

**PAKISTAN
STOCK MARKET FUND**

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FUND'S INFORMATION

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

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 2011

Dear Investor,

On behalf of the Board of Directors, I am pleased to present **Pakistan Stock Market Fund's** accounts review for the first half ended December 31st 2011.

EQUITIES MARKET OVERVIEW

Bearish trend continued at the local bourses with the KSE-100 index went down by 9.2% during the period under review with abysmally low volumes. Attractive valuations were marred by the dearth of liquidity, extremely volatile global markets and fragile domestic economic and geo-political conditions. Deteriorating macroeconomic balances coupled with rising tension in the political arena restrained local investors from taking counter positions against foreigners, which remained net seller during the period with a net FIPI outflow of over US\$ 151 million. Even a cumulative reduction in DR of 200 bps by the SBP during early part of the period failed to generate strong momentum among equity investors due to fear of aggressive sell off by foreign investors as well as lack of clarity on political and macro fronts. Sector-wise, Chemicals and Oil & Gas sectors remained centre of major activity although interest was also seen in few other stocks related to various sectors based on their respective fundamentals and valuations.

FUND PERFORMANCE

During the period under review, PSMF underperformed KSE100 index by delivering -10.1% return as compared to KSE100 index return of -9.2%. Substantial changes were made in sector and company allocations during the period on the back of changing fundamentals. Overall equity exposure of the fund was increased by around 4% to around 91%. Sector level changes include increase in allocation within Banks, Electricity and Oil & Gas while allocations of Personal Goods, Construction Materials, Industrial Transportation and Chemicals were reduced. The fund also built its exposure in Fixed Line Telecommunication during the period.

FUTURE OUTLOOK

Although the external environment may remain challenging in the near term, the stock market may find support from the December earnings season with a focus on dividend laden results including Banking, Electricity and Chemicals Sectors and could redraw attention to the fundamental strength in the listed companies. Strong earnings growth, high dividend yield and relatively cheaper valuations offer decent returns for long term investors in our opinion.

ACKNOWLEDGMENT

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

On behalf of Directors,

Yasir Qadri
Chief Executive Officer
Dated: January 27, 2012

TRUSTEE REPORT TO THE UNIT HOLDERS

Report of the Trustee pursuant to Regulation 41(h) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We Central Depository Company of Pakistan Limited, being the Trustee of **Pakistan Stock Market Fund** (the Fund) are of the opinion that Arif Habib Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the six months period ended December 31, 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: February 24, 2012

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

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **Pakistan Stock Market Fund** ("the Fund") as at 31 December 2011 and the related condensed interim income statement, condensed interim statement of other comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, condensed interim cash flow statement and notes to the accounts for the six months period then ended (here-in-after referred to as the "condensed interim financial information"). Management Company is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the annexed condensed interim financial information as at and for the six months period ended 31 December 2011 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting.

Emphasis of matter

We draw attention to note 6 to the financial information 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 in aggregate is not being maintained by the Fund. Our conclusion is not qualified in respect of this matter.

Other matters

The figures for the quarter ended 31 December 2011 and 31 December 2010 in the condensed interim income statement, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim distribution statement and condensed interim statement of movement in unit holders' funds have not been reviewed and we do not express a conclusion on them.

Date: January 27, 2012

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

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

	(Unaudited) Note 31 December 2011 (Rupees in '000)	(Audited) 30 June 2011
Assets		
Balances with banks	62,750	28,285
Receivable against sale of investments	12,802	560
Receivable against sale of units	445	26,432
Investments	5 866,196	1,215,783
Dividend and profit receivable	1,403	3,299
Advances, deposits and other receivables	3,862	3,736
Total assets	947,458	1,278,095
Liabilities		
Payable on redemption of units	275	27,765
Payable to Arif Habib Investments Limited - Management Company	1,864	2,348
Payable to Central Depository Company of Pakistan Limited - Trustee	166	202
Payable to The Securities and Exchange Commission of Pakistan - Annual fee	508	1,487
Accrued expenses and other liabilities	3,497	2,729
Total liabilities	6,310	34,531
Contingency	6	
Net assets	941,148	1,243,564
Unit holders' funds	941,148	1,243,564
	(Number of units)	
Number of units in issue	19,451,946	20,690,345
	(Rupees)	
Net assets value per unit	48.38	60.10

The annexed notes 1 to 10 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM INCOME STATEMENT (UNAUDITED) FOR THE SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 2011

	Note	Six months period ended 31 December		Quarter ended 31 December	
		2011	2010	2011	2010
		----- (Rupees in '000) -----			
Income					
Capital Realised on disposal during the period		3,365	81,382	2,926	22,592
Dividend income		37,336	40,841	22,411	23,687
Income from government securities		2,473	19,385	283	8,921
Profit on bank accounts		2,434	1,904	1,035	828
Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'	5.5	(88,836)	188,699	(86,206)	194,574
		(43,228)	332,211	(59,551)	250,602
Expenses					
Remuneration of Arif Habib Investments Limited - Management Company	7	10,626	17,482	5,031	8,310
Service tax charges		1,700	-	805	-
Remuneration of Central Depository Company of Pakistan Limited - Trustee		1,032	1,375	504	664
Annual fee - Securities and Exchange Commission of Pakistan		508	841	239	403
Securities transaction cost		2,654	1,617	1,218	327
Settlement and bank charges		189	520	131	410
Fees and subscriptions		105	105	53	53
Legal and professional charges		50	50	25	25
Auditor's remuneration		279	216	193	98
Printing and related costs		446	129	390	73
Impairment loss on investments classified as 'available for sale'		-	202	-	-
Total expenses		17,589	22,537	8,589	10,363
		(60,817)	309,674	(68,140)	240,239
Net element of income / (loss) and capital gain / (losses) for the period included in the prices of units issued less those in units redeemed		489	(22,267)	(1,939)	(11,216)
Net (loss) / income for the period		(60,328)	287,407	(70,079)	229,023

The annexed notes 1 to 10 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME (UNAUDITED) FOR THE SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 2011

	Note	Six months period ended 31 December		Quarter ended 31 December	
		2011	2010	2011	2010
		----- (Rupees in '000) -----			
Net (loss) / income for the period		(60,328)	287,407	(70,079)	229,023
Other comprehensive (loss) / income for the period					
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised (diminution) / appreciation		5,651	(4,911)	9,103	(10,487)
Impairment loss on investments classified as 'available for sale'		-	202	-	-
Unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale'	5.6	(41,681)	(21,677)	(24,111)	12,773
		(36,030)	(26,386)	(15,008)	2,286
Total comprehensive (loss) / income for the period		(96,358)	261,021	(85,087)	231,309

The annexed notes 1 to 10 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED) FOR THE SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 2011

	Six months period ended 31 December		Quarter ended 31 December	
	2011	2010	2011	2010
	----- (Rupees in '000) -----			
Undistributed income / (losses) brought forward - realized and unrealized	133,001	202,333	8,869	(34,685)
Final distribution at the rate of Rs. 6.3036 per unit for the year ended 30 June 2011 - [Date of distribution: 04 July 2011 (2010: Rs. 9.7 per unit)]				
- Cash distribution	-	(18,442)	-	-
- Issue of bonus units	(130,431)	(282,535)	-	-
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealized appreciation / (diminution) (refer note 3)	5,651	(4,911)	9,103	(10,487)
Net (loss) / income for the period	(60,328)	287,407	(70,079)	229,023
	(185,108)	(18,481)	(60,976)	218,537
Undistributed (loss) / income carried forward - realized and unrealized	(52,107)	183,852	(52,107)	183,852

The annexed notes 1 to 10 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED) FOR THE SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 2011

	Note		Six months period ended 31 December		Quarter ended 31 December	
			2011	2010	2011	2010
			(Rupees in '000)			
Net assets at beginning of the period			1,243,564	1,841,340	1,073,166	1,682,547
Issue of 3,084,967 units (2010: 4,218,959 units) and 980,672 units (2010: 1,959,668 units) for the six months and quarter ended respectively			157,061	222,623	107,282	107,417
Issue 2,424,371 bonus units for the six months ended 31 December 2011 (2010: 5,691,689)			130,431	282,535	-	-
Redemption of 6,735,914 units (2010: 13,205,102 units) and 7,503,663 units 3,941,501 (2010: 7,503,663 units) for the six months and quarter ended respectively			(356,979)	(697,191)	(147,049)	(406,447)
			(69,487)	(192,033)	(39,767)	(299,031)
Net element of (income) / loss and capital (gains) / losses 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			(489)	22,267	1,939	11,216
- amount representing unrealised capital (gains) / losses - transferred directly to Other Comprehensive Income			(5,651)	4,911	(9,103)	10,487
			(6,140)	27,178	(7,164)	21,703
Unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale' during the period	5.6		(41,681)	(21,677)	(24,111)	12,773
Final distribution at the rate of Rs. 6.3 per unit for the year ended 30 June 2011 - Date of distribution: 04 July 2011 (2010: Rs. 9.7 per unit)						
- Cash distribution			-	(18,442)	-	-
- Issue of bonus units			(130,431)	(282,535)	-	-
			(130,431)	(300,977)	-	-
Net income for the period (excluding unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss' and capital gain on sale of investments)			25,143	17,326	13,201	11,858
Capital gain on sale of investments			3,365	81,382	2,926	22,592
Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'			(88,836)	188,699	(86,206)	194,574
Net (loss) / income for the period (including unrealised appreciation / (diminution) in fair value of 'investments classified as 'at fair value through profit or loss' and capital gain on sale of investments)			(60,328)	287,407	(70,079)	229,024
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised appreciation / (diminution)			5,651	(4,911)	9,103	(10,487)
Net assets as at end of the period			941,148	1,636,529	941,148	1,636,529

The annexed notes 1 to 10 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 2011

	Note	Six months period ended		Quarter ended	
		31 December		31 December	
		2011	2010	2011	2010
		----- (Rupees in '000) -----			
CASH FLOWS FROM OPERATING ACTIVITIES					
Net (loss) / income for the period		(60,328)	287,407	(70,079)	229,023
<i>Adjustments for:</i>					
Unrealised diminution / (appreciation) in fair value of investments classified as 'at fair value through profit or loss'	5.5	88,836	(188,699)	86,206	(194,574)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		(489)	22,267	1,939	11,216
Impairment loss on investments classified as 'available for sale'		-	202	-	-
		28,019	121,177	18,066	45,665
Decrease / (increase) in assets					
Receivable against sale of investments		(12,242)	51,925	(12,802)	2,846
Investments		219,069	343,971	83,742	237,876
Dividend and profit receivable		1,896	106	18,215	12,278
Advances, deposits and other receivables		(126)	429	31	476
		208,597	396,431	89,185	253,476
(Decrease) / increase in liabilities					
Payable against purchase of investments		-	19	-	19
Payable to Arif Habib Investments Limited - Management Company		(484)	(500)	(203)	(176)
Payable to Central Depository Company of Pakistan Limited - Trustee		(36)	(25)	-	(10)
Payable to Securities and Exchange Commission of Pakistan - Annual fee		(979)	(1,209)	239	403
Accrued expenses and other liabilities		768	130	(42,894)	1,737
		(731)	(1,585)	(42,858)	1,973
Net cash generated from operating activities		235,885	516,023	64,394	301,114
CASH FLOWS FROM FINANCING ACTIVITIES					
Net payment against sale and redemption of units		(201,420)	(474,344)	(42,501)	(306,820)
Dividend paid		-	(18,442)	-	-
Net cash used in financing activities		(201,420)	(492,786)	(42,501)	(306,820)
Net increase / (decrease) in cash and cash equivalents during the period		34,465	23,237	21,893	(5,706)
Cash and cash equivalents at beginning of the period		28,285	13,780	40,857	42,723
Cash and cash equivalents at end of the period		62,750	37,017	62,750	37,017

The annexed notes 1 to 10 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 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 28 February 2002 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules) [repealed by Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules)].

The Management company of the Fund has been licensed to act as an Asset Management Company under 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 and Arif Habib Investments Limited the two companies have merged as of 27 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 10 June 2011). Arif Habib Investments Limited being a listed company is the surviving entity and in compliance of the State Bank of Pakistan's approval it is a subsidiary of MCB Bank Limited. However, subsequent to the completion of the merger the SECP issued an order postponing the effective date of the merger to 30 July 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHIL/348/2011 dated 27 June 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. The Honourable Sindh High Court has held the SECP's subsequent order in abeyance and instructed the 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 2-Star Normal and 4-Star Long Term to the Fund.

2. BASIS OF PREPARATION

Statement of compliance

This condensed interim financial information has been prepared in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. This condensed interim financial information does not include all the information required for full annual financial statements and should be read in conjunction with the financial statements for the period ended 30 June 2011.

This condensed interim financial information comprises of the condensed interim statement of assets and liabilities as at 31 December 2011 and the related condensed interim income statement, condensed interim cash flow statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' funds and notes thereto for the six months ended 31 December 2011. At 31 December 2011, the Fund has no item to be reported in other comprehensive income hence the reported net income for the period equals the total comprehensive income for the current period.

The comparatives in the statement of assets and liabilities presented in the condensed interim financial information as at 31 December 2011 have been extracted from the audited financial statements of the Fund for the period ended 30 June 2011, whereas for condensed interim cash flow statement are stated from unaudited condensed interim financial information for the period ended 31 December 2010.

This condensed interim financial information is unaudited and is presented in Pak Rupees, which is the Fund's functional and presentation currency and has been rounded off to the nearest thousand rupees.

The directors of the Management Company declare that these condensed interim financial information give a true and fair view of the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The accounting policies adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual published financial statements of the Fund for the period ended 30 June 2011.

New interpretations and amendments to certain existing standards/ interpretations became effective during the period, however, adoption of such amendments / new interpretations did not have any impact on the accounting policies of the Fund.

The preparation of condensed interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed interim financial information, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to financial statements as at and for the period ended 30 June 2011.

During the period, the Fund has revised the calculation for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised calculation, element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed to the extent that it is represented by income earned during the year is recognized in income statement and the remaining portion of element of income / (loss) and capital gains / (losses) held in separate reserve account at the end of an accounting period (whether gain or loss) is included in amount available for distribution to the unit holders.

The revised calculation, in the opinion of the management, would ensure that continuing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the calculation not been changed, the net income for the year ended 31 December 2011 would have been higher by Rs. 5.7 million

3.1 Standards, interpretations and amendments to published approved accounting standards that are effective in the current period:

The following amendments to existing standards are mandatory for the first time for the financial year beginning 1 July 2011:

IAS 24 (revised), 'Related party disclosures', issued in November 2009. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of the revised standard did not have any impact on the Fund's condensed interim financial information.

IFRS 7 (amendment) 'Financial instruments: Disclosures'. This amendment was part of the IASB's annual improvement project published in May 2010. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The adoption of this amendment did not have any impact on the Fund's condensed interim financial information.

Apart from above, there are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the period and are mandatory for accounting periods beginning on or after 1 July 2011 but are considered not to be relevant or did not have any significant effect on the Fund's operations and are, therefore, not disclosed in this condensed interim financial information.

3.2 Standards, interpretations and amendments to published approved accounting standards, as adopted in Pakistan, that are not yet effective:

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that are mandatory for accounting periods beginning on or after 1 July 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in this condensed interim financial information.

4. FINANCIAL RISK MANAGEMENT

The Fund's financial risk management objectives and policies are consistent with that disclosed in the financial statements as at and for the year ended 30 June 2011.

5. INVESTMENTS

INVESTMENTS		(Unaudited) 31 December 2011	(Audited) 30 June 2011
		(Rupees in '000)	
'At fair value through profit or loss' - 'held for trading'			
- Quoted equity securities	5.1	787,520	924,380
- Fixed income and other debt securities	5.2	-	98,772
'Available for sale'			
- Quoted equity securities	5.3	78,676	192,631
		866,196	1,215,783

**NOTES TO THE CONDENSED INTERIM FINANCIAL
INFORMATION (UNAUDITED)**

**FOR THE SIX MONTHS PERIOD AND
QUARTER ENDED 31 DECEMBER 2011**

5.1 Quoted equity securities - 'at fair value through profit or loss' - held for trading

Name of the investee company	As at 1 July 2011	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at 31 December 2011	Cost as at 31 December 2011	Market value as at 31 December 2011	(Diminution) / appreciation as at 31 December 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
	(Number of shares)					(Rupees in 000)			investments	net assets	
Shares of listed companies - fully paid ordinary shares of Rs. 10 each unless stated otherwise											
OIL & GAS											
Pakistan Oilfields Limited	339,632	50,000	-	169,750	219,882	53,493	76,178	22,685	0.09	8.09	0.09
Pakistan Petroleum Limited	498,033	105,625	41,865	120,000	525,523	81,111	88,456	7,345	0.10	9.40	0.04
Pakistan State Oil Company Limited	161,000	60,500	-	22,400	199,100	53,337	45,238	(8,099)	0.05	4.81	0.12
Attock Petroleum Limited	-	113,576	-	6,250	107,326	43,560	44,272	712	0.05	4.70	0.16
National Refinery Limited	-	10,000	-	6,000	4,000	1,416	971	(445)	0.00	0.10	0.01
Oil & Gas Development Company Limited	-	170,000	-	-	170,000	23,535	25,775	2,240	0.03	2.74	0.00
						256,452	280,890	24,438			
CHEMICALS											
Engro Corporation Limited	642,532	396,825	-	756,174	283,183	33,387	26,251	(7,136)	0.03	2.79	0.03
Sitara Chemical Industries Limited	281,916	-	-	-	281,916	45,186	20,354	(24,832)	0.02	2.16	1.32
Fatima Fertilizer Company Limited	2,597,589	2,037,399	-	3,474,284	1,160,704	26,681	26,603	(78)	0.03	2.83	0.06
Fauji Fertilizer Company Limited	-	641,940	-	392,770	249,170	40,442	37,261	(3,181)	0.04	3.96	0.10
						145,696	110,469	(35,227)			
INDUSTRIAL TRANSPORTATION											
Pakistan International Container Terminal Limited	603,607	19,870	-	406,570	216,907	10,777	14,314	3,537	0.02	1.52	0.71
Pakistan International Bulk Terminal Limited refer note 5.1.1	-	301,387	-	-	301,387	3,014	3,014	-	0.00	0.32	0.20
						13,791	17,328	3,537			
AUTOMOBILE AND PARTS											
Pak Suzuki Motor Company Limited	37,826	2,500	-	40,326	-	-	-	-			
						-	-	-			
HOUSEHOLD GOODS											
Pak Elektron Limited	1,619,609	-	-	60,000	1,559,609	27,175	5,443	(21,732)	0.01	0.58	1.28
						27,175	5,443	(21,732)			
FOOD PRODUCERS											
Engro Foods Limited	-	80,000	-	50,000	30,000	750	678	(72)	0.00	0.07	0.004
						750	678	(72)			
INDUSTRIAL METALS AND MINING											
International Industries Limited	163,041	-	-	31,411	131,630	6,976	5,003	(1,973)	0.01	0.53	0.11
						6,976	5,003	(1,973)			
CONSTRUCTION AND MATERIALS											
Lucky Cement Limited	686,488	150,000	-	422,200	414,288	29,458	31,088	1,630	0.04	3.30	0.01
						29,458	31,088	1,630			
PERSONAL GOODS											
Nishat Mills Limited	1,362,130	-	-	1,001,501	360,629	16,312	14,587	(1,725)	0.02	1.55	0.10
						16,312	14,587	(1,725)			
FIXED LINE TELECOMMUNICATION											
Pakistan Telecommunication Company Limited	-	3,387,765	-	-	3,387,765	38,735	35,199	(3,536)	0.04	3.74	0.09
						38,735	35,199	(3,536)			
ELECTRICITY											
Hub Power Company Limited	1,221,266	1,745,400	-	200,000	2,766,666	96,137	94,620	(1,517)	0.11	10.05	0.24
Kot Addu Power Company Limited	1,086,400	200,000	-	475,100	811,300	39,282	33,523	(5,759)	0.04	3.56	0.09
Nishat Power Limited	-	2,004,383	-	35,000	1,969,383	29,683	25,503	(4,180)	0.03	2.71	0.56
						165,102	153,646	(11,456)			
BANKS											
Allied Bank Limited	1,268,714	-	-	455,998	812,716	39,280	43,781	4,501	0.05	4.65	0.09
Bank AL Habib Limited	780,000	296,101	-	170,743	905,358	25,557	25,830	273	0.03	2.74	0.10
MCB Bank Limited	-	232,628	-	30,600	202,028	32,760	27,193	(5,567)	0.03	2.89	0.02
National Bank of Pakistan	-	1,060,000	-	857,221	202,779	8,827	8,324	(503)	0.01	0.88	0.01
Soneri bank Limited	-	3,032,198	255,922	984,816	2,303,304	8,212	8,983	771	0.01	0.95	0.26
United Bank Limited	-	200,000	-	16,596	183,404	10,179	9,608	(571)	0.01	1.02	0.01
						124,815	123,719	(1,096)			
NON LIFE INSURANCE											
IGI Insurance Limited	222,142	-	27,860	36,405	213,597	20,955	9,445	(11,510)	0.01	1.00	0.19
Adamjee Insurance Company Limited	-	500	-	-	500	28	25	(3)	0.00	0.00	0.0004
						20,983	9,470	(11,513)			
Total as at 31 December 2011						846,245	787,520	(58,725)			

5.1.1 During the year Pakistan International Container Terminal Limited has distributed specie dividend in the form of shares of it's wholly owned unlisted subsidiary i.e Pakistan International Bulk Terminal (Private) Limited, approved in its EOGM held on 3 August 2011. Listing of shares of the said subsidiary is in progress.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

FOR THE SIX MONTHS PERIOD AND QUARTER ENDED 31 DECEMBER 2011

5.2 Fixed income and other debt securities (Government securities) - at 'fair value through profit or loss'

Issue date	Tenor	As at 1 July 2011	Purchases during the period	Sales / matured during the period	As at 31 December 2011	Cost as at 31 December 2011	Market value as at 31 December 2011	Appreciation / (diminution) as at 31 December 2011	Market value as a percentage of investments	net assets
Treasury Bills										
			----- Face value -----				(Rupees in 000)			
05 May 2011	3 Months	75,000	-	-	-	-	-	-	-	-
02 June 2011	3 Months	25,000	-	-	-	-	-	-	-	-
Total as at 31 December 2011			-	-	-	-	-	-	-	-

5.3 Quoted equity securities - 'available for sale'

Name of the investee company	As at 1 July 2011	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at 31 December 2011	Cost as at 31 December 2011	Impairment upto 31 December 2011	Cost less impairment recognised upto 31 December 2011	Market value as at 31 December 2011	(Diminution) / appreciation as at 31 December 2011	Market value as a percentage of investments	Paid up value of shares held as a percentage of total paid up capital of the investee company
Shares of listed companies - fully paid ordinary shares / certificates of Rs. 10 each unless stated otherwise												
CHEMICALS												
Fauji Fertilizer Company Limited	563,866	-	-	258,783	305,083	12,659	-	12,659	45,622	32,963	5.27	4.85
FORESTRY AND PAPER						12,659	-	12,659	45,622	32,963		
Century Paper & Board Mills Limited	781,220	-	-	-	781,220	31,718	(21,875)	9,843	10,156	313	1.17	1.08
INDUSTRIAL METALS AND MINING						31,718	(21,875)	9,843	10,156	313		
International Industries Limited	602,414	-	-	-	602,414	27,362	-	27,362	22,898	(4,464)	2.64	2.43
GENERAL INDUSTRIALS						27,362	-	27,362	22,898	(4,464)		
Packages Limited	415,041	-	-	415,041	-	-	-	-	-	-	-	-
AUTOMOBILE AND PARTS												
Pak Suzuki Motor Company Limited	318,300	-	-	318,300	-	-	-	-	-	-	-	-
PERSONAL GOODS												
Kohinoor Mills Limited	418,180	-	-	418,180	-	-	-	-	-	-	-	-
Total as at 31 December 2011						71,739	(21,875)	49,864	78,676	28,812		

5.4 Investments as at 31 December 2011 include shares having a market value of Rs. 50.25 million (30 June 2011: Rs. 65.83 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.

**5.5 Unrealised (diminution) / appreciation in fair value of investments
classified as 'at fair value through profit or loss'**

	(Unaudited) 31 December 2011 (Rupees in '000)	(Audited) 30 June 2011
Fair value of investments	787,520	1,023,152
Less: Cost of investments	<u>(846,245)</u>	<u>(946,844)</u>
	(58,725)	76,308
Less: Unrealised (diminution) / appreciation in fair value of investments at the beginning of period	<u>(76,308)</u>	<u>38,256</u>
Realised on disposal during the period	<u>46,197</u>	<u>(3,525)</u>
	<u>(30,111)</u>	<u>34,731</u>
	<u>(88,836)</u>	<u>111,039</u>

**5.6 Unrealised diminution in fair value of
investments classified as 'available for sale'**

Fair value of investments	78,676	192,631
Cost of investment	<u>(71,739)</u>	<u>165,888</u>
	6,937	26,743
Add: Accumulated impairment losses at the end of the period	<u>(21,875)</u>	<u>48,943</u>
Net unrealised (diminution) / appreciation in the fair value of investments at the end of the period	(14,938)	75,686
Less: Unrealised appreciation in fair value of investments at the beginning of period	<u>(26,743)</u>	<u>(87,175)</u>
	<u>(41,681)</u>	<u>(11,489)</u>

6. CONTINGENCY

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for an adjudication.

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

Subsequent to 30 June 2011, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company believes that the Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company in this condensed interim financial information. The aggregate unrecognised amount of WWF as at 31 December 2011 amounted to Rs. 12.824 million.

7. SERVICE TAX CHARGES

During the current period the Sindh Government has levied General Sales Tax (GST) at the rate of 16% on the remuneration of the Management Company through Sindh Sales Tax on Service Tax 2011 effective from 1 July 2011.

8. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. The Fund is also exempt from the provision of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. No provision for taxation has been made in this condensed interim financial information due to loss for the period.

9. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons / related parties 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 trustees, directors and key management personnels and other associated undertakings.

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 period end are as follows:

	Six months period ended 31 December		Quarter ended 31 December	
	2011	2010	2011	2010
	----- (Rupees in '000) -----			
Arif Habib Investment Management Limited - Management Company				
Remuneration	<u>10,626</u>	<u>17,482</u>	<u>5,031</u>	<u>8,310</u>
Service tax charges	<u>1,700</u>	<u>-</u>	<u>805</u>	<u>-</u>
Arif Habib Limited				
Brokerage	<u>162</u>	<u>328</u>	<u>(88)</u>	<u>50</u>
Summit Bank Limited				
Profit on deposit accounts	<u>487</u>	<u>1,010</u>	<u>(103)</u>	<u>289</u>
MCB Bank Limited				
Profit on deposit accounts	<u>428</u>	<u>-</u>	<u>428</u>	<u>-</u>
Central Depository Company of Pakistan Limited - Trustee				
Remuneration of the Trustee	<u>1,032</u>	<u>1,375</u>	<u>504</u>	<u>664</u>
CDS charges	<u>33</u>	<u>11</u>	<u>21</u>	<u>2</u>
Shares of MCB Limited 202,028 shares	<u>27,193</u>	<u>-</u>	<u>-</u>	<u>-</u>
Directors and Executive of the Management Company				
Issue of 14,752 units (2010: 547,178 units) during the six months ended	<u>805</u>	<u>29,315</u>	<u>805</u>	<u>18,940</u>

**NOTES TO THE CONDENSED INTERIM FINANCIAL
INFORMATION (UNAUDITED)**

**FOR THE SIX MONTHS PERIOD AND
QUARTER ENDED 31 DECEMBER 2011**

Redemption of 11,128 units (2010:
535,673 units) during the six months
ended

606	28,500	578	16,114
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Issue of 3,519 bonus units (2010:
38,063 units) during the period

189	1,889	-	-
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**31 December
2011** **30 June
2011**
(Rupees in '000)

Amounts outstanding as at the period / year end

Summit Bank Limited

Accrued mark-up receivable

154	142
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Bank Balance

6,131	7,176
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MCB Bank Limited

Accrued mark-up receivable

338	-
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Bank Balance

16,569	-
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**Arif Habib Investment Management Limited
Management Company**

Management fee payable

1,607	2,096
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Sales tax on Management Fee payable

257	252
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Directors and Executive of the Management Company

Units held 37,173 (2010: 176,850 units)

1,796	9,911
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Central Depository Company of Pakistan Limited - Trustee

Security Deposit

200	200
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Trustee fee and CDS charges

166	202
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Pakistan Income Fund (Funds Common Management)
Payable against Commission of Units

-	232
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9.1 The brokerage amount disclosed represents the amount of brokerage paid to connected persons and not the purchase or sale value of securities transacted through them. The purchase or sale value has not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.

10. DATE OF AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

This condensed interim financial information has been authorised for issue in the meeting of the Board of Directors of the Management Company held on January 27, 2012.

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

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director