



Bachat ka Doosra Naam

**Annual Report
2012**



PAKISTAN

STOCK MARKET FUND

Din Eid, Raat Shabraat

Arif Habib Investments Limited (A subsidiary of MCB Bank Limited)

PAKISTAN STOCK MARKET FUND

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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.

PAKISTAN STOCK MARKET FUND

FUND'S INFORMATION

Management Company	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors of the Management Company	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
Audit Committee	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib Mr. Ali Munir	Chairman Member Member Member
Human Resource Committee	Dr. Salman Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
Company Secretary & CFO of the Management Company	Mr. Muhammad Saqib Saleem	
Trustee	Central Depository Company of Pakistan Limited CDC House, 990B, Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	Bank AL Habib Limited Summit Bank Limited (formerly :Arif Habib Bank Limited) Meezan Bank Limited Bank Alfalah Limited Habib Metropolitan Bank Limited Soneri Bank Limited United Bank Limited Allied Bank Limited Standard Chartered Bank Limited Faysal Bank Limited Habib Bank Limited MCB Bank Limited Askari Bank Limited Deutsche Bank Limited NIB Bank Limited	
Auditors	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Rating	AM2 - Management Quality Rating assigned by PACRA	

PAKISTAN STOCK MARKET FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2012

The board of Directors of Arif Habib Investment Limited, the Management Company of Pakistan Stock Market Fund (PSMF), is pleased to present the Annual Report on the affairs of PSMF for the year ending June 30, 2012.

Equities Market Overview

The local bourses gave an average performance with the KSE-100 index rising by about 10% in FY12 as against 29% return posted in FY11. Pakistan equity market, however, remained the 3rd best performing market in the region this year as well after Philippines and Thailand.

KSE-100 Index made a depressing start with market shedding 13% during the first couple of months and made the yearly bottom at around 10,800 levels. Alongside negative returns, the market continued to remain dull with consistently low turnover throughout the period remained indicative of investor's shyness towards equity asset class. Even a cumulative cut of 200 bps in DR by the SBP during the first half failed to generate strong momentum among equity investors due to fear of aggressive sell off by foreign investors. Global equities market went down significantly during the quarter, which also had an adverse impact on emerging and frontier markets including Pakistan. Other resistive forces that played a dampening role for the market were political unrest, worsened law and order situation, strained Pak-US relations, floods in Sindh and energy crisis. Foreigners were net seller during the first half with an outflow of US\$ 151 million.

After a depressing first half, the Capital Gains Tax amnesty came as a piece of fortune to the investors at the local equities market and the KSE-100 index surged by 22% during the latter half of the year under review. The expectation of reprieving CGT also waved a magic wand on the volumes too where 2HFY12 saw buoyant volumes while marking a 33-month high at 577mn shares traded in a day. Participation from retail investors also returned to the market during the latter part of this year where mid and small-cap stocks remained the highlights of market activities lately. After a significant sell-off during the first half, foreigners' also jumped on to the bandwagon during the latter half with a net inflow of US\$ 62 million.

Macro economic factors remained challenging the KSE performance included sustained high oil and declining cotton prices resulting in higher trade deficit, lack of foreign flows as well IMF repayments depleted FX reserves and caused PKR to depreciate against the US\$ by around 10%. On the positive front, the SBP remained in a monetary easing cycle with a cumulative reduction of 200 bps in the policy discount rate during the year- improving the fundamentals of debt-laden companies.

Sector wise, Cements, Power and Autos outperformed the KSE-100 index while sectors like Chemicals, Textiles and Refineries remained among the underperformers. Best performing stocks included EFOODS, MEBL, BAFL, and DGKC.

Future Outlook

We believe that the political arena would turn noisy on the back of election year ahead as well as continued confrontation between government and judiciary. Global economic environment would remain jittery in the near term, which could provide further hiccups to the international as well as local equity markets. However, expectation of monetary easing by the SBP in the upcoming monetary policy on the back of benign inflation as well as release of CSF payment should support the bull-run in the market in the near term while any major deterioration in key macro-indicators going forward could have a toll on the market performance. Strong earnings growth, sizeable discount to regional markets, high dividend yield and relatively cheaper PE valuations warrant decent returns for long term investors in our view.

Fund's Performance

The investment objective of the fund is to provide 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 Banks and 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, Engineering, Automobile & Parts and Pharma and Biotech sectors.

The fund generated a return of 11.3% during the year as against its benchmark KSE-100 Index return of 10.4%, an out-performance of 0.9%. Since inception return of the fund has been staggering at 792.4% as against its benchmark return of 637%, an out-performance by 155.4%. Net assets of fund were reduced by Rs 323m (around 26%) 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:

Performance Information (%)	PSMF	Benchmark
Last twelve Months Return	11.3%	10.4%
Since Inception	792.4%	637.0%

PAKISTAN STOCK MARKET FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2012

During the year your fund earned net income of Rs 157.547 million. The Board in the meeting held on June 25, 2012 has declared final distribution amounting to Rs. 122.188 million (i.e. Rs. 7.907 per unit).

During the period, units worth Rs.535.966 million were issued (including Rs.252.619 million worth of bonus units) and units with a value of Rs. 707.951 million were redeemed. As on 30 June 2012 the NAV of the Fund was Rs. 51.92 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.

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

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC.

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

The aggregate unrecognised amount of WWF as at June 30, 2012 amounted to Rs.15.975 million.

Corporate Governance

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

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

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

**PAKISTAN STOCK MARKET FUND
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2012**

- 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. During the year four meetings of Audit Committee were held on 19th September 2011, 26th October 2012, 26 January 2012 and 24th April 2012, the details of attendance is as follows:

S. No.	Name	Designation	Attendance required	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	2	2
4.	Mr. Ali Munir	Member	4	2	2

- 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, CE, CFO/Company Secretary of the Management Company and their spouses and minor children are as under:

S. No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman	-	-	692.38
2.	Mr. Yasir Qadri	Chief Executive Officer	-	-	-
3.	Mr. Muhammad Saqib Saleem	Company Secretary & Chief Financial Officer	-	-	-

External Auditors

The Fund's external auditors, KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the Fund auditors for the ensuing year ending June 30, 2013. The audit committee of the Board has recommended reappointment of KPMG Taseer Hadi & Co., Chartered Accountants, as auditors of the Fund for the year ending June 30, 2013.

Acknowledgement

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in Arif Habib Investments Limited. The Board also likes to thank the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee of the Fund) and the management of the Karachi Stock Exchange for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Management Company for the growth and meticulous management of the Fund.

For and on behalf of the board

Yasir Qadri
Chief Executive Officer

Karachi: August 15, 2012

PAKISTAN STOCK MARKET FUND REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2012

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

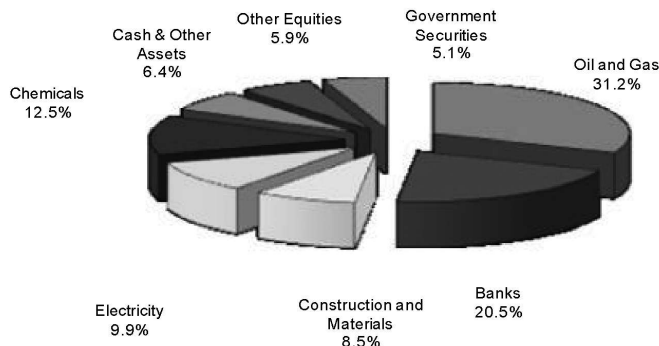
During the year under review, NAV per unit of Pakistan Stock Market Fund increased by 11.3% as compared to the benchmark KSE-100 Index return of 10.4%, resulting in an out performance of 0.9% by the fund. Tax amnesty on capital gains coupled with the return of foreigners in the market remained the positive highlighting factors during the year, which kept the market rolling. Unstable political conditions, deteriorating macro-factors, worsening law and order situation, worldwide recessionary conditions and Euro zone crisis however continued to cast shadow of doubt on equity market performance. 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 started the year with an equity allocation of 87.4%. 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 92.4% while minimum was 80.1%. Average equity allocation during the year comes out to be around 86.5%. Market largely remained depressed during the first half of the year which was followed by a mostly unidirectional bullish trend during second half of the year. Capital gains tax amnesty scheme was the hallmark for strong stock market performance during the latter half, while better than expected financial performance of many key sectors and companies coupled with declining interest rate outlook also supported the momentum.

The fund initially had around 21% exposure in Oil and Gas sector which was gradually increased and maintained above 30% as this sector is relatively shielded from deteriorating economic fundamentals. The fund had a high exposure of around 20% in Chemicals, mainly in fertilizers; at the beginning of the year which was brought down significantly during the year amid frequent shut downs in gas supplies as well as higher imports of urea, which was sold at reduced prices. The fund had low exposure (around 8%) in Banks at the beginning which was increased to around 27% by third quarter to take advantage of the year end results; however fund realized some capital gain and brought its exposure down to around 21% by year-end. Unlike previous year, Construction and Materials sector is a key highlighting sector for the year as it depicted strong earnings growth on the back of higher gross margins. The fund took advantage of this scenario and increased allocation to around 14% in third quarter, while it was reduced to around 9% by the year-end as the fund preferred to realize capital gains. Moreover, 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. The fund however liquidated its allocation of around 10% in General Industries during the year.

Since inception return of the fund was 792.4% as compared to the benchmark's return of 637%, an out-performance of 155.4%. The fund's Net Assets declined by 26% from PKR 1244 Million at the beginning of the year to PKR 921 Million as on June 30, 2012. The decline in net assets of the fund is primarily attributable to positive returns of the local stock exchanges as some investors opted to realize capital gains of the fund.

Asset Allocation as on June 30, 2012 (% of total assets)



Syed Akbar Ali, CFA
Fund Manager

Karachi: August 15, 2012

**PAKISTAN STOCK MARKET FUND
TRUSTEE REPORT TO THE UNIT HOLDERS
FOR THE YEAR ENDED JUNE 30, 2012**

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

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



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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 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, 2012 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 17, 2012

PAKISTAN STOCK MARKET FUND

STATEMENT OF THE COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED JUNE 30, 2012

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of Pakistan Stock Market Fund ("the Fund") to comply with the Code of Corporate Governance (the Code) 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, 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	1. Dr. Salman Shah 2. Mr. Haroun Rashid 3. Mr. Mirza Mehmood
Executive Directors	1. Mr. Nasim Beg - Executive Vice Chairman 2. Mr. Yasir Qadri - Chief Executive Officer
Non - Executive Directors	1. Mian Mohammad Mansha 2. Mr. Ahmed Jehangir 3. Mr. Samad Habib

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 resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI 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. 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. Accordingly, the Management Company is compliant with this requirement for the current year. 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.
10. No new appointments of Chief Financial Officer and Company Secretary were made during the year. The Board has approved the remuneration and terms and conditions of employment, as determined by the Chief Executive Officer. Subsequent to the year end, the Management Company has appointed Head of Internal Audit who is also planned to be designated as the secretary to the Audit Committee in the upcoming Audit Committee meeting.
11. The Directors' Report of the fund for the year ended June 30, 2012 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.

**PAKISTAN STOCK MARKET FUND
STATEMENT OF THE COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2012**

15. The Board has formed an Audit Committee for the Management Company. It comprises of four members, three of whom are the directors of the Management Company. 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 four members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. During the year, the Management Company has outsourced the internal audit function to Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants who are considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Management 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 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(s).
23. We confirm that all other material principles enshrined in the Code have been complied with towards which reasonable progress is being made by the company to seek compliance by the end of next accounting year.

On behalf of the Board

Yasir Qadri
Chief Executive Officer

Karachi: August 15, 2012

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



KPMG Taseer Hadi & Co.
Chartered Accountants
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Karachi, 75530 Pakistan

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**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 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 and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm’s length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2012.

We draw attention to paragraph 10 of the annexed Statement of Compliance which explains that subsequent to year end the Management Company has appointed Head of Internal Audit who is also planned to be designated as Secretary to the Audit Committee in the upcoming Audit Committee meeting.

Date: 15 August 2012

Karachi

KPMG Taseer Hadi & Co.
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.

PAKISTAN STOCK MARKET FUND INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS



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

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

Independent Auditors' Report to the Unit Holders

We have audited the accompanying financial statements of **Pakistan Stock Market Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2012, and the related income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year ended 30 June 2012, and a summary of significant accounting policies and other explanatory notes.

Management'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 state of the Fund's affairs as at 30 June 2012, 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.

**PAKISTAN STOCK MARKET FUND
INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS**



KPMG Taseer Hadi & Co.

Emphasis of matter


We draw attention to note 12 to the financial statements relating to provision for Workers' Welfare Fund (WWF) which refers to the pending outcome of the litigation regarding contribution to WWF in Honourable Sind High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 15.975 million is not being maintained by the Fund. Our opinion is not qualified in respect of this matter.

Other matters

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

Date: 15 August 2012

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

FINANCIAL STATEMENTS

**PAKISTAN STOCK MARKET FUND
STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2012**

	<i>Note</i>	2012	2011
		(Rupees in '000)	
Assets			
Balances with banks	4	55,742	28,285
Receivable from sale of investments		1,664	560
Receivable against sale of units		-	26,432
Investments	5	903,645	1,215,783
Dividend and profit receivable	6	1,870	3,299
Advances and deposits	7	3,736	3,736
Total assets		<u>966,657</u>	<u>1,278,095</u>
Liabilities			
Payable against redemption of units		-	27,765
Payable against purchase of investments		39,212	-
Payable to Arif Habib Investments Limited - Management Company	8	2,008	2,348
Payable to Central Depository Company of Pakistan Limited - Trustee	9	166	202
Payable to Securities and Exchange Commission of Pakistan	10	962	1,487
Accrued expenses and other liabilities	11	2,845	2,729
Total liabilities		45,193	34,531
Contingencies and commitments	12		
Net assets		<u>921,464</u>	<u>1,243,564</u>
Unit holders' funds (as per statement attached)		<u>921,464</u>	<u>1,243,564</u>
		(Number of units)	
Number of units in issue		<u>17,747,185</u>	<u>20,690,345</u>
		(Rupees)	
Net asset value per unit		<u>51.92</u>	<u>60.10</u>

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



Chief Executive Officer

For Arif Habib Investments Limited
(Management Company)



Director

**PAKISTAN STOCK MARKET FUND
INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2012**

	<i>Note</i>	2012	2011
		(Rupees in '000)	
Income			
Capital gain on sale of investments		100,962	150,391
Dividend income		73,941	80,373
Income from government securities		3,105	21,682
Profit on bank deposits		8,758	4,407
Impairment loss on financial assets classified as 'available for sale'		-	(970)
Net unrealised appreciation in value of investments 'at fair value through profit or loss'	5.5	25,012	111,039
Total income		211,778	366,922
Expenses			
Remuneration of Arif Habib Investments Limited - Management Company	8.1	20,138	31,084
Sindh sales tax on management fee	8.2	3,231	-
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9.1	1,983	2,554
Annual fee - Securities and Exchange Commission of Pakistan	10	962	1,487
Securities transaction cost		8,210	3,533
Settlement and bank charges		522	379
Fees and subscriptions		140	207
Legal and professional charges		107	100
Auditors' remuneration	13	536	474
Printing and related costs		719	264
Total expenses		36,548	40,082
		175,230	326,840
Net element of gain / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed		(17,683)	(70,885)
Net income for the year		157,547	255,955
Other comprehensive income for the year			
Net element of gain / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed - transferred to Distribution Statement (refer note 3.4)		(7,147)	(24,307)
Net unrealised diminution in value of investments classified as 'available for sale'	5.6	(72,726)	(11,489)
Total comprehensive income for the year		77,674	220,159

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



Chief Executive Officer

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



Director

**PAKISTAN STOCK MARKET FUND
DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2012**

	2012	2011
	(Rupees in '000)	
Undistributed income brought forward:		
- Realised gains	56,693	240,589
- Unrealised gains / (losses)	<u>76,308</u>	<u>(38,256)</u>
	133,001	202,333
Net element of gain / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed (refer note 3.4)	(7,147)	(24,310)
Net income for the year	157,547	255,955
<i>Distributions:</i>		
Final distribution of 2,424,371 (2010: Nil) bonus units at the rate of Rs. 6.3036 per unit for the year ended 30 June 2011 - [Date of distribution: 04 July 2011 (2010: Rs. 9.7 per unit)]		
- Issue of bonus units	(130,431)	(282,535)
- Cash dividend	-	(18,442)
Final distribution of 2,367,204 (2011: 2,424,371) bonus units at the rate of Rs. 7.907 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012 (2011: Rs. 6.3036 per unit)]		
- Issue of bonus units	(122,188)	-
	<u>(252,619)</u>	<u>(300,977)</u>
Undistributed income carried forward	<u>30,782</u>	<u>133,001</u>
Undistributed income carried forward:		
- Realised (losses) / gains	(19,173)	56,693
- Unrealised gains	<u>49,955</u>	<u>76,308</u>
	<u>30,782</u>	<u>133,001</u>

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



Chief Executive Officer

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



Director

**PAKISTAN STOCK MARKET FUND
STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	2012	2011
	(Rupees in '000)	
Net assets at beginning of the year	1,243,564	1,841,340
<i>Contributions and redemptions by unit holders:</i>		
Issue of 4,086,546 units (2011: 8,681,790 units)	283,347	104,242
Issue of 4,791,894 bonus units (2011: 5,691,689)	252,619	282,535
Redemption of 11,821,600 units (2011: 19,020,013 units)	(707,951)	(998,927)
	(171,985)	(612,150)
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	17,683	70,885
- amount representing unrealised capital (gains) / losses - transferred to Distribution Statement (refer note 3.4)	7,147	24,310
	24,830	95,195
Net unrealized diminution in fair value of investments classified as 'available for sale' during the year	(72,726)	(11,489)
<i>Total comprehensive income for the year:</i>		
Net income / (loss) for the year (excluding net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital gain on sale of investments)	31,573	(5,475)
Capital gain on sale of investments	100,962	150,391
Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	25,012	111,039
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to Distribution Statement (refer note 3.4)	(7,147)	(24,310)
	150,400	231,645
<i>Distributions:</i>		
Final distribution of 2,424,371 (2010: Nil) bonus units at the rate of Rs. 6.3036 per unit for the year ended 30 June 2011 - [Date of distribution: 04 July 2011 (2010: Rs. 9.7 per unit)]	(130,431)	(18,442)
- Issue of bonus units	-	(282,535)
- Cash dividend	-	-
Final distribution of 2,367,204 (2011: 2,424,371) bonus units at the rate of Rs. 7.907 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012 (2011: Rs. 6.3036 per unit)]	(122,188)	-
- Issue of bonus units	(252,619)	(300,977)
Net assets at end of the year	921,464	1,243,564
	(Rupees)	
Net asset value per unit as at beginning of the year	60.10	59.34
Net asset value per unit as at end of the year	51.92	60.10

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



Chief Executive Officer

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



Director

**PAKISTAN STOCK MARKET FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

	2012	2011
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	157,547	255,955
Adjustments for non cash and other items:		
Net realised element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	17,683	70,885
Impairment loss on financial assets classified as 'available for sale'	-	970
Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	(25,012)	(111,039)
	150,218	216,771
Decrease / (increase) in assets		
Receivable from sale of investments	(1,104)	51,365
Investments	264,424	662,088
Dividend and profit receivable	1,429	(2,796)
Advances and deposits	-	482
	264,749	711,139
Increase / (decrease) in liabilities		
Payable against purchase of investments	39,212	-
Payable to Arif Habib Investments Limited - Management Company	(340)	(1,117)
Payable to Central Depository Company of Pakistan Limited - Trustee	(36)	(40)
Payable to Securities and Exchange Commission of Pakistan	(525)	(563)
Accrued expenses and other liabilities	116	(980)
	38,427	(2,700)
Net cash generated from operating activities	453,394	925,210
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	-	(18,442)
Net payments from sale and redemption of units	(425,937)	(892,263)
Net cash used in financing activities	(425,937)	(910,705)
Net increase in cash and cash equivalents during the year	27,457	14,505
Cash and cash equivalents at beginning of the year	28,285	13,780
Cash and cash equivalents at end of the year	55,742	28,285

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


Chief Executive Officer

For Arif Habib Investments Limited
(Management Company)


Director

**PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Stock Market Fund ("the Fund") was established under a Trust Deed executed between Arif Habib Investments Limited as "Management Company" and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 23 October 2001 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 28th February 2002 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules) [repealed by Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules)]. In conformity with Circular 7 of 2009 dated March 6, 2009 issued by the SECP, certain amendments have been made in the Trust Deed of the Fund duly approved by the SECP, whereby the Fund has been assigned "Equity" category.

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

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.

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

The Pakistan Credit Rating Agency Limited (PACRA) has assigned management quality rating of 'AM2' (positive outlook) to the Management Company and 2-Star Normal and 4-Star Long Term to the Fund.

PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) , the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the SECP. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.

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

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

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

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

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1: Presentation of Financial Statements) effective for annual periods beginning on or after 1 July 2012.
- 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.
- Annual Improvements 2009 - 2011 (effective for annual period beginning on or after 1 January 2013). The new cycle of improvements contain amendments to five standards. However, those amendments do not have any affect on the financial statements of the Fund.

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.

**PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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 recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about 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.

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 except stated otherwise.

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

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

**PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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) '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.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 'at fair value through profit or loss' or 'available for sale'.

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 assets.

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

Measurement

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

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets as 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Funds until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Funds are included in the Income Statement. The financial instruments classified as loans and receivables are subsequently measured at amortized cost less provision for impairment, if any.

PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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 assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of assets and that loss events had an impact on the future cashflows of that assets and that can be estimated reliably.

An impairment loss in respect of financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cashflows discounted at the asset's original effective interest rate.

In the case of equity investment classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the accumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in Income Statement) is removed from Unit holders' Fund and recognised in the Income Statement. Impairment losses recognised on equity instruments are not reversed through the Income Statement.

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

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial assets expires or it transfers the 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 on in which the Fund neither transferred does not retains substantially all the risks and rewards of ownership and does not retain control of the financial assets.

**PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting of financial instruments

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

3.2 Unit holders' funds

Unit holders' funds representing the units issued by the Fund, is carried at the net asset value representing the investors' right to a residual interest in the Fund assets.

3.3 Issue and redemption of units

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

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

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

An equalisation account called the "element of income / (loss) 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.

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

The revised calculation, in the opinion of the management, would ensure that continuing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the calculation not been changed, the net income for the year ended 30 June 2012 would have been lower by Rs. 11.184 million.

PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

3.5 Preliminary expenses and floatation costs

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

3.6 Provisions

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

3.7 Net asset value per unit

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

3.8 Taxation

Current

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

Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits.

However, the Fund has previously availed the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders. Accordingly, no current tax and deferred tax has been recognized in these financial statements.

3.9 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on reverse repurchase transactions and debt securities is recognised on a time proportion basis using effective interest rate method.
- Unrealised gains / (losses) arising on valuation of investments classified as financial assets 'at fair which they value through profit or loss' and derivatives are included in the Income Statement in the period in which they arise.

**PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

- Dividend income is recognised when the right to receive the dividend is established.
- Profit on bank deposit is recognised on time proportion basis using effective interest rate method.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.10 Expenses

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

3.11 Cash and cash equivalents

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

3.12 Other assets

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

3.13 Dividend distributions and appropriations

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

4. BALANCES WITH BANKS	2012	2011
	(Rupees in '000)	
In current accounts	2,810	6,081
In deposit accounts	<i>4.1</i> 52,932	22,204
	<u>55,742</u>	<u>28,285</u>

- 4.1** These accounts carry profit at the rate ranging from 8% to 12% (2011: 8% to 11.5%) per annum.

**PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

5. INVESTMENTS

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

Quoted equity securities	5.1	845,660	924,380
Fixed income securities	5.2	49,153	98,772

Available for sale

Quoted equity securities	5.3	8,832	192,631
		<u>903,645</u>	<u>1,215,783</u>

PAKISTAN STOCK MARKET FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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 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	
----- Number of shares -----						----- (Rupees in 000) -----					
OIL AND GAS											
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
						<u>268,960</u>	<u>301,357</u>	<u>32,397</u>			
CHEMICALS											
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 Pakistan PTA Limited	-	75,000	-	75,000	-	-	-	-	-	-	-
						<u>122,011</u>	<u>120,914</u>	<u>(1,097)</u>			
GENERAL INDUSTRIALS											
Packages Limited	731,766	-	-	731,766	-	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>			
INDUSTRIAL METALS AND MINING											
International Industries Limited	163,041	-	-	163,041	-	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>			
CONSTRUCTION AND MATERIALS (CEMENT)											
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
Lafarge Pakistan Cement Limited	-	2,708,049	-	327,000	2,381,049	12,960	10,286	(2,674)	1.14	1.12	0.02
						<u>74,387</u>	<u>82,120</u>	<u>7,733</u>			
ENGINEERING											
Millat Tractors Limited	-	46,400	-	-	46,400	22,393	22,404	11	2.48	2.43	0.01
						<u>22,393</u>	<u>22,404</u>	<u>11</u>			
INDUSTRIAL TRANSPORTATION											
Pakistan International Container Terminal Limited	603,607	19,870	-	623,477	-	-	-	-	-	-	-
Pakistan International Bulk Terminal Limited	-	301,387	-	-	301,387	3,014	3,014	-	0.33	0.33	-
						<u>3,014</u>	<u>3,014</u>	<u>-</u>			
AUTOMOBILE AND PARTS											
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
						<u>4,368</u>	<u>4,252</u>	<u>(116)</u>			
FOOD PRODUCERS											
Engro Foods Limited	-	80,000	-	80,000	-	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>			
HOUSEHOLD GOODS											
Pak Elektron Limited	1,619,609	-	-	1,619,609	-	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>			
PERSONAL GOODS (TEXTILE)											
Nishat Mills Limited	1,362,130	50,000	-	1,412,130	-	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>			
PHARMA AND BIO TECH											
GlaxoSmithKline Pakistan Limited	-	128	-	-	128	8	8	-	0.00	0.00	0.00
Abbott Laboratories (Pakistan) Limited	-	109,386	-	-	109,386	13,341	13,022	(319)	1.44	1.41	0.01
						<u>13,349</u>	<u>13,030</u>	<u>(319)</u>			

PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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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	
----- Number of shares -----						----- (Rupees in 000) -----					
FIXED LINE											
TELECOMMUNICATION											
Wateen Telecom Limited	-	2,747,678	-	-	2,747,678	8,485	5,495	(2,990)	0.61	0.596	0.04
Pakistan Telecommunication Limited "A"	-	4,489,765	-	4,489,765	-	-	-	-	-	-	-
						<u>8,485</u>	<u>5,495</u>	<u>(2,990)</u>			
ELECTRICITY											
Hub Power Company Limited	1,221,266	4,002,862	-	3,507,000	1,717,128	64,866	71,930	7,064	7.96	7.806	0.01
Kot 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	2.555	0.04
Nishat Power Limited	-	2,670,858	-	2,670,858	-	-	-	-	-	-	-
						<u>89,556</u>	<u>95,478</u>	<u>5,922</u>			
COMMERCIAL BANKS											
Allied Bank Limited	1,268,714	130,220	82,085	1,387,124	93,895	5,087	6,026	939	0.67	0.654	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	4.644	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	0.728	0.00
MCB Bank Limited	-	318,083	20,981	292,510	46,554	7,271	7,739	468	0.86	0.840	0.00
Askari Bank Limited	-	1,774,546	158,931	1,259,545	673,932	10,046	9,146	(900)	1.01	0.993	0.01
Bank Al-falah Limited	-	4,981,246	-	545,000	4,436,246	71,358	75,861	4,503	8.40	8.233	0.03
Soneri Bank Limited	-	3,032,198	255,922	3,288,120	-	-	-	-	-	-	-
United Bank Limited	-	1,702,165	-	1,072,820	629,345	48,527	49,329	802	5.46	5.353	0.01
Meezan Bank Limited	-	1,371,943	106,250	1,478,193	-	-	-	-	-	-	-
						<u>189,176</u>	<u>197,596</u>	<u>8,420</u>			
NON LIFE INSURANCE											
IGI Insurance Limited	222,142	27,860	-	250,002	-	-	-	-	-	-	-
Adamjee Insurance Company Limited	-	10,500	-	10,500	-	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>			
Total as at 30 June 2012						<u><u>795,699</u></u>	<u><u>845,660</u></u>	<u><u>49,961</u></u>			

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

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Name of the investee company	As at 1 July 2010	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2011	Cost as at 30 June 2011	Market value as at 30 June 2011	Appreciation/ (diminution) as at 30 June 2011	Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of the investee company
									investments	net assets	
----- Number of shares ----- (Rupees in 000) -----											
OIL & GAS											
Pakistan Oilfields Limited	545,932	-	-	206,300	339,632	72,039	121,931	49,892	10.03	13.23	0.01
Pakistan Petroleum Limited	718,528	140,000	144,505	505,000	498,033	80,537	103,128	22,591	8.48	11.19	0.00
Pakistan State Oil Company Limited	195,350	424,000	-	458,350	161,000	45,280	42,597	(2,683)	3.50	4.62	0.01
						197,856	267,656	69,800			
CHEMICALS											
Descon Oxychem Limited	460,112	-	-	460,112	-	-	-	-	0.00	-	-
Engro Corporation Limited	972,397	309,880	112,255	752,000	642,532	87,107	104,893	17,786	8.63	11.38	0.02
Fatima Fertilizer Company Limited	-	2,597,589	-	-	2,597,589	32,057	43,224	11,167	3.56	4.69	0.01
Fauji Fertilizer Bin Qasim Limited	534,000	-	-	534,000	-	-	-	-	0.00	-	-
Fauji Fertilizer Company Limited	523,674	-	-	523,674	-	-	-	-	0.00	-	-
ICI Pakistan Limited	411,800	460,950	-	872,750	-	-	-	-	0.00	-	-
Sitara Chemical Industries Limited	268,492	-	13,424	-	281,916	45,186	28,138	(17,048)	2.31	3.05	0.13
						164,350	176,255	11,905			
GENERAL INDUSTRIALS											
Packages Limited	859,318	-	-	127,552	731,766	109,164	80,494	(28,670)	6.62	8.74	0.09
						109,164	80,494	(28,670)			
INDUSTRIAL METALS AND MINING											
International Industries Limited	-	163,041	-	-	163,041	8,641	8,071	(570)	0.66	0.65	0.01
						8,641	8,071	(570)			
CONSTRUCTION AND MATERIALS (CEMENT)											
Lucky Cement Limited	-	686,488	-	-	686,488	48,029	48,631	602	4.00	3.91	0.02
						48,029	48,631	602			
INDUSTRIAL TRANSPORTATION											
Pakistan International Container Terminal Limited	603,607	-	-	-	603,607	29,252	49,043	19,791	4.03	3.94	0.06
						29,252	49,043	19,791			
AUTOMOBILE AND PARTS											
Pak Suzuki Motor Company Limited	687,096	-	-	649,270	37,826	4,659	2,366	(2,293)	0.19	0.19	0.00
						4,659	2,366	(2,293)			
FOOD PRODUCERS											
Nestle Pakistan Limited	55,813	-	-	55,813	-	-	-	-	0.00	-	-
						-	-	-			
HOUSEHOLD GOODS											
Pak Elektron Limited	1,312,011	500,146	-	192,548	1,619,609	28,221	10,738	(17,483)	0.88	0.86	0.13
						28,221	10,738	(17,483)			
PERSONAL GOODS (TEXTILE)											
Artistic Denim Limited	158,200	-	-	158,200	-	-	-	-	-	-	-
Gul Ahmed Textile Mills	64,500	-	-	64,500	-	-	-	-	-	-	-
Nishat Mills Limited	1,362,130	-	-	-	1,362,130	61,613	68,570	6,957	5.64	5.51	0.04
						61,613	68,570	6,957			
TOBACCO											
Pakistan Tobacco Company Limited	413,200	-	-	413,200	-	-	-	-	-	-	-
						-	-	-			
PHARMA AND BIO TECH											
Searle Pakistan Limited	889,754	-	-	889,754	-	-	-	-	-	-	-
						-	-	-			
FIXED LINE TELECOMMUNICATION											
Wateen Telecom Limited	1,000,000	-	-	1,000,000	-	-	-	-	-	-	-
						-	-	-			
ELECTRICITY											
Hub Power Company Limited	1,221,266	-	-	-	1,221,266	35,483	45,797	10,314	3.77	3.68	0.01
Kot Addu Power Company Limited	1,086,400	-	-	-	1,086,400	52,615	46,292	(6,323)	3.81	3.72	0.01
						88,098	92,089	3,991			
COMMERCIAL BANKS											
Allied Bank Limited	1,363,377	-	115,337	210,000	1,268,714	61,319	81,375	20,056	6.69	6.54	0.01
Bank Al Habib Limited	650,000	-	130,000	-	780,000	21,775	22,987	1,212	1.89	1.85	0.01
Habib Bank Limited	246,840	-	-	246,840	-	-	-	-	0.00	-	-
						83,094	104,362	21,268			
NON LIFE INSURANCE											
IGI Insurance Limited	222,142	-	-	-	222,142	25,062	16,105	(8,957)	1.32	1.30	0.02
						25,062	16,105	(8,957)			
Total as at 30 June 2011						848,039	924,380	76,341			

PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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

Issue date	Face value					Balance as at 30 June 2012			Market value	
	Tenor	As at 1 July 2011	Purchases during the year	Sales / Matured during the year	As at 30 June 2012	Cost	Market value	Diminution as at 30 June 2012	as a percentage of net assets	as a percentage of total investment
----- (Rupees in 000) -----										
6 months										
08 September 2011	6 months	-	30,000	30,000	-	-	-	-	-	-
						-	-	-		
3 months										
05 May 2011	3 months	75,000	-	75,000	-	-	-	-	-	-
02 June 2011	3 months	25,000	-	25,000	-	-	-	-	-	-
08 March 2012	3 months	-	50,000	50,000	-	-	-	-	-	-
03 May 2012	3 months	-	25,000	-	25,000	24,802	24,797	(5)	2.69	2.74
28 June 2012	3 months	-	25,000	-	25,000	24,357	24,356	(1)	2.64	2.70
						49,159	49,153	(6)		
Total as at 30 June 2012			100,000	150,000	50,000	49,159	49,153	(6)		
1 year										
27 August 2009	1 Year	-	75,000	75,000	-	-	-	-	-	-
08 October 2009	1 Year	-	25,000	25,000	-	-	-	-	-	-
						-	-	-		
6 months										
25 February 2010	6 Months	-	200,000	200,000	-	-	-	-	-	-
						-	-	-		
3 months										
13 August 2010	3 Months	-	140,000	140,000	-	-	-	-	-	-
26 August 2010	3 Months	-	337,500	337,500	-	-	-	-	-	-
09 September 2010	3 Months	-	65,000	65,000	-	-	-	-	-	-
20 May 2010	3 Months	100,000	-	100,000	-	-	-	-	-	-
03 June 2010	3 Months	75,000	-	75,000	-	-	-	-	-	-
17 June 2010	3 Months	25,000	-	25,000	-	-	-	-	-	-
07 October 2010	3 Months	-	15,000	15,000	-	-	-	-	-	-
16 November 2010	3 Months	-	300,000	300,000	-	-	-	-	-	-
04 November 2010	3 Months	-	50,000	50,000	-	-	-	-	-	-
05 May 2011	3 Months	-	75,000	-	75,000	74,296	74,268	(28)	5.97	8.22
02 June 2011	3 Months	-	25,000	-	25,000	24,509	24,504	(5)	1.97	2.71
						98,805	98,772	(33)		
Total as at 30 June 2011			1,207,500	1,307,500	100,000	98,805	98,772	(33)		

PAKISTAN STOCK MARKET FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

5.3 Quoted equity securities - 'Available for sale'

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

Name of the investee company	Number of shares									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	Cost	Impairment up to 30 June 2012	Market value	Appreciation / (diminution)	Investments	net assets	

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

FORESTRY (PAPER AND BOARD)

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
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Total as at 30 June 2012

18,922 (13,050) 8,832 2,960

Name of the investee company	Number of shares									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 2010	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2011	Cost	Impairment up to 30 June 2011	Market value	Appreciation / (diminution)	Investments	net assets	

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

CHEMICALS

Fauji Fertilizer Company Limited	945,268	-	112,773	494,175	563,866	23,397	-	84,777	61,380	6.97	6.82	0.01
						23,397	-	84,777	61,380			

FORESTRY (PAPER AND BOARD)

Century Paper & Board Mills Limited	781,220	-	-	-	781,220	31,718	(21,875)	12,031	2,188	0.99	0.97	0.11
Security Papers Limited	76,522	-	-	76,522	-	-	-	-	-	-	-	-
						31,718	(21,875)	12,031	2,188			

INDUSTRIAL METALS AND MINING

International Industries Limited	502,012	-	100,402	-	602,414	27,362	-	29,819	2,457	2.45	2.40	0.05
						27,362	-	29,819	2,457			

GENERAL INDUSTRIALS

Packages Limited	415,041	-	-	-	415,041	41,386	-	45,655	4,269	3.76	3.67	0.05
						41,386	-	45,655	4,269			

AUTOMOBILE AND PARTS

Pak Suzuki Motor Company Limited	318,300	-	-	-	318,300	31,229	(13,872)	19,910	2,553	1.64	1.60	0.04
						31,229	(13,872)	19,910	2,553			

FOOD PRODUCERS

Nestle Pakistan Limited	7,300	-	-	7,300	-	-	-	-	-	-	-	-
						-	-	-	-			

PERSONAL GOODS

Artistic Denim Limited	95,400	-	-	95,400	-	-	(2,840)	-	2,840	-	-	-
Gul Ahmed Textile Mills Limited	70,291	-	-	70,291	-	-	-	-	-	-	-	-
Kohinoor Mills Limited	418,180	-	-	-	418,180	10,796	(10,356)	439	(1)	0.04	0.04	0.08
						10,796	(10,356)	439	2,839			

TOBACCO

Pakistan Tobacco Company Limited	300,000	-	-	300,000	-	-	-	-	-	-	-	-
						-	-	-	-			

Total as at 30 June 2011

165,888 (48,943) 192,631 75,686

5.4 Investments as at 30 June 2012 include shares with market value of Rs 36.356 million (2011: Rs. 65.853 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.

PAKISTAN STOCK MARKET FUND
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5.5 Net unrealised appreciation in value of investments	2012	2011
- 'at fair value through profit or loss' - held for trading	(Rupees in '000)	
Market value of investments	894,813	1,023,152
Less: Cost of investments	(844,858)	(946,844)
	49,955	76,308
Net unrealised (appreciation) / diminution in value of investments as 'at fair value through profit or loss' at the beginning of the year	(76,308)	38,256
Realised on disposal during the year	51,365	(3,525)
	(24,943)	34,731
	25,012	111,039
5.6 Unrealised diminution in fair value of investments		
classified as 'available for sale'		
Fair value of investments	8,832	192,631
Cost of investment	(18,922)	(165,888)
	(10,090)	26,743
Add: Accumulated impairment losses at the end of the year	13,050	48,943
Net unrealised appreciation in the fair value of investments at the end of the year	2,960	75,686
Less: Unrealised appreciation in fair value of investments at the beginning of year	(75,686)	(87,175)
	(72,726)	(11,489)
6. DIVIDEND AND PROFIT RECEIVABLE		
Dividend receivable	748	2,973
Profit accrued on bank deposits	1,122	326
	1,870	3,299
7. ADVANCES AND DEPOSITS		
Advance tax	1,036	1,036
Deposit with National Clearing Company of Pakistan Limited 7.1	2,500	2,500
Deposit with Central Depository Company of Pakistan Limited 7.2	200	200
	3,736	3,736
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 ARIF HABIB INVESTMENTS LIMITED - MANAGEMENT COMPANY		
Management fee payable 8.1	1,513	2,096
Sales load payable	253	252
Sindh sales tax payable on management fee 8.2	242	-
	2,008	2,348

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

8.2 During the current year the Sindh Government has levied General Sales Tax (GST) at the rate of 16% on the remuneration of the Management Company through the enactment of Sindh Sales Tax on Services Act, 2011.

9. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	2012	2011	
	(Rupees in '000)		
Remuneration payable	9.1	151	187
CDS charges payable		15	15
		<u>166</u>	<u>202</u>

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 2012 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
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

Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), an equity based fund is required to pay an amount equal to 0.095 percent of the average annual net assets of the Fund, as annual fee to the SECP.

11. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration payable	335	275
Withholding tax payable	270	270
Legal and professional charges payable	216	246
Brokerage payable	655	1
Payable to Pakistan Income Fund (Fund under common management)	-	232
Capital gain tax payable	499	1,394
Printing and related expenditure payable	460	211
Others	410	100
	<u>2,845</u>	<u>2,729</u>

PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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12. CONTINGENCIES AND COMMITMENTS

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

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

Subsequent to 30 June 2011, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company believes that the Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company in these financial statements. The aggregate unrecognised amount of WWF as at 30 June 2012 amounted to Rs. 15.975 million. (NAV per unit Re. 0.90)

13. AUDITORS' REMUNERATION

	2012	2011
	(Rupees in '000)	
Annual audit fee	270	210
Half yearly review	163	125
Other certifications and services	65	110
Out of pocket expenses	38	29
	<u>536</u>	<u>474</u>

14. EARNINGS PER UNIT

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

15. TAXATION

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

**PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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16. 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 and other associated undertakings.

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 and the Trust Deed respectively.

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

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

16.1 Transactions during the year	2012	2011
	(Rupees in '000)	
<i>Management Company</i>		
Remuneration of the Management Company	20,138	31,084
Sales load	129	771
Sindh Sales Tax on management fee	3,231	-
<i>Arif Habib Corporation Limited</i>		
Brokerage *	658	539
<i>Central Depository Company of Pakistan Limited-Trustee</i>		
Remuneration of the Trustee	1,983	2,554
CDS charges	103	27
<i>Summit Bank Limited</i>		
Mark-up income for the year	573	2,422
<i>MCB Bank Limited</i>		
Mark-up income for the year	4,674	-
<i>Directors and executives of the Management Company</i>		
8,088 bonus units (2011: 38,761) distributed during the year	425	1,924
Issue of 25,850 units (2011: 1,143,178)	1,412	65,283
Redemption of 30,071 units (2011: 1,199,671)	1,594	68,842

**PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

16.2 Amounts outstanding as at the year end	2012	2011
	(Rupees in '000)	
<i>Summit Bank Limited</i>		
Balance with bank	1,961	7,176
Accrued mark-up	4	142
<i>MCB Bank Limited</i>		
Balance with bank	7,316	-
Accrued mark-up	927	-
<i>Management Company</i>		
Management fee	1,513	2,096
Sales load payable	253	252
Sindh Sales Tax on management fee	242	-
<i>Directors and executives of the Management Company</i>		
33,394 units (2011: 176,850 units) held	1,734	9,911
<i>Central Depository Company of Pakistan Limited-Trustee</i>		
Security deposit	200	200
Trustee fee and CDS charges	166	202

* 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.

17. FINANCIAL RISK MANAGEMENT

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

The Fund 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 has exposure to the following risks from financial instruments:

The Fund has exposure to the following risks from financial instruments:

- Market risk
- Credit risk and
- Liquidity risk

17.1 Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market 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.

PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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 2012, 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 2012 with all other variables held constant, the net income for the year and net assets would be lower / higher by Rs. 0.069 million (2011: Rs. 0.091 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 2012 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates. The fluctuation in interest rate of 100 basis points is reasonably possible in current economic environment.

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 individual equity securities to no more than 10% of net assets, or issued capital of the investee company and sector exposure limit to 25% of net assets which the Fund is in compliance with as at 30 June 2012.

The management has used correlation with KSE 100 index to ascertain the effect of change in prices of quoted equity securities on Fund's net income, other comprehensive income and net assets attributable to unit holders. The analysis is based on the assumption that KSE-100 index increased / decreased by 5%, with all other variables held constant and that the fair value of the Fund's portfolio of equity securities moved according to their historical correlation with the index, the net income for the year, other comprehensive income and net assets attributable to unit holders would have been higher / lower by Rs. 42.559 million (2011: Rs. 55.85 million). Previously, the effect of change in prices was determined by 5% increase / decrease in prices of respective equity securities quoted at Karachi Stock Exchange.

PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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The composition of the Fund's investment portfolio is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2012 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of prices quoted on Karachi Stock Exchange.

Further, the Fund expects minimal price fluctuations on its investment in treasury bills (other than those arising from interest rate or credit risk). As a result, the Fund is not subject to significant other price risk on these instruments.

17.2 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. It principally arises from balances with banks, receivable from sale of investment, and deposits with central clearing companies, receivables against sale of units and investment in debt securities.

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 2012, 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.

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.

PAKISTAN STOCK MARKET FUND
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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, deposits and other receivables

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. Further, the other receivable comprising dues from funds under common management on account of conversion of units and has recovered those amount subsequently from respective funds under common management.

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.

Past due and impaired assets

No financial asset carried at amortised cost or cost were past due or impaired either as at 30 June 2012 or 30 June 2011. 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.

17.3 Liquidity risk

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

PAKISTAN STOCK MARKET FUND
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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 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 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 Arif Habib Investments Limited - Management Company	2,008	-	-	2,008
Payable to Central Depository Company of Pakistan Limited - Trustee	166	-	-	166
Accrued expenses and other liabilities	2,845	-	-	2,845
	<u>44,231</u>	<u>-</u>	<u>-</u>	<u>44,231</u>
	30 June 2011			
	Up to three months	More than three months and up to one year	More than one year	Total
	----- (Rupees in '000) -----			
Payable on redemption of units	27,765	-	-	27,765
Management Company	2,348	-	-	2,348
Payable to Central Depository Company of Pakistan Limited - Trustee	202	-	-	202
Accrued expenses and other liabilities	2,729	-	-	2,729
	<u>33,044</u>	<u>-</u>	<u>-</u>	<u>33,044</u>

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

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. 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 holder's funds are 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.

PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

18 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

30 June 2012	Level 1	Level 2
	(Rupees in '000)	
<i>'At fair value through profit or loss' - held for trading</i>		
- Quoted equity securities	<u>845,660</u>	-
- Fixed income securities	-	<u>49,153</u>
<i>'Available for sale'</i>		
- Quoted equity securities	<u>8,832</u>	-
 30 June 2011		
<i>'At fair value through profit or loss' - held for trading</i>		
- Quoted equity securities	<u>924,380</u>	-
- Fixed income securities	-	<u>98,772</u>
<i>'Available for sale'</i>		
- Quoted equity securities	<u>192,631</u>	-

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:

19.1 Pattern of unit holding:

Details of pattern of unit holding as at 30 June 2012

	As at 30 June 2012		
	Number of	Investment	Percentage
	unit holders	amount	investment
	----- (Rupees in '000) -----		
Individuals	2,486	658,704	71.48%
Directors	1	190	0.02%
Insurance companies	3	39,180	4.25%
Bank / DFIs	1	50,450	5.47%
Retirement funds	54	126,680	13.75%
Others	19	46,260	5.02%
	<u>2,564</u>	<u>921,464</u>	<u>100%</u>

Details of pattern of unit holding as at 30 June 2011

PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

	As at 30 June 2011		
	Number of unit holders	Investment amount	Percentage investment
	----- (Rupees in '000) -----		
Individuals	2,931	790,139	64%
Directors	1	144	0%
Insurance companies	3	28,401	2%
Bank / DFIs	1	45,335	4%
Retirement funds	66	314,266	25%
Others	25	65,279	5%
	<u>3,027</u>	<u>1,243,564</u>	<u>100%</u>

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:

	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%
	 2011 Percentage
Arif Habib Limited	17.69%
First Capital Equities Limited	11.70%
Topline Securities (Private) Limited	9.38%
KASB Securities Limited	6.51%
DJM Securities (Private) Limited	6.49%
Invest Capital Investment Bank Limited	4.39%
Invest & Finance Securities Limited	3.89%
IGI Finex Securities Limited	3.67%
Taurus Securities Limited	3.54%
Elixir Securities Pakistan (Private) Limited	3.35%

19.3 Attendance at meetings of the Board of Directors:

During the year, nine board meetings were held on 4 July 2011, 8 August 2011, 10 September 2011, 22 September 2011, 26 October 2011, 27 January 2012, 29 March 2012, 27 April 2012 and 25 June 2012.

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

**PAKISTAN STOCK MARKET FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Name of Director	Designation	Number of meetings			Meeting not attended
		Held	Attended	Leave granted	
Mr. Mian Mohammad Mansha	Chairman Executive	9	4	5	89th, 90th, 93rd, 96th and 97th meeting
Mr. Nasim Beg	Vice Chairman				
Mr. Yasir Qadri	Chief Executive Officer	9	9	0	
Dr. Syed Salman Ali Shah	Director Director / Chairman	9	8	1	92nd meeting
Mr. Haroun Rashid	Audit Committee	9	6	3	91st, 92nd and 95th meeting
Mr. Ahmed Jahangir	Director	9	7	2	91st and 92nd meeting
Mr. Samad A. Habib	Director	9	6	3	89th, 91st and 96th meeting
Mr. Mirza Mehmood Ahmed	Director	9	7	2	89th and 97th meeting
Mr. M. Saqib Saleem	Chief Financial Officer & Company Secretary	9	9	0	

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	17 years
Mr. Kashif Rafi	SVP - Investments	MBA, CFA (Level I)	11 years
Mr. Muhammad Asim	VP - Head of Equities	MBA & CFA	9 years
Mr. Syed Akbar Ali	VP - Head of Research & Fund Manager	MBA & CFA	7 years
Mr. Mohsin Pervaiz	VP - Investments	MBA, CFA (Level I)	11 years

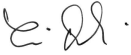
19.5 Other funds managed by the fund manager:

Details of the other funds managed by him are as follows:

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

20. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 15, 2012.



Chief Executive Officer

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



Director

**PAKISTAN STOCK MARKET FUND
PATTERN OF HOLDING AS PER REQUIREMENT OF
CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2012**

Category	Number .of Unit Holders	Number of Units
Associated Company, undertakings and related parties	-	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.	4	749,383
Individuals	2,486	12,681,548
Corporate	19	891,026
Trust	54	2,439,764.16
Director Nasim Beg	1	3,093.77
Shareholders holding 5 percent or more voting interest in the listed company Bank Alfalah Limited	1	977,061.00
	2564	17,747,185

**PAKISTAN STOCK MARKET FUND
PATTERN OF UNIT HOLDING BY SIZE
FOR THE YEAR ENDED JUNE 30, 2012**

No. of Unit Holders	Units Holdings	Total Units Held
2,006	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	1,818,832.49
205	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	1,446,054.24
101	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	1,232,165.81
43	(SHAREHOLDING FROM 15001.0000 TO 20000.0000)	760,584.79
36	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	790,081.52
19	(SHAREHOLDING FROM 25001.0000 TO 30000.0000)	522,503.64
23	(SHAREHOLDING FROM 30001.0000 TO 35000.0000)	754,667.61
13	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	485,839.14
13	(SHAREHOLDING FROM 40001.0000 TO 45000.0000)	554,735.86
10	(SHAREHOLDING FROM 45001.0000 TO 50000.0000)	473,158.40
11	(SHAREHOLDING FROM 50001.0000 TO 55000.0000)	574,041.02
8	(SHAREHOLDING FROM 55001.0000 TO 60000.0000)	454,308.86
5	(SHAREHOLDING FROM 60001.0000 TO 65000.0000)	314,800.62
3	(SHAREHOLDING FROM 65001.0000 TO 70000.0000)	205,091.20
1	(SHAREHOLDING FROM 70001.0000 TO 75000.0000)	71,431.94
5	(SHAREHOLDING FROM 75001.0000 TO 80000.0000)	386,153.88
3	(SHAREHOLDING FROM 80001.0000 TO 85000.0000)	251,903.96
2	(SHAREHOLDING FROM 90001.0000 TO 95000.0000)	186,332.19
5	(SHAREHOLDING FROM 95001.0000 TO 100000.0000)	491,024.70
1	(SHAREHOLDING FROM 105001.0000 TO 110000.0000)	108,761.34
2	(SHAREHOLDING FROM 110001.0000 TO 115000.0000)	226,343.47
2	(SHAREHOLDING FROM 115001.0000 TO 120000.0000)	231,485.78
4	(SHAREHOLDING FROM 120001.0000 TO 125000.0000)	488,887.28
1	(SHAREHOLDING FROM 125001.0000 TO 130000.0000)	127,866.10
1	(SHAREHOLDING FROM 130001.0000 TO 135000.0000)	131,851.37
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
2	(SHAREHOLDING FROM 185001.0000 TO 190000.0000)	372,700.49
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)	292,741.95
1	(SHAREHOLDING FROM 325001.0000 TO 330000.0000)	328,097.47
1	(SHAREHOLDING FROM 350001.0000 TO 355000.0000)	350,969.07
1	(SHAREHOLDING FROM 365001.0000 TO 370000.0000)	368,656.10
1	(SHAREHOLDING FROM 385001.0000 TO 390000.0000)	386,418.86
1	(SHAREHOLDING FROM 970001.0000 TO 975000.0000)	971,752.43
2564	Total :	17,747,185

PAKISTAN STOCK MARKET FUND PERFORMANCE TABLE FOR THE YEAR ENDED JUNE 30, 2012

PSM											
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	(Rupees in '000)										
Net Assets	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)	157,547	255,955	385,236	(560,559)	507,463	490,678	1,114,205	1,171,637	382,103	199,155	9,224
	(Rupees)										
Net assets value per unit (Ex-Div)	51.92	60.10	49.64	47.56	64.55	84.08	84.29	90.10	81.99	69.02	48.97
	(Percentage)										
Annual dividend distribution	7.90	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%											
	Announcement Date of Distribution										
Interim	-	-	-	-	-	-	-	February 10, 2005	-	-	-
Final	June 25, 2012	July 4, 2011	July 5, 2010	-	July 3, 2008	July 4, 2007	July 4, 2006	July 4, 2005	July 5, 2004	July 3, 2003	July 1, 2002
	(Rupees)										
Highest offer price per unit	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	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	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	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	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	51.92	60.10	59.34	47.56	81.55	109.08	114.29	115.10	111.99	89.02	50.31
	(Percentage)										
One Year	11.30	21.10	24.77	(26.32)	(3.01)	29.41	26.85	52.41	62.04	81.23	2.02
Two Year	34.76	51.10	(4.12)	(15.45)	12.02	28.12	39.04	46.66	71.38	-	-
Three Year	68.13	11.30	3.75	(2.57)	16.75	35.75	46.34	64.83	-	-	-
Capital growth	3.40	8.37	4.37	(26.32)	(23.23)	(0.25)	(6.45)	9.89	18.79	40.94	(2.06)

Since inception from 11 March 2002 the Fund deliver a cumulative annualised growth return of 25.54%

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.