

PAKISTAN STOCK MARKET FUND

PSM

QUARTERLY REPORT MARCH 31, 2011 (Unaudited)

BRANCHES:

Lahore:

Contact Person: Mr. Tanweer Ahmad Haral
16, Block-A, Hali Road, Gulberg II, Lahore.
Tel: (+92-42) 35714958, 35714959
Fax: (+92-42) 35714957
E-mail: lhr.mkt@arifhabib.com.pk

Rawalpindi:

Contact Person: Mr. Zahiruddin Khan
60-A, Canning Road, Rawalpindi-46000.
Tel: (+92-51) 111-468-378 (111-INVEST), 5564093
E-mail: rwp.mkt@arifhabib.com.pk

Islamabad:

Contact Person: Mr. Nadeem Ishtiaq
15 Beverly Centre, 2nd Floor,
Blue Area, Jinnah Avenue, Islamabad.
Tel: (+92-51) 2875939-2814189
Fax: (+92-51) 2814199
E-mail: isl.mkt@arifhabib.com.pk

Multan:

Contact Person: Syed Nawazish Ali Zaidi
143-144, Mall Plaza, Multan Cantt., Multan.
Tel: (+92-61) 111-468-378 (111-INVEST), 4546235, 6014125
Fax: (+92-61) 4546235
E-mail: mul.mkt@arifhabib.com.pk

Peshawar:

Contact Person: Mr. Iltifatullah Khan
1st Floor, State Life Building, 34 The Mall, Peshawar.
Tel: (+92-91) 111-468-378 (111-INVEST), 5287696
Fax: (+92-91) 5287697
E-mail: psw.mkt@arifhabib.com.pk



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FUND'S INFORMATION

Management Company

Arif Habib Investments Limited
Arif Habib Centre, 23 M. T. Khan Road,
Karachi -74000.

Board of Directors of the Management Company

Mr. Muhammad Shafi Malik	Chairman
Mr. Nasim Beg	Chief Executive
Syed Ajaz Ahmed	Director
Mr. Sirajuddin Cassim	Director
Mr. Muhammad Akmal Jameel	Director
Mr. Muhammad Kashif	Director
Mr. S. Gulrez Yazdani	Director
Mr. Samad A.Habib	Director

Company Secretary & CFO of the Management Company

Mr. Zeeshan

Audit Committee

Mr. Muhammad Shafi Malik	Chairman
Syed Ajaz Ahmed	Member
Mr. Muhammad Akmal Jameel	Member
Mr. Samad A.Habib	Member

Trustee

Central Depository Company of Pakistan Limited (CDC)
CDC House, 99-B, S.M.C.H.S
Main Shahrah-e-faisal, Karachi.

Bankers

Summit Bank Limited (<i>formerly: Arif Habib Bank Limited</i>)	Bank AL-Habib Limited
Allied Bank Limited	Deutsche Bank A.G.
Bank Alfalah Limited	United Bank Limited
Habib Metropolitan Bank Limited	Soneri Bank Limited
MCB Bank Limited	The Royal Bank of Scotland
Meezan Bank Limited	Habib Bank Limited
Standard Chartered Bank (Pakistan) Limited	Askari Commercial Bank Limited

Auditors

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

Legal Adviser

M/s. Bawaney & Partners
404, Beaumont Plaza, 6-CL-10,
Beaumont Road, Civil Lines, Karachi-75530

Registrar

M/s. Gangjees Registrar Services (Pvt.) Limited.
Room No. 516, Clifton Centre,
Kehkashan, Clifton, Karachi.

Rating

PACRA: 4-Star (Normal)
PACRA : 4-Star (Long Term)
PACRA: AM2 (Positive Outlook) - Management Quality Rating assigned to Management Company



REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE NINE MONTHS ENDED MARCH 31, 2011

The Board of Directors of Arif Habib Investments Limited, the Management Company of Pakistan Stock Market Fund (PSM) is pleased to present its Report together with the Condensed Interim Financial Statements for the nine months ended 31st March 2011.

Fund Objective

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

Fund Profile

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 invested in 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.

PSM is a long only fund and cannot undertake leveraged investments.

Fund Performance during the nine months ended 31st March 2011

The Net Assets of the Fund as at 31st March 2011 stood at Rs 1,358.67 million as compared to Rs 1,841.34 million as at 30th June 2010, registering a decrease of 26.21%. The reduction was driven by investors seeking to reduce equity exposure.

The Net Asset Value (NAV) per unit as at 31st March 2011 was Rs 61.74 as compared to opening Ex NAV of Rs. 49.64 per unit as at 30th June 2010, registering an increase of Rs 12.10 per unit during the period.

Future Outlook

Future Outlook and Fund Performance is fully explained in Fund Manager Report attached to this report.

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 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

Karachi
April 23, 2011

Nasim Beg
Chief Executive



REPORT OF THE FUND MANAGER FOR THE QUARTER ENDED MARCH 31, 2011

Fund Objective

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

Fund Profile

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.

PSM is a long only fund. Under the NBFC Rules, it is only allowed to borrow up to 15% of net assets for up to 90 days to meet redemption needs.

Fund Performance

PSM NAV increased 4.63% in 3Q FY11, against a drop of 1.77% in KSE-100 Index. The stock price of Index heavyweight OGDC fell 20.6% during the quarter, resulting in an overall decline in KSE-100 Index. PSM was not invested in OGDC during this time. Moreover, outperformance was also a result of double digit return on some of the key holdings, including Engro, POL, ICI, and FFC, while NML and Searle, also contributed positive returns. Packages, ABL and PSO were major underperformers during this period.

Overall PSM return for 9 months FY11 was 24.38%, compared to 21.47% return for KSE-100 Index.

	<i>PSM</i>	
	Fund	BM
Jan-11	2.32	2.80
Feb-11	-6.26	-8.66
Mar-11	9.08	4.61
QoQ	4.63	-1.77
FY	24.38	21.47

Asset allocation and Investment Activities

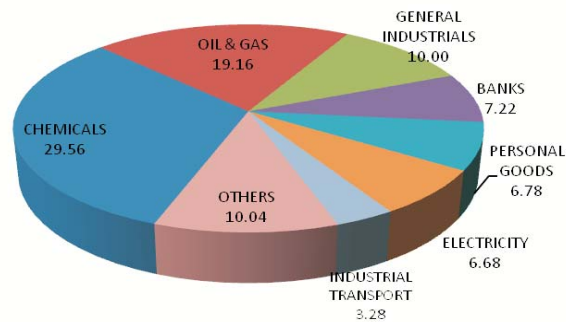
During the quarter in review, there were redemptions worth about 21% of net assets. These redemptions were partially met through sale of the Fund's liquid portfolio. On average, the Fund was 96% invested in equities, with quarter end exposure of 92.71%, compared to 94.60% at end December 2010. Major executions during the quarter (other than to meet redemptions) were as follows:

Fatima Fertilizer: The Fund added exposure in Fatima Fertilizer, keeping in view the commencement of its commercial production and expected ADR issue. At quarter end, PSM had 2.56% exposure in the stock.

Searle: The Fund gradually reduced its holding in Searle as the stock price reached its fair value in the rising equity market.

PSMC: PSM reduced its allocation in the stock amidst concerns over continuous pressure on margins and profitability.

Top 10 holdings on 31st Mar, 2011	
Engro Corp	10.20
Packages Limited	10.00
ICI Pakistan	8.86
Pakistan Oilfields	8.13
Pakistan Petroleum	7.75
Nishat Mills	6.52
Fauji Fertilizer Company	5.72
Allied Bank	5.55
Hub Power Company	3.38
Kot Addu Power Company	3.29



Equity market review

The KSE 100 index finished the third quarter of current fiscal year (first quarter of 2011) in negative, falling by 1.77% to 11809. The market started 2011 on a positive note with the index gaining 6% by January 18 and touched the level of 12,768 due to higher inflows from foreign investors in index heavy weight stocks. However, the market reversed its course in February, when worsening situation in Egypt and Tunisia led to sharp fall in global equities. The index made its low on February 25 near 11200, before bouncing back in the first week of March after the announcement of MTS implementation.

Key driver in the index performance remained its heavy weight stock OGDC (24% weight), which has started to retreat and fallen by 27% after peaking at Rs. 185 (intraday high) on January 10. Minus OGDC, majority of other leading stocks finished the quarter with fresh gains. Top performing sectors during the quarter were Fertilizer, Oil & Gas (with the exception of OGDC), Banks and Cement. Foreign investors remained net buyers in Pakistan with net inflow of US\$ 52mn during the quarter, with March seeing an outflow of US\$ 16mn mainly due to selling in OGDC.

Total outstanding leveraged investment in MTS was only Rs 228mn by quarter end (started March 14), an indication of cautious initial response of participants (financees and financiers). During the quarter, average daily turnover increased to 129mn shares compared to 124mn in the second quarter of FY11, however, trading volumes after hitting highs over 200 mn daily in January witnessed a declining trend and had fallen below 100 m daily by March end.

Market outlook

We expect the equity market to move in a narrow band ahead of the budget announcement in early June. Given the continuing high fiscal deficit (approximately 6% of GDP) new taxes, withdrawal of tax exemptions and implementation of RGST are on the cards for the next fiscal year. At the same time, inflation remains a key threat in the backdrop of rising commodity prices in particular oil. Therefore, interest rates are expected to remain at elevated levels with policy rate remaining at 14% for the next few months. On relative valuation downside appears to be less for equities as stock prices of major companies are trading in the range of 7x-9x on 2011 earnings. On the basis of consensus forecast, amongst listed sectors, chemicals/fertilizer, oil and gas exploration, cement (select stocks), major banks and FMCGs are expected to show improvement in earnings growth in 2011.

3QFY11 Economic Review

During the third quarter of the fiscal year, pick up in textile exports and higher remittances helped in reducing the pressure from rising international oil prices and keeping the current account deficit in check. The rate of increase in inflation has reduced during the quarter to 13.16% in March compared to 15.45% YoY growth in December, therefore allowing the central bank to keep the discount rate unchanged at 14% during the last two monetary policy reviews. Following the last round of talks with IMF in March, the government has finally taken additional taxation measures to reduce the rising fiscal gap for the current fiscal year.

Fiscal Side

Given the rising fiscal deficit (2.8% of GDP during 1HFY11 against the full year target of 5.5%), GoP introduced new taxation measures in March which would collect Rs 53 billion through removal of subsidies and/or further taxes on income, imports, agriculture, and domestic sales of zero-rated export-oriented items, while Rs 67 billion is expected to be saved from the government expenditure side. Of Rs53 billion, Rs20 billion will be collected through 15% flood surcharge on income-tax, Rs25 billion revenue will be accumulated through withdrawal of sales tax exemptions on fertilizers, pesticides and tractors, Rs6 billion revenue through increase in special excise duty on imports from 1% - 2.5% and Rs2 billion proceeds from increase in tax on sugar.

Total tax collection from July - February, 2011 summed up to Rs 876 billion against a target of Rs1600 billion for the full FY. With the above mentioned measures, it is now expected that tax revenue target for the current fiscal year is likely to be met. However, given the additional expenditures on last year floods, the fiscal deficit is expected to be higher than the government target of 5.5% for the year ending June 2011.

Inflation

Inflation figures for 3QFY11 came down considerably from 15.45% YoY in December, 2010 to 13.16% YoY in March 2011. This was due to the following reasons: first, high base-effect of last year starting January, 2010, and second, containment of government borrowing from the SBP within agreed limits. Nonetheless, inflation is expected to edge higher over the next few months given the outlook of an increase in international commodity prices especially oil prices, higher domestic commodity prices with the introduction of 'mini-budget' to enhance the tax base, and expectations of an increase in government borrowing to fund fiscal deficit.

Real Sector

Large Scale Manufacturing (LSM) figures for July - January 2011 showed an increase of 2.34% over the corresponding period of last year. The growth in manufacturing is restricted to few sectors, with majority of the industries showing decline. Textiles, Pakistan's largest industry having one fourth of the total weight could only increase by 0.6%. Major contribution has come from sugar sector (4.15% weight) showing a growth of 8.1% till January and which is likely to improve further as recent reports suggest that total output of sugar for this year has exceeded 4 m tones compared to only 3.1 m tones in the previous year. Other growth sectors have been automobile production (+16.8%), Pharmaceuticals (+5.8%), chemicals (+3.5%) and leather products (14.2%). All other manufacturing sectors were in decline including Food and beverages (-2%), petroleum products (-6.2%), metal industries (-8.1%), non metallic minerals (-11.8%), fertilizers (-7.2%) and cement (-10.6%).

External Side

External sector continued to post encouraging figures in 3QFY11. Current Account Deficit (CAD) from July - February, 2011 equaled US\$98 million against US\$3027 million deficit in the same period of preceding year, thus showing a decrease of almost 97%. This is explained by an improvement in balance on Goods & Services & Income account where deficit decreased from US\$11.2 billion in July-February, 2010, to US\$9.9 billion in the same period of current FY. Remittances also played a key role in uplifting the CAD as US\$8.02 billion were received from July- March, 2011 against US\$6.54 billion in the corresponding period of last year, thus showing a growth of 22.39%. The SBP expects current account deficit for FY 11 in the range of 1 - 1.5%. Exports from July - March, 2011 were US\$18.1 billion against a US\$14.3 billion exports in the same period last year, posting a robust growth of 26.6% YoY. Textile export was yet once again the major determinant of this growth as US\$9.92 billion was contributed by textiles. Imports for the same period equaled US\$29.1 billion against US\$ 25.1 billion in the first 9 months of last FY. This translates into a growth 15.97%. Petroleum group imports stood at US\$8.15 billion from July - March, 2011 showing a growth of 11%. Forex reserves YtD (March19th, 2011) closed at US\$17.5 billion against US\$16.75 billion at the end of FY10.

Moreover, Asian Development Bank approved a US\$650 million loan which will be used to build the damaged infrastructure due to the floods which hit the country early FY11.

**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES
AS AT 31 MARCH 2011**

	Note	31 March 2011 Unaudited	30 June 2010 Audited
(Rupees in '000)			
ASSETS			
Balances with banks		80,558	13,780
Receivable against sale of investments		5,388	51,925
Receivable against sale of units		105	2,669
Investments	5	1,259,566	1,779,291
Dividend and markup receivable		12,214	503
Advances, deposits, prepayments and other receivables		7,082	4,218
Total assets		1,364,913	1,852,386
LIABILITIES			
Payable to Management Company		2,491	3,465
Payable to Central Depository Company of Pakistan Limited - Trustee		197	242
Payable to Securities and Exchange Commission of Pakistan		1,182	2,050
Payable on redemption of units		76	1,580
Accrued expenses and other liabilities		2,296	3,709
Total liabilities		6,242	11,046
NET ASSETS		1,358,671	1,841,340
Unit holders' funds (As per statement attached)		1,358,671	1,841,340
CONTINGENCIES AND COMMITMENTS	6		
(Number of units)			
Number of units in Issue		22,007,802	31,028,566
(Rupees)			
NET ASSET VALUE PER UNIT		61.74	59.34

The annexed notes 1 to 9 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM INCOME STATEMENT (UNAUDITED)
FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2011**

	Note	Nine months ended 31 March		Quarter ended 31 March	
		2011	2010	2011	2010
		(Rupees in '000)		(Rupees in '000)	
INCOME					
Capital gain on sale of investments		134,126	243,149	52,744	46,008
Dividend income		61,646	80,758	20,805	28,480
Income from investment in government securities		19,766	4,174	381	1,970
Profit on bank deposits		2,943	20,288	1,039	2,535
Income from placement with financial institutions		-	7,848	-	5,067
Impairment loss in investment classified as 'available for sale' 5.7		(774)	(1,101)	(572)	(640)
		217,707	355,116	74,397	83,420
Net unrealised appreciation / (diminution) in value of investments classified as 'at fair value through profit or loss'		177,308	255,059	(11,391)	(2,943)
Total income		395,015	610,175	63,006	80,477
EXPENSES					
Remuneration of the Management Company		24,657	32,856	7,175	10,979
Remuneration of Central Depository Company of Pakistan Limited - Trustee		1,983	2,394	608	796
Annual fee - Securities and Exchange Commission of Pakistan		1,182	1,561	341	522
Securities transaction cost		2,628	4,373	1,011	1,230
Settlement and bank charges		716	452	196	188
Fees and subscriptions		156	156	51	51
Legal and professional charges		75	98	25	15
Auditors' remuneration		300	255	84	52
Printing and related cost		225	280	96	113
Total expenses		31,922	42,425	9,587	13,946
Net income from operating activities		363,093	567,750	53,419	66,531
Element of (loss) and capital (losses) included in the prices of units issued less those in units redeemed - forming part of income		(60,998)	(40,954)	(38,731)	(22,474)
Net income for the period before taxation		302,095	526,796	14,688	44,057
Other comprehensive (loss) /income for the period					
Net element of loss and capital losses included in prices of units issued less those in units redeemed - amount representing unrealised diminution / appreciation		(19,963)	(15,301)	(15,052)	(6,853)
Net unrealised (diminution) / appreciation in fair value of investments classified as available for sale		(13,025)	38,039	8,450	2,433
Total comprehensive income for the period		269,107	549,534	8,086	39,637

The annexed notes 1 to 9 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)
FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2011**

	Nine months ended 31 March		Quarter ended 31 March	
	2011	2010	2011	2010
	(Rupees in '000)		(Rupees in '000)	
Undistributed income / accumulated (losses) brought forward	202,333	(159,341)	183,852	314,950
Final distribution at the rate of Rs. 9.7 per unit for the year ended 30 June 2010 - Date of distribution: 05 July 2010 (2009: Nil)				
- Cash distribution	(18,442)	-	-	-
- Issue of bonus units	(282,535)	-	-	-
Net income for the period after taxation	302,095	526,796	14,688	44,057
Element of (loss) and capital (losses) included in prices of units issued less those in units redeemed - part of unit holders' fund	(19,963)	(15,301)	(15,052)	(6,853)
	(18,845)	511,495	(364)	37,204
Undistributed income carried forward	<u>183,488</u>	<u>352,154</u>	<u>183,488</u>	<u>352,154</u>

The annexed notes 1 to 9 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2011**

	Nine months ended 31 March		Quarter ended 31 March	
	2011	2010	2011	2010
	(Rupees in '000)		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period before taxation	302,095	526,796	14,688	44,057
Adjustments				
Net unrealised (appreciation) / diminution in value of investments classified as at 'fair value through profit or loss'	(177,308)	(255,059)	11,391	2,943
Element of loss and capital losses included in the prices of units issued less those in units redeemed	60,998	40,954	38,731	22,474
Dividend income	(61,646)	(80,758)	(20,805)	(28,480)
Impairment loss recognised on available for sale investments	774	1,101	572	640
Remuneration of the Management Company	24,657	32,856	7,175	10,979
Remuneration of Central Depository Company of Pakistan	1,983	2,394	608	796
	<u>151,553</u>	<u>268,284</u>	<u>52,360</u>	<u>53,409</u>
Decrease / (increase) in assets				
Investments	683,234	(294,294)	339,263	(314,746)
Loans and Receivables	-	-	-	200,000
Markup receivable	136	3,035	30	1,536
Deposits, prepayments and other receivables	(2,864)	3,859	(3,293)	3,618
Receivable against sale of investments	46,537	(1,329)	(5,388)	(10,249)
	<u>727,043</u>	<u>(288,730)</u>	<u>330,612</u>	<u>(119,842)</u>
(Decrease) / increase in liabilities				
Payable against purchase of investments	-	6,315	(19)	18,674
Payable to Management Company	(24)	(34)	(24)	(6)
Payable to Trustee	-	7	15	11
Payable to Securities and Exchange Commission of Pakistan	(868)	(427)	341	522
Accrued expenses and other liabilities	(1,413)	(3,534)	(1,543)	522
	<u>(2,305)</u>	<u>2,327</u>	<u>(1,230)</u>	<u>19,723</u>
Remuneration paid to the Management Company	(25,607)	(32,172)	(7,640)	(8,280)
Remuneration paid to Central Depository Company of Pakistan Limited - Trustee	(2,028)	(2,357)	(628)	(800)
Dividend received	49,799	74,788	8,958	16,420
Net cash inflow from / (used in) operating activities	<u>898,455</u>	<u>22,140</u>	<u>382,432</u>	<u>(39,370)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Net payments made against redemption / issue of units	(813,235)	(305,413)	(338,891)	(144,602)
Dividend Paid	(18,442)	-	-	-
Net cash used in from financing activities	<u>(831,677)</u>	<u>(305,413)</u>	<u>(338,891)</u>	<u>(144,602)</u>
Net increase / (decrease) in cash and cash equivalents	<u>66,778</u>	<u>(283,273)</u>	<u>43,541</u>	<u>(183,972)</u>
Cash and cash equivalents at the beginning of the period	<u>13,780</u>	<u>364,762</u>	<u>37,017</u>	<u>265,461</u>
Cash and cash equivalents as at 31st March	<u>80,558</u>	<u>81,489</u>	<u>80,558</u>	<u>81,489</u>

The annexed notes 1 to 9 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT
IN UNIT HOLDERS' FUNDS (UNAUDITED)
FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2011**

	Nine months ended 31 March		Quarter ended 31 March	
	2011 (Rupees in '000)	2010	2011 (Rupees in '000)	2010
Net assets at the beginning of the period	1,841,340	1,847,886	1,636,529	2,219,435
Issue of units 6,754,371 (2010: 14,997,944 units) and 2,535,411 units (2010: 2,875,943 units) for the nine months and quarter respectively	374,802	878,334	152,179	178,671
Issue 5,691,689 bonus units for the year ended 30 June 2010 (2009: Nil)	282,535	-	-	-
Redemption of 21,466,824 units (2010: 20,078,237 units) and 8,261,722 units (2010: 5,189,280 units) for the nine months and quarter respectively	(1,189,097)	(1,188,603)	(491,906)	(323,664)
	(531,760)	(310,269)	(339,727)	(144,993)
Element of loss and capital losses included in prices of units issued less those in units redeemed				
- amount representing accrued loss and realised capital losses taken to income	60,998	40,954	38,731	22,474
- amount representing unrealised diminution - that forms part of unit holders' fund	19,963	15,301	15,052	6,853
	80,961	56,255	53,783	29,327
Net unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale'	(13,025)	38,039	8,450	2,433
Net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'	177,308	255,059	(11,391)	(2,943)
Element of (loss) and capital losses included in prices of units issued less those in units redeemed- amount taken to income	(60,998)	(40,954)	(38,731)	(22,474)
Element of (loss) and capital (losses) included in prices of units issued less those in units redeemed- amount that forms part of unit holders' fund	(19,963)	(15,301)	(15,052)	(6,853)
Net other income / (loss) income for the period	185,785	312,691	64,810	69,474
Final distribution at the rate of Rs. 9.7 per unit for the year ended 30 June 2010 - Date of distribution: 05 July 2010 (2009: Nil)				
- Cash distribution	(18,442)	-	-	-
- Issue of bonus units	(282,535)	-	-	-
	(31,870)	549,534	(158,346)	39,637
Net assets as at the end of the period	1,358,671	2,143,406	1,358,671	2,143,406

The annexed notes 1 to 9 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE NINE MONTHS & QUARTER ENDED 31 MARCH 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Stock Market Fund (PSM) was established under a Trust Deed executed between Arif Habib Investments Limited (formerly: Arif Habib Investment Management Limited) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 23rd 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)].

The Management Company of the Fund has been licensed to act as an Asset Management Company under NBFC Rules through a certificate of registration issued by SECP. The registered office of the Management Company is situated at Arif Habib Centre, 23 M.T Khan Road Karachi, Pakistan.

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

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.

2. BASIS OF PRESENTATION

2.1 These unaudited condensed interim financial statements have been prepared in accordance with 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 and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the NBFC Regulations or the directives issued by the SECP prevail. These financial statements are presented in condensed form in accordance with International Accounting Standard, 34 "Interim Financial Reporting". These do not include all the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Fund as at and for the year ended 30 June 2010."

2.2 These condensed interim financial statements are unaudited.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the Fund for the year ended 30 June 2010.

4. RISK MANAGEMENT

The Fund's risk management objectives and policies are consistent with those objectives and policies which were disclosed in the financial statements of the period/ year ended 30 June 2010.

5. INVESTMENTS

		(Unaudited) 31 March 2011	(Audited) 30 June 2010
(Rupees in '000)			
At fair Value through profit or loss - held for trading			
Investment in shares listed in Pakistan	5.1	1,063,573	1,318,785
Investment in government securities	5.2	-	196,691
Available for Sale			
Investment in shares listed in Pakistan	5.3	195,993	263,815
		1,259,566	1,779,291

5.1 Investment in shares listed in Pakistan - 'at fair value through profit or loss' - held for trading

Name of the investee company	As at 1 July 2010	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at 31 March 2011	Cost as at 31 March 2011	Market value as at 31 March 2011	(Diminution) / appreciation as at 31 March 2011	Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of the investee
									investments	net assets	
----- Number of shares ----- (Rupees in 000)											
Shares of listed companies - fully paid ordinary shares of Rs. 10 each unless stated otherwise											
OIL & GAS											
Pakistan Oilfields Limited	545,932	-	-	206,300	339,632	72,039	110,411	38,372	8.77	8.13	0.14
Pakistan Petroleum Limited	718,528	140,000	144,505	505,000	498,033	80,537	105,289	24,752	8.36	7.75	0.04
Pakistan State Oil Company Limited	195,350	424,000	-	458,350	161,000	45,280	44,679	(601)	3.55	3.29	0.09
						197,856	260,379	62,523			
CHEMICALS											
Descon Oxychem Limited	460,112	-	-	460,112	-	-	-	-	-	-	-
Engro Corporation Limited	972,397	309,880	112,255	721,000	673,532	91,310	138,600	47,290	11.00	10.20	0.17
Fatima Fertilizer Company Limited	-	2,597,589	-	-	2,597,589	32,056	34,756	2,700	2.76	2.56	0.13
Fauji Fertilizer Bin Qasim Limited	534,000	-	-	534,000	-	-	-	-	-	-	-
Fauji Fertilizer Company Limited	523,674	-	-	523,674	-	-	-	-	-	-	-
I.C.I. Pakistan Limited	411,800	460,950	-	144,119	728,631	104,356	120,355	15,999	9.56	8.86	0.52
Sitara Chemical Industries Limited	268,492	-	13,424	-	281,916	45,186	30,168	(15,018)	2.40	2.22	1.32
						272,908	323,879	50,971			
GENERAL INDUSTRIALS											
Packages Limited	859,318	-	-	122,552	736,766	109,909	86,872	(23,037)	6.90	6.39	0.87
						109,909	86,872	(23,037)			
INDUSTRIAL TRANSPORTATION											
Pakistan International Container Terminal Limited	603,607	-	-	-	603,607	29,252	44,510	15,258	3.53	3.28	0.55
						29,252	44,510	15,258			
AUTOMOBILE AND PARTS											
Pak Suzuki Motor Company Limited	687,096	-	-	436,220	250,876	30,901	17,428	(13,473)	1.38	1.28	0.30
						30,901	17,428	(13,473)			
FOOD PRODUCERS											
Nestle Pakistan Limited	55,813	-	-	55,813	-	-	-	-	-	-	-
						-	-	-	-	-	-

Name of the investee company	As at 1 July 2010	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at 31 March 2011	Cost as at 31 March 2011	Market value as at 31 March 2011	(Diminution) / appreciation as at 31 March 2011	Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of the investee
									investments	net assets	
Number of shares (Rupees in 000)											
HOUSEHOLD GOODS											
Pak Elektron Limited	1,312,011	500,146	-	-	1,812,157	31,576	25,642	(5,934)	2.04	1.89	1.49
						31,576	25,642	(5,934)			
PERSONAL GOODS											
Artistic Denim Limited	158,200	-	-	100,961	57,239	2,461	1,116	(1,345)	0.09	0.08	0.07
Gul Ahmed Textile Mills	64,500	-	-	64,500	-	-	-	-	-	-	-
Nishat Mills Limited	1,362,130	-	-	-	1,362,130	61,613	88,525	26,912	7.03	6.52	0.39
						64,074	89,641	25,567			
TOBACCO											
Pakistan Tobacco Company Limited	413,200	-	-	413,200	-	-	-	-	-	-	-
PHARMA AND BIO TECH											
Searle Pakistan Limited	889,754	-	-	733,201	156,553	9,404	10,019	615	0.80	0.74	0.51
						9,404	10,019	615			
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	45,969	10,486	3.65	3.38	0.11
Kot Addu Power Company Limited	1,086,400	-	-	-	1,086,400	52,615	44,738	(7,877)	3.55	3.29	0.12
						88,098	90,707	2,609			
BANKS											
Allied Bank Limited	1,363,377	-	115,337	210,000	1,268,714	61,320	75,400	14,080	5.99	5.55	0.15
Bank Al Habib Limited	650,000	-	130,000	-	780,000	21,775	22,643	868	1.80	1.67	0.09
Habib Bank Limited	246,840	-	-	246,840	-	-	-	-	-	-	-
						83,095	98,043	14,948			
NON LIFE INSURANCE											
IGI Insurance	164,550	-	-	-	164,550	25,062	16,453	(8,609)	1.31	1.21	0.23
						25,062	16,453	(8,609)			
Total as at 31 March 2011						942,136	1,063,573	121,437			

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

Issue date	Tenor	As at 1 July 2010	Purchases during the period	Sales / matured during the period	As at 31 March 2011	Cost as at 31 March 2011	Market value as at 31 March 2011	Appreciation / (diminution) as at 31 March 2011	Market value as a percentage of	
									investments	net assets
----- Face value ----- (Rupees in 000)										
Treasury bills										
13 August 2010	3 Months	-	50,000	-	-	-	-	-	-	-
13 August 2010	3 Months	-	90,000	-	-	-	-	-	-	-
25 February 2010	6 Months	-	200,000	-	-	-	-	-	-	-
27 August 2009	1 Year	-	75,000	-	-	-	-	-	-	-
8 October 2009	1 Year	-	25,000	-	-	-	-	-	-	-
26 August 2010	3 Months	-	187,500	-	-	-	-	-	-	-
26 August 2010	3 Months	-	150,000	-	-	-	-	-	-	-
9 September 2010	3 Months	-	65,000	-	-	-	-	-	-	-
20 May 2010	3 Months	100,000	-	-	-	-	-	-	-	-
3 June 2010	3 Months	75,000	-	-	-	-	-	-	-	-
17 June 2010	3 Months	25,000	-	-	-	-	-	-	-	-
7 October 2010	3 Months	-	15,000	-	-	-	-	-	-	-
16 November 2010	3 Months	-	300,000	-	-	-	-	-	-	-
04 November 2010	3 Months	-	50,000	-	-	-	-	-	-	-
Total as at 31 March 2011			1,207,500							
			1,407,500							

5.3 Investment in shares listed in Pakistan - 'Available for sale'

Name of the investee company	As at 1 July 2010	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at 31 March 2011	Cost as at 31 March 2011	Impairment upto 31 March 2011	Cost less impairment recognised upto 31 March 2011	Market value as at 31 March 2011	(Diminution) / appreciation as at 31 March 2011	Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of
											investments	net assets	
----- (Rupees in 000) -----													
Shares of listed companies													
- fully paid ordinary shares / certificates of Rs. 10 each unless stated otherwise													
CHEMICALS													
Fauji Fertilizer Company Limited	945,268	-	112,773	494,175	563,866	23,397	-	23,397	77,746	54,349	6.17	5.72	0.07
FORESTRY AND PAPER													
Century Paper & Board Mills Limited	781,220	-	-	-	781,220	31,718	(21,875)	9,843	12,828	2,985	1.02	0.94	1.11
Security Paper Limited	76,522	-	-	76,522	-	-	-	-	-	-	-	-	-
Total as at 31 March 2011													

Name of the investee company	As at 1 July 2010	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at 31 March 2011	Cost as at 31 March 2011	Impairment upto 31 March 2011	Cost less impairment recognised upto 31 March 2011	Market value as at 31 March 2011	(Diminution) / appreciation as at 31 March 2011	Market value as a percentage of		Paid up value of shares held as a percentage of total paid up capital of
											investments	net assets	
(Rupees in 000)													
----- Number of shares -----													
INDUSTRIAL METALS AND MINING													
International Industries Limited	502,012	-	100,402	-	602,414	27,362	-	27,362	31,874	4,512	2.53	2.35	0.50
						<u>27,362</u>	<u>-</u>	<u>27,362</u>	<u>31,874</u>	<u>4,512</u>			
GENERAL INDUSTRIALS													
Packages Limited	415,041	-	-	-	415,041	41,386	-	41,386	48,937	7,551	3.89	3.60	0.49
						<u>41,386</u>	<u>-</u>	<u>41,386</u>	<u>48,937</u>	<u>7,551</u>			
AUTOMOBILE AND PARTS													
Pak Suzuki Motor Company Limited	318,300	-	-	-	318,300	31,229	(13,872)	17,357	22,112	4,755	1.76	1.63	0.39
						<u>31,229</u>	<u>(13,872)</u>	<u>17,357</u>	<u>22,112</u>	<u>4,755</u>			
FOOD PRODUCERS													
Nestle Pakistan Limited	7,300	-	-	7,300	-	-	-	-	-	-	-	-	-
PERSONAL GOODS													
Artistic Denim Limited	95,400	-	-	-	95,400	4,701	(2,840)	1,861	1,860	(1)	0.15	0.14	0.11
Gul Ahmed Textile Mills Limited	70,291	-	-	70,291	-	-	-	-	-	-	-	-	-
Kohinoor Mills Limited	418,180	-	-	-	418,180	10,796	(10,159)	637	636	(1)	0.05	0.05	0.82
						<u>15,497</u>	<u>(12,999)</u>	<u>2,498</u>	<u>2,496</u>	<u>(2)</u>			
TOBACCO													
Pakistan Tobacco Company Limited	300,000	-	-	300,000	-	-	-	-	-	-	-	-	-
Total as at 31 March 2011						<u>170,589</u>	<u>(48,746)</u>	<u>121,843</u>	<u>195,993</u>	<u>74,150</u>			

5.4 Investments as at 31 March 2011 include shares having a market value of Rs 70,235 million (30 June 2010: Rs 49,002 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular number 11 dated 23 October 2007 issued by the Securities & Exchange Commission of Pakistan.

	31 March 2011 Un-audited	30 June 2010 Audited
	(Rupees '000)	
5.5 Net unrealised appreciation / (diminution) in value of investments 'at fair value through profit or loss'		
Market value of investments	1,063,573	1,515,476
Less: Cost of investments	<u>(942,136)</u>	<u>(1,553,732)</u>
	121,437	(38,256)
Less: Net unrealised appreciation in the fair value of investments at fair value through profit or loss at the beginning of the period	<u>38,256</u>	<u>403,027</u>
Add: Realised on disposal during the period	<u>17,615</u>	<u>(307,710)</u>
	55,871	95,317
	<u>177,308</u>	<u>57,061</u>
5.6 Net unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale'		
Market value of investments	195,993	263,815
Cost of investment	<u>(170,589)</u>	<u>227,309</u>
	25,404	36,506
Add: accumulated impairment at the end of period	<u>48,746</u>	<u>50,669</u>
Net unrealised appreciation in fair value of investments at the end of the period	74,150	87,175
Less: Net unrealised appreciation in fair value of investments at the beginning of the period	<u>(87,175)</u>	<u>(63,965)</u>
	<u>(13,025)</u>	<u>23,210</u>

5.7 As at March 31, 2011, the management has carried out a scrip-wise analysis of impairment in respect of equity securities classified as available for sale. Accordingly, the management has charged an impairment loss amounting to Rs. 774 thousand for the nine months ended 31st March 2011.

6 CONTINGENCIES AND COMMITMENTS

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

There have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds for the recovery of WWF. On December 14, 2010, the Ministry filed its response contesting the said petition. SHC has concluded its hearing and judgement has been reserved.

Based on the advice of the legal counsel handling the case, the Management Company is of the view that WWF is not applicable to the Funds due to the clarification issued by the Ministry which creates vested right, hence provision has not been made in respect of WWF, which if liable, would amount to Re 0.62 per unit.

There were no commitments outstanding as at 31 March 2011 (30 June 2010 : Nil).

7 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited (AHI) being the Management Company (AMC), Arif Habib Corporation Limited (formerly Arif Habib Securities Limited) being the holding company of AHI, Arif Habib Limited and Thatta Cement Limited being companies under common control, Summit Bank Limited (formerly: Arif Habib Bank Limited) and Pakarab Fertilizers Limited being companies under common directorship, Central Depository Company of Pakistan Limited being the trustee, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.

Remuneration to the Management Company and trustee are determined in accordance with the provisions of NBFC regulations and Trust Deeds of the Fund. All other transactions with connected persons are in the normal course of business and are carried out on agreed terms.

Details of transactions with connected persons and balances with them at period end are as follows:

7.1 Transactions during the period

	Nine month ended 31 March		Quarter ended 31 March	
	2011 (Rupees in '000)	2010	2011 (Rupees in '000)	2010
Arif Habib Investments Limited - Management Company				
Remuneration for the period	24,657	32,856	7,175	10,979
Sales load for the period	619	739	202	192
Summit Bank Limited				
Brokerage expense for the period *	486	830	158	238
Arif Habib Bank Limited				
Markup income for the period	1,534	7,046	524	1,497
Central Depository Company of Pakistan Limited - Trustee				
Remuneration for the period	1,983	2,394	608	796
CDS charges	21	50	10	16
Directors and executives of the management company				
Issue of 958,617 units (2010: 1,041,697) and 411,439 units (2010: 239,020) for the nine months and quarter respectively	54,113	61,307	24,798	14,832
Redemption of 982,363 units (2010: 986,747) and 446,690 units (2010: 225,312) for the nine months and quarter respectively	55,493	58,519	26,993	13,977
Issue of 38,063 bonus units (2009: nil units) during the period	1,889	-	-	-
Arif Habib Corporation Limited (formerly Arif Habib Securities Limited)				
Sale of nil shares (2010: 668,750 shares)	-	33,694	-	7,492

	31 March 2011 Un-audited (Rupees '000)	30 June 2010 Audited
7.2 Amounts outstanding as at period / year end		
Arif Habib Bank Limited		
Accrued markup receivable	133	401
Bank balance	<u>58,843</u>	<u>4,869</u>
Arif Habib Investments Limited - Management Company		
Management fee and sales load payable	<u>2,491</u>	<u>3,465</u>
Directors and executives of the management company		
Units held 208,180 (2010: 194,582 units)	<u>12,170</u>	<u>11,546</u>
Central Depository Company of Pakistan Limited - Trustee		
Security deposit	<u>200</u>	<u>200</u>
Trustee fee and CDS charges payable	<u>197</u>	<u>242</u>
Pakistan Income Enhancement Fund		
Receivable from Pakistan Income Enhancement Fund	<u>3,319</u>	<u>482</u>
Pakistan Income Fund		
Payable to Pakistan Income Fund	<u>-</u>	<u>2,406</u>

* 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.

8 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on April 23, 2011 by the Board of Directors of the Management Company.

9 GENERAL

9.1 Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

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

Chief Executive

Director

Asset Manager Rating
'AM2' Positive Outlook (by PACRA)



HEAD OFFICE:

Arif Habib Centre, 23 M.T. Khan Road,
Karachi-74000, Pakistan.
Tel: (+92-21) 111-468-378 (111-INVEST)
Fax: (+92-21) 32470351, 32470337
E-mail: marketing@arifhabib.com.pk
Website: www.arifhabib.com.pk