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FUND'S INFORMATION

Management Company
 Arif Habib Investment Management Limited.
 2 / I, R.Y. 16, Old Queens Road,
 Karachi-74000.

Board of Directors of the Management Company

Mr. Arif Habib	Chairman
Mr. John W. Kirkham	Vice Chairman
Mr. Nasim Beg	Chief Executive
Mr. Asadullah Khawaja	Director
Mr. Sirajuddin Cassim	Director
Mr. Salim Chamdia	Director
Mr. Mohammad Yousuf	Director
Mr. Samad A. Habib	Director

Company Secretary & CFO of the Management Company
 Syed Ajaz Ahmed

Audit Committee

Mr. Sirajuddin Cassim	Chairman
Mr. Asadullah Khawaja	Member
Mr. Salim Chamdia	Member
Mr. Samad A. Habib	Member

Trustee

Central Depository Company of Pakistan Limited (CDC)
 8th Floor, Stock Exchange Building,
 Stock Exchange Road, Karachi.

Bankers

- Bank AL Habib Limited
- Standard Chartered Bank
- Union Bank Limited

Auditors

Taseer Hadi Khalid & Co.
 1st Floor, Sheikh Sultan Trust Building No. 2,
 Beaumont Road, Karachi-75530

Legal Adviser

Kabraji & Talibuddin
 64-A /1, Gulshan-e-Faisal,
 Bath Island, Karachi-75530

Registrar

Gangjees Registrar Services (Pvt.) Limited.
 Room No. 516, 5th Floor, Clifton Centre,
 Kehkashan, Clifton, Karachi.

Distributors

- Arif Habib Investment Management Limited
- Arif Habib Securities Limited
- Bank AL Habib Limited
- Standard Chartered Bank
- Taurus Securities Limited
- Union Bank Limited

MISSION STATEMENT

The Pakistan Stock Market Fund's mission is to provide investors with superior returns through an investment in a blend of shares of Pakistani listed companies that offer liquidity and value.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of Arif Habib Investment Management Limited (AHIML), the Management Company of Pakistan Stock Market Fund (PSM) is pleased to present the annual report together with audited financial statements for the year ended 30 June 2005.

Financial Performance

As at 30 June 2005 NetAssets under management increased to Rs. 2,712.98 million, as compared to Rs. 1,051.64 million as at 30 June 2004. Major constituents of increase in net assets were net income before distribution of Rs. 1,171.64 million during the year along with generation of Rs. 257.91 million from issue of new units during the year, coupled with an increase of Rs. 132.44 million in the value of 'available for sale' portfolio of investments.

Financial Highlights

	Financial Year 2004-05	Financial Year 2003-04	Increase (%)
	Rupees in million		
Net Income	552.41	496.87	11.18
Realised Capital Gain	508.94	468.32	8.67
Dividend Income	64.97	55.23	17.64

	30 June 2005	30 June 2004	Year on Year change (%)
NetAssets (Rupee s in million)	2,712.99	1,051.64	157.98
NAV per Unit (Rupee s)	115.10	* 81.99	** 52.58
KSE - 100 Index	7,450.12	5,279.18	41.12

*Cum-NAV Rs. 111.99 less Rs. 30 bonus divided = Rs. 81.99

**Total return includes interim cash dividend of Rs. 10 per unit.

The net income before distribution for the financial year 2004-05 was Rs. 1,171.64 million, as against Rs. 382.103 million for the corresponding year. Major constituents of the income are realised capital gain of Rs. 508.94 million, dividend income of Rs. 64.97 million and income from COT of Rs. 29.14 million.

Income Distribution

The Board has approved a final bonus dividend at Rs. 25 per unit i.e. 50%. The Fund had already distributed an interim cash dividend of Rs. 10 per unit i.e. 20%. This makes a total of Rs. 35 per unit i.e. 70% for the financial year 2004-05

Investing Activities

The Fund was actively managed during the year, always taking care to protect the NAV of our investors. On occasions over the year, the PSM reduced exposure to around 55% of net assets where we felt it necessary to preserve the NAV for our investors, and re-entered when we felt it was appropriate.

As at 30 June 2005, PSM's investments as a share of total assets were as follows: 65% shares, 35% cash and near cash (COTs). PSM investment decisions were based purely on fundamentals and investments were according to market opportunities presented over the year. Sector weightage was adjusted accordingly throughout the year given changing company and sector fundamentals.

Market Performance

The market's strong performance in financial year 2004-05 was a response to the improved stock market fundamentals, higher earnings growth, better than expected corporate results and announcements and superior earnings outlook going forward. The market rose 41% during the year and despite the sharp correction in March, still closed appreciably up by 20% over 31 December 2004. The Pakistan Stock Market Fund delivered a total return of 52%, beating the KSE 100 Index by a wide margin of 11%, after all fees and charges.

PSM's Superior Downside Protection

Over the year, the market's volatility (standard deviation) was 1.75% while the PSM's volatility was much lower, i.e. only 1.2%. To give an idea of the PSM's consistency of performance, the PSM fell by a lesser degree than the market, on 92 out of 104 days the market fell – an out-performance rate of 88%, which means that the value of the investor's investment is protected. On most occasions, the PSM's NAV has not fallen by as much as the market declined on any one day.

Advantage of Investing in the PSM rather than Directly in the Market

If one invests directly in shares in a volatile market, there is a greater chance of entering into stocks at too high a level or selling (when cash is required) when prices are down – which means there is greater risk of mistiming your investment. In a mutual fund like the PSM that is less volatile than the market and more stable, there is a lower risk of buying high and selling at a low price.

Growth and Value Portfolio

We have however, made investments for the Fund on fundamentals. Investment style has been picking both growth and value stocks, focusing on high and growing ROEs, earnings growth and stable cash flows. The emphasis has been on business models that can withstand seasonal and cyclical changes in their sectors and demonstrate a defensive quality of earnings. The focus was on building a quality portfolio that can withstand the short-term volatility in the market and deliver higher earnings growth than the overall market. Major sector-wise weightages as a share of net assets were as follows: banks 21%, oil and gas exploration 17%, fertilizer 10%, textiles 10%, refinery 9% and paper and board 5%.

Corporate Governance

The Fund being listed on the Karachi Stock Exchange, the Management Company is committed to observe Code of Corporate Governance prescribed for listed companies. The financial statements, prepared by the Management Company present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holders' fund. Proper books of account of the Fund have been maintained and appropriate accounting policies have been consistently applied in preparation of accounts. International Accounting Standards as applicable in Pakistan have been followed. The system of internal control is sound in design and has been effectively implemented and monitored in the preparation of financial statements. There is no doubt upon Fund's ability to continue as going concern. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations. Key financial data is summarized in note 20 of the financial statements. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the accounts. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company. The detailed pattern of unit holding, as required by the Companies Ordinance 1984 and the Code of Corporate Governance is enclosed.

ATTENDANCE OF BOARD MEETINGS FROM 01 JULY 2004 TO 30 JUNE 2005

Statement showing attendance of Board meetings of the Management Company - Arif Habib Investment Management Limited is as under:

S. No.	Name	Designation	Meetings		
			Total	Attended	Leave Granted
1.	Mr.Arif Habib	Chairman	7	7	-
2	Mr.JohnW. Kirkham	ViceChairman	7	2	5
3	Mr.NasimBeg	ChiefExecutive	7	7	-
4.	MrAsadullahKhawaja	Director	7	6	1
5	Mr.SirajuddinCassim	Director	7	3	4
6	Mr.SamadA.Habib	Director	7	6	1
7.	Mr.MohammadYousuf	Director	7	6	1
8	Mr.SalimChamdia	Director	3	3	-

In February 2005, election of the directors was held and the number of directors increased from seven to eight. All the previous directors were reelected unopposed, in addition Mr Salim Chamdia was newly appointed as a member of the board.

The trades in the Units of the Fund carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children, of the Management Company are as under:

S.No	Trades By	Designation	Investment	Redemption
			(No. of Units)	
1.	Mr. JohnW. Kirkham	Vice Chairman	1956	-
2	Mr.NasimBeg	ChiefExecutive	1361	876
3	SyedAjazAhmed	Company Secretary & CFO	19,169	18,875

Future Outlook

We are positive on the earnings outlook for the stock market over the next twelve months. Earnings growth is expected to be sustainable for the major market drivers and key sectors are expected to deliver earnings growth higher than GDP growth. However, till an alternative efficient source of funding for market participants is not in place, the market is expected to be range-bound. The transition from COT to Margin Finance will still take some time, as system and technical issues are sorted out. Fundamentally speaking, the upward pressure on interest rates continues due to fears of rising inflation with even higher oil prices and the possibility of higher food inflation with the potential adverse impact of the recent floods and rains on essential food supplies. The positive side of the high oil price issue is that as much as 38% of market capitalization consists of oil and energy related stocks, where earnings growth is expected to be in excess of 15% that bodes well for their price appreciation potential. Privatisation too, is expected to be a strong theme for the market in the near future, which is expected to provide an impetus to the market.

Acknowledgement

The Board is thankful to the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, the Trustee to the Fund, Central Depository Company of Pakistan Limited, the management of Karachi Stock Exchange for their continued cooperation and support. The Directors also appreciate the efforts put in by the management team for the growth and the meticulous management of the Fund.

For and on behalf of the Board

30 July, 2005
Karachi

Nasim Beg
Chief Executive

DETAILS OF PATTERN OF HOLDING (UNITS)
AS AT JUNE 30, 2005

<u>Associated Companies</u>	<u>Units Held</u>
Arif Habib Investment Management Limited	4,065
Arif Habib Securities Limited	-
Century Insurance Company Limited	39,008
<u>Directors and CEO</u>	
<u>Chief Executive</u>	
Mr. Nasim Beg	2,094
<u>Directors</u>	
Mr. John W. Kirkham	5,378
Public Limited Companies	1,103,916
Banks and Financial Institutions	2,436,596
Individuals	11,452,210
Retirement Funds	6,578,065
Other Corporate Sector Entities	1,236,519
Non Profit Organizations	712,531
TOTAL	<u><u>23,570,382</u></u>

REPORT OF THE TRUSTEE
PAKISTAN STOCK MARKET FUND

Report of the Trustee pursuant to Rule 76(h) of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

Pakistan Stock Market Fund, an open-end fund was established under a trust deed executed between Arif Habib Investment Management Limited as the Asset Management Company and Central Depository Company of Pakistan Limited as Trustee on October 23, 2001. The Scheme was authorized by the Securities and Exchange Commission of Pakistan on February 28, 2002.

In our opinion, Arif Habib Investment Management Limited, the Asset Management Company of Pakistan Stock Market Fund has in all material respects managed Pakistan Stock Market Fund during the year ended June 30, 2005 in accordance with the provisions of the Trust Deed and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

Date: July 30, 2005
Karachi.

Mohammad Hanif Jakhura
Chief Executive Officer
Central Depository Company of Pakistan Limited

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2005

This statement is being presented by the Board of Directors of Arif Habib Investment Management Limited (Company), the Management Company of the Pakistan Stock Market Fund (Fund) to comply with the Code of Corporate Governance contained in Regulation No. 37, 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.

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes seven non-executive directors, and one director representing minority share holders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy has occurred in the Board during the year.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of directors and employees of the company.
6. The Board has developed mission statement and significant policies of the Fund. 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 CEO has been taken by the Board. There is no other executive director of the company besides the CEO.
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 meeting. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged an orientation course for its new director during the year to apprise him of his duties and responsibilities.
10. The roles and responsibilities of the Chairman and Chief Executive have been approved by the Board of Directors.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
13. The financial statements of the Fund were duly endorsed by CEO and CFO of the Company before approval of the Board.
14. The Company has complied with all the significant corporate and financial reporting requirements of the Code.

15. The Board has formed an audit committee. It comprises four members, all of whom are non-executive directors including the chairman of the committee.
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 as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. There exists an effective internal audit function within the Company.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

30 July, 2005
Karachi

Arif Habib
Chairman

**AUDITORS' REVIEW REPORT TO THE UNIT HOLDERS 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 prepared by the Board of Directors of Arif Habib Investment Management Limited, the Management Company of Pakistan Stock Market Fund to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange where the Fund is listed.

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

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

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 as applicable to the Fund for year ended 30 June 2005.

Date : 30 July, 2005
Karachi

Taseer Hadi Khalid & Co.
Chartered Accountants

AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the annexed statement of assets and liabilities of the Pakistan Stock Market Fund as at 30 June 2005 and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds together with the notes forming part thereof (here-in-after referred to as the "financial statements") for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Management Company (Arif Habib Investment Management Limited) to establish and maintain a system of internal control and prepare and present the above said statements in conformity with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and approved accounting standards as applicable in Pakistan. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by the management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, we report that:

- a) In our opinion, proper books of accounts have been kept by the Management Company in respect of the Pakistan Stock Market Fund as required by the Trust Deed and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003;
- b) In our opinion, the statement of assets and liabilities, the income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds have been drawn up in conformity with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied; and
- c) In our opinion and to the best of our information and according to the explanations given to us, the statement of assets and liabilities, income statement, distribution statement, cash flow statement and statement of movement in unit holders funds, together with the notes forming part thereof, give the information required by the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and approved accounting standards as applicable in Pakistan, in the manner so required and respectively give a true and fair view of the state of the Fund's affairs as at 30 June 2005 and of the transactions of the Fund for the year then ended.

The financial statements for the year ended 30 June 2004 were audited by another firm of chartered accountants who vide their report dated 4 September 2004 issued unqualified opinion thereon.

Date: 30 July, 2005
Karachi

Taseer Hadi Khalid & Co.
Chartered Accountants

STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 JUNE 2005

	Note	30 June 2005	30 June 2004
(Rupees in '000)			
Assets			
Bank balances	4	475,841	104,367
Receivable against Carry Over Transactions		500,177	379,609
Investments	5	1,850,506	637,658
Dividend and profit receivable	6	5,602	1,915
Advances, deposits, prepayments and other receivables	7	1,764	2,251
Preliminary expenses and floatation costs	8	833	1,333
Total assets		<u>2,834,723</u>	<u>1,127,133</u>
Liabilities			
Payable against purchase of investments		81,061	69,819
Payable on redemption of units		31,006	131
Payable to Arif Habib Investment Management Limited - Management Company	9	6,123	3,202
Payable to Central Depository Company of Pakistan Limited - Trustee	10	320	264
Accrued expenses and other liabilities	11	3,228	2,074
Total liabilities		<u>121,738</u>	<u>75,490</u>
Contingencies and Commitments	12		
Net assets		<u>2,712,985</u>	<u>1,051,643</u>
Unit holders' funds (as per statement attached)		<u>2,712,985</u>	<u>1,051,643</u>
(Number of units)			
Number of units in issue before bonus units		<u>23,570,382</u>	<u>9,390,152</u>
Number of units in issue after bonus units		<u>30,110,444</u>	<u>12,825,993</u>
(Rupees)			
Net Asset Value per unit before bonus issue		<u>115.10</u>	<u>111.99</u>
Net Asset Value per unit after bonus issue		<u>90.10</u>	<u>81.99</u>

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

For Arif Habib Investment Management Limited
(Management Company)

Chief Executive

Director

For Central Depository Company of Pakistan Limited
(Trustee)

Chief Executive

**INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005**

	Note	2005 (Rupees in '000)	2004
Income			
Capital gain on sale of investments		508,940	468,318
Dividend income		64,974	55,235
Income from Carry Over Transactions		29,137	11,519
Income from reverse repurchase transactions		2,503	-
Income from Term Finance Certificates		225	-
Other income		11,183	5,387
		616,962	540,459
Unrealised appreciation in fair value of investments classified as 'held for trading'	5.4	7,688	756
Total income		624,650	541,215
Operating expenses			
Remuneration of Arif Habib Investment Management Limited - Management Company		54,308	34,495
Remuneration of Central Depository Company of Pakistan Limited - Trustee		3,226	3,198
Annual fee - Securities and Exchange Commission of Pakistan		1,810	1,150
Brokerage		8,967	3,948
Settlement and bank charges		2,138	382
Fees and subscriptions		383	82
Legal and professional charges		322	-
Auditors' remuneration	13	586	593
Amortisation of preliminary expenses and floatation costs	8	500	500
Total Expenses		72,240	44,348
Net Income from Operating Activities		552,410	496,867
Element of income and capital gains included in prices of units sold less those in units redeemed		619,227	(114,764)
Net Income		1,171,637	382,103

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

For Arif Habib Investment Management Limited
(Management Company)

Chief Executive

Director

For Central Depository Company of Pakistan Limited
(Trustee)

Chief Executive

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005**

	2005 (Rupees in '000)	2004
Undistributed income brought forward	175,900	42,364
Element of income and capital gains included in prices of units sold less those in units repurchased - amount representing unrealised appreciation/diminution	112,311	33,138
Net income for the year	1,171,637	382,103
Interim cash distribution @ Rs. 10 per unit (Announced on 10 February 2005 and distributed on 25 March 2005)	(182,351)	-
Final distribution @ Rs. 25 per unit(2004: Rs 30 per unit) - transfer to reserve for issue of bonus units [Units issued in July 2005 (2004: July 2004)]	(589,260)	(281,705)
	512,337	133,536
Undistributed income carried forward	<u>688,237</u>	<u>175,900</u>

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

For Arif Habib Investment Management Limited
(Management Company)

Chief Executive

Director

For Central Depository Company of Pakistan Limited
(Trustee)

Chief Executive

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 (Rupees in '000)	2004
Net assets at the beginning of the year		1,051,643	783,991
Issue of 31,360,502 units (2004: 20,014,166 units)		3,340,836	1,837,824
Redemption of 20,616,113 units (2004: 21,982,896 units)		(2,181,992)	(2,066,425)
Element of income and capital gains included in prices of units sold less those in units repurchased		1,158,844	(228,601)
- amount representing accrued (income) / loss and realised capital losses / (gains) - transferred to Income Statement		(619,227)	114,764
- amount representing unrealised appreciation in fair value of investments transferred directly to Distribution Statement		(112,311)	(33,138)
Net unrealised appreciation / (diminution) during the year in fair value of investments classified as 'available for sale'	5.3	132,439	(614)
Reserve for Issue of 6,540,062 (2004: 3,435,841) bonus units		589,260	281,705
Net income for the year less distribution		512,337	133,536
Net Assets as at 30 June		<u>2,712,985</u>	<u>1,051,643</u>

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

For Arif Habib Investment Management Limited
(Management Company)

Chief Executive

Director

For Central Depository Company of Pakistan Limited
(Trustee)

Chief Executive

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 (Rupees in '000)	2004
CASH FLOW FROM OPERATING ACTIVITIES			
Net income		1,171,637	382,103
Adjustments			
Unrealised appreciation in fair value of investments classified as 'held for trading'		(7,688)	(756)
Element of income and capital gains included in prices of units sold less those in units repurchased		(619,227)	114,764
Amortisation of preliminary expenses and floatation costs		500	500
		<u>545,222</u>	<u>496,611</u>
(Increase) / Decrease in Assets			
Receivable against sale of investments		-	37,450
Receivable against Carry Over Transactions		(120,568)	(313,790)
Investments		(1,072,721)	34,291
Dividend and profit receivable		(3,687)	1,660
Advances, deposits, prepayments and other receivables		811	2,242
		<u>(1,196,165)</u>	<u>(238,147)</u>
Increase / (Decrease) in Liabilities			
Payable against purchase of investments		11,242	69,819
Payable to Arif Habib Investment Management Limited - Management Company		2,921	602
Payable to Central Depository Company of Pakistan Limited - Trustee		56	62
Accrued expenses and other liabilities		416	1,533
		<u>14,635</u>	<u>72,016</u>
Cash used in operations		<u>(636,308)</u>	<u>330,480</u>
Tax paid		(324)	(4)
Net Cash Flow from Operating Activities		<u>(636,632)</u>	<u>330,476</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net receipts/(payments) made against sales/(redemption) of units		1,189,719	(255,697)
Dividend paid		(181,613)	-
Net cash flow from financing activities		<u>1,008,106</u>	<u>(255,697)</u>
Net increase in cash and cash equivalents during the year		371,474	74,779
Opening cash and cash equivalents		104,367	29,588
Cash and cash equivalents as at 30 June	4	<u><u>475,841</u></u>	<u><u>104,367</u></u>

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

For Arif Habib Investment Management Limited
(Management Company)

Chief Executive

Director

For Central Depository Company of Pakistan Limited
(Trustee)

Chief Executive

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

1. LEGAL STATUS AND NATURE OF BUSINESS

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

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules 2003 through a certificate of registration issued by the SECP.

PSM is an open-ended mutual fund, listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

The Fund is a stock market fund, which primarily invests in shares of listed companies and enters into Carry Over Transaction in listed securities.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Trust Deed, the NBFC Rules and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Approved accounting standards comprise of such International Accounting Standards (IAS) as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Trust Deed, the NBFC Rules or directives issued by the SECP differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules and the said directives take precedence.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting Convention

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

3.2 Investments

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+3' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sale the asset.

The management determines the appropriate classification of the investments made by the Fund in accordance with the requirements of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement', at the time of purchase and re-evaluates this classification on a regular basis. Investments are categorised as follows:

Available for sale

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'Available for sale'. Subsequent to initial measurement, 'Available for sale' investments are re-measured to fair value based on the closing quoted market rates ruling at the day-end. Net gains and losses arising on changes in fair values of these investments are taken to equity as part of Unit holders' Funds. When the securities are disposed of or impaired, the related fair value adjustments previously taken to equity are transferred to the Income Statement.

Held for trading

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in prices are classified as 'Held for trading'. These investments are marked to market, using the closing market rates at the end of each day and are carried on the Statement of Assets and Liabilities at fair value. Net gains and losses arising on changes in fair values of these investments are taken to the Income Statement.

3.3 Derivatives

Derivative instruments held by the Fund generally comprise of futures contracts in the capital market. These are initially recognised at cost and are subsequently remeasured at their fair value. The fair value of futures contracts is calculated as being the net difference between the contract price and the closing price reported on the primary exchange of the futures contracts. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of assets and liabilities. The resultant gains and losses are included in the income statement.

Derivative financial instruments entered into by the Fund do not meet the hedging criteria as defined by International Accounting Standard - 39, Recognition and Measurement of Financial Instruments (IAS - 39), consequently hedge accounting is not used by the Fund.

3.4 Securities under Repurchase/ Resale Agreements

Securities purchased under an agreement to resell (reverse repo) are included as receivable at the fair value of the consideration given. Securities sold, subject to a repurchase agreement (repo) are retained in the Statement of Assets and Liabilities as investments and the counterparty liability is included as payable. All these transactions are accounted for on the settlement date. The difference between the purchase and sale price is treated as income/(expense) in the Income Statement and is recognised over the term of the transactions.

3.5 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 date. 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. Transaction costs are recorded as the income of the Fund.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption applications during business hours of 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.

3.6 Element of Income / (loss) and Capital Gains / (losses) included in Prices of Units Sold less those in Units Repurchased

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

The Fund records the net element of accrued income/(loss) and realised capital gains/(losses) relating to units issued and redeemed during an accounting period in the Income Statement while the portion of the element of income/(loss) and capital gains/(losses) that relates to unrealised gains/(losses) held by the Fund in equity is recorded in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders.

3.7 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.

3.8 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 circulation at the year end.

3.9 Taxation

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any.

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

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that these will be available for set off against future taxable profit. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.10 Preliminary Expenses and Floatation Costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from 01 March 2002.

3.11 Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is 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 realise the assets and settle the liabilities simultaneously.

3.12 Financial Assets and Financial Liabilities

Financial assets carried on the Statement of Assets and Liabilities include bank balances, receivable against Carry Over Transactions, investments in marketable securities 'Held for trading', investments in marketable securities 'Available for sale', dividend and profit receivable and certain other receivables.

Financial liabilities carried on the Statement of Assets and Liabilities include payable against purchase of investments, payable on redemption of units, payable to Arif Habib Investment Management Limited – Management Company, payable to Central Depository Company of Pakistan Limited – Trustee and accrued expenses and other liabilities.

At the time of initial recognition, all financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Transaction costs are included in the initial measurement of all financial assets and financial liabilities except for transaction costs that may be incurred on disposal. All the financial assets and financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income statement.

3.13 Revenue Recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of securities classified as 'Held for trading' are included in the Income Statement in the period in which they arise as disclosed in the note 3.2 to these financial statements.
- Dividend income is recognised when the right to receive the dividend is established.
- Income on reverse repurchase transactions, carry over transactions and bank deposits is recognised on a time proportionate basis.

3.14 Transactions with Connected Persons

Transactions between the Fund and its "connected persons", as defined in the NBFC Rules, are carried out on an arm's length basis. The relevant rates are determined in accordance with the "Comparable Uncontrolled Price Method".

Transactions with connected persons have been disclosed in note 15 to these financial statements.

3.15 Cash and Cash Equivalents

Cash and cash equivalents comprise of bank balances including term deposits.

	Note	2005 (Rupees in '000)	2004 (Rupees in '000)
4. BANK BALANCES			
In current accounts		3,669	1,000
In deposit accounts		472,172	103,367
		<u>475,841</u>	<u>104,367</u>
5. INVESTMENTS			
In marketable securities -'held for trading'	5.1	115,430	31,618
In marketable securities -'available for sale'	5.2	1,735,076	606,040
		<u>1,850,506</u>	<u>637,658</u>

5.1 Investments in Marketable Securities 'Held for Trading'

Name of the Investee company	Number of shares / certificates					Market value	% of net assets
	As at 01 July 2004	Purchases during the Year	Bonus during the Year	Sales during the Year	As at 30 June 2005		

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

(Rupees in '000)

MUTUAL FUNDS

PICCGrowthFund	-	122450	-	-	122450	6576	024
						<u>6576</u>	

COMMERCIAL BANKS

NationalBankofPakistan	115700	418380	9864	349994	193950	20997	077
TheBankofPunjab	71250	394320	43214	355194	153950	12863	047
FaysalBankLimited	-	316720	31672	-	348392	18743	069
						<u>52543</u>	

CEMENT

LuckyCementLimited	-	203160	-	196280	6900	314	001
						<u>314</u>	

TEXTILE COMPOSITE

NishatMillsLimited	-	357140	-	357140	-	-	-
						<u>-</u>	

OIL & GAS EXPLORATION COMPANIES

PakistanOilFieldsLimited	37626	113530	-	65286	85870	24164	089
Oil&GasDevelopmentCompanyLimited	-	846030	-	697530	148600	15637	068
PakistanPetroleumLimited	-	46920	-	46920	-	-	-
						<u>39801</u>	

OIL & GAS MARKETING COMPANIES

PakistanStateOilCompanyLimited	5550	148065	-	153635	-	-	-
						<u>-</u>	

TECHNOLOGY AND COMMUNICATION

PakistanTelecommunicationCompanyLimitedA	158800	1758580	-	1863130	54250	3578	013
						<u>3578</u>	

FERTILIZER

EngroChemicalPakistanLimited	43550	108700	-	64015	88245	10170	037
FaujiFertilizerCompanyLimited	-	135820	19465	135145	20170	2448	009
						<u>12618</u>	

115,430

5.2 Investments in Marketable Securities 'Available for Sale'

Name of the Investee company	----- Number of shares / certificates -----					Market value	% of net assets
	As at 01 July 2004	Purchases during the Year	Bonus during the Year	Sales during the Year	As at 30 June 2005		
SHARES/CERTIFICATES OF LISTED COMPANIES/MODARABAS						(Rupees in '000)	
- Fully paid ordinary shares / certificates of Rs. 10 each unless stated otherwise							
MUTUAL FUNDS							
PICCGrowthFund	-	1,102,050	-	-	1,102,050	59,180	2.18
						<u>59,180</u>	
MODARABAS							
B.R.R. International Modaraba	50,000	-	-	-	50,000	398	0.01
						<u>398</u>	
COMMERCIAL BANKS							
National Bank of Pakistan	1,041,300	3,054,420	324,460	2,626,786	1,793,394	193,597	7.14
The Bank of Punjab	641,250	3,367,180	388,926	3,015,046	1,382,310	115,768	4.27
Faysal Bank Limited	-	2,850,480	285,048	-	3,135,528	168,691	6.22
						<u>478,056</u>	
CEMENT							
Lucky Cement Limited	-	2,719,040	-	1,766,340	952,700	43,348	1.60
						<u>43,348</u>	
TEXTILE SPINNING							
Reliance Cotton Spinning Mills Limited	22,000	-	-	-	22,000	581	0.02
						<u>581</u>	
TEXTILE WEAVING							
Kohinoor Weaving Mills Limited	222,860	24,000	24,686	-	271,546	8,499	0.31
						<u>8,499</u>	
TEXTILE COMPOSITE							
Artistic Denim Mills Limited	-	15,900	-	-	15,900	2,945	0.11
Azgard Nine Limited	-	217,250	-	-	217,250	6,952	0.26
Gul Ahmed Textile Mills Limited	43,391	-	5,423	-	48,814	2,714	0.10
Nishat (Chunian) Mills Limited	266,100	358,600	312,350	-	937,050	89,113	3.28
Reliance Weaving Mills Limited	205,875	-	41,175	-	247,050	6,683	0.25
Suraj Cotton Mills Limited	12,250	-	-	-	12,250	613	0.02
Nishat Mills Limited	-	4,015,960	-	2,909,760	1,106,200	84,071	3.10
						<u>193,091</u>	
REFINERY							
Attock Refinery Limited	-	189,200	37,840	-	227,040	36,225	1.34
National Refinery Limited	294,600	173,950	-	-	468,550	148,202	5.46
						<u>184,427</u>	
OIL & GAS MARKETING COMPANIES							
Pakistan State Oil Company Limited	49,950	882,765	-	928,365	4,350	1,679	0.06
Shell Pakistan Limited	49,650	-	-	-	49,650	27,501	1.01
Sui Southern Gas Company Limited	-	361,100	-	-	361,100	8,359	0.31
						<u>37,539</u>	

Name of the Investee company	----- Number of shares / certificates-----					Market value	% of net assets
	As at 01 July 2004	Purchases during the Year	Bonus during the Year	Sales during the Year	As at 30 June 2005		

SHARES / CERTIFICATES OF LISTED COMPANIES / MODARABAS

(Rupees in '000)

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

OIL & GAS EXPLORATION COMPANIES

Pakistan Oilfields Limited	338,634	1,003,770	-	569,574	772,830	217,474	8.02
Oil & Gas Development Company Limited	-	5,364,270	-	4,027,750	1,336,520	140,736	5.19
Pakistan Petroleum Limited	-	422,280	-	422,280	-	-	-
						<u>358,210</u>	

ENGINEERING

International Industries Limited	-	215,000	-	-	215,000	22,575	0.83
						<u>22,575</u>	

AUTOMOBILE ASSEMBLER

Honda Atlas Cars (Pakistan) Limited	179,100	-	-	-	179,100	10,209	0.38
Indus Motor Company Limited	839,750	-	-	839,750	-	-	-
Pak Suzuki Motor Company Limited	294,300	-	-	294,300	-	-	-
						<u>10,209</u>	

TECHNOLOGY AND COMMUNICATION

Pakistan Telecommunication Company Limited 'A'	1,429,200	3,241,420	-	4,182,370	488,250	32,200	1.19
						<u>32,200</u>	

FERTILIZER

Engro Chemical Pakistan Limited	392,040	978,300	-	576,135	794,205	91,532	3.37
Fauji Fertilizer Company Limited	-	1,222,380	284,105	543,755	962,730	116,827	4.31
						<u>208,359</u>	

CHEMICAL

BOC Pakistan Limited	27,900	-	-	-	27,900	4,129	0.15
						<u>4,129</u>	

PAPER AND BOARD

Century Paper & Board Mills Limited	263,000	92,100	-	-	355,100	29,456	1.09
Security Papers Limited	40,878	-	-	-	40,878	5,723	0.21
Packages Limited	268,355	126,126	-	-	394,481	55,227	2.04
						<u>90,406</u>	

FOOD & PERSONAL CARE PRODUCTS

Nestle MilkPak Limited	7,300	-	-	-	7,300	3,869	0.14
						<u>3,869</u>	
						<u>1,735,076</u>	

	Note	2005 (Rupees '000)	2004
5.3 Net unrealised appreciation/ (diminution) in fair value of investments classified as 'available for sale'			
Fair value of investments		1,735,076	606,040
Less: Cost of investments		(1,478,107)	(481,510)
		<u>256,969</u>	<u>124,530</u>
Less: Net unrealised appreciation in fair value of investments at the beginning of year		(124,530)	(125,144)
		<u>132,439</u>	<u>(614)</u>
5.4 Net unrealised appreciation in fair value of investments classified as 'held for trading'			
Fair value of investments		115,430	31,618
Less: Cost of investments		(107,742)	(30,862)
		<u>7,688</u>	<u>756</u>
Less: Net unrealised appreciation in fair value of investments at the beginning of year		(756)	(2,017)
Add: Realised on disposal during the year		756	2,017
		<u>-</u>	<u>-</u>
		<u>7,688</u>	<u>756</u>
6. DIVIDEND AND PROFIT RECEIVABLE			
Dividend receivable		4,805	1,094
Income accrued on Carry Over Transactions		154	24
Profit accrued on bank deposits		643	797
		<u>5,602</u>	<u>1,915</u>
7. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Tax deducted at source		664	340
Receivable from Pakistan Income Fund		-	711
Deposit with National Clearing Company of Pakistan Limited		1,000	1,000
Deposit with Central Depository Company of Pakistan Limited		100	200
		<u>1,764</u>	<u>2,251</u>
8. PRELIMINARY EXPENSES AND FLOATATION COSTS			
Opening balance	8.1	1,333	1,833
Less: Amortisation during the year		(500)	(500)
Balance as at 30 June		<u>833</u>	<u>1,333</u>

8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from 01 March 2002.

9. PAYABLE TO ARIF HABIB INVESTMENT MANAGEMENT LIMITED – MANAGEMENT COMPANY		2005	2004
		(Rupees in '000)	
	Note		
Management fee	9.1	6,061	2,451
Sales load payable		923	868
Transaction costs receivable		(861)	(117)
		<u>6,123</u>	<u>3,202</u>

9.1 Under the provisions of the NBFC Rules, 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 its remuneration at the rate of three percent per annum for the current year.

10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

The Trustee is entitled to a monthly remuneration for services based on the daily NAV of the Fund at the rate specified in the Trust Deed. The Trustee fee was revised with effect from 01 March 2005.

		2005	2004
		(Rupees in '000)	
Remuneration payable		285	216
CDS charges payable		35	48
		<u>320</u>	<u>264</u>

11. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration		290	494
Withholding tax payable		91	135
Legal and professional charges payable		77	-
SECP annual fee payable	11.1	1,810	1,305
Brokerage		156	140
Zakat payable		36	-
Financial charges payable		30	-
Unclaimed dividend		738	-
		<u>3,228</u>	<u>2,074</u>

11.1 Under the provisions of the NBFC Rules, a unit trust scheme is required to pay as annual fee to the SECP, an amount equal to one-tenth of one percent of the average annual net assets of the Fund.

12. CONTINGENCIES AND COMMITMENTS

During the year the Fund has entered into certain Carry Over Transactions with the counter parties in which the Fund earned COT premium amounting to Rs. 106,417 in excess of the limits specified by one of the Stock Exchanges. The management is of the view that the Fund is entitled to the full benefit of the rates at which the transactions were carried out as these were mutually agreed rates between the transacting parties.

	Note	2005 (Rupees in '000)	2004
Carry Over Transactions entered into by the Fund in respect of which the purchase transactions have not been settled as at year end.		-	119,372
13. AUDITOR'S REMUNERATION			
Audit fee		150	150
Other certifications and services		385	407
Out of pocket expenses		51	36
		<u>586</u>	<u>593</u>

14. EARNINGS PER UNIT

Earnings per Unit (EPU) has not been disclosed as in the opinion of the management determination of weighted average units for calculating EPU is not practicable. Upto previous year EPU was calculated based on the number of units outstanding at the year end.

15. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investment Management Limited being the Management Company and Arif Habib Securities Limited being a company under common management. The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

Arif Habib Investment Management Limited- Management Company

		2005 (Rupees in '000)	2004
Remuneration		54,308	34,495
Salesload		28,996	6,763
Transaction costs		3,119	111
Arif Habib Securities Limited - Brokerage House			
Brokerage - net	15.1	1,519	423
Redemption from the Fund (Nil units, 2004: 5,236,471 units)		-	511,304
Directors and Officers			
Investment in the Fund (249,771 units, 2004: 176,413 units)		28,461	16,959
Redemption from the Fund (240,462 units, 2004: 145,953 units)		27,048	13,776

15.1 The transactions with connected persons disclosed above does not include transactions carried out by the Fund relating to purchase or sale of securities or Carry Over Transactions where the connected person had acted in the capacity of a broker or intermediary and the ultimate counter person was not a connected person of the Fund.

15.2 All the above transactions with connected persons have been carried out at arm's length prices determined in accordance with the method disclosed in note 3.14 to these financial statements.

16. MARKET RATE OF RETURN (MROR) SENSITIVITY POSITION

16.1 The Fund's MROR sensitivity related to financial assets and financial liabilities as at 30 June 2005 can be determined from the following:

	Effective rate of mark-up/return (%)	-----Exposed to MROR risk-----				Total
		Upto three months	More than three months and upto one year	More than one year	Not exposed to MROR risk	
----- (Rupees in '000) -----						
On-balance sheet financial instruments						
Financial Assets						
Bank balances	1.25 to 9	472,172	-	-	3,669	475,841
Receivable against carry over transactions	5.22 to 24	500,177	-	-	-	500,177
Investments in marketable securities - 'Held for trading'		-	-	-	115,430	115,430
Investments in marketable securities - 'Available for sale'		-	-	-	1,735,076	1,735,076
Advances, deposits, prepayments and other receivables		-	-	-	1,100	1,100
Dividend and profit receivable		-	-	-	5,602	5,602
		972,349	-	-	1,860,877	2,833,226
Financial Liabilities						
Accrued expenses and other liabilities		-	-	-	1,291	1,291
Payable on redemption of units		-	-	-	31,006	31,006
Payable against purchase of investments		-	-	-	81,061	81,061
Payable to Arif Habib Investment Management Limited - Management Company		-	-	-	6,123	6,123
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	320	320
		-	-	-	119,801	119,801
On-balance sheet gap		972,349	-	-	1,741,076	2,713,425

17. MATURITIES OF ASSETS AND LIABILITIES

	Total	Upto three months	Over three months and upto one year	Over one year
----- (Rupees in '000) -----				
Assets				
Bank balances	475,841	475,841	-	-
Receivable against Carry Over Transactions	500,177	500,177	-	-
Investments in marketable securities - 'held for trading'	115,430	115,430	-	-
Investments in marketable securities - 'available for sale'	1,735,076	1,735,076	-	-
Advances, deposits, prepayments and other receivables	1,764	-	664	1,100
Dividend and profit receivable	5,602	5,602	-	-
Preliminary expenses and floatation costs	833	126	374	333
	<u>2,834,723</u>	<u>2,832,252</u>	<u>1,038</u>	<u>1,433</u>
Liabilities				
Accrued expenses and other liabilities	3,228	3,228	-	-
Payable on redemption of units	31,006	31,006	-	-
Payable against purchase of investments	81,061	81,061	-	-
Payable to Arif Habib Investment Management Limited – Management Company	6,123	6,123	-	-
Payable to Central Depository Company of Pakistan Limited – Trustee	320	320	-	-
	<u>121,738</u>	<u>121,738</u>	<u>-</u>	<u>-</u>
	<u>2,712,985</u>	<u>2,710,514</u>	<u>1,038</u>	<u>1,433</u>

18. RISK MANAGEMENT

The Fund is primarily a stock market fund, which invests in shares of listed companies. Investment in shares of companies carries a risk that is considered higher than that of investment in debt securities. Capital invested in the stock market could, in extreme circumstances, lose its entire value. However, studies show that diversification of the investment into a number of shares and industrial sectors with a reasonably longer-term investment horizon reduces the risk associated with investing in the stock market. The risk emanates from various factors that include, but are not limited to:

18.1 Market Risk

Market risk is the risk of volatility in share prices resulting from their dependence on market sentiments, speculative activities, supply and demand for shares and liquidity in the market. The volatility in share prices results in volatility in the NAV based price of the Fund. The value of investments may fluctuate due to change in business cycles affecting the business of the company in which the investment is made, change in business circumstances of the company, its business sector, industry and / or the economy in general.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan.

18.2 Credit Risk

Credit Risk Management

Credit risk arises from the inability of the relevant brokerage house or the counter party to fulfill their obligations. There is a possibility of default by participants or failure of the financial markets / stock exchanges, the depositories, the settlements or clearing system, etc.

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Investment Committee. In addition, the risk is managed through assignment of credit limits and by following strict credit evaluation criteria laid down by the 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. Financial assets subject to credit risk amount to Rs. 500 million (2004: Rs. 380 million). 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.

18.3 Liquidity Risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Management Company manages the liquidity risk by investing a major portion of the Fund's assets in highly liquid shares.

18.4 Market Rate of Return (MROR) Risk

MROR risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund has minimal MROR exposure as it primarily invests in listed securities.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investment in marketable securities is based on the closing market prices ruling at the day-end. The management is of the view that the fair market 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.

20. PERFORMANCE TABLE	2005	2004	2003	2002*
Net assets (Rs. '000)	2,712,985	1,051,643	783,991	322,974
Net income (Rs. '000)	1,171,637	382,103	199,155	9,224
Net Asset Value per Unit before bonus units (Rs.)	115.10	111.99	89.02	50.31
Net Asset Value per Unit after bonus units (Rs.)	90.10	81.99	69.02	48.97
Dividend distribution (%)	70***	60**	40**	3**
Highest offer price per unit (Rs.)	148.71	118.59	92.85	54.08
Lowest offer price per unit (Rs.)	83.28	71.81	50.58	47.60
Highest repurchase price per unit (Rs.)	144.99	115.63	90.53	51.65
Lowest repurchase price per unit (Rs.)	81.20	70.01	48.30	45.46

* First year of operations from the period 01 March 2002 to 30 June 2002

** Stock dividend

*** Interim Cash Dividend of 20% and Stock Dividend of 50%

21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 30 July 2005 by the Board of Directors of the Management Company.

22. GENERAL

22.1 Corresponding figures have been re-arranged and re-classified wherever necessary, for the purpose of comparison.

22.2 Figures have been rounded off to the nearest thousand Rupees.

For Arif Habib Investment Management Limited
(Management Company)

Chief Executive

Director

For Central Depository Company of Pakistan Limited
(Trustee)

Chief Executive