</b>	<b>(71)</b>
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**PAKISTAN STOCK MARKET FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**5.3 Quoted equity securities - 'Available for sale'**

Shares of listed companies - fully paid ordinary shares / certificates of Rs. 10 each unless stated otherwise

Name of the Investee company	Number of Shares					Cost	Impairment up to 30 June 2011	Market value	Appreciation / (Diminution)	Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at 1 July, 2010	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at June 30, 2011					investments	net assets	
<b>CHEMICALS</b>												
Fauji Fertilizer Company Limited	945,268	-	112,773	494,175	563,866	23,397	-	84,777	61,380	0.07	0.07	0.07
						<b>23,397</b>	<b>-</b>	<b>84,777</b>	<b>61,380</b>			
<b>FORESTRY AND PAPER</b>												
Century Paper & Board Mills Limited	781,220	-	-	-	781,220	31,718	(21,875)	12,031	(2,188)	0.01	0.01	1.11
Security Paper Limited	76,522	-	-	76,522	-	-	-	-	-	-	-	-
						<b>31,718</b>	<b>(21,875)</b>	<b>12,031</b>	<b>(2,188)</b>			
<b>INDUSTRIAL METALS AND MINING</b>												
International Industries Limited	502,012	-	100,402	-	602,414	27,362	-	29,819	2,457	0.02	0.02	0.50
						<b>27,362</b>	<b>-</b>	<b>29,819</b>	<b>2,457</b>			
<b>GENERAL INDUSTRIALS</b>												
Packages Limited	415,041	-	-	-	415,041	41,386	-	45,655	4,269	0.04	0.04	0.49
						<b>41,386</b>	<b>-</b>	<b>45,655</b>	<b>4,269</b>			
<b>AUTOMOBILE AND PARTS</b>												
Pak Suzuki Motor Company Limited	318,300	-	-	-	318,300	31,229	(13,872)	19,910	2,553	0.02	0.02	0.39
						<b>31,229</b>	<b>(13,872)</b>	<b>19,910</b>	<b>2,553</b>			
<b>FOOD PRODUCERS</b>												
Nestle Pakistan Limited	7,300	-	-	7,300	-	-	-	-	-	-	-	-
						<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>			
<b>PERSONAL GOODS</b>												
Artistic Denim Limited	95,400	-	-	95,400	-	-	(2,840)	-	2,840	-	-	-
Gul Ahmed Textile Mills Limited	70,291	-	-	70,291	-	-	-	-	-	-	-	-
Kohinoor Mills Limited	418,180	-	-	-	418,180	10,796	(10,356)	439	(1)	0.0004	0.0004	0.82
						<b>10,796</b>	<b>(13,196)</b>	<b>439</b>	<b>2,839</b>			
<b>TOBACCO</b>												
Pakistan Tobacco Company Limited	300,000	-	-	300,000	-	-	-	-	-	-	-	-
						<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>			
<b>Total as at 30 June 2011</b>						<b>165,888</b>	<b>(48,943)</b>	<b>192,631</b>	<b>71,310</b>			

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Name of the Investee company	Number of Shares					Cost	Impairment up to 30 June 2010	Market value	Appreciation / (Diminution)	Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at 1 July, 2009	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at June 30, 2010					investments	net assets	
<b>OIL &amp; GAS PRODUCERS</b>												
Oil & Gas Development Company Limited	242,720	-	-	242,720	-	-	-	-	-	-	-	-
<b>CHEMICALS</b>												
BOC Pakistan Limited	27,900	-	-	27,900	-	-	-	-	-	-	-	-
Fauji Fertilizer Company Limited	945,268	-	-	-	945,268	49,029	-	97,429	48,400	5.48	5.31	0.14
						<b>49,029</b>	<b>-</b>	<b>97,429</b>	<b>48,400</b>			
<b>FORESTRY AND PAPER</b>												
Century Paper & Board Mills Limited	781,220	-	-	-	781,220	32,179	21,875	12,500	2,196	0.70	0.68	1.11
Security Paper Limited	76,522	-	-	-	76,522	5,325	2,187	3,290	152	0.18	0.18	0.19
						<b>37,504</b>	<b>24,062</b>	<b>15,790</b>	<b>2,348</b>			
<b>INDUSTRIAL METALS AND MINING</b>												
International Industries Limited	502,012	-	-	-	502,012	27,362	-	28,107	745	1.58	1.53	0.50
						<b>27,362</b>	<b>-</b>	<b>28,107</b>	<b>745</b>			
<b>GENERAL INDUSTRIALS</b>												
Packages Limited	415,041	-	-	-	415,041	41,386	-	49,182	7,796	2.76	2.68	0.49
						<b>41,386</b>	<b>-</b>	<b>49,182</b>	<b>7,796</b>			
<b>AUTOMOBILE AND PARTS</b>												
Pak Suzuki Motor Company Limited	318,300	-	-	-	318,300	31,229	13,872	25,232	7,875	1.42	1.38	0.39
						<b>31,229</b>	<b>13,872</b>	<b>25,232</b>	<b>7,875</b>			
<b>FOOD PRODUCERS</b>												
Nestle Pakistan Limited	7,300	-	-	-	7,300	3,511	-	12,301	8,790	0.69	0.67	0.02
						<b>3,511</b>	<b>-</b>	<b>12,301</b>	<b>8,790</b>			
<b>PERSONAL GOODS</b>												
Artistic Denim Limited	95,400	-	-	-	95,400	4,894	2,752	1,948	(194)	0.11	0.11	0.11
Chenab Limited	1,000,000	-	-	1,000,000	-	-	-	-	-	-	-	-
Gul Ahmed Textile Mills Limited	70,291	-	-	-	70,291	2,319	508	1,302	(509)	0.07	0.07	0.11
Kohinoor Mills Limited	418,180	-	-	-	418,180	11,507	9,475	1,321	(711)	0.07	0.07	0.82
						<b>18,720</b>	<b>12,735</b>	<b>4,571</b>	<b>(1,414)</b>			
<b>TOBACCO</b>												
Pakistan Tobacco Company Limited	300,000	-	-	-	300,000	20,442	-	31,203	10,761	1.75	1.70	0.12
						<b>20,442</b>	<b>-</b>	<b>31,203</b>	<b>10,761</b>			
<b>Total as at 30 June 2010</b>						<b>229,183</b>	<b>50,669</b>	<b>263,815</b>	<b>85,301</b>			

5.4 Investments as at 30 June 2011 include shares with market value of Rs 65.833 million (2010: Rs. 49.002 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular number 11 dated 23 October 2007 issued by the Securities & Exchange Commission of Pakistan.

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5.5 Net unrealised appreciation in value of investments -'at fair value through profit or loss' - held for trading	2011	2010
	(Rupees in '000)	
Market value of investments	1,023,152	1,515,476
Less: Cost of investments	(946,844)	(1,553,732)
	<u>76,308</u>	<u>(38,256)</u>
Net unrealised appreciation in value of investments at fair value through profit or loss at the beginning of the year	38,256	403,027
Realised on disposal during the year	(3,525)	(307,710)
	<u>34,731</u>	<u>95,317</u>
	<u>111,039</u>	<u>57,061</u>

5.6 Unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale'		
Fair value of investments	192,631	263,815
Cost of investment	165,888	227,309
	<u>26,743</u>	<u>36,506</u>
Add: Accumulated impairment losses at the end of the year	48,943	50,669
Net unrealised appreciation in the fair value of investments at the end of the year	75,686	87,175
Less: Unrealised appreciation in fair value of investments at the beginning of year	(87,175)	(63,965)
	<u>(11,489)</u>	<u>23,210</u>

As at 30 June 2011, the Management has carried out a scrip wise analysis of impairment in respect of equity securities classified as available for sale and has determined an impairment loss amounting to Rs. 0.970 million (2010: Rs. 1.874 million) for the year ended 30 June 2011 charged to the Income Statement.

**6. DIVIDEND AND PROFIT RECEIVABLE**

Dividend receivable	2,973	-
Profit accrued on bank deposits	326	503
	<u>3,299</u>	<u>503</u>

**7. ADVANCES, DEPOSITS AND OTHER RECEIVABLES**

Advance tax	1,036	1,036
Deposit with National Clearing Company of Pakistan Limited	2,500	2,500
Deposit with Central Depository Company of Pakistan Limited	200	200
Receivable from Pakistan Income Enhancement Fund - (Fund under common management)	-	482
	<u>3,736</u>	<u>4,218</u>

**8. PAYABLE TO MANAGEMENT COMPANY**

Management fee payable	8.1	2,096	3,193
Sales load payable		252	272
		<u>2,348</u>	<u>3,465</u>

**8.1** Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund. The Management Company has charged fee at the rate of 2% per annum of the average net asset of the Fund.



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**12. CONTINGENCY**

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honourable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with the SHC by some of Mutual Funds through their Trustees along with few investors. However, subsequent to filing of the petition, the Ministry of Labour and Manpower (the Ministry) issued a letter which states that mutual funds are not liable for WWF. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income of Mutual Fund(s), the product being sold, is exempted under the law *ibid*."

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

Based on the advice of the legal counsel handling the case, the Management Company is of the view that notwithstanding the show cause notices issued to a number of mutual funds, WWF is not applicable to the Funds due to the clarification issued by the Ministry which creates vested right, hence no provision of Rs 12.824 million (Re. 0.62 per unit) has been made in respect of WWF.

Subsequent to the year end, the Lahore High Court in a petition filed by an industrial establishment "has declared the amendments introduced in the WWF Ordinance through Finance Act, 2006 and" 2008 as unconstitutional and has therefore struck them down. The Management Company is evaluating the implications of the above developments and is in consultation with MUFAP.

**13. AUDITOR'S REMUNERATION**

	2011	2010
	(Rupees in '000)	
Annual audit fee	210	210
Half yearly review	125	100
Other certifications and services	110	44
Out of pocket expenses	29	47
	<b>474</b>	<b>401</b>

**14. EARNINGS PER UNIT**

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

**15. TAXATION**

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the NBFC Regulations, 2008, the fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. Since the management has distributed the income earned by the Fund during the year to the unit holders in the manner explained above, no provision for taxation has been made in these financial statements.

**16. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS**

Related parties / 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 and other associated undertaking.

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

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

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

Details of transactions with related parties / connected persons and balances with them at year end are as follows:

<b>16.1 Transactions during the year</b>	<b>2011</b>	<b>2010</b>
	<b>(Rupees in '000)</b>	
Management Company		
Remuneration of the Management Company	<b>31,084</b>	43,150
Sales load	<b>771</b>	901
Arif Habib Corporation Limited ( formerly Arif Habib Securities Limited)		
Brokerage *	<b>539</b>	927
Central Depository Company of Pakistan Limited-Trustee		
Remuneration of the Trustee	<b>2,554</b>	3,158
CDS charges	<b>27</b>	62
Summit Bank Limited (formerly Arif Habib Bank Limited)		
Mark-up income for the year	<b>2,422</b>	8,665
Directors and executives of the Management Company		
38,761 bonus units (2010: NIL) distributed during the year	<b>1,924</b>	78,068
Issue of 1,143,178 units (2010: NIL)	<b>65,283</b>	-
Redemption of 1,199,671 units (2010: NIL)	<b>68,842</b>	84,144
Arif Habib Corporation Limited (formerly Arif Habib Securities Limited)		
Sale of NIL shares (2010: 668,750 shares)	-	33,694
<b>16.2 Amounts outstanding as at the year end</b>		
Summit Bank Limited (formerly Arif Habib Bank Limited)		
Balance with bank	<b>7,176</b>	4,869
Management Company		
Management fee and sales load payable	<b>2,348</b>	3,465
Directors and executives of the Management Company		
176,850 units (2010: 194,582 units) held	<b>9,911</b>	11,546
Central Depository Company of Pakistan Limited-Trustee		
Security deposit	<b>200</b>	200
Trustee fee and CDS charges	<b>202</b>	242
Summit Bank Limited (formerly Arif Habib Bank Limited)		
Accrued mark-up	<b>142</b>	401
Pakistan Income Enhancement Fund (Fund under common management)		
Receivable against conversion of units	-	482
Pakistan Income Fund (Fund under common management)		
Payable against conversion of units	<b>232</b>	2,406

\* The amount disclosed represents the amount of brokerage paid to connected persons and not the purchase or sale value of securities transacted through them. The purchase or sale value has not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.

# PAKISTAN STOCK MARKET FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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#### 17. FINANCIAL RISK MANAGEMENT

The Board of Directors of management company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund's activities expose it to a variety of financial risks such as:

- Market risk
- Credit risk and
- Liquidity risk

#### 17.1 Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines and regulations laid down by the SECP.

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

##### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pak Rupee

##### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

##### *Sensitivity analysis for fixed rate instruments*

As at 30 June 2011, the Fund holds Treasury Bills which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. In case of 100 basis points increase / decrease in rates announced by Financial Markets Association of Pakistan on 30 June 2011 with all other variables held constant, the net income for the year and net assets would be lower / higher by Rs. 0.091 million (2010: Rs. 0.27 million).

The composition of the Fund's investment portfolio and rates announced by Financial Markets Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2011 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

##### *Other price risk*

The Fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities as available for sale and at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks prescribed in the trust deed. The Fund's constitutive document / NBFC Regulations also limit individual equity securities to no more than 10% of net assets, or issued capital of the investee company and sector exposure limit to 25% of net assets.

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In case of 5% increase / decrease in prices of equity securities quoted at Karachi Stock Exchange, the net income for the year, other comprehensive income and net assets attributable to unit holders would have been higher / lower by Rs. 55.85 million (2010: Rs. 79.13 million). Previously, the management has used correlation with KSE 100 index to ascertain the effect of change in prices of quoted equity securities on Fund's net income, other comprehensive income and net assets attributable to unit holders.

The analysis above assumes that all other variables remains unchanged. The composition of the Fund's investment portfolio is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2011 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of prices quoted on Karachi Stock Exchange.

**17.2 Credit risk**

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse re-purchase transactions or other arrangements to fulfil their obligations resulting in financial loss to the Fund. These credit exposures exist within financing relationships, derivatives and other transactions. There is also a risk of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the central clearing system etc.

The credit risk of the Fund mainly arises from its investment in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, deposits and other receivable balances.

*Credit risk management*

It is the Fund's policy to enter into financial contracts with reputable, diverse and creditworthy counterparties and wherever possible or deemed necessary obtain collaterals in accordance with internal risk management policies and investment guidelines designed for credit risk management. The Investment Committee closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

The maximum exposure to credit risk before any credit enhancements at 30 June is the carrying amount of the financial assets as set out below:

	<b>2011</b>	<b>2010</b>
	<b>(Rupees in '000)</b>	
Bank balances	<b>28,285</b>	13,780
Investments	<b>1,215,783</b>	1,779,291
Dividend and profit receivable	<b>3,299</b>	503
Advances, deposits and prepayments	<b>3,736</b>	4,218
	<b>1,251,103</b>	1,797,792

*Settlement risk*

Credit risk relating to unsettled transactions in securities is considered to be minimal as the Fund uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery using central clearing system.

*Bank balances*

The Fund kept surplus liquidity with banks having credit rating from AA+ to A-. The rating of the banks is monitored by the Fund Manager and Investment Committee.

*Investment in fixed income securities*

Investment in treasury bills do not expose the Fund to credit risk as the counter party to the investment is the Government of Pakistan.

*Concentration of credit risk*

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

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**17.3 Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations arising from its financial liabilities that are settled by delivering cash or other financial assets or that such obligations will have to be settled in a manner disadvantageous to the Funds. Liquidity risk also arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's applicable redemption price calculated in accordance with the Fund's constitutive documents and guidelines laid down by the SECP.

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of net assets at the time of borrowing with a condition of repayment within 90 days of such borrowings. No such borrowings have arisen during the year.

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

The liquidity position of the Fund is monitored by Fund Manager and Risk and Compliance Department on daily basis.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

The maturity profile of the Fund's liabilities based on contractual maturities is given below:

	30 June 2011			
	Up to three months	More than three months and up to one year	More than one year	Total
	----- (Rupees in '000) -----			
Payable on redemption of units	27,765	-	-	27,765
Payable to Management Company	2,348	-	-	2,348
Payable to Central Depository Company of Pakistan Limited - Trustee	202	-	-	202
Accrued expenses and other liabilities	2,729	-	-	2,729
	<b>33,044</b>	<b>-</b>	<b>-</b>	<b>33,044</b>

	30 June 2010			
	Up to three months	More than three months and up to one year	More than one year	Total
	----- (Rupees in '000) -----			
Payable on redemption of units	1,580	-	-	1,580
Payable to Management Company	3,465	-	-	3,465
Payable to Central Depository Company of Pakistan Limited - Trustee	242	-	-	242
Accrued expenses and other liabilities	3,709	-	-	3,709
	<b>8,996</b>	<b>-</b>	<b>-</b>	<b>8,996</b>

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Units of the Fund are redeemable on demand at the holder's option, however, the Fund does not anticipate significant redemption of units.

**Unit holders' fund risk management**

The Fund's capital is represented by redeemable units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown on the statement of movements are shown on the statement of movement in unit holders' funds.

The Fund's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong fund base to meet unexpected losses or opportunities (in accordance with the NBFC Regulations the Fund is required to distribute at least ninety percent of its income from sources other than unrealised capital gains as reduced by such expenses as are chargeable to the Fund).

In accordance with the risk management policies, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments.

**18. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Investments on the Statement of Assets and Liabilities are carried at fair value . The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant unobservable inputs.

	Level 1	Level 2
	(Rupees in '000)	
<b>30 June 2011</b>		
<b>'At fair value through profit or loss'</b>		
Held for trading		
- Quoted equity securities	924,380	-
- Fixed income securities	-	98,772
<b>'Available for sale'</b>		
- Quoted equity securities	192,631	-
<b>30 June 2010</b>		
<b>'At fair value through profit or loss'</b>		
Held for trading		
- Quoted equity securities	1,318,785	-
- Fixed income securities	-	196,691
<b>'Available for sale'</b>		
- Quoted equity securities	263,815	-

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The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

**19. DISTRIBUTION BY THE FUND**

**19.1 Non-adjusting event after the balance sheet date**

The Board of Directors of the Management Company have approved a dividend of Rs. 6.3036 for every unit held for the year ended 30 June 2011, amounting to Rs. 130.424 million in total in their meeting held on 4 July 2011. The financial statements for the year ended 30 June 2011 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending 30 June 2012.

**20. SUPPLEMENTARY NON FINANCIAL INFORMATION**

The information regarding pattern of unit holding, list of top ten brokers, meetings of the Board of Directors of the management company and members of the Investment Committee are as follows:

**20.1 Pattern of unit holding**

**Details of pattern of unit holding as at 30 June 2011**

As at 30 June 2011			
Number of Unit Holders	Investment amount	Percentage investment	
------(Rupees in '000)-----			
Individuals	2931	789,990	63.53%
Directors	1	144	0.02%
Insurance companies	3	28,401	2.28%
Bank / DFIs	1	45,335	3.65%
Retirement funds	66	314,266	25.27%
Others	25	65,279	5.25%
	<b>3,027</b>	<b>1,243,415</b>	<b>100%</b>

**Details of pattern of unit holding as at 30 June 2010**

As at 30 June 2010			
Number of Unit Holders	Investment amount	Percentage investment	
------(Rupees in '000)-----			
Individuals	3,519	876,922	47.62
Associated companies / directors	1	20,072	1.09
Directors	2	1,014	0.06
Insurance companies	2	13,109	0.71
Bank / DFIs	2	150,268	8.16
NBFCs	2	6,321	0.34
Retirement funds	104	705,697	38.33
Others	33	67,935	3.69
	<b>3,665</b>	<b>1,841,340</b>	<b>100</b>

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**20.2 Top ten brokers / dealers by percentage of commission paid**

Details of commission paid by the fund to top ten brokers by percentage during the year are as follows:

	<b>2011 Percentage</b>
Arif Habib Limited	17.69%
FCEL	11.70%
Topline Securities (Private) Limited	9.38%
KASB Securities Limited	6.51%
DJM Securities (Private) Limited	6.49%
Invest Capital Investment Bank Limited	4.39%
Invest & Finance Securities Limited	3.89%
IGI Finex Securities Limited	3.67%
Taurus Securities Limited	3.54%
Elixir Securities Pakistan (Private) Limited	3.35%
	<b>2010 Percentage</b>
Arif Habib Limited	26.83%
KASB Securities Limited	10.04%
H.H Misbah Securities (Private) Limited	9.80%
Invest Capital Investment Bank Limited	9.42%
DJM Securities (Private) Limited	4.76%
JS Global Capital Limited	4.48%
Motiwala Securities (Private) Limited	4.48%
Topline Securities (Private) Limited	4.16%
Invest & Finance Securities Limited	4.01%
Elixir Securities Pakistan (Private) Limited	3.89%

**20.3 Attendance at meetings of the board of directors**

The 74th, 75th, 76th, 77th, 78th, 79th, 80th, 81st, 82nd, 83rd, 84th, 85th, 86th, 87th and 88th Board meetings were held on 5 July 2010, 3 August 2010, 4 August 2010, 22 October 2010, 25 October 2010, 12 November 2010, 20 December 2010, 30 December 2010, 17 February 2011, 19 February 2011, 16 April 2011, 21 April 2011, 23 April 2011, 15 June 2011, 27 June 2011 respectively.

Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of Meetings			Meeting not attended
	Held	Attended	Leave Granted	
Mr. Shafi Malik*	15	15	-	
Mr. Nasim Beg	15	15	-	
Mr. Sirajuddin Cassim*	15	4	11	74th to 83rd and 88th meeting
Mr. S. Gulrez Yazdani *	15	13	2	75th and 76th meeting
Mr. Muhammad Akmal Jameel*	15	15	-	
Syed Ajaz Ahmed*	15	13	2	74th and 88th meeting
Mr. Muhammad Kashif Habib*	15	11	4	74th, 77th, 87th and 88th meeting
Mr. Samad A. Habib**	5	5	-	
Mian Mohammad Mansha***	1	1	-	
Mr. Yasir Qadri***	1	1	-	
Syed Salman Ali Shah***	1	1	-	
Mr. Haroun Rashid***	1	1	-	
Mr. Ahmed Jahangir***	1	1	-	
Mr. Mirza Mahmood Ahmad***	1	1	-	

**PAKISTAN STOCK MARKET FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

\* The above directors retired in the 88th meeting held on 27 June 2011.

\*\* Mr.Samad A. Habib was appointed as director during the year in the extraordinary general meeting held on 7 February 2011 and approved by SECP on 31 March 2011

\*\*\* The above directors are appointed in place of retiring directors in the 88th meeting held on 27 June 2011

**20.4 Particulars of investment committee and fund manager**

Details of members of investment committee of the Fund are as follows:

<b>Name</b>	<b>Designation</b>	<b>Qualification</b>	<b>Experience in years</b>
Basharat Ullah	Chief Investment Officer	MBA	18
Zeeshan	Chief Financial Officer	ACA	8
Muhammad Imran Khan	Head of Research	MBA	9
Zafar Rehman	Head of Debt and Money Market Funds	B.COM	19
Nadeem Khan	Fund Manager	MBA, MSc	18
Tariq Hashmi	Head of Marketing	MBA	19

Subsequent to the year end, owing to merger of Arif Habib Investments Limited and MCB Asset Management Company Limited, the Investment Committee has been reconstituted and recomposed as follows:

<b>Name</b>	<b>Designation</b>	<b>Qualification</b>	<b>Experience in years</b>
1 Yasir Qadri	Chief Executive Officer	MBA	16
2 Kashif Rafi	Fund Manager - Fixed Income Fund	CA Foundation / MBA / CFA Level 1	10
3 Muhammad Asim	Fund Manager - Equity Fund	MBA / CFA	8
4 Syed Akbar Ali	Senior Research Analyst	MBA / CFA Charter holder	6
5 Mohsin Pervez	Senior Research Analyst	CFA Level 1	9.5
6 Ahsan Mehanti	Director Wealth Management	CPA / ACA / ACMA	14

**20.5 Other funds managed by the fund manager**

***Nazia Nauman***

Nazia Nauman is the Manager of the Fund as at year end. She has obtained a Masters degree in Business Administration and is a Certified Financial Analyst . Other funds being managed by her as follows:

- Pakistan Capital Market Fund
- Pakistan Capital Protected Fund - I

Subsequent to the year end owing to merger of Arif Habib Investments Limited with MCB Asset Management Company, Mr. Syed Akbar Ali has been appointed as Fund manager in place of Ms. Nazia Nauman.

**21. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 20, 2011.

**22. GENERAL**

Figures have been rounded off to the nearest thousand Rupees.

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

Chief Executive

Director

**PAKISTAN STOCK MARKET FUND  
PATTERN OF HOLDING AS PER REQUIREMENT OF  
CODE OF CORPORATE GOVERNANCE  
AS AT JUNE 30, 2011**

Category	No. of Unit Holders	Units
<b>Associated Company, Undertakings, and Related Parties</b>		
Arif Habib Investments Limited		
Summit Bank Limited		
	-	-
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.</b>	4	1,226,805
<b>Director, CEO and their spouses and minor children</b>		
NASIM BEG	1	2,401
<b>Trust</b>	66	5,228,742
<b>Corporate</b>	4	20,444
<b>Individuals</b>	2,931	13,146,293
<b>Others</b>	21	1,065,661
	<u>3,027</u>	<u>20,690,345</u>

**PAKISTAN STOCK MARKET FUND  
PATTERN OF UNIT HOLDING (SIZE)  
AS AT JUNE 30, 2011**

No. of Unit Holders	Units Holdings	Total Units Held
2,670	1 - 10000	4,129,307
327	10001 - 100000	9,074,912
29	100001 - 1000000	6,483,496
1	1000001 - onwards	1,002,630
<u>3,027</u>		<u>20,690,345</u>

## PAKISTAN STOCK MARKET FUND PERFORMANCE TABLE

Performance Information	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Net Assets	1,243,564	1,841,340	1,847,196	3,350,619	3,245,587	3,617,732	2,712,985	1,051,643	783,991	322,974
Net Income / (loss)	255,955	385,236	(560,559)	507,463	490,678	1,114,205	1,171,637	382,103	199,155	9,224
	(Rupees)									
Net assets value per unit (Ex-Div)	53.80	49.64	47.56	64.55	84.08	84.29	90.10	81.99	69.02	48.97
	(Percentage)									
Annual dividend distribution	12.6**	19.4**	-	34**	50**	60**	70***	60**	40**	3**
	4.16	8.37	17.61							
*First year of operations from the period 1 March 2002 to 30 June 2002										
**Stock dividend										
***Interim Dividend of 20% and Stock Dividend of 50%										
	12.60%									
	Announcement Date of Distribution									
Interim	-	-	-	-	-	-	February 10, 2005	-	-	-
Final	July 4, 2011	July 5, 2010	-	July 3, 2008	July 4, 2007	July 4, 2006	July 4, 2005	July 5, 2004	July 3, 2003	July 1, 2002
	(Rupees)									
Highest offer price per unit	64.27	67.93	66.00	100.55	111.96	135.42	148.71	118.59	92.85	54.08
Lowest offer price per unit	50.17	50.38	34.14	77.06	81.79	90.64	83.28	71.81	50.58	47.60
Highest Repurchase price per unit	62.98	66.57	63.36	96.53	109.16	132.03	144.99	115.63	90.53	51.65
Lowest Repurchase price per unit	49.17	49.37	33.46	75.13	79.75	88.37	81.20	70.01	48.30	45.46
Year end offer price per unit	61.33	60.55	48.53	84.95	111.88	117.22	118.05	114.86	91.30	52.68
Year end repurchase price per unit	60.10	59.34	47.56	81.55	109.08	114.29	115.10	111.99	89.02	50.31
	(Percentage)									
One Year	21.10	24.77	(26.32)	(3.01)	29.41	26.85	52.41	62.04	81.23	2.02
Two Year	51.10	(4.12)	(15.45)	12.02	28.12	39.04	46.66	71.38	-	-
Three Year (Since inception)	11.30	3.75	(2.57)	16.75	35.75	46.34	64.83	-	-	-
Capital growth	8.37	4.37	(26.32)	(23.23)	(0.25)	(6.45)	9.89	18.79	40.94	(2.06)

Fund keeps the average duration of its portfolio less than two years.

\* First year of operations from the period 1 March 2002 to 30 June 2002.