



**Bachat** ka Doosra Naam

**Annual Report  
2013**



**Sabr Ka Phal Meetha**

**PAKISTAN**  
**STOCK MARKET**  
**FUND**

**MCB-Arif Habib Savings and Investments Limited**  
*(formerly: Arif Habib Investments Ltd.)*

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## **Vision**

To become synonymous with Savings.

## **Mission**

To become a preferred Savings and Investment Manager in the domestic and regional markets, while maximizing stakeholder's value.

## **Core Values**

The Company takes pride in its orientation towards client service. It believes that its key success factors include continuous investment in staff, systems and capacity building, and its insistence on universal best practices at all times.

## FUND'S INFORMATION

<b>Management Company</b>	<b>MCB-Arif Habib Savings and Investments Limited</b> (Formerly: 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 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 Officer (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)
<b>Audit Committee</b>	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib	Chairman Member Member
<b>Human Resource Committee</b>	Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jehangir Mr. Yasir Qadri	Chairman Member Member Member Member
<b>Company Secretary &amp; Chief Operating Officer</b>	Mr. Muhammad Saqib Saleem	
<b>Chief Financial Officer</b>	Mr. Umair Ahmed	
<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>	Habib Metropolitan Bank Limited MCB Bank Limited Standard Chartered 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>Transfer Agent</b>	<b>MCB-Arif Habib Savings and Investments Limited</b> (Formerly: Arif Habib Investments Limited) 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Rating</b>	AM2 - Management Quality Rating assigned by PACRA	

## **REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013**

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The Board of Directors of MCB-Arif Habib Savings and Investments Limited (Formerly Arif Habib Investments 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 June 30, 2013.

### **Equities Market Overview**

The local stock market recorded substantial growth reflected by the KSE-100 index, which rose by a remarkable 52% in FY13 as against an average annual growth of 25% during the past three fiscal years. This helped the local equity market shine as one of the best performing markets in the world.

Buoyed by stable macroeconomic environment and strengthening fundamentals, the stock market started the year on a strong note. The market touched an all-time high of around 22,757 on 13th June, 2013.

The volume remained healthy with an average daily market turnover of around 200 million shares during the year. At this level, the index volume was nearly 1.5 times and 2 times higher than the average index volume in FY12 and FY11, respectively. Foreign investors also remained at the forefront given that the market closed its fiscal year recording net foreign inflows of around \$568.9 million as opposed to the net outflow of \$189 million in FY12.

A combination of lower commodity prices, monetary easing, CSF inflows, foreign portfolio inflows, rupee depreciation, smooth political transition, buyout of Unilever Pakistan Limited, along with expectation regarding resolution of circular debt, IMF loan extension and improved relationship with key strategic allies after the formation of new government, helped the stock market climb strongly during the year. In addition, monetary easing in developed countries also played a catalyst as they continued to facilitate the flow of funds towards the developing countries. However, the good part is that a slew of positive developments managed to play-down the negative sentiments arising from poor law and order situation and energy crisis in the country.

The saving grace came in the shape of stable commodity prices, which reduced the pressure on fiscal and external account front. In light of tepid inflationary pressures, with average inflation stood around 7.4% in FY13, policy makers reduced the discount rate to 9% towards the end of the fiscal year, marking a total cut of 3 percentage points during the year.

Although, the overall balance of payment deficit narrowed to \$ 2.4 billion in FY13 from around \$3.3 billion in FY12, foreign reserves depleted by around \$4.2 billion during the year to \$11 billion at the end of the year- mainly on the account of timely loan repayments to IMF.

Benefiting from inventory gains and China's sustained appetite for coarse count textile products, scrips of the sector managed to lead the pack, while higher cement prices in the local market amid lower coal prices helped cement companies to stay on a roll. The decline in discount rate brought debt-laden companies into the limelight, while rupee depreciation wide-eyed the margins of exporters such as the textile sector and companies with dollar/oil based tariffs.

On the contrary, fertilizer and banking sector remained trailed, as a reaction to lowering in discount rate. Gas curtailment issues kept investor at bay from fertilizer sector.

### **Future Outlook**

A string of positive developments arising since the formation of new government suggests positive outlook for equity markets. The government's apparent commitment towards the resolution of circular debt, recovery of \$800 million from Etisalat, privatization of state owned entities, together with higher PSDP allocation for FY14 will continue to keep investors' confidence intact. Higher PSDP allocation is likely to support stocks of companies in construction materials sector, while expected rupee depreciation may continue to support textile exports, chemical and energy sector.

## REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

The country's likely comeback in fresh IMF program will pave the way for structural, monetary and fiscal reforms. As outlook on further monetary easing changes, the lagging banking sector may start to catch up..

With the global commodity prices unlikely to raise the trade balance looks stable. Also, in consideration of various tax measures imposed in FY14, targeted fiscal deficit level of 6.3% doesn't appear as farfetched as it has in the last few years.

### **Fund's Performance**

The investment objective of the fund is to provide long term capital appreciation through a research-based selection of a combination of value and growth stocks. Period under review is marked with numerous major events on international, political and macroeconomic fronts that not only affected market movements but also kept changing fundamentals of many sectors and companies. Fund kept a vigilant eye on such developments and kept adjusting sector, company and overall equity exposure of the fund accordingly. During the year fund not only kept strong positions in defensive sectors like Oil and Gas and Electricity but also took aggressive positions in Construction and Materials remained highest earning growth sectors of the year while fund took a cautious stance towards fertilizer companies because of high degree of earnings uncertainty. Besides these major shifts, fund exploited many lucrative opportunities offered by various companies related to Fixed Line Telecommunication and Chemicals.

The fund generated a return of 49.4% during the year as against its benchmark KSE-100 Index return of 52.2%, an under-performance of 2.8%. Since inception return of the fund has been staggering at 1233.4% as against its benchmark return of 1021.7%, an out-performance by 211.7%. Net assets of fund were increased by Rs 257m (around 28%) during the year as many investors decided to book profit in major positive rallies.

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

<b>Performance Information (%)</b>	<b>PSMF</b>	<b>Benchmark</b>
Last twelve Months Return	49.4%	52.2%
Since Inception	1233.4%	1021.7%

During the year your fund earned net income of Rs 393.52million. The Board in the meeting held on July 4, 2013 has declared final distribution amounting to Rs. 282.88 million (i.e. Rs. 18.6184 per unit).

During the period, units worth Rs.292.015 million were issued and units with a value of Rs. 454.546 million were redeemed. As on 30 June 2013 the NAV of the Fund was Rs. 77.58 per unit.

### **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.

## **REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013**

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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 March 2013 a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity.

However, as per our legal counsel the stay granted to Collective Investment Schemes (CIS) remains intact and the constitution petitions filed by the CIS to challenge the Workers Welfare Fund contribution have not been affected SHC judgment.

In view of the afore mentioned developments and uncertainties created by the recent decision by Honourable Sindh High Court, the Management Company as a matter of abundant precaution has charged provision for WWF in these financial statements.

### **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.

## REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

- 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 appropriate disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 19.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2013:

1. Meeting of Human resource and remuneration committee (held on August 13, 2012 and April 04, 2013)

S. No.	Name	Designation	Total Meetings Held	No. of Meetings Attended	Leave granted
1.	Dr. Syed Salman Shah	Chairman	2	2	-
2.	Mr. Haroun Rashid	Member	2	1	1
3.	Mr. Nasim Beg	Member	2	2	-
4.	Mr. Ahmed Jahangir	Member	2	2	-
5.	Mr. Yasir Qadri	Member	2	2	-

2. Meeting of Audit Committee (held on August 13, 2012, October 24, 2012, February 1, 2013 and April 23, 2013)

S. No.	Name	Designation	Total Meetings Held	No. of Meetings Attended	Leave granted
1.	Mr. Haroun Rashid	Chairman	4	3	1
2.	Mr. Nasim Beg	Member – Executive Vice Chairman	4	4	-
3.	Mr. Samad A. Habib	Member	4	4	-
4.	Mr. Ali Munir*	Member	2	-	2

\* Mr. Ali Munir ceased to be the member of Audit Committee w.e.f. October 25, 2012.

- m. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.
- n. The trades in Units of the Fund carried out by Directors, Chief Executive Officer, Chief Operating Officer and Company Secretary, Chief Financial Officer and Chief Internal Auditor of the Management Company and their spouses and minor children are as under:



**REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY  
FOR THE YEAR ENDED JUNE 30, 2013**

S. No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman	-	2,784.48	-
2.	Yasir Qadri	Chief Executive Officer	-	-	-
3.	Mr. Saqib Saleem	Company Secretary and Chief Operating Officer	-	-	-
4.	Umair Ahmed	Chief Financial Officer	-	-	-
5.	Asif Mehdi Rizvi	Head of Internal Audit & Compliance	14,936.35	13,089.45	-

**External Auditors**

The fund's external auditors, KPMG Taseer Hadi & Co., Chartered Accountants, have retired after the conclusion of audit for current year. Due to completion of maximum time allowed under the Trust Deed, they are not eligible for reappointment. The audit committee of the Board has recommended appointment of M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants (who have given consent to such appointment) as auditors for the year ending June 30, 2014.

**Acknowledgement**

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in MCB-Arif Habib Savings and Investments Limited (Formerly 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: August 05, 2013

# REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2013

## 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

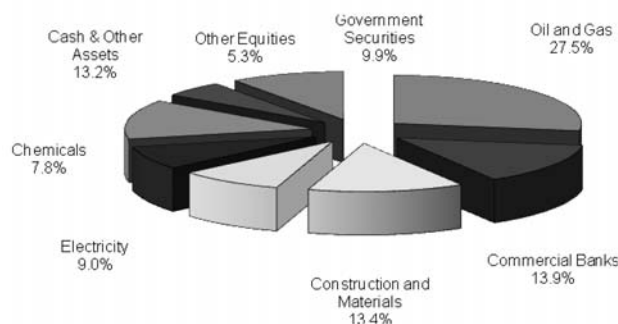
During the year under review, NAV per unit of Pakistan Stock Market Fund increased by 49.4% as compared to the benchmark KSE-100 Index return of 52.2%, resulting in an under performance of 2.8% by the fund. Cut in the Discount Rate, growth in corporate earnings, General Elections and the return of foreigners in the market remained the positive highlighting factors during the year, which kept the market rolling. Unstable political conditions hitting in patches, deteriorating macro-factors, worsening law and order situation did not impact the equity market performance anytime of the year. The fund remained vigilant and tried to concentrate its exposure in those stocks and sectors that are largely immune fundamentally from deteriorating macroeconomic conditions. The fund changed overall equity allocation several times during the year in sync with various developing market scenarios.

The fund started the year with an equity allocation of 88.5%. Fund manager changed overall equity allocation several times during the year in sync with various developing market scenarios. Maximum equity allocation during the year remained 95.1% while minimum was 74%. Average equity allocation during the year comes out to be around 82%.

The fund initially had around 31.23% exposure in Oil and Gas sector which was gradually increased and maintained between 27% - 30% as this sector is relatively shielded from deteriorating economic fundamentals. The fund exposure in selected Oil & Gas, Commercial Banks, Constriction & Material and Electricity sector scrips have been increased due to favorable economic fundamentals. The fund took small exposures in Engineering, Automobile and Parts, Personal Goods, Pharma & Bio Tech and Fixed Line Telecommunication sectors throughout the year to capitalize on various positive developments within these sectors.

Since inception return of the fund was 1233.4% as compared to the benchmark's return of 1021.7%, an out-performance of 211.7%. The fund's Net Assets increased by 28% from PKR 921 Million at the beginning of the year to PKR 1179 Million as on June 30, 2013.

Asset Allocation as on June 30, 2013 (% of total assets)



**Uzma Khan, CFA, FRM**  
Fund Manager

Karachi: August 05, 2013

# TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2013



CENTRAL DEPOSITORY COMPANY  
OF PAKISTAN LIMITED

**Head Office**

CDC House, 99-B, Block 'B'  
S.M.C.H.S. Main Shahr-e-Faisal  
Karachi - 74400. Pakistan.  
Tel: (92-21) 111-111-500  
Fax: (92-21) 34326020 - 23  
URL: www.cdcpakistan.com  
Email: info@cdcpak.com



## TRUSTEE REPORT TO THE UNIT HOLDERS

### PAKISTAN STOCK MARKET FUND

#### 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

We Central Depository Company of Pakistan Limited, being the Trustee of Pakistan Stock Market Fund (the Fund) are of the opinion that MCB – Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited) being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2013 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 10, 2013



## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2013

This statement is being presented by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited), the Management Company of Pakistan Stock Market Fund ("the Fund") to comply with the Code of Corporate Governance contained in Regulation No. 35 of 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.

Pakistan Stock Market Fund is an open end mutual fund and is listed at Karachi Stock Exchange. The Fund, being a unit trust scheme, does not have its own Board of Directors. The Management Company, MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited), on behalf of the Fund, 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

Category	Names
Independent Directors	<ol style="list-style-type: none"> <li>1. Dr. Salman Shah</li> <li>2. Mr. Haroun Rashid</li> <li>3. Mr. Mirza Mehmood</li> </ol>
Executive Directors	<ol style="list-style-type: none"> <li>1. Mr. Nasim Beg – Executive Vice Chairman</li> <li>2. Mr. Yasir Qadri – Chief Executive Officer</li> </ol>
Non – Executive Directors	<ol style="list-style-type: none"> <li>1. Mian Mohammad Mansha</li> <li>2. Mr. Ahmed Jehangir</li> <li>3. Mr. Samad Habib</li> </ol>

The independent directors meets the criteria of independence under clause i (b) of the Code.

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 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 period no casual vacancy occurred on the board of the Management Company
5. The Management Company had prepared a 'Code of Conduct' and ensured that appropriate steps had been taken to disseminate it throughout the company along with its supporting policies and procedures.
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 Officer, other executive and non-executive directors, have been taken by the Board. No new appointment of Chief Executive Officer, other executive and non-executive directors were made during the year.
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,. The minutes of the meetings were appropriately recorded and circulated.
9. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. During the period the two of the directors' have attended Directors' Training Program conducted by the Institute of Chartered Accountants of Pakistan

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2013

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10. The Board has approved the appointment of Chief Operating Officer and Company secretary, Chief Financial Officer and Head of Internal Audit including their remuneration and terms and conditions of employment.
11. The Directors' Report of the fund for the year ended June 30, 2013 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The Directors, Chief Executive Officer 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 Management Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee for the Management Company. It comprises of three members, of which two are non-executive directors and the chairman of the committee is an independent director.
16. 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.
17. The Board has formed an HR and Remuneration Committee. It comprises five members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. The Board has set up an effective internal audit function. The Head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the fund and the Company.
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 (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and units of the fund. The firm and all its partners are also in compliance with International Federation of Accountants guidelines on code of ethics as adopted by ICAP.
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 International Federation of Accountants guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Management Company's securities and Fund's unit, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.
23. We confirm that all other material principles enshrined in the Code have been complied with.

For and on behalf of the board



**Yasir Qadri**

Chief Executive

Karachi: August 05, 2013

# REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
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Karachi, 75530 Pakistan

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Internet [www.kpmg.com.pk](http://www.kpmg.com.pk)

## **Review report to the Unit holders of Pakistan Stock Market Fund “the Fund” on Statement of Compliance with Best Practices of Code of Corporate Governance**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (“Statement of Compliance”) prepared by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited) (“the Management Company”) of the Fund to comply with the Listing Regulations of Karachi Stock Exchange Limited, 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.

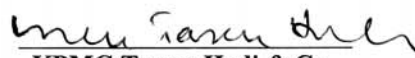
As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board’s statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company’s corporate governance procedures and risks.

Further, sub-regulation (x) of Listing Regulations 35 notified by the Karachi Stock Exchange Limited requires the Management Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed 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. 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 2013.

**Date: 05 August 2013**

**Karachi**

  
**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

# INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2013



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
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## Independent Auditors' Report to the Unit Holders

### *Report on the Financial Statements*

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 2013, and the related income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

The 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 financial position of the Fund as at 30 June 2013, 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.

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

**INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS  
FOR THE YEAR ENDED JUNE 30, 2013**

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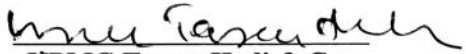
KPMG Taseer Hadi & Co.

***Report on Other Legal and Regulatory Requirements***

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.

**Date: 05 August 2013**

**Karachi**

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



# **FINANCIAL STATEMENTS**

**STATEMENT OF ASSETS AND LIABILITIES  
AS AT JUNE 30, 2013**

	<i>Note</i>	<b>2013</b>	2012
		<b>(Rupees in '000)</b>	
<b>Assets</b>			
Balances with banks	4	113,835	55,742
Receivable against sale of units		732	-
Receivable against sale of investments		62,834	1,664
Investments	5	1,050,150	903,645
Dividend and profit receivable	6	1,176	1,870
Advances and deposits	7	3,736	3,736
<b>Total assets</b>		<b>1,232,463</b>	<b>966,657</b>
<b>Liabilities</b>			
Payable against redemption of units		228	-
Payable against purchase of investments		22,018	39,212
Payable to Management Company	8	2,862	2,008
Payable to Central Depository Company of Pakistan Limited - Trustee	9	194	166
Payable to Securities and Exchange Commission of Pakistan	10	1,014	962
Accrued expenses and other liabilities	11	27,485	2,845
<b>Total liabilities</b>		<b>53,801</b>	<b>45,193</b>
<b>Net assets</b>		<b>1,178,662</b>	<b>921,464</b>
<b>Unit holders' fund</b>		<b>1,178,662</b>	<b>921,464</b>
		<b>(Number of units)</b>	
<b>Number of units in issue</b>		<b>15,193,475</b>	<b>17,747,185</b>
		<b>(Rupees)</b>	
<b>Net assets value per unit</b>		<b>77.58</b>	<b>51.92</b>

The annexed notes from 1 to 20 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013	2012
		(Rupees in '000)	
<b>Income</b>			
Capital gain on sale of investments - net		320,711	100,962
Dividend income		76,391	73,941
Income from government securities		4,556	3,105
Profit on bank deposits		4,925	8,758
		<u>406,583</u>	<u>186,766</u>
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'	5.6	<u>82,696</u>	<u>25,012</u>
<b>Total income</b>		<b>489,279</b>	<b>211,778</b>
<b>Expenses</b>			
Remuneration of Management Company	8.1	24,921	23,369
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9.1	2,057	1,983
Annual fee - Securities and Exchange Commission of Pakistan	10	1,014	962
Provision for Workers' Welfare Fund		24,332	-
Brokerage charges		12,754	8,210
Legal, professional and other charges		701	629
Fees and subscriptions		160	140
Auditors' remuneration	12	537	536
Printing and related costs		114	719
<b>Total expenses</b>		<b>66,590</b>	<b>36,548</b>
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed		<b>(29,173)</b>	<b>(17,683)</b>
<b>Net income for the year before taxation</b>		<b>393,516</b>	<b>157,547</b>
Taxation	13	-	-
<b>Net income for the year after taxation</b>		<b>393,516</b>	<b>157,547</b>
<b>Other comprehensive income for the year</b>			
<i>Items that are or maybe reclassified subsequently to Income Statement</i>			
Net unrealised diminution in value of investments classified as available for sale'		-	(72,726)
Reclassification adjustment relating to gain realised on disposal of investment classified as 'available for sale'		<b>(2,960)</b>	-
<b>Total comprehensive income for the year</b>		<b>390,556</b>	<b>84,821</b>
<b>Earnings per unit</b>	14		
The annexed notes from 1 to 20 form an integral part of these financial statements.			

  
\_\_\_\_\_  
Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

**DISTRIBUTION STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2013**

	2013	2012
	(Rupees in '000)	
Undistributed income brought forward:		
- Realised (losses) / gains	(19,173)	56,693
- Unrealised gains	<u>49,955</u>	<u>76,308</u>
	<u>30,782</u>	133,001
Net income for the year	<b>393,516</b>	157,547
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed	<b>(5,672)</b>	(7,147)
<b>Distributions:</b>		
Final distribution at the rate of Rs. 6.3036 per unit for the year ended 30 June 2011 - [Date of distribution: 5 July 2011]		
- Issue of bonus units	-	(130,431)
Final distribution at the rate of Rs. 7.907 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012]		
- Issue of bonus units	-	(122,188)
	-	(252,619)
Undistributed income carried forward	<u><b>418,626</b></u>	<u>30,782</u>
Undistributed income carried forward:		
- Realised gains / (losses)	<b>328,724</b>	(19,173)
- Unrealised gains	<u>89,902</u>	<u>49,955</u>
	<u><b>418,626</b></u>	<u>30,782</u>

The annexed notes from 1 to 20 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	2013 (Rupees in '000)	2012
Net assets at beginning of the year	921,464	1,243,564
Issue of 4,587,697 units (2012: 4,086,546 units)	292,015	283,347
Issue of Nil bonus units (2012: 4,791,894 bonus units)	-	252,619
Redemption of 7,141,407 units (2012: 11,821,600 units)	(454,546)	(707,951)
	(162,531)	(171,985)
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 accrued (income) / loss and realised capital (gains) / losses - transferred to the Income Statement	29,173	17,683
- amount representing unrealised capital (gains) / losses - transferred to Distribution Statement	5,672	7,147
	34,845	24,830
Net unrealised diminution in fair value of investments classified as 'available for sale' during the year	-	(72,726)
Reclassification adjustment relating to gain realised on disposal of investment classified as 'available for sale'	(2,960)	-
Net income / (loss) for the year (excluding net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss' and capital gain on sale of investments)	(9,891)	31,573
Capital gain on sale of investments - net	320,711	100,962
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'	82,696	25,012
	393,516	157,547
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to Distribution Statement	(5,672)	(7,147)
Final distribution at the rate of Rs. 6.3036 per unit for the year ended 30 June 2011 - [Date of distribution: 5 July 2011]		
- Issue of bonus units	-	(130,431)
Final distribution at the rate of Rs. 7.907 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012]		
- Issue of bonus units	-	(122,188)
	-	(252,619)
Net assets at end of the year	1,178,662	921,464
	(Rupees)	
Net assets value per unit as at beginning of the year	51.92	60.10
Net assets value per unit as at end of the year	77.58	51.92

The annexed notes from 1 to 20 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2013**

	2013	2012
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	393,516	157,547
<b>Adjustments for non-cash and other items:</b>		
Net realised element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	29,173	17,683
Provision for Workers' Welfare Fund	24,332	-
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'	(82,696)	(25,012)
	364,325	150,218
<b>(Increase) / Decrease in assets</b>		
Receivable against sale of investments	(61,170)	(1,104)
Investments	(83,963)	303,636
Dividend and profit receivable	694	1,429
	(144,439)	303,961
<b>Decrease in liabilities</b>		
Payable to Management Company	854	(340)
Payable to Central Depository Company of Pakistan Limited - Trustee	28	(36)
Payable to Securities and Exchange Commission of Pakistan	52	(525)
Accrued expenses and other liabilities	308	116
	1,242	(785)
<b>Net cash generated from operating activities</b>	<b>221,128</b>	<b>453,394</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments from sale and redemption of units	(163,035)	(425,937)
Net increase in cash and cash equivalents during the year	58,093	27,457
Cash and cash equivalents at beginning of the year	55,742	28,285
Cash and cash equivalents at end of the year	113,835	55,742

The annexed notes from 1 to 20 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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## 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 the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

Based on shareholders' resolutions of MCB-Asset Management Company (MCB-AMC) and Arif Habib Investments Limited (AHIL), 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). AHIL being a listed company is the surviving entity and in compliance of State Bank of Pakistan (SBP's) approval, it is a subsidiary of MCB Bank Limited. Subsequent to the completion of merger on 27 June 2011 the SECP extended the effective date of merger to 30 July 2011 through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated 27 June 2011 under section 484(2) of the Companies Ordinance, 1984. However, during the year, on request of Management Company the SECP reviewed its aforementioned order and through a letter no. SCD/AMCW/Mis/540/2013 dated 17 May 2013 issued revised order under section 484(2) of the Companies Ordinance, 1984 to affirm the effective date of merger of MCB-AMC with AHIL as at 27 June 2011. The latest order also endorsed the steps / actions taken by Management Company from 27 June 2011 to date. Pursuant to approval of merger the name of the Management Company has been changed from Arif Habib Investments Limited to MCB-Arif Habib Savings and Investments Limited.

The Fund 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. The Fund has been categorised as "Equity" scheme by the Board of Directors of the Asset Management Company in pursuant to Circular 7 of 2009 dated 6 March 2009 issued by the SECP.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned management quality rating of 'AM2' to the Management Company and 3-Star Normal and 3-Star Long Term to the Fund.

Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as a trustee of 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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

During the year certain amendments to Standards or new interpretations became effective. 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

A number of new Standards, amendments to Standards and interpretations are effective for annual periods beginning on or after 1 July 2013. None of these are expected to have a significant effect on the financial statements of the Fund except the following set out below:

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014).
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013).
- IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective for annual periods beginning on or after 1 January 2014).

### 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.

*Actual results may differ from these estimates.*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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 assumption and estimation uncertainties that have a significant risk of resulting in material adjustment within the next financial year as well as critical judgements in applying accounting policies that have the most significant effect on the amounts 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 listed equity securities and government securities by using quotations from The Karachi Stock Exchange (Guarantee) Private Limited and Financial Markets Association of Pakistan (Reuters), respectively.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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Other assets

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

### 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### 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.

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

##### 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) '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.

##### d) 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 financial assets.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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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' Fund until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Fund are included in the Income Statement. The financial instruments classified as loans and receivables are subsequently measured at amortised cost less provision for impairment, if any.

### ***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.

### ***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. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of asset and that loss events had an impact on the future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. In case of an investment in an equity security, a significant or prolonged decline in fair value below its cost is objective evidence of impairment. Impairment losses are recognised in Income Statement. Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognised in Income Statement. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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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 right to receive the contractual cashflows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.

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' fund**

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) included in prices of units sold 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.

The 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 recognised in income statement and the remaining portion of element of income / (loss) and capital gains / (losses) is held in separate reserve account and at the end of an accounting period (whether gain or loss) is included in amount available for distribution to the 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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### 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 assets value per unit

The net assets 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 not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years 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 every year.

### 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 '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 deposits 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.

### 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**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**

	2013	2012
	(Rupees in '000)	
In current accounts	933	2,810
In deposit accounts	4.1 112,902	52,932
	113,835	55,742

4.1 These accounts carry profit at the rate ranging from 6% to 11% (2012: 8% to 12%) per annum.

**5. INVESTMENTS**

*'At fair value through profit or loss' - held for trading*

**Equity Securities**

Quoted	5.1 927,894	842,646
Unquoted	5.2 2,966	3,014
	930,860	845,660

**Government Securities**

Fixed income	5.3 119,290	49,153
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*Available for sale*

**Equity Securities**

Quoted equity securities	5.4 -	8,832
	1,050,150	903,645

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

## 5.1 Quoted equity securities - 'at fair value through profit or 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 1 July 2012	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2013	Cost as at 30 June 2013	Market value as at 30 June 2013	Appreciation/ (diminution) as at 30 June 2013	Market value as a percentage of investments	Market value as a percentage of total paid up capital of the investee company
(Rupees in 000)										
----- Number of shares -----										
<b>OIL AND GAS</b>										
National Refinery Limited	-	188,000	-	116,000	72,000	17,201	17,322	121	1.65	1.47
Pakistan Oilfields Limited	229,287	179,100	-	282,200	126,187	55,173	62,762	7,589	5.98	5.32
Attock Refinery Limited	-	80,000	-	80,000	-	-	-	-	-	-
Oil & Gas Development Company Limited										
Pakistan Petroleum Limited	212,081	1,247,300	-	1,205,900	253,481	51,064	57,983	6,919	5.52	4.92
Pakistan State Oil Company Limited	482,839	426,500	102,709	734,900	277,148	48,223	58,639	10,416	5.58	4.98
Attock Petroleum Limited	40,289	1,058,200	26,000	793,889	330,600	97,718	105,918	8,200	10.09	8.99
Shell Pakistan Limited	174,506	87,400	-	207,925	53,981	27,364	30,290	2,926	2.88	2.57
	-	60,000	-	60,000	-	-	-	-	-	-
						296,743	332,914	36,171		
<b>CHEMICALS</b>										
Engro Corporation Limited	210,000	2,046,600	-	2,211,300	45,300	5,788	5,521	(267)	0.53	0.47
Fatima Fertilizer Company Limited	1,799,315	4,338,500	-	3,734,315	2,403,500	58,954	59,679	725	5.68	5.06
Fauji Fertilizer Bbn Qasim Limited	-	1,190,000	-	702,582	487,418	20,291	18,297	(1,994)	1.74	1.55
Fauji Fertilizer Company Limited	496,521	-	-	496,521	-	-	-	-	-	-
Lotte Chemical Pakistan Limited	-	1,680,000	-	1,680,000	-	-	-	-	-	-
ICI Pakistan Limited	-	233,700	-	233,700	-	-	-	-	-	-
Dawood Hercules Corporation Limited	-	976,000	-	729,000	247,000	13,202	11,389	(1,813)	1.08	0.97
Clairant Pakistan Limited	-	47,000	-	47,000	-	-	-	-	-	-
						98,235	94,886	(3,349)		
<b>CONSTRUCTION AND MATERIALS (CEMENT)</b>										
D.G. Khan Cement Company Limited	187,250	1,794,000	-	1,893,000	88,250	7,425	7,386	(39)	0.70	0.63
Lucky Cement Limited	367,391	969,408	-	1,181,400	155,399	24,500	32,590	8,090	3.10	2.76
Cherat Cement Company Limited	411,593	1,228,500	-	813,347	826,746	36,833	48,109	11,276	4.58	4.08
Kohat Cement Company Limited	245,308	1,651,279	-	1,276,157	620,430	49,792	53,250	3,458	5.07	4.52
Lafarge Pakistan Cement Limited	2,381,049	732,500	-	3,113,500	49	1	1	-	0	0
Mappe Leaf Cement Factory Limited	-	500,000	-	-	500,000	12,469	10,965	(1,504)	1.04	0.93
Fauji Cement Company Limited	-	9,186,000	-	9,186,000	-	-	-	-	-	-
Pioneer Cement Limited	-	200,500	-	-	200,500	6,343	5,889	(454)	0.56	0.50
Fecto Cement Limited	-	470,350	-	377,500	92,850	2,810	4,458	1,648	0.42	0.38
						140,173	162,648	22,475		
<b>General Industrials</b>										
Thal Limited	-	53,000	-	53,000	-	-	-	-	-	-
						11	11	-	0.00	0.00
<b>ENGINEERING</b>										
Millat Tractors Limited	46,400	94,719	1	141,100	20	-	-	-	-	-
						11	11	-	0.00	0.00
<b>AUTOMOBILE AND PARTS</b>										
Pak Suzuki Motor Company Limited	-	26,500	-	-	26,500	3,117	3,941	824	0.38	0.33
Indus Motors Company Limited	-	47,800	-	47,800	-	-	-	-	-	-
Exide Pakistan Limited	24,582	5,600	-	30,182	-	-	-	-	-	-
						3,117	3,941	824		

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

Name of the investee company	As at 1 July 2012	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2013	Cost as at 30 June 2013	Market value as at 30 June 2013	Appreciation/ (diminution) as at 30 June 2013	Market value as a percentage of investments	Market value as a percentage of net assets	Paid up value of shares held as a percentage of total paid up capital of the investee company
-----Number of shares----- (Rupees in 000)-----											
<b>FOOD PRODUCERS</b>											
Engro foods limited	-	292,000	-	292,000	-	-	-	-	-	-	-
Unilever Pakistan Limited	-	4,666	-	4,666	-	-	-	-	-	-	-
<b>PERSONAL GOODS (TEXTILE)</b>											
Nishat Mills Limited	-	2,324,500	-	2,108,500	216,000	19,794	20,349	555	1.94	1.73	0.00
Nishat Chunian Limited	-	920,000	-	865,500	54,500	1,967	3,256	1,289	0.31	0.28	0.00
Gadoon Textile Mills Limited	-	80,000	-	60,500	19,500	2,179	2,419	240	0.23	0.21	0.00
Azgard Nine Limited	-	50,000	-	50,000	-	-	-	-	-	-	-
Blessed Textile Mills Limited	-	72,000	-	23,000	49,000	4,655	5,782	1,127	0.55	0.49	0.01
						28,595	31,806	3,211			
<b>PHARMA AND BIO TECH</b>											
Abbot laboratories Pakistan limited	109,386	-	-	109,386	-	-	-	-	-	-	-
Glaxosmithkline Pakistan Limited	128	-	-	128	-	-	-	-	-	-	-
<b>MEDIA</b>											
Hum Network Limited	-	198,000	-	198,000	-	-	-	-	-	-	-
<b>FIXED LINE TELECOMMUNICATION</b>											
Pakistan Telecommunication Company Limited	2,747,678	3,634,500	-	3,355,000	279,500	5,858	6,202	344	0.59	0.53	0.00
Wateen telecom Limited	-	2,005,000	-	4,752,678	-	-	-	-	-	-	-
Telecard Limited	-	108,500	-	108,500	-	-	-	-	-	-	-
WorldCall Telecom Limited	-	1,300,000	-	1,300,000	-	-	-	-	-	-	-
						5,858	6,202	344			
<b>ELECTRICITY</b>											
Hub Power Company Limited	1,717,128	2,057,000	-	2,102,000	1,672,128	83,674	103,086	19,412	9.82	8.75	0.00
Kot Addu Power Company Limited	-	1,729,000	-	1,634,000	95,000	5,843	5,879	36	0.56	0.50	0.00
Nishat Chunian Power Limited	1,587,842	1,975,000	-	3,562,842	-	-	-	-	-	-	-
Nishat Power Limited	-	1,470,500	-	1,470,500	-	-	-	-	-	-	-
Pakgen Power Limited	-	145,500	-	145,500	-	-	-	-	-	-	-
						89,517	108,965	19,448			
<b>COMMERCIAL BANKS</b>											
Allied Bank Limited	93,895	-	-	93,895	-	-	-	-	-	-	-
Bank Al Habib Limited	1,502,992	2,780,500	-	2,784,500	1,498,992	44,959	40,758	(4,201)	3.88	3.46	0.00
Habib Bank Limited	-	227,200	7,220	60,200	174,220	20,077	20,773	696	1.98	1.76	0.00
National Bank of Pakistan	154,000	1,836,500	86,700	2,077,200	-	-	-	-	-	-	-
MCB Bank Limited	46,554	360,300	-	383,054	23,800	5,976	5,774	(202)	0.55	0.49	0.00
Askari Bank Limited	673,932	2,978,500	-	3,652,144	288	5	4	(1)	0.00	0.00	0.00
Bank Al-Falah Limited	4,436,246	5,349,683	-	7,373,929	2,412,000	42,471	43,947	1,476	4.18	3.73	0.00
Soneri Bank Limited	-	571,500	-	571,500	-	-	-	-	-	-	-
United Bank Limited	629,345	1,781,500	-	2,060,749	350,096	35,860	37,663	1,803	3.59	3.20	0.00
JS Bank Limited	-	750,000	-	750,000	-	-	-	-	-	-	-
BankIslami Pakistan Limited	-	22,000	-	-	22,000	198	143	(55)	0.01	0.01	0.00
Meezan Bank Limited	-	603,500	66,385	-	669,885	17,654	19,427	1,773	1.85	1.65	0.00
						167,200	168,489	1,289			
<b>NON LIFE INSURANCE</b>											
Adamjee Insurance Company Limited	-	140,000	-	140,000	-	-	-	-	-	-	-
Pakistan Reinsurance Company Limited	-	1,498,600	-	735,500	763,100	15,726	18,032	2,306	1.72	1.53	0.00
						15,726	18,032	2,306			
						845,175	927,894	82,719			

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Name of the investee company	As at 1 July 2011	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2012	Cost as at 30 June 2012	Market value as at 30 June 2012	Appreciation/ (diminution) as at 30 June 2012	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	
----- (Rupees in 000) -----											
----- Number of shares -----											
<b>OIL AND GAS</b>											
National Refinery Limited	-	71,415	-	71,415	-	-	-	-	-	-	-
Pakistan Oilfields Limited	339,632	228,000	-	338,345	229,287	73,311	84,135	10,824	9.31	9.13	0.01
Attock Refinery Limited	-	55,000	-	55,000	-	-	-	-	-	-	-
Oil & Gas Development Company Limited	-	784,081	-	572,000	212,081	32,278	34,026	1,748	3.77	3.69	0.00
Pakistan Petroleum Limited	498,033	276,841	41,865	333,900	482,839	78,986	90,914	11,928	10.06	9.87	0.00
Pakistan State Oil Company Limited	161,000	259,308	-	380,019	40,289	10,584	9,502	(1,082)	1.05	1.03	0.00
Attock Petroleum Limited	-	190,756	-	16,250	174,506	73,801	82,780	8,979	9.16	8.98	0.03
						268,960	301,357	32,397			
<b>CHEMICALS</b>											
Engro Corporation Limited	642,532	1,419,358	90,214	1,942,104	210,000	21,903	21,386	(517)	2.37	2.32	0.00
Fatima Fertilizer Company Limited	2,597,589	4,557,714	-	5,355,988	1,799,315	45,070	44,389	(681)	4.91	4.82	0.01
Fauji Fertilizer Company Limited	-	1,551,835	39,500	1,094,814	496,521	55,038	55,139	101	6.10	5.98	0.00
Sitara Chemical Industries Limited	281,916	475	-	282,391	-	-	-	-	-	-	-
Lotte Chemical Pakistan Limited	-	75,000	-	75,000	-	122,011	120,914	(1,097)	-	-	-
<b>GENERAL INDUSTRIES</b>											
Packages Limited	731,766	-	-	731,766	-	-	-	-	-	-	-
<b>INDUSTRIAL METALS AND MINING</b>											
International Industries Limited	163,041	-	-	163,041	-	-	-	-	-	-	-
<b>CONSTRUCTION AND MATERIALS (CEMENT)</b>											
D.G. Khan Cement Company Limited	-	969,250	-	782,000	187,250	7,927	7,374	(553)	0.82	0.80	0.00
Lucky Cement Limited	686,488	853,628	-	1,172,725	367,391	34,247	42,393	8,146	4.69	4.60	0.01
Attock Cement Pakistan Limited	-	7,500	-	7,500	-	-	-	-	-	-	-
Cherat Cement Company Limited	-	563,125	-	151,532	411,593	9,542	12,191	2,649	1.35	1.32	0.04
Kohat Cement Company Limited	-	245,308	-	-	245,308	9,711	9,876	165	1.09	1.07	0.02
Laarge Pakistan Cement Limited	-	2,708,049	-	327,000	2,381,049	12,960	10,286	(2,674)	1.14	1.12	0.02
						74,387	82,120	7,733			
<b>ENGINEERING</b>											
Millat Tractors Limited	-	46,400	-	-	46,400	22,393	22,404	11	2.48	2.43	0.01
						22,393	22,404	11			
<b>INDUSTRIAL TRANSPORTATION</b>											
Pakistan International Container Terminal Limited	603,607	19,870	-	623,477	-	-	-	-	-	-	-
<b>AUTOMOBILE AND PARTS</b>											
Pak Suzuki Motor Company Limited	37,826	2,500	-	40,326	-	-	-	-	-	-	-
Exide Pakistan Limited	-	24,582	-	-	24,582	4,368	4,252	(116)	0.47	0.46	0.03
						4,368	4,252	(116)			



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

Name of the investee company	As at 1 July 2011	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2012	Cost as at 30 June 2012	Market value as at 30 June 2012	Appreciation/ (diminution) as at 30 June 2012	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
(Rupees in 000)										
<b>FOOD PRODUCERS</b>										
Engro Foods Limited	-	80,000	-	80,000	-	-	-	-	-	-
<b>HOUSEHOLD GOODS</b>										
Pak Elektron Limited	1,619,609	-	-	1,619,609	-	-	-	-	-	-
<b>PERSONAL GOODS (TEXTILE)</b>										
Nishat Mills Limited	1,362,130	50,000	-	1,412,130	-	-	-	-	-	-
<b>PHARMA AND BIO TECH</b>										
GlaxoSmithKline Pakistan Limited	-	128	-	-	128	8	8	-	0.00	0.00
Abbott Laboratories (Pakistan) Limited	-	109,386	-	-	109,386	13,341	13,022	(319)	1.44	0.01
						<u>13,349</u>	<u>13,030</u>	<u>(319)</u>		
<b>FIXED LINE</b>										
<b>TELECOMMUNICATION</b>										
Wateen Telecom Limited	-	2,747,678	-	-	2,747,678	8,485	5,495	(2,990)	0.61	0.596
Pakistan Telecommunication Limited "A"	-	4,489,765	-	4,489,765	-	8,485	5,495	(2,990)	-	-
						<u>8,485</u>	<u>5,495</u>	<u>(2,990)</u>		
<b>ELECTRICITY</b>										
Hub Power Company Limited	1,221,266	4,002,862	-	3,507,000	1,717,128	64,866	71,950	7,064	7.96	0.01
Kor Addu Power Company Limited	1,086,400	220,000	-	1,306,400	-	-	-	-	-	-
Nishat Chunian Power Limited	-	2,345,041	-	757,199	1,587,842	24,690	23,548	(1,142)	2.61	0.04
Nishat Power Limited	-	2,670,858	-	2,670,858	-	89,556	95,478	5,922	-	-
						<u>89,556</u>	<u>95,478</u>	<u>5,922</u>		
<b>COMMERCIAL BANKS</b>										
Allied Bank Limited	1,268,714	130,220	82,085	1,387,124	93,895	5,087	6,026	939	0.67	0.00
Bank Al Habib Limited	780,000	1,130,373	180,803	588,184	1,502,992	39,785	42,790	3,005	4.74	0.01
Habib Bank Limited	-	240,000	24,000	264,000	-	-	-	-	-	-
National Bank of Pakistan	-	2,275,000	-	2,121,000	154,000	7,102	6,705	(397)	0.74	0.00
MCB Bank Limited	-	318,083	20,981	292,510	46,554	7,271	7,739	468	0.86	0.00
Askari Bank Limited	-	1,774,546	158,931	1,259,545	673,932	10,046	9,146	(900)	1.01	0.01
Bank Al-falah Limited	-	4,981,246	-	545,000	4,436,246	71,358	75,861	4,503	8.40	0.03
Soneri Bank Limited	-	3,032,198	255,922	3,288,120	-	-	-	-	-	-
United Bank Limited	-	1,702,165	106,250	1,072,820	629,345	48,527	49,329	802	5.46	0.01
Meezan Bank Limited	-	1,371,943	-	1,478,193	-	189,176	197,596	8,420	-	-
						<u>189,176</u>	<u>197,596</u>	<u>8,420</u>		
<b>NON LIFE INSURANCE</b>										
IGI Insurance Limited	222,142	27,860	-	250,002	-	-	-	-	-	-
Adanjee Insurance Company Limited	-	10,500	-	10,500	-	-	-	-	-	-
						<u>792,685</u>	<u>842,646</u>	<u>49,961</u>		
<b>Total as at 30 June 2012</b>										

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

5.1.1 The cost of the quoted equity securities as at 30 June 2013 amounted to Rs. 837,968 million (2012: Rs.792,685 million).

5.2 Unquoted equity securities - 'at fair value through profit or loss' - held for trading

Fully paid ordinary shares of Rs. 10 each unless stated otherwise

Name of the investee company	As at 1 July 2012	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June	Cost as at 30 June 2013	Market value as at 30 June 2013	(Diminution) as at 30 June 2013	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
----- Number of shares ----- (Rupees in 000) -----										
<b>INDUSTRIAL TRANSPORTATION</b>										
Pakistan International Bulk Terminal Limited	301,387	-	-	-	301,387	3,014	2,966	(48)	0.28	0.25
<b>Total as at 30 June 2013</b>						<u>3,014</u>	<u>2,966</u>	<u>(48)</u>		
<b>INDUSTRIAL TRANSPORTATION</b>										
Pakistan International Bulk Terminal Limited	-	301,387	-	-	301,387	3,014	3,014	-	0.33	0.33
<b>Total as at 30 June 2012</b>						<u>3,014</u>	<u>3,014</u>	<u>-</u>		

5.2.1 In 2012, Pakistan International Container Terminal Limited distributed specie dividend in the form of shares of its wholly owned unlisted subsidiary i.e. Pakistan International Bulk Terminal (Private) Limited (PIBTL) approved in its Extra Ordinary General Meeting held on 3 August 2011. Listing of above shares is in progress and in absence of quoted price management has valued such shares at its breakup value based on annual audited financial statements of PIBTL as at 30 June 2012. The management in anticipation of listing of such shares has classified it as 'at fair value through profit or loss' - held for trading.

5.2.2 The cost of the unquoted equity securities as at 30 June 2013 amounted to Rs.3,014 million (2012: Rs.3,014 million).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

### Treasury Bills

Issue date	Face value				Balance as at 30 June 2013			Market value	
	As at 1 July 2012	Purchases during the year	Sales / Matured during the year	As at 30 June 2013	Carrying value	Market value	Diminution as at 30 June 2013	as a percentage of net assets	as a percentage of total investment
(Rupees in 000)									
<b>1 Year (Tenor)</b>									
17 November 2011	-	150,000	150,000	-	-	-	-	-	-
9 February 2012	-	123,000	123,000	-	-	-	-	-	-
26 July 2012	-	75,000	-	75,000	74,537	74,556	19	6.33	7.10
<b>6 months (Tenor)</b>									
1 November 2012	-	175,000	175,000	-	-	-	-	-	-
20 September 2012	-	30,000	30,000	-	-	-	-	-	-
<b>3 months (Tenor)</b>									
3 May 2012	25,000	-	25,000	-	-	-	-	-	-
28 June 2012	25,000	-	25,000	-	-	-	-	-	-
26 July 2012	-	25,000	25,000	-	-	-	-	-	-
9 August 2012	-	25,000	25,000	-	-	-	-	-	-
18 October 2012	-	25,000	25,000	-	-	-	-	-	-
7 February 2013	-	50,000	50,000	-	-	-	-	-	-
21 March 2013	-	50,000	50,000	-	-	-	-	-	-
2 May 2013	-	75,000	30,000	45,000	44,728	44,734	6	3.80	4.26
<b>Total as at 30 June 2013</b>					<b>119,265</b>	<b>119,290</b>	<b>25</b>		

Issue date	Face value				Balance as at 30 June 2012			Market value	
	As at 1 July 2011	Purchases during the year	Sales / Matured during the year	As at 30 June 2012	Carrying value	Market value	Diminution as at 30 June 2012	as a percentage of net assets	as a percentage of total investment
(Rupees in 000)									
<b>6 months (Tenor)</b>									
8 September 2011	-	30,000	30,000	-	-	-	-	-	-
<b>3 months (Tenor)</b>									
5 May 2011	75,000	-	75,000	-	-	-	-	-	-
2 June 2011	25,000	-	25,000	-	-	-	-	-	-
8 March 2012	-	50,000	50,000	-	-	-	-	-	-
3 May 2012	-	25,000	-	25,000	24,802	24,797	(5)	2.69	2.74
28 June 2012	-	25,000	-	25,000	24,357	24,356	(1)	2.64	2.70
					49,159	49,153	(6)		
<b>Total as at 30 June 2012</b>					<b>49,159</b>	<b>49,153</b>	<b>(6)</b>		

5.3.1 These Treasury Bills having an amortised cost of Rs. 118.2 (2012 : Rs. 48.7 million) carries effective yield ranging from 9.41% to 9.49% (2012: 11.91% to 11.93%) per annum.

## 5.4 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 2013	Market value	Appreciation / (diminution)	Market value as a percentage of		Paid up value of shares held as a % of total paid up capital of the investee company
	As at 1 July 2012	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2013					Investments	net assets	
(Rupees in 000)												
<b>FORESTRY (PAPER AND BOARD)</b>												
Century Paper & Board Mills Limited	466,047	-	-	466,047	-	-	-	-	-	-	-	-
<b>Total as at 30 June 2013</b>												

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Name of the investee company	Number of shares					Cost	Impairment up to 30 June 2012	Market value	Appreciation / (diminution)	Market value as a percentage of		Paid up value of shares held as a % of total paid up capital of the investee company
	As at 1 July 2011	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2012					Investments	net assets	
----- (Rupees in 000) -----												
<b>FORESTRY (PAPER AND BOARD)</b>												
Century Paper & Board Mills Limited	781,220	-	-	315,173	466,047	18,922	(13,050)	8,832	2,960	0.98	0.96	0.07
Total as at 30 June 2012						18,922	(13,050)	8,832	2,960			

**5.5** Investments as at 30 June 2013 include shares with market value of Rs 51.714 million (2012: Rs. 36.356 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular no. 11 dated 23 October 2007 issued by the Securities & Exchange Commission of Pakistan.

**5.6 Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'**

**2013**                      **2012**  
**(Rupees in '000)**

Market value of investments	<b>1,050,150</b>	894,813
Carrying value of investments	<b>(967,454)</b>	(869,801)
	<b><u>82,696</u></b>	<b><u>25,012</u></b>

**6. DIVIDEND AND PROFIT RECEIVABLE**

Dividend receivable	<b>899</b>	748
Profit accrued on bank deposits	<b>277</b>	1,122
	<b><u>1,176</u></b>	<b><u>1,870</u></b>

**7. ADVANCES AND DEPOSITS**

Advance tax		<b>1,036</b>	1,036	
Security deposits with:				
- National Clearing Company of Pakistan Limited	7.1	<b>2,500</b>	2,500	
- Central Depository Company of Pakistan Limited	7.2	<b>200</b>	200	
		<b><u>3,736</u></b>	<b><u>3,736</u></b>	

**7.1** This represents deposit with National Clearing Company of Pakistan Limited in respect of trading of listed securities.

**7.2** This represents deposit with Central Depository Company of Pakistan Limited on account of initial deposit for opening of investor account for electronic transfer of book-entry securities.

**8. PAYABLE TO MANAGEMENT COMPANY**

Management fee payable	8.1	<b>2,522</b>	1,755
Front-end load payable		<b>340</b>	253
		<b><u>2,862</u></b>	<b><u>2,008</u></b>

**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. During the year, the Management Company has charged fee at the rate of 2% (2012: 2%) per annum of the average net asset of the Fund. The remuneration is paid by the Fund to the Management Company on a monthly basis in arrears. During 2011, the Local Government (Sindh) has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company. Further during the year, Federal Government has levied Federal Excise Duty (FED) at the rate of 16% through the Finance Act 2013 effective from 13 June 2013. Accordingly, the Management fee charged is inclusion of all government levies.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>9.</b>	<b>PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE</b>	<b>2013</b>	<b>2012</b>
		<b>(Rupees in '000)</b>	
	Remuneration payable	9.1 <b>179</b>	151
	CDS charges payable	<b>15</b>	15
		<b><u>194</u></b>	<b><u>166</u></b>

**9.1** The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein based on the daily net assets of the Fund. The remuneration is paid to the trustee monthly in arrears.

Based on the Trust Deed, the tariff structure applicable to the Fund as at 30 June 2013 is as follows:

<b>Amount of Funds Under Management (Average NAV)</b>	<b>Tariff per annum</b>
Up to Rs. 1,000 million	Rs. 0.7 million or 0.20% p.a. of NAV, whichever is higher
On an amount exceeding Rs. 1,000 million	Rs. 2.0 million plus 0.10% p.a. of NAV exceeding Rs. 1,000 million

**10. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

As per Schedule II of the NBFC Regulations, 2008, an equity based scheme is required to pay an amount equal to 0.095 percent of the average annual net assets of the scheme as annual fee to the SECP.

**11. ACCRUED EXPENSES AND OTHER LIABILITIES**

Provision for Workers' Welfare Fund	11.1	<b>24,332</b>	-
Auditors' remuneration		<b>370</b>	335
Legal and professional charges		<b>150</b>	216
Brokerage payable		<b>1,034</b>	655
Printing and related expenditure		<b>300</b>	460
Zakat payable		<b>303</b>	189
Capital gain tax payable		<b>423</b>	499
Others		<b>573</b>	491
		<b><u>27,485</u></b>	<b><u>2,845</u></b>

**11.1** 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 adjudication.

Subsequent to the year ended 30 June 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) on 8 July 2010 which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on 14 December 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 the Court.

Subsequent to the year ended 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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

the said amendments as unlawful and unconstitutional and struck them down. In March 2013 a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity.

However, as per advice of legal counsel the stay granted to CIS remains intact and the constitution petitions filed by the CIS to challenge the WWF contribution have not been affected by the SHC judgment. In view of the afore mentioned developments and uncertainties created by the recent decision of SHC, the Management Company as a matter of abundant precaution has decided to charge the entire provision for WWF amounting to Rs. 24.332 million. (including Rs.15.975 million pertaining from 1 July 2009 to 30 June 2012) in these financial statements.

12. AUDITORS' REMUNERATION	2013	2012
	(Rupees in '000)	
Annual audit fee	270	270
Half yearly review	163	163
Other certifications and services	100	65
Out of pocket expenses	4	38
	537	536

### 13. 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. Since the management has distributed the income earned by the Fund during the year to the unit holders in the manner as explained above, accordingly no provision for taxation has been made in these financial statements.

### 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. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

Related parties / connected persons of the Fund include the Management Company, other collective investment schemes managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel, other associated undertakings and unit holders holding more than 10% units of the Fund.

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

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the NBFC Regulations, 2008 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 / contracted rates.

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

15.1	Details of the transaction with related parties / connected persons	2013	2012
		(Rupees in '000)	
	<b>Management Company</b>		
	Management fee for the year	24,921	23,369
	Front-end load	340	129
	<b>Central Depository Company of Pakistan Limited-Trustee</b>		
	Remuneration of the Trustee	2,057	1,983
	CDS charges	219	103
	<b>Arif Habib Limited</b>		
	Brokerage *	970	658
	<b>Next Capital Limited</b>		
	Brokerage *	121	-
	<b>MCB Bank Limited</b>		
	Profit on bank deposits	2,472	4,674
	Dividend income for the year	274	425
	<b>Summit Bank Limited</b>		
	Mark-up income for the year	40	573
	<b>Adamjee Insurance Company Limited</b>		
	Dividend income for the year	100	-
	<b>D.G Khan Cement Company Limited</b>		
	Dividend income for the year	962	-
	<b>Nishat Chunian Power Limited</b>		
	Dividend income for the year	1,910	1,269
	<b>Nishat Mills Limited.</b>		
	Dividend income for the year	3,140	1,190
	<b>Nishat Power Limited</b>		
	Dividend income for the year	-	1,716
	<b>Fatima Fertilizer Company Limited</b>		
	Dividend income for the year	1	-
	<b>Directors and executives of the Management Company</b>		
	Nil bonus units (2012: 8,088) distributed during the year	-	425
	Issue of 32,956 units (2012: 25,850)	2,471	1,412
	Redemption of 48,948 units (2012: 30,071)	3,041	1,594

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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15.2 Amounts outstanding as at the year end	2013	2012
	(Rupees in '000)	
<b>Management Company</b>		
Management fee payable	2,522	1,755
Front-end load payable	340	253
<b>Central Depository Company of Pakistan Limited-Trustee</b>		
Security deposit	200	200
Trustee fee and CDS charges	194	166
<b>Summit Bank Limited</b>		
Balance with Bank	-	1,961
Accrued mark-up	-	4
<b>MCB Bank Limited</b>		
Balance with Bank	108,105	7,316
Profit receivable on bank deposits	125	927
<b>Directors and executives of the Management Company</b>		
30,492 units (2012: 33,394 units) held	2,366	1,734
<b>Arif Habib Limited</b>		
Brokerage payable	80	-
<b>Next Capital Limited</b>		
Brokerage payable	23	-
<b>MCB Bank Limited</b>		
Shares held as at 30 June 2013: 23,800 shares (2012: 46,554 shares)	5,774	7,739
<b>D.G Khan Cement Company Limited</b>		
Shares held as at 30 June 2013: 88,250 shares (2012: 187,250 shares)	7,386	7,374
<b>Nishat Mills Limited</b>		
Shares held as at 30 June 2013: 216,000 shares (2012: Nil shares)	20,349	-
<b>Nishat Chunian Limited</b>		
Shares held as at 30 June 2013: 54,500 shares (2012: Nil shares)	3,256	-
<b>Nishat Chunian Power Limited</b>		
Shares held as at 30 June 2013: Nil shares (2012: 1,587,842 shares)	-	23,548
<b>Fatima Fertilizer Company Limited</b>		
Shares held as at 30 June 2013: 2,403,500 shares (2012: 1,799,315 shares)	59,679	44,389



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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\*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.

### 16. 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 primarily invests in high quality liquid shares listed on stock exchanges and government securities with an objective of optimizing the return to unit holders.

*The Fund activates exposes it to a variety of financial risks:*

- Market risk
- Credit risk and
- Liquidity risk

#### 16.1 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 prices, such as interest rates, equity prices and foreign exchange rate. The objective of market risk management is to manage market risk exposure within acceptable parameters, while optimising the return.

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. The Fund holds fixed rate instrument in the form of government securities that expose the Fund to fair value interest rate risk.

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

As at 30 June 2013, 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 2013 with all other variables held constant, the net income for the year and net assets would be lower / higher by Rs. 0.655 million (2012: Rs. 0.069 million). The fluctuation in interest rate of 100 basis points is reasonably possible in current economic environment.

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 2013 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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The Fund does not have position bearing floating rate of interest, hence not exposed to internal rate risk in this regard.

### ***Other price risk***

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of change in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the parameters provided in its constitutive documents and circular issued by the SECP. The Fund's constitutive document also limit investment in individual equity securities not exceed 10% of net assets or issued capital of the investee company and also restrict sector exposure limit to a limit of 25% of net assets of the Fund.

In case of 5% increase / decrease in KSE 100 index on 30 June 2013, net income and net assets of the Fund would increase / decrease by Rs 46.68 million (2012: Rs 42.259 million) as a result of gains/losses on equity securities at fair value through profit or loss. The represents management best estimate of reasonable possible shift in the KSE 100 index. However, investment of the Fund is not managed to track the KSE 100 index to external benchmark.

The composition of the Fund's investment portfolio and the correlation thereof to the KSE index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2012 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 100 index.

## **16.2 Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund resulting in a financial loss to the Fund.

### ***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.

### ***Exposure to credit risk***

The Fund's maximum credit exposure (without taking into account collateral and other credit enhancement) at the balance sheet date is represented by the respective carrying amount of relevant financial asset i.e. balances with banks, receivable against sale of investments, receivable against sale of units, deposits with central clearing companies, investments in debt securities and other receivable in Statement of Assets and Liabilities.

### ***Settlement risk***

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed. 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.

### ***Balances with banks***

As at 30 June 2013, the Fund kept surplus liquidity with banks having credit rating ranging from AAA to A+. The rating to respective banks are assigned by reputable credit rating agencies. The rating of the banks is monitored by the Fund Manager and Investment Committee.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### *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 and management does not expect to incur any credit loss on such investments.

### *Receivables against sale of units*

These represents amount held under distribution accounts maintained by the management company for receipt of subscription money from unit holders. The amount has been cleared subsequently by the management company.

### *Advances and deposits*

Deposits are placed with National Clearing Company of Pakistan Limited (NCCPL) and Central Depository Company of Pakistan Limited (CDC) for the purpose of effecting transaction and settlement of listed securities. It is expected that all securities deposited with NCCPL and CDC will be clearly identified as being assets of the Fund, hence management believes that the Fund is not materially exposed to a credit risk with respect to such parties.

### *Past due and impaired assets*

No financial asset carried at amortised cost or cost were past due or impaired either as at 30 June 2013 or 30 June 2012. The management has not quantified the value of collaterals held against debt securities as management does not incorporate collaterals or other credit enhancements into its credit risk management nor it considers the value of collateral while testing investments for impairment.

### *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.

## **16.3 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 Fund. 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. Hence, unit holders' fund appearing in Statement of Assets and Liabilities represent the continuous obligation of the Fund for redemption by its holders.

### *Management of liquidity risk*

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.

The Board of Directors of the Management Company is empowered to impose a redemption gate should redemption level exceed 10% of the net assets value of the Fund in any redemption period. The liquidity position of the Fund is monitored by the Fund

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Manager on daily basis and by the Investment Committee on quarterly basis. The aim of the review is to ascertain the amount available for investment and also ensure sufficient liquidity is maintained to meet redemption requests by analysing the historical redemption requests received by the Management Company.

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.

	30 June 2013			Total
	Up to three months	More than three months and up to one year	More than one year	
----- (Rupees in '000) -----				
Payable against purchase of investments	22,018			22,018
Payable to Management Company	2,862			2,862
Payable to Central Depository Company of Pakistan Limited - Trustee	194			194
Accrued expenses and other liabilities	2,427			2,427
	27,501	-	-	27,501
	30 June 2012			
	Up to three months	More than three months and up to one year	More than one year	Total
----- (Rupees in '000) -----				
Payable against purchase of investments	39,212	-	-	39,212
Payable to Management Company	2,008	-	-	2,008
Payable to Central Depository Company of Pakistan Limited - Trustee	166	-	-	166
Accrued expenses and other liabilities	2,157	-	-	2,157
	43,543	-	-	43,543

The table above shows the undiscounted cashflows of the Fund's financial liabilities on the basis of their earliest possible contractual maturity or settlement.

### 16.4 Financial instruments by category

As at 30 June 2013, all the financial assets are carried on the Statement of Assets and Liabilities are categorised either as 'loans and receivables' or financial assets 'at fair value through profit or loss'. All the financial liabilities carried on the Statement of Assets and Liabilities are categorised as other financial liabilities i.e. liabilities other than 'at fair value through profit or loss'.

	30 June 2013		
	Assets at fair value through profit or loss	Loans and receivables	Total
----- (Rupees in '000) -----			
<b>Assets</b>			
Balances with banks	-	113,835	113,835
Receivable against sale of units	-	732	732
Receivable against sale of investments	-	62,834	62,834
Investments	1,050,150	-	1,050,150
Dividend and profit receivable	-	1,176	1,176
Deposits	-	2,700	2,700
	1,050,150	181,277	1,231,427

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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	30 June 2013		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------(Rupees in '000)-----		
<b>Liabilities</b>			
Payable against redemption of units	-	228	228
Payable against purchase of investments	-	22,018	22,018
Payable to Management Company	-	2,862	2,862
Payable to Central Depository Company of Pakistan Limited- Trustee	-	194	194
Accrued expenses and other liabilities	-	2,427	2,427
	-	27,729	27,729

	30 June 2012			
	Assets at fair value through profit or loss	Loans and receivables	Available for sale	Total
	------(Rupees in '000)-----			
<b>Assets</b>				
Balances with banks	-	55,742	-	55,742
Receivable against sale of units	-	-	-	-
Receivable against sale of investments	-	1,664	-	1,664
Investments	894,813	-	8,832	903,645
Dividend and profit receivable	-	1,870	-	1,870
Deposits	-	2,700	-	2,700
	894,813	61,976	8,832	965,621

	30 June 2012		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------(Rupees in '000)-----		
<b>Liabilities</b>			
Payable against redemption of units	-	-	-
Payable against purchase of investments	-	39,212	39,212
Payable to Management Company	-	2,008	2,008
Payable to Central Depository Company of Pakistan Limited- Trustee	-	166	166
Accrued expenses and other liabilities	-	2,157	2,157
	-	43,543	43,543

***Unit holders' fund risk management***

The Fund's capital is represented by redeemable units. The Fund is required by the NBFC Regulations, 2008, to maintain minimum fund size to Rs. 100 million during the life of the scheme. The units issued by the Fund provides an investor with the right to require redemption for cash at a value proportionate to the unit holder's share in the Fund's net assets at the redemption date.

The Fund's objective in managing the unit holders' fund is to ensure a stable base to maximise returns to all investors and to manage liquidity risk arising from redemption. 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**17. 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.

<b>30 June 2013</b>	<b>Level 1</b>	<b>Level 2</b>
	<b>(Rupees in '000)</b>	
<i>'At fair value through profit or loss' - held for trading</i>		
<b>Equity Securities</b>		
Quoted	927,894	-
<b>Government Securities</b>		
Fixed income		119,290
 30 June 2012		
	Level 1	Level 2
	(Rupees in '000)	
<b>Equity Securities</b>		
Quoted	842,646	
<b>Government Securities</b>		
Fixed income		49,153
 <i>'Available for sale'</i>		
<b>Equity Securities</b>		
Quoted	8,832	-

**18. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Management Company has approved a final dividend distribution of Rs. 18.6184 per unit for the year ended 30 June 2013 in their meeting held on 4 July 2013. The financial statements for the year ended 30 June 2013, do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending 30 June 2014.

**19. SUPPLEMENTARY NON FINANCIAL INFORMATION**

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**19.1 Pattern of unit holding:**

**Details of pattern of unit holding as at 30 June 2013**

	As at 30 June 2013		
	Number of unit holders	Investment amount	Percentage investment
	(Rupees in '000)		
Individuals	2,224	799,087	67.80%
Insurance companies	3	61,533	5.22%
Banks / DFIs	1	75,385	6.40%
Retirement funds	47	168,565	14.30%
Others	18	74,092	6.28%
	2,293	1,178,662	100%

**Details of pattern of unit holding as at 30 June 2012**

	As at 30 June 2012		
	Number of unit holders	Investment amount	Percentage investment
	(Rupees in '000)		
Individuals	2,486	658,704	71.48%
Directors	1	190	0.02%
Insurance companies	3	39,180	4.25%
Banks / DFIs	1	50,450	5.47%
Retirement funds	54	126,680	13.75%
Others	19	46,260	5.03%
	2,564	921,464	100%

**19.2 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>2013 Percentage</b>
Fortune Securities Limited	9.24%
Arif Habib Limited	9.02%
Foundation Securities (Private) Limited.	8.74%
KASB Securities Limited.	7.28%
Invest and Finance Securities Limited	7.02%
Optimus Capital Management (Private) Limited	6.88%
JS Global Capital Limited.	6.58%
Elixir Securities Pakistan (Private) Limited	5.22%
First Capital Equities Limited.	5.06%
Topline Securities (Private) Limited	4.79%

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

	2012 Percentage
Arif Habib Limited	9.37%
Fortune Securities Limited	8.87%
KASB Securities (Private) Limited	8.41%
Invest and Finance Securities (Private) Limited	7.50%
Optimus Capital Management (Private) Limited	7.21%
Foundation Securities (Private) Limited	6.68%
Elixir Securities Pakistan (Private) Limited	6.41%
Top Line Securities (Private) Limited	6.06%
Habib Metropolitan Financial Services Limited	4.28%
JS Global Capital Limited	4.12%

**19.3 Attendance at meetings of the Board of Directors:**

During the year, six board meetings were held on 16 July 2012, 15 August 2012, 4 October 2012, 24 October 2012, 4 February 2013 and 24 April 2013.

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

Name of Director	Designation	Number of meetings			Meeting not attended
		Held	Attended	Leave granted	
Mr. Mian Mohammad Mansha	Chairman	6	2	4	98th, 99th, 100th and 103rd
Mr. Nasim Beg	Executive Vice Chairman	6	5	1	102nd
Mr. Yasir Qadri	Chief Executive Officer	6	6	-	
Dr. Syed Salman Ali Shah	Director	6	5	1	103rd
Mr. Haroun Rashid	Director / Chairman Audit Committee	6	4	2	100th and 101st
Mr. Ahmed Jahangir	Director	6	6	-	
Mr. Samad A. Habib	Director	6	4	2	98th and 100th
Mr. Mirza Mehmood Ahmed	Director	6	3	3	98th, 99th and 101st
Mr. M. Saqib Saleem	Chief Operating Officer & Company Secretary	6	6	-	
Mr. Umair Ahmed	Chief Financial Officer	6	3	3	Appointed in 101st BOD meeting



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### 19.4 Particulars of investment committee and fund manager:

Details of members of Investment Committee of the Fund are as follows:

	Designation	Qualification	Experience in years
Mr. Yasir Qadri	Chief Executive Officer	MBA	18 years
Mr. Kashif Rafi	SVP - Head of Fixed Income Investments	MBA, CFA (Level I)	12 years
Mr. Muhammad Asim	VP - Head of Equities	MBA & CFA	10 Years
Mohsin Pervaiz	VP - Investments	MBA, CFA (Level I)	12 Years
Ms. Uzma Khan	Senior Analyst	MBA, CFA, FRM	8 Years

### 19.5 Other funds managed by the fund manager:

Details of the other funds managed by fund manager are as follows:

- MCB Islamic Income Fund
- Pakistan International Element Islamic Asset Allocation Fund
- Pakistan Islamic Pension Fund

### 20. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on 05 August 2013.

  
\_\_\_\_\_  
Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

**PATTERN OF HOLDING AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2013**

Category	No. of Unit Holders	Units
Public Sector Companies and Corporations	18	955,040
Insurance Companies	3	793,155
Individuals	2224	10,300,784
<b>Trust</b>	47	2,172,789
Shareholders holding 5 percent or more voting interest in the listed company		
National Logistic Cell	1	971,707
	<b>2,293</b>	<b>15,193,475</b>

**PATTERN OF UNIT HOLDING BY SIZE  
FOR THE YEAR ENDED JUNE 30, 2013**

No. of Unit Holders	Units Holdings	Total Units Held
1,880	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	1,567,742.79
158	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	1,132,586.69
75	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	923,531.93
32	(SHAREHOLDING FROM 15001.0000 TO 20000.0000)	567,814.57
25	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	547,281.17
15	(SHAREHOLDING FROM 25001.0000 TO 30000.0000)	405,679.30
18	(SHAREHOLDING FROM 30001.0000 TO 35000.0000)	593,567.21
10	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	377,354.15
8	(SHAREHOLDING FROM 40001.0000 TO 45000.0000)	344,284.93
11	(SHAREHOLDING FROM 45001.0000 TO 50000.0000)	523,296.74
10	(SHAREHOLDING FROM 50001.0000 TO 55000.0000)	519,729.68
6	(SHAREHOLDING FROM 55001.0000 TO 60000.0000)	338,370.01
3	(SHAREHOLDING FROM 60001.0000 TO 65000.0000)	188,412.43
2	(SHAREHOLDING FROM 65001.0000 TO 70000.0000)	137,852.98
5	(SHAREHOLDING FROM 75001.0000 TO 80000.0000)	384,638.88
1	(SHAREHOLDING FROM 80001.0000 TO 85000.0000)	84,966.62
2	(SHAREHOLDING FROM 90001.0000 TO 95000.0000)	186,461.19
4	(SHAREHOLDING FROM 95001.0000 TO 100000.0000)	394,589.73
1	(SHAREHOLDING FROM 100001.0000 TO 105000.0000)	100,021.46
2	(SHAREHOLDING FROM 105001.0000 TO 110000.0000)	216,473.54
3	(SHAREHOLDING FROM 110001.0000 TO 115000.0000)	340,873.66
1	(SHAREHOLDING FROM 115001.0000 TO 120000.0000)	117,120.95
2	(SHAREHOLDING FROM 120001.0000 TO 125000.0000)	243,781.38
2	(SHAREHOLDING FROM 130001.0000 TO 135000.0000)	265,720.18
2	(SHAREHOLDING FROM 135001.0000 TO 140000.0000)	270,628.62
1	(SHAREHOLDING FROM 140001.0000 TO 145000.0000)	141,907.85
1	(SHAREHOLDING FROM 155001.0000 TO 160000.0000)	158,719.68
1	(SHAREHOLDING FROM 170001.0000 TO 175000.0000)	174,654.70
1	(SHAREHOLDING FROM 175001.0000 TO 180000.0000)	178,940.30
1	(SHAREHOLDING FROM 185001.0000 TO 190000.0000)	187,130.11
2	(SHAREHOLDING FROM 190001.0000 TO 195000.0000)	387,303.08
1	(SHAREHOLDING FROM 195001.0000 TO 200000.0000)	198,119.51
1	(SHAREHOLDING FROM 255001.0000 TO 260000.0000)	255,831.02
1	(SHAREHOLDING FROM 290001.0000 TO 295000.0000)	291,142.43
1	(SHAREHOLDING FROM 340001.0000 TO 345000.0000)	343,600.21
1	(SHAREHOLDING FROM 350001.0000 TO 355000.0000)	350,969.07
1	(SHAREHOLDING FROM 385001.0000 TO 390000.0000)	386,418.86
1	(SHAREHOLDING FROM 390001.0000 TO 395000.0000)	394,204.86
1	(SHAREHOLDING FROM 970001.0000 TO 975000.0000)	971,752.43
2,293	Total :	15,193,474.90

# PERFORMANCE TABLE

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>(Rupees in '000)</b>												
Net Assets	1,178,662	921,464	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)	393,516	157,547	255,955	385,236	(560,559)	507,463	490,678	1,114,205	1,171,637	382,103	199,155	9,224
<b>(Rupees)</b>												
Net assets value per unit (Ex-Div)	58.96	51.92	60.10	49.64	47.56	64.55	84.08	84.29	90.10	81.99	69.02	48.97
<b>(Percentage)</b>												
Annual dividend distribution	31.58**	7.9**	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%

	<b>Announcement Date of Distribution</b>											
Interim	-	-	-	-	-	-	-	-	February 10, 2005	-	-	-
Final	July 05, 2011	June 25, 2012	July 04, 2011	July 05, 2010	-	July 03, 2008	July 04, 2007	July 04, 2006	July 04, 2005	July 05, 2004	July 03, 2003	July 01, 2002
<b>(Rupees)</b>												
Highest offer price per unit	83.22	62.90	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	54.06	49.07	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	81.25	61.67	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	52.98	48.11	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	79.73	52.96	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	77.58	51.92	60.10	59.34	47.56	81.53	109.08	114.29	115.10	111.99	89.02	50.31
<b>(Percentage)</b>												
One Year	49.42	11.30	21.10	24.77	(26.32)	(3.01)	29.41	26.85	52.41	62.04	81.23	2.02
Two Year	66.51	34.76	51.10	(4.12)	(15.45)	12.02	28.12	39.04	46.66	71.38	-	-
Three Year	101.37	68.13	11.30	3.75	(2.57)	16.75	35.75	46.34	64.83	-	-	-
Capital growth	17.84	3.40	8.37	4.37	(26.32)	(23.23)	(0.25)	(6.45)	9.89	18.79	40.94	(2.06)

## Disclaimer

The past performance is not necessarily indicative of future performance and unit prices and investments and returns may go down, as well as up.

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by typing: **Bachat Ka Doosra Naam**

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*(formerly: Arif Habib Investments Limited)*

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