



KARACHI STOCK EXCHANGE LIMITED

SERVING INVESTORS AND INDUSTRY



**ENABLING INVESTORS DISCOVER
NEW GROWTH OPPORTUNITIES**

ANNUAL REPORT 2012

The financial statements of Karachi Stock Exchange (Guarantee) Limited for the year ended June 30, 2012 are enclosed herewith. Pursuant to the Stock Exchange (Corporatization, Demutualization and Integration) Act 2012, the Karachi Stock Exchange (Guarantee) Limited is re-registered as a public company limited by shares with effect from August 27, 2012 and now operates under the name and style as Karachi Stock Exchange Limited.



WORK

*“And I say that life is indeed darkness save where
there is urge,
And all urge is blind save when there is knowledge,
And all knowledge is vain save when there is work,
And all work is empty save when there is love,
And when you work with love,
you bind yourself to yourself,
and to one another, and to God
Work is love made visible.”*

Khalil Gibran



CONTENTS

■ Vision & Mission	01
■ Corporate Information	02
■ Board of Directors	04
■ Directors' Profiles	05
■ Management Team	16
■ About KSE	17
■ Key Developments & Initiatives	19
■ Notice of Annual General Meeting	25
■ Directors' Report	28
■ Market Highlights	38
■ Financial Highlights (Six years at a glance)	50
■ Review Report of Auditors to Members on Statement of Compliance with Best Practices of Code of Corporate Governance	51
■ Statement of Compliance with Best Practices of Code of Corporate Governance	52
■ Auditors' Report	55
■ Financial Statements	56



VISION AND MISSION

VISION

To be a leading financial institution, offering efficient, fair and transparent securities market in the region and enjoying full confidence of the investors.

MISSION STATEMENT

To strive to provide quality and value-added services to the capital market in an efficient, transparent and orderly manner, compatible with international standards and best practices.

To provide state-of-the-art technology and automated trading operations, driven by a team of professionals in accordance with good corporate governance.

To protect and safeguard the interests of all its stakeholders, i.e. members, listed companies, employees and the investors at large.

To reflect the country's economic health and behavior and play its role for the growth, development and prosperity of Pakistan.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Muneer Kamal (Chairman)
 Mr. Nadeem Naqvi (Managing Director)
 Mr. Abdul Majeed Adam
 Mr. Saeed Ahmed Butt
 Mr. Shazad G. Dada
 Mr. Yaqoob Habib
 Mr. Muhammad Yasin Lakhani
 Mr. Abdul Qadir Memon
 Mr. Asif Qadir
 Haji Ghani Haji Usman

COMPANY SECRETARY

Mr. Muhammad Rafique Umer

AUDIT COMMITTEE

Mr. Abdul Qadir Memon (Chairman)
 Mr. Abdul Majeed Adam
 Mr. Shazad G. Dada
 Mr. Muhammad Yasin Lakhani
 Mr. Asif Qadir
 Mr. Muhammad Rafique Umer (Secretary)

HUMAN RESOURCES COMMITTEE

Mr. Muneer Kamal (Chairman)
 Mr. Saeed Ahmed Butt
 Mr. Shazad G. Dada
 Mr. Muhammad Yasin Lakhani
 Mr. Nadeem Naqvi
 Mr. Asif Qadir
 Haji Ghani Haji Usman
 Mr. Muhammad Rafique Umer (Secretary)

LEGAL ADVISORS

Ghani Law Associates
Industrial Relations Advisors
 Ijaz Ahmed & Associates
Advocates & Legal Consultants
 Mansoor Ahmed Khan & Co.
Advocates & Legal Consultants
 Sayeed & Sayeed
Advocates & Legal Consultants

AUDITORS

Ernst & Young Ford Rhodes Sidat Hyder
 Chartered Accountants

SHARE REGISTRAR

Central Depository Company of Pakistan Limited
 CDC House
 99-B, Block "B", S.M.C.H.S.
 Main Shakra-e-Faisal
 Karachi 74400

BANKERS

Allied Bank of Pakistan Limited
 Askari Bank Limited
 Bank Al Falah Limited
 Bank Al Habib Limited
 Bank Islami Pakistan Limited
 Bank of Khyber
 Barclays Bank PLC Pakistan
 Habib Bank Limited
 Habib Metropolitan Bank Limited
 JS Bank Limited
 KASB Bank Limited
 MCB Bank Limited
 National Bank of Pakistan
 NIB Bank Limited
 Soneri Bank Limited
 Summit Bank Limited
 United Bank Limited

REGISTERED ADDRESS

Stock Exchange Building
 Stock Exchange Road
 Karachi 74000
 Phone: (92 21) 35205528-29
 UAN: (92 21) 111 00 11 22
 Fax: (92 21) 32410825
 E-mail: info@kse.com.pk
 Website: www.kse.com.pk



*Corporate governance is no longer a "nice to have"
but is really "a need to have"*

Mark Mccombe,
Asia Pacific Chairman of Black Rock

*"Fiduciary obligations exist to ensure that
those who manage other peoples' money
act responsibly in the interest of savers,
rather than serving their own interest"*

Fair Pensions, March 2012 report
Entitled: The enlightened shareholder

*"It is time for fund managers to honour the rights
of, and assume the responsibility
for corporate governance."*

John C. Bogle
*Founder of the Vanguard group,
one of the largest Mutual Fund
providers in the world*



BOARD OF DIRECTORS



SITTING (FROM LEFT TO RIGHT)

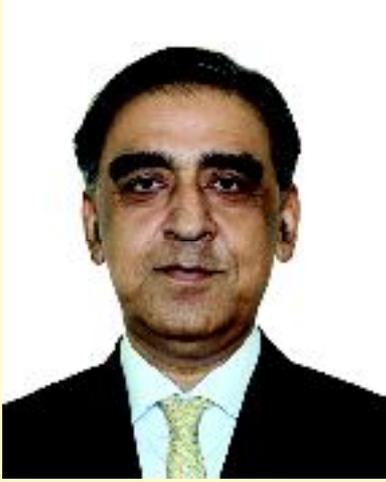
- | | | |
|--|--|---------------------------------------|
| ■ Mr. Shazad G. Dada
<i>Director</i> | ■ Mr. Nadeem Naqvi
<i>Managing Director</i> | ■ Mr. Muneer Kamal
<i>Chairman</i> |
| ■ Mr. Muhammad Yas in Lakhani
<i>Director</i> | ■ Mr. Abdul Qadir Memon
<i>Director</i> | |

STANDING (FROM LEFT TO RIGHT)

- | | | |
|---|--|--|
| ■ Mr. Muhammad Rafique Umer
<i>Company Secretary</i> | ■ Mr. Abdul Majeed Adam
<i>Director</i> | ■ Haji Ghani Haji Usman
<i>Director</i> |
| ■ Mr. Yaqoob Habib
<i>Director</i> | ■ Mr. Asif Qadir
<i>Director</i> | ■ Mr. Saeed Ahmed Butt
<i>Director</i> |



DIRECTORS' PROFILES



Mr. Muneer Kamal
Chairman

Mr. Muneer Kamal, the Chairman of Karachi Stock Exchange, has over 32 years of extensive experience in banking and financial sector. His career started with Citibank where, between November 1979 and July 1994, he served locally and internationally on various senior positions including his term as Director, Head of Country Public Sector and Financial Institutions. During this association, he also attended a number of training courses / programs in Far East, Middle East and Africa.

Mr. Kamal then joined Faysal Bank Limited as President/CEO and led the Bank to expand its operations from 3 branches to 11 and also increase the balance sheet size from Rs.3 billion to Rs.30 billion.

Mr. Kamal also held position of President/CEO, and then as Vice Chairman and Chief Operating Officer (International) of the Union Bank Limited, where he had been instrumental in various acquisitions done by Union Bank Limited i.e. Bank of America, American Express Credit Cards, Emirates Bank International and Mashreq Bank, Sri Lanka. As a result, Union Bank emerged as a success story and was ably acquired by Standard Chartered Bank.

After his stint with Union Bank, Mr. Muneer Kamal, an MBA from University of Karachi, began his current association with KASB Group - first as President/CEO of KASB Bank Limited from November 2005 to August 2010 and now as Vice Chairman of the Group. For KASB Bank, he again oversaw the manifold expansion of operations coupled with acquisition of other entities and introduction of new and modern products, services, policies, procedures and systems.

Mr. Kamal also holds positions as Chairman of Pakistan Export Finance Guarantee Agency Limited, as Member - Resource Committee of Aga Khan University, and as Trustee of Shaukat Khanum Memorial Cancer Hospital & Research Centre. He is Director of Asia Care and New Horizon Exploration & Production Limited. He is also on the Board of National Industrial Parks Development and Management Company.

Besides holding the position of Chairman of the Board, Mr. Muneer Kamal is also the Chairman of Human Resources Committee of KSE's Board.



DIRECTORS' PROFILES



Mr. Nadeem Naqvi
Managing Director

Mr. Nadeem Naqvi holds the degrees of M.B.A. in Finance and B.Sc. with honours in Banking and International Finance from The City University, CASS Business School in London, United Kingdom. He brings with him 30 years of rich work experience in the global financial services industry operating in diverse environments of Middle East, North America and Europe besides that of Pakistan.

Prior to joining the Karachi Stock Exchange, Mr. Naqvi was the Chief Executive Officer of a leading asset management company in Pakistan. He has served as Chief Executive Officer of AKD Securities Limited which he helped transform from a proprietary business into a full-scale investment banking and brokerage firm and in the process, gained company's recognition as the best domestic brokerage house for two consecutive years. Mr. Naqvi also served as Chairman of the first technology venture capital fund of Pakistan and oversaw the completion of several ventures by successful exits.

Market analysis and research has been the hallmark of Mr. Naqvi's career. He has led an independent investment research firm in USA/Canada, Investology Inc., which was ranked by 'BusinessWeek' as the third best out of 300 independent research firms in North America in 2004. Before that, he headed the Merrill Lynch Pakistan research team. He was also the Head of Research of the advisory company of Morgan Stanley Asset Management's Pakistan Investment Fund and prior to that worked at BMA Capital Management Limited as Head of Research.

Mr. Naqvi has been involved in landmark investment banking transactions, including the privatization of Kot Addu Power Plant, National Refinery and United Bank. His association with the capital markets is also longstanding where he served in committees of Karachi Stock Exchange and was a member of the Capital Markets Committee, Economic Advisory Council of the President in the last decade.

In addition to his position as Managing Director of KSE, Mr. Naqvi also remained Chairman of Voluntary De-listing Committee and IT Steering Committee and the member of Human Resources Committee, Investment Committee, Board's Committee for hearing appeals of members and for handling cases of suspension or expulsion as well as the Index Experts Committee. Mr. Naqvi is KSE's nominee director on the Board of National Clearing Company of Pakistan Limited where he has been elected as Chairman and currently also serves as KSE's nominee director on the Boards of Central Depository Company of Pakistan Limited and the Institute of Capital Markets (ICM).



DIRECTORS' PROFILES



Mr. Abdul Majeed Adam
Director

Mr. Abdul Majeed Adam is the Chief Executive and Nominee Director of Adam Securities (Private) Limited, which is the corporate member of Karachi and Lahore stock exchanges.

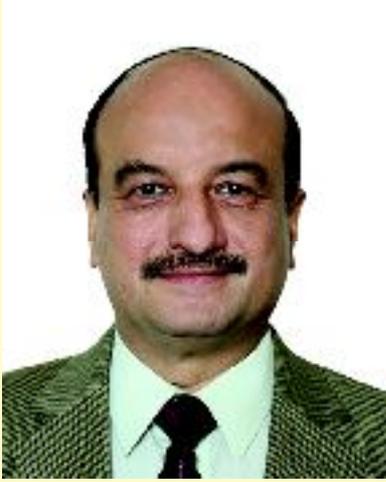
Mr. Adam is a graduate from University of Karachi and has an extensive experience of 20 years in capital as well as forex markets. Previously, he has served as the Director of Karachi Stock Exchange in the years 2002 and 2010 and now in 2012.

Mr. Adam is the founding member of National Commodity Exchange Limited (now Pakistan Mercantile Exchange Limited or PMEX) and is active in commodities trading at PMEX through Adam Securities (Private) Limited. He also acted as voluntary advisor to activate gold trading at PMEX. In view of his in-depth experience in Pakistan's only commodity market, he has been nominated on the Board of PMEX to represent KSE.

Mr. Adam remained the Chairman of Development & Trading Affairs Committee as well as Market Development & New Products Committee. He also remained a member of Audit Committee, Demutualization Committee, IT Steering Committee and Board's Committee for hearing appeals of KSE members and for handling cases of suspension or expulsion of members & imposition of fines.



DIRECTORS' PROFILES



Mr. Saeed Ahmed Butt
Director

Mr. Saeed Ahmed Butt holds a degree in War Studies from Karachi University. He is a seasoned professional in Pakistan's brokerage industry who has hands on experience in the domestic capital markets. He brings with him clear thinking, a broad vision and vast experience in the securities industry.

Mr. Butt started his career with M/s. AKD Securities as an equity dealer in 1998 and later joined M/s. Anees Ismail as a portfolio Manager in 2003. Within a short span of time, he became a known financial trader on account of his understanding of equity analysis, core mechanical elements of portfolio management and running equity portfolios. Mr. Butt became a nominee director of Trade-In-Securities (Private) Limited in 2008.

In consideration of his core competence and in-depth knowledge about workings of the capital market, the Board of Karachi Stock Exchange appointed him as a member of Human Resources Committee and Index Experts Committee besides Demutualization Committee. Moreover, he frequently used to provide his input at meetings of Development & Trading Affairs Committee and New Product & Market Development Committee.



DIRECTORS' PROFILES



Mr. Shazad G Dada
Director

Mr. Shazad G. Dada is the Chief Executive Officer of Barclays Bank Pakistan, with overall responsibility for managing all its businesses including Corporate, Investment Banking and Retail. Mr. Dada, a seasoned banker and a prominent capital market professional, started his banking career in the USA after joining Bankers Trust in 1990, which was later acquired in 1999 by Deutsche Bank AG. Since 2005, Mr. Dada worked in Pakistan as the Chief Country Officer and Head of Global Banking, Deutsche Bank. Prior to taking up the role in Pakistan, Mr. Dada was the Managing Director of the Mergers, Acquisitions and Corporate Advisory Group at Deutsche Bank Securities, Inc. in New York and was the Head of Media M&A practice in the Americas.

Mr. Dada graduated with honors from University of Pennsylvania with a Bachelor of Science and Bachelor of Arts degree and has obtained an MBA from The Wharton School, University of Pennsylvania.

He has been contributing towards the development of Pakistani financial market and continues to do so as the Chairman of Pakistan Banks' Association and Council Member and Chairperson - Finance Committee of The Institute of Bankers Pakistan.

The Board of Directors of KSE appointed Mr. Dada as member of its Audit Committee, Human Resources Committee and Index Experts Committee.

In addition to his commercial interests, Mr. Dada is an active supporter of a number of charitable organizations. He actively contributes towards the community and plays his part as Chairperson of Developments in Literacy, and as Director of British Overseas School and AIESEC.



DIRECTORS' PROFILES



Mr. Yaqoob Habib
Director

Mr. Yaqoob Habib has been an active member of the Exchange and a seasoned equity dealer, engaged in the business of stock broking/agency for over three decades.

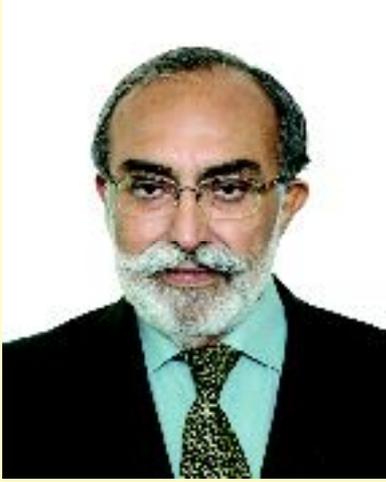
Mr. Habib started his career at Karachi Stock Exchange as an agent with M/s Haroon Suleman in mid eighties and remained associated with the same brokerage setup until late nineties. This association made him adept in the capital markets domain where he acquired both expertise and experience. Within a short span of time he became known as an astute equity trader.

Mr. Habib started his own brokerage business in 1999 as Y.H. Securities (Private) Limited and has been the Chief Executive of the Company since 2006. During this period his strong knowledge about capital markets, financial trading and personal financial selling remained hallmarks and reasons for his fame in the securities industry.

The Board of KSE posed confidence in him by appointing him as Chairman of Advisory & Arbitration and Defaulters' Committee of the Exchange and as a member of Demutualization Committee and the Committee for hearing appeals of members and for handling cases of suspension or expulsion of members and imposition of fines. The last mentioned committee is formed with a view to protect and safeguard investors' interest and thus maintain the discipline & reputation of the Exchange.



DIRECTORS' PROFILES



**Mr. Muhammad Yasin
Lakhani**
Director

Mr. Muhammad Yasin Lakhani holds the degrees of B.A. (Hons.) and Masters in International Relations and is currently the Chief Executive of Lakhani Securities (Private) Limited. His previous experience reflects his involvement with the capital markets of Pakistan as he has held the position of President/Chairman of Karachi Stock Exchange during the years 1994, 1998-9, 2001 and 2005. In addition to above, he has been elected as director of KSE during the years 1969, 1986, 1987, 1989, 1990, 2009, 2010 and 2012. He has also served as Chairman of Advisory and Arbitration Committee, Administration Committee, Rules & Regulations Committee, Taxation Committee, Company Affairs Committee and Defaulters' Committee of the Exchange for various terms.

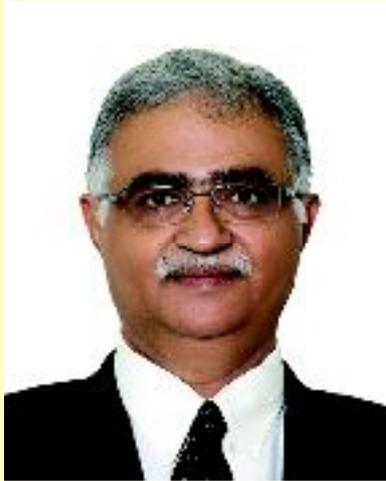
Mr. Lakhani was the member of Pakistan's delegation in the Investment Conferences held in Seoul, Hong Kong, Singapore and London. Also, he represented Pakistan at the Asia Pacific Forum on Securities Market Regulations & Supervision, General Assembly of the Euro Asia Stock Markets and Capital Market Forum of Islamic Countries. He was the member of Committee on Code of Corporate Governance formed by Institute of Chartered Accountants of Pakistan.

Mr. Lakhani is also a member of Audit Committee and Human Resources Committee of the Exchange.

Mr. Lakhani has been nominated by the KSE Board on the Board of National Clearing Company of Pakistan Limited (NCCPL). He has been instrumental in setting up Central Depository Company of Pakistan Limited (CDC) and is a founding member of NCCPL. He is credited for introducing Investors Account Services in CDC in 1999.



DIRECTORS' PROFILES



Mr. Abdul Qadir Memon
Director

Mr. Abdul Qadir Memon is a fellow of Institute of Taxation Management of Pakistan. He obtained a bachelor's degree from the University of Karachi. He is a well known and respected tax and corporate law expert and a senior professional.

Mr. Memon established his own consulting firm A. Qadir & Company, which he is managing successfully over last 32 years. With his thorough and in-depth knowledge of tax and corporate laws he is providing a wide range of services to his clients. His well considered and expert opinions and advices on various aspects and implications of tax & corporate laws and related matters are respected in professional circles at all levels.

As a director of Karachi Stock Exchange, he is presently heading the Audit Committee. He has also served Taxation Committee as its Chairman and as member of Investment Committee. Mr. Memon was nominated by the KSE Board on the Board of National Clearing Company of Pakistan limited.

Mr. Memon readily makes available his expertise and contributes positively in efforts to stream line the system for steady economic growth of the country. He is a member of Advisory/Taxation Committees of the Revenue Advisory Council of Ministry of Finance, Federation of Chamber of Commerce & Industry and Karachi Chamber of Commerce & Industry, besides being a member of the Federal Board of Revenue's Alternative Dispute Resolution Committee.

Mr. Memon, a devoted and hardworking man, has been the President of Pakistan Tax Bar Association where, he has also served as Senior Vice President previously. He has the honor of holding the offices of Vice President, Secretary General twice and President of Karachi Tax Bar Association during various terms. He has also served as President of Junior Chamber International - Pakistan and Memon Professional Forum. Mr. Memon has also served as Chairman of National Clearing Company of Pakistan Limited.

Mr. Memon is a seeker of knowledge and professional excellence and has presented many papers on the subjects of taxation, corporate laws and individual development. He has widely travelled and attended many national and international conferences and seminars.

He is a member of Management Association of Pakistan, Karachi Tax Bar Association and Institute of Taxation Management of Pakistan. He holds the life membership of Memon Professional Forum, Junior Chamber International, the Arts Council of Pakistan and Pakistan Billiards & Snookers Association and takes keen interest in their affairs to promote their respective causes.

He also devotes his time for the social causes and helps those engaged in social work. He is a founder of Cleft and Contracture Care Foundation and a member of Executive Committee of Health & Nutrition Development Society (**HANDS**) as well as Sir Adamjee Institute.



DIRECTORS' PROFILES



Mr. Asif Qadir
Director

Mr. Asif Qadir holds a degree in Chemical Engineering from Columbia University, New York and has over 30 years of management and marketing experience in the chemical and fertilizer sector.

Mr. Qadir's career began at Exxon Chemical Pakistan Limited in August 1978. At Exxon, he worked in various capacities including as Worldwide Business Advisor for Exxon Chemicals as well as for Esso Chemical Alberta Limited of Canada.

Mr. Qadir went on to join Engro Chemical Pakistan Limited (now Engro Corporation Limited) where he became one of the key management figures. He was also the CEO/President of Engro Polymer & Chemicals Limited till the end of 2011. He continues to serve as director on the Boards of Engro Polymer & Chemicals Limited, Engro Fertilizers Limited, Engro PowerGen Limited, Engro PowerGen Qadirpur Limited, Sindh Engro Coal Mining Company Limited, Pakistan Poverty Alleviation Fund, National Industrial Park, Unicol Limited and Inbox Business Technologies.

Mr. Qadir has served as the President of Management Association of Pakistan from 2007 to 2009 and on the Executive Committee of Overseas Investors' Chamber of Commerce & Industry from 2006 to 2009.

The Board of KSE appointed Mr. Asif Qadir as the Chairman of the Committee for hearing appeals of members and for handling cases of suspension or expulsion of members & imposition of fines. He is also the member of Audit Committee and Human Resources Committee of KSE Board.



DIRECTORS' PROFILES



Haji Ghani Haji Usman
Director

Haji Ghani Haji Usman has more than 30 years of experience in capital markets during which he also gained valuable experience of over 20 years with Habib Bank Limited. He has been engaged in various departments of the banking industry during this period.

Currently he is the CEO/Director of Al-Abbas Holdings (Private) Limited and Ghani Holdings (Private) Limited. He is also the Chairman for various Brokerage Houses namely; Ghani Osman Securities (Private) Limited, Dawood Equities Limited and Topline Securities (Private) Limited. He is also the Chairman of NCEL Building Management Limited. His previous experience includes holding offices of the Vice Chairman, Treasurer and Director of Karachi Stock Exchange.

Haji Ghani is the Chairman of Demutualization Committee and remained a member of Human Resources Committee of the Exchange.



“If complex risks cannot be finely monitored, they must be crudely capped. Leverage should be limited without wasting time on over-complex risk weighting. Derivatives should be moved onto exchanges, without shedding tears about the suffocation of complex over-the-counter products In financial regulation, simple is good.”

*Sebastian Makaby
Senior Fellow, Council on Foreign Relations
and Financial Times contributing editor*



MANAGEMENT TEAM



SITTING (FROM LEFT TO RIGHT)

- | | | |
|--|--|--|
| ■ Mr. Abdullah Jan Farooqui
<i>GM - Information Technology</i> | ■ Mr. Haroon Askari
<i>Deputy Managing Director</i> | ■ Mr. Nadeem Naqvi
<i>Managing Director</i> |
| ■ Mr. Muhammad Rafique Umer
<i>Company Secretary and
GM - Law & Corporate Affairs</i> | ■ Mr. Shafqat Ali
<i>GM - Risk Management and
Market Control & Surveillance</i> | |

STANDING (FROM LEFT TO RIGHT)

- | | | |
|--|--|---|
| ■ Mr. Nisar Qazi
<i>DGM - Administration</i> | ■ Mr. Aamir Nazir Ahmed
<i>DGM - Finance & Treasury</i> | ■ Mr. Muhammad Ghuffran
<i>DGM - Companies Affairs</i> |
| ■ Mr. Sani-e-Mehmood Khan
<i>GM - Product Development,
Research and Marketing</i> | ■ Mr. Ahmed Ali Mitha
<i>Chief Financial Officer</i> | ■ Mr. Mansoor Ali
<i>DGM - Information Technology</i> |
| ■ Mr. Farhan Ansari
<i>Head - Internal Audit</i> | ■ Mr. Abbas Mirza
<i>DGM - Operations & CSIR</i> | |



ABOUT KSE

The Karachi Stock Exchange (KSE), Pakistan's largest and most liquid Stock Exchange, was incorporated in 1949 as a Company Limited by Guarantee. As a result of demutualization, KSE stood corporatized and demutualised as a public company limited by shares under the name of 'Karachi Stock Exchange Limited', with effect from August 27, 2012.

KSE provides a reliable, orderly, liquid and efficient digitized marketplace where investors meet directly to buy and sell listed companies' common stock and other securities. For over 60 years, the KSE has facilitated capital formation, serving a wide spectrum of participants, including individual and institutional investors, the trading community and listed companies.

KSE offers companies and investors an efficient and transparent securities market for raising capital and achieving investment objectives. Companies listed on the KSE are present in all aspects of our lives and are amongst Pakistan's most well known, largest and most innovative companies.

KSE remains the pioneer of Pakistan's Capital Market Developments by introducing new products, constantly upgrading technology infrastructure through partnerships with the world's leading technology companies and through the continuous assessment and improvement of services, catering to every segment of customers' needs.

KSE THEN		<ul style="list-style-type: none"> ■ Incorporated on March 10, 1949. First Stock Exchange of the country ■ Exchange owned by 200 members ■ Started with 5 companies that had a combined paid up capital of Rs. 37 million ■ Trading was conducted through an open-out-cry system ■ The first index was the KSE 50 Index 	
KSE NOW		<ul style="list-style-type: none"> ■ A company limited by shares, with the initial share capital equally allotted to 200 initial members ■ 590 companies listed ■ Modern Risk Management System <ul style="list-style-type: none"> ■ VaR based margin collection ■ Pre-trade margin verification ■ Client level margining system ■ HX Compliant ■ Electronic Trading through KATS 	<ul style="list-style-type: none"> ■ 6 indices <ul style="list-style-type: none"> ■ KSE 100 ■ KSE All Share Index ■ KSE 30 ■ KMI 30 ■ Oil & Gas Sector ■ Banking Sector ■ Market capitalization: US \$ 37.42 billion (June 30, 2012)
KSE TOMORROW		<ul style="list-style-type: none"> ■ Public Listed Company with Strategic Investor ■ Products in the pipeline: <ul style="list-style-type: none"> ■ Options ■ Exchange Traded Funds ■ Fixed Income Derivatives ■ Broad based investor participation via Cross-Border listings of companies and indices ■ Opening of offices in other cities and in the region 	



PRODUCTS & SERVICES

KSE offers a range of products to its investors through a state of the art technology infrastructure. Market participants (both local and international) are provided access to these products through various distribution channels of the brokerage houses.

Our Trading products include:

- Equities (otherwise known as the Ready Market)
- Deliverable Futures Contracts
- Cash Settled Futures Contracts
- Bonds

Stock Index Futures Contracts based on:

- KSE-30 Index
- Oil and Gas Sector Index
- Banking Sector Index

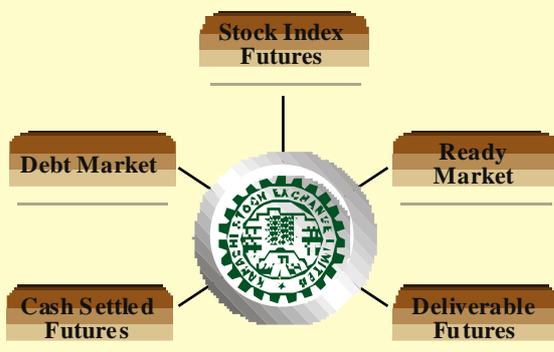
KSE plans on introducing the following new Products and Services in the year 2012-2013

- Index based Options
- KSE-30 based Stock Index Futures Trading at Lahore Stock Exchange
- BSE-30 Sensex based Stock Index Futures Trading at Karachi Stock Exchange

KSE also offers a number of data products and services providing both historical and "live" data feed to its customers. Additional services being offered to customers by the organization include:

- Technology services by I.T. Help Desk
- Customer Services & Investor Relations Services to help resolution of investor complaints and queries.
- Investor Education programs

MARKETS CURRENTLY OFFERED TO INVESTORS BY KSE



KSE'S INVESTOR SERVICES



KEY DEVELOPMENTS & INITIATIVES

CORPORATIZATION AND DEMUTUALIZATION OF KSE

Demutualization of the three stock exchanges (Karachi, Lahore & Islamabad) occurred on August 27, 2012. This entails the following in terms of ownership & corporate structure: Based on a agreed re-valuation of assets and liabilities of the Karachi Stock Exchange (KSE) as at December 31, 2011, initial shareholders [Members] of KSE have been allotted 4,007,383 ordinary shares of Rs. 10/- each equally. Of these, 60% shares have been deposited in a blocked account at the Central Depository Company of Pakistan (CDC) while 40% shares have been provided into the members' CDC accounts. In terms of the above-referred Act, within one year of receipt of direction from the SECP, which they may issue at any time not later than two years from the date of demutualization, out of the 60% blocked shares, 40% will be made available for purchase to a strategic investor who shall have management control and 20% will be offered to the general public through an offer for sale, thus listing the Exchange as a publicly listed company. The eligible strategic investor can only be a stock exchange, a depository company, a derivative exchange or a clearing house of international repute and financial strength.

The Board of Directors of the demutualized Exchange now has six directors nominated by the Securities and Exchange Commission of Pakistan (SECP) to act as first directors of KSE, four Directors representing the initial shareholders of the Exchange and the Managing Director by virtue of his office, thus making a total of eleven directors.

In terms of the organization structure, as per the Demutualization Act and related regulations of the SECP, the commercial and regulatory functions of the Exchange are bifurcated in order to avoid conflict of interest. At the Board level, a Regulatory Affairs Committee (RAC) is being constituted consisting of directors who don't have Trading Right Entitlement Certificate (TREC). This Committee is charged with designing, implementing, monitoring and enforcing effective regulatory regime of the Exchange. The Board, on the recommendation of Nomination Committee and in consultation with Chairman-RAC, will appoint a Chief Regulatory Officer (CRO) who shall report directly to the RAC. The commercial functions of the Exchange will be the prime responsibility of the Managing Director in compliance with the rules and regulations set out by the RAC and approved by the SECP.

Beyond the landmark event of Demutualization, FY2012 witnessed significant developments at the Karachi Stock Exchange and the capital market. A synopsis of key developments and initiatives is provided below.

DERIVATIVE SEGMENT DEVELOPMENT

Market Makers

Stock Index Futures Contracts (SIFC) were launched three years ago. However lack of liquidity has been the single biggest challenge in acceptance and usage of this useful investment product. In FY12, the Karachi Stock Exchange initiated the process of framing the rules for market making with support from the SECP. Once the market making regulations were in place, the Exchange recently signed the first ever agreement with a leading brokerage firm enabling the latter to become a market maker in the KSE-30 Index based Future Contracts. The market making process is expected to be initiated very soon. Several applications have been received since the first agreement for market making from both brokerage houses as well as asset management companies. As this process unfolds, it is expected that the Stock Index Futures Contracts trading will gradually come into vogue over the coming twelve months.



KSE-30 based SIFC in the Lahore Stock Exchange (LSE)

LSE is seeking approval from the Securities and Exchange Commission of Pakistan (SECP) to commence Stock Index Futures Trading based on KSE-30 Index. This will enable LSE members and investors to directly trade the KSE-30 Index and develop market makers in Lahore itself, thus enhancing overall liquidity in these future contracts.

SENSEX based SIFC Contracts

The Karachi and Bombay Stock Exchanges (KSE & BSE) are in advanced discussions for listing of BSE's SENSEX Index at KSE's Stock Index Futures counter. On February 07, 2012, the KSE formally requested BSE to allow SENSEX based futures trading at KSE. On March 15, 2012 BSE reciprocated by agreeing in-principle and shared a draft index licensing agreement with KSE. BSE is currently in the process of seeking authorizations from appropriate regulators and ministries in India while KSE has received support from the SECP for executing this historic project.

International Exposure

KSE has entered into agreements with two U.S. based asset management companies to launch KSE-30 and KMI (Islamic Index) based Exchange Traded Funds (ETFs) which would be traded at the New York Stock Exchange (NYSE). This would provide important exposure to the Pakistan's capital market in the key global financial centre and would also provide familiarity with major sectors and stocks to the world's largest institutional investors.

NATIONWIDE INVESTOR AWARENESS

Financial inclusion is a key element in the development of a robust financial sector and growth of a modern market-based economy. Penetration of financial products in general and capital market products in particular, is extremely low in Pakistan. In order to address this issue, the Karachi Stock Exchange invited major capital market institutions in 1QCY12 to formulate a medium term capital market development plan with the key objective of developing the investor base over three years. The Securities & Exchange Commission of Pakistan (SECP) was also working on a similar program and invited capital market institutions to join a unified and focused strategy for raising investor awareness on a nationwide basis, under the umbrella of the Institute of Capital Market (ICM). With active support and guidance of the SECP, a twelve month workshop/ conference timetable was chalked out, covering 21 cities in Pakistan. Simultaneously, after comprehensive deliberations, a unified set of literature about savings, investment and capital market participation procedures was developed. This covers broad investment themes, risk assessment, broker selection, investor complaint and help desk information and how investors can play a key role in protecting themselves.

SECP Chairman, Mr. Muhammad Ali, launched the nationwide investor awareness program in July, 2012 at KSE and seminars/ workshops are now being held regularly by Karachi, Lahore and Islamabad stock exchanges. KSE has also signed an MoU with the Society of Technical Analysts of Pakistan (STAP) to conduct workshops and seminars for upto 25,000 senior students in colleges and universities during FY 2012-13.



INFORMATION AND TECHNOLOGY SERVICES

Investors and market participants depend on technology that is secure and performs to high levels of availability and throughput. KSE sells real time reference data to market participants domestically as well as internationally in Asia, Europe and North America. Leading data providers such as Bloomberg and Thompson Reuters incorporate this data with other information and sell onwards to end users.

In FY2012, key developments related to the I.T. Division of the Karachi Stock Exchange included:

- Implementation of a comprehensive Risk Management Gateway which manages the intermediary risk
- Enhancement of System Capacity to process 30,000 orders per second which reduced trade processing latency to 2 milliseconds and achieved near the capacity for real time delivery of price sensitive information
- Completion of the core and shell construction of new Network Operation Centre as per internationally accepted standards.

RISK MANAGEMENT INITIATIVES

- KSE's Risk Management Department (RMD) conducted senior management level review of the Enterprise Risk Management (ERM) Framework and applied approved enhancements to the methodology and reporting of critical market data information. The RMD monitored all parameters of Risk Management along with timely recovery of margins during the year under reporting
- KSE also introduced automation of "cash deposit and release" to reduce the lead time for depositing and releasing of cash margins by the Brokers against their exposures and mark-to-market losses in all markets without compromising risk controls associated with the manual system
- KSE revamped the mechanism of Ready Market Short Sell and its integration with Securities Lending and Borrowing (SLB) Market
- The Exchange devised a new uniform criteria for the selection of securities to trade in Deliverable Futures, Cash Settled Futures and MTS markets. This was done to synchronize derivative markets securities and enhance market volume
- KSE has designed and developed in-house VaR model for the calculation of exposure margins which would eliminate the exchange's dependency on third party vendor's VaR and could be further marketed as a KSE developed product under registered patent rights.



PHOTO GALLERY



Mr. Hafeez Shaikh, Finance Minister Pakistan
addressing KSE Members



Mr. Muhammad Ali, Chairman SECP,
addressing Investors Feedback Seminar



Chairman KSE presents memento to Mr. Mattias
Martinsson, CEO of Tundra Fonder on his visit to KSE



USA Consul General addressing
members on his visit to KSE



Visit of European Union Delegation



IPO Readiness Roundtable held at KSE
(Organized by KSE & SAFE)



Asian Development Bank Team's visit to KSE



Japanese Delegation visit to KSE



Corporate Governance Seminar by SECP



Visit of V.Shankar, Member of Board, Standard Chartered Bank



KSE signed MoU with Society of Technical Analysts Pakistan (STAP)



MD KSE addressing the launching ceremony of Investor Awareness Program





IPO of Pakgen Power Ltd. held on 21st July, 2011



IPO of Engro Foods held on 10th August, 2011



IPO of TPL Direct Insurance held on 22nd September, 2011



IPO of Next Capital held on 27th April, 2012



Visit of IBA students to KSE



Eid Millan Party for members held at KSE



NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that 65th Annual General Meeting of Karachi Stock Exchange Limited will be held on **Monday, October 22, 2012 at 04:00** p.m. at the Registered Office of the Exchange, Stock Exchange Building, Stock Exchange Road, Karachi to transact the following business:

1. To receive, approve and adopt financial statements of the Exchange for the year ended June 30, 2012 together with Directors' and Auditors' Reports thereon.
2. To appoint auditors of the Exchange for the year ending on June 30, 2013. The retiring auditors, M/s. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, being eligible, have offered themselves for re-appointment.
3. To discuss any other matter with the permission of the Chair.

By order of the
Governing Board of Directors

Sd/-
Muhammad Rafique Umer
Company Secretary

Karachi:

Dated: October 01, 2012



NOTES:

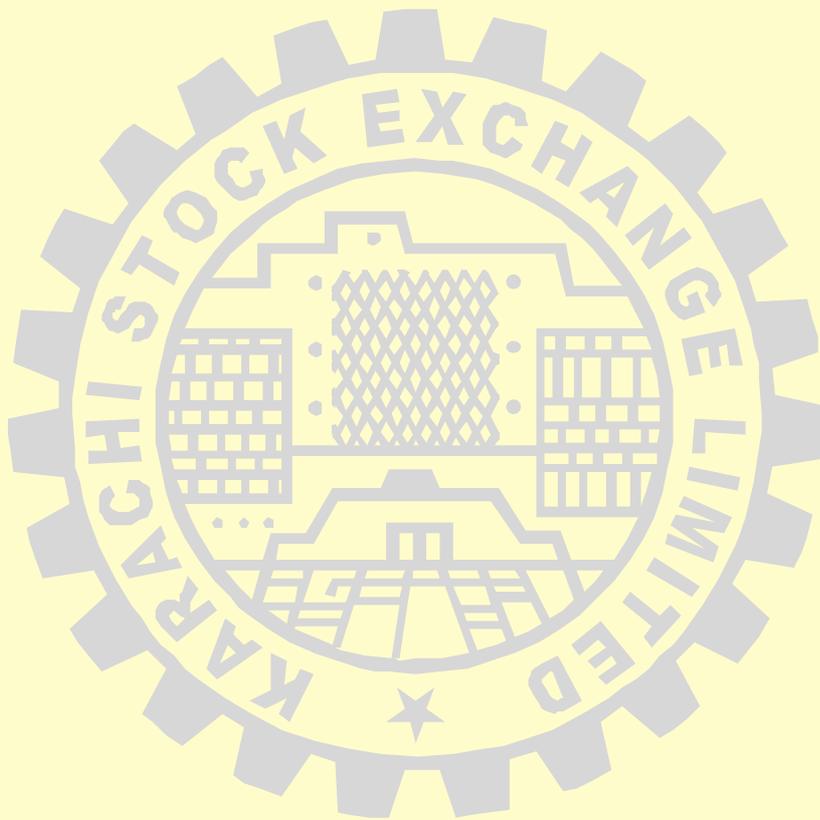
1. The Register of Members will remain closed from October 16, 2012 to October 22, 2012 (both days inclusive).
2. All members are entitled to attend and vote at the meeting.
3. A member entitled to attend, speak and vote at the meeting shall also be entitled to appoint another member as his/her proxy to attend, speak and vote instead of him/her and a proxy so appointed shall have such rights with respect to attending, speaking and voting at the meeting as are available to the member appointing him as proxy. The Instrument of Proxy and the Power of Attorney or other authority (if any) under which it is signed or a notarized certified copy of that Power of Attorney or authority, in order to be effective, must be received by the Exchange at least 48 hours before the meeting. A proxy must be a member of the Exchange.
4. Any company or other body corporate which is a member of the Exchange may, by resolution of its Directors, or proxy signed by authorized officers, authorize any of its official or any other person to act as its representative at the meeting and the person so authorized shall be entitled to exercise the same powers as if he were an individual member of the Exchange.
5. Members are requested to notify the change of their registered address, if any, immediately but before book closure to our Share Registrar, Central Depository Company of Pakistan Limited [CDC], CDC House, 99-B, Block 'B', S.M.C.H.S., Main Shakra-e-Faisal, Karachi.
6. Since all shares of the Exchange are in dematerialized format, the individual members desiring to attend the meeting are requested to bring their original Computerized National Identity Cards (CNICs) along with the Investor Account or Participant ID and House Account numbers, for identification purposes, whereas, in case of corporate member, the resolution of Board of Directors / Power of Attorney with specimen signature of the nominee shall be produced at the time of meeting (unless it has been provided earlier).



"We are more risk averse than we should be because we don't like risk, and until we are told the cost of being risk averse, either in lower outcome or more resources required to achieve a given outcome with the same confidence, we're going to choose to avoid risk."

*Stuart Fowler
Founder of Fowler Drew*





DIRECTORS' REPORT



DIRECTORS' REPORT 2011-12

The Governing Board of Directors of the Karachi Stock Exchange Limited (Exchange/KSE) is pleased to present the Annual Report of the Exchange for the financial year ended June 30, 2012. Please note that on August 27, 2012, the Exchange's corporate structure was changed from a company limited by guarantee and re-registered with the name and style as Karachi Stock Exchange Limited as a public company limited by shares, signifying the demutualization of the Exchange in accordance with the "Stock Exchanges [Corporatization, Demutualization and Integration] Act, 2012", (Demutualization Act/Act) which was assented by the President of Pakistan on May 07, 2012 and enacted into law on May 09, 2012, after having been passed at the joint session of the Senate and National Assembly on March 27, 2012.

MARKET DYNAMICS & OUTLOOK

During the twelve month period ended June 30, 2012 the KSE-100 index rose by 10.4% from 12496 as at June 30, 2011 to 13801 as at June 30, 2012 which ranked Pakistan as 3rd best emerging market in Asia. Since then, up to September 19, 2012 the Index has risen to 15588. Thus, in calendar year to date, KSE-100 Index has increased by 37%, making it the best performing emerging market in Asia. The average daily volume of shares traded was 131 million in FY12 versus 95million in FY11, while the average daily value traded was PkR3.97billion vs PkR3.75billion in FY11, indicating that the market rally has been driven by smaller stocks in calendar year 2012.

Given the lower trajectory of inflation recently and reduction in central bank's discount rate, the near term outlook for the equity market appears positive. However, over the course of full FY12-13, investors are likely to face both challenges and opportunities that they will have to negotiate through. The recent shift to the much anticipated QE3 (quantitative easing) by the U.S. monetary authorities (Federal Reserve) indicates the depth of economic slow down in the world's largest economy, accounting for 25% of global GDP. Moreover, with G-7 economic growth expected to remain below historic trend for quite some time, global economic growth will be negatively impacted as seen by the sharp slow down in China and India, two largest emerging economies. On the other hand, QE3 will unleash another round of dollar liquidity around the globe and given low investment opportunities in the U.S., most of this liquidity will likely fuel speculative price surge in risk assets including equities, commodities and real estate. Hong Kong for example, has been forced to take measures to curb speculation in the real estate sector. The medium term implications of this open-ended QE3 along with further monetary easing by the Bank of Japan as well as the EU Central Bank are likely to be higher global inflation including oil and food - both adverse for emerging economies - as well as a secular debasement of U.S. dollar's value which would create its own dislocations in global finance and trade-flows, even potential political instability internationally.

In such an environment, while the equity market outlook should remain positive in the next twelve months, investors can expect increased volatility and are likely to maintain an overall cautious stand - especially as global earnings growth of listed companies slows down. S&P 500 companies' year-on-year earning growth reduced to a mere 0.8% in 2QCY2012. Although the domestic economy in Pakistan has shown improved growth in FY12, headwinds from global slow down are likely to test policy makers, especially given the weak fiscal position of the Government. The saving grace for Pakistan can be good agricultural sector growth in FY13. If this happens, then rural incomes and employment will hold up and help domestic companies with rural market focus to grow sales and earnings. Further, this would likely help sustain overall domestic demand as the cash-economy effect has a positive impact. A potential risk factor to the equity market is a blowout of commodity (especially oil) prices. If this occurs then pressure on the current account would rise, negatively impacting foreign exchange reserves and PkR/US\$ exchange rate. Given the inelastic nature of Pakistan's imports this also means possible reversal of inflation which would likely move back to elevated levels.

Despite the above macro risk factors, domestic liquidity should remain available to the equity market and foreign inflow is also likely to remain positive given global investors' search for yields in a low interest rate environment. Along with improved trading volumes this should positively impact revenues of the Exchange.



MACRO ENVIRONMENT

In FY12, Pakistan's economic performance turned the corner with real GDP growth reaching 3.7% versus 3.0% in FY11, led by rebound in the agriculture sector as it recovered from two consecutive years of heavy flooding. Manufacturing sector growth also improved from 3% in FY11 to 4% in FY12. As the rural sector led economic growth, the full impact on GDP does not appear in official numbers. This is because of the largely undocumented nature of the rural economy. Indeed, according to several estimates, Pakistan's undocumented economy is anywhere between 35-50% of the official economy. Thus, while the official GDP in FY12 is estimated at US\$227billion, in reality, if the undocumented sector is accounted for, the effective size of Pakistan's GDP is between US\$305-US\$340billion. Both the State Bank of Pakistan and the Federal Board of Revenue (FBR) have acknowledged that there is sufficient anecdotal evidence pointing to a large undocumented sector. The improvement in GDP growth is clearly visible in reversal of the downward trend in consumer demand and production, both of which showed marked improvement in FY12.

Government finances remained under pressure in FY12 with the federal fiscal deficit estimated at around 6.8% of GDP excluding monetization of power sector deficit. This aspect remains the Achelli's heel of the Government's economic performance. The central bank's (State Bank of Pakistan) difficult balancing act of neutralizing some of the fiscal excesses by keeping monetary policy tight and slowing money-supply growth to near 8% in FY12 from almost 14% in FY11 (mainly through shifting the financing of government deficit from the central bank to the commercial banking system) helped rein in inflation, which reduced from 13.0% in FY11 to 10.8% in FY12. This allowed SBP room to reduce its benchmark discount rate, which was 14% in June 2011, to 12% by June 2012. Subsequently, the discount rate has been further reduced to 10.5% in August 2012.

The external sector remained generally stable. The current account moved into a deficit of 1.3% of GDP in FY12 versus a positive balance of 0.1% in FY11, largely due to sharp rise in energy costs as international oil prices rebounded upwards while exports faced headwinds from continued economic weakness in G-7 countries. The saving grace was significant improvement in inward remittances by expatriate Pakistanis, driven by SBP's efforts to bring this into the official banking channel. Remittances increased by nearly 18% in FY12 to US\$13.2billion. From the FY08 level of US\$5billion, it is over 100% growth in last four years. This has massively supported the current account, and along with IMF's standby arrangement funds, kept foreign exchange reserves over US\$15billion in FY12, although still lower than US\$18billion in FY11. The current account deficit and higher inflation compared to trading partners did take its toll on the exchange rate which depreciated by 10% against the US\$ in FY12, and currently stands at PkR94.5/US\$. On a positive note, the external debt to GDP ratio declined from nearly 30% of GDP to around 27% of GDP. Given the relatively low likelihood of commercial borrowing from international markets in the near term, if the current account deficit can be narrowed then this important ratio should continue to remain stable going forward and provide confidence to foreign investors.

FINANCIAL REVIEW

As per audited accounts, KSE's profit after tax in FY12 was PkR669million versus restated profit of PkR145million in FY11. However, the accounts reflect the impact of revaluation of assets and associated tax and depreciation adjustments as related to the corporatization and demutualization process. Excluding these one-time effects, KSE's pretax profit was PkR84.7million in FY12 versus PkR53million in FY11, showing a growth of 60% YoY.

This is a commendable achievement, given that market conditions depicted improvement only in the second half of the financial year. As noted in last year's annual review, KSE's business model is being adjusted to reflect new ground realities with focus on cost rationalization and diversifying the revenue generation base. This has become all the more important post demutualization as the Company (KSE) moves from being a not-for-profit institution to a for-profit business enterprise that has to contribute positively to shareholder value.



In FY12, income from exchange operations showed 5% growth to reach PkR320million driven by both listing and trading fees. Net treasury (mark-up) income shrunk by 4% due to passing on of interest earned on margin deposits to members. Nevertheless, Treasury Income of PkR221million was a significant contributor to profitability. Share of Profit of Associates rose by a handsome 35% to PkR97million. Total Revenue of the Exchange was PkR695million in FY12 versus PkR672million in FY11, showing 3.4% growth.

On the expenditure side, administrative expenses (excluding IT and Depreciation) declined by 3.6% in FY12 to PkR399mn versus PkR414million in FY11. This was driven primarily by 12% reduction in human resource costs which fell to PkR271million in FY12 versus PkR308million in FY11. As a result, the HR cost to total cost ratio improved to 44% from 50% in FY11.

However, maintenance and related expenses (especially for IT facilities, which are the core infrastructure of the Exchange) rose by 26% in FY12 versus FY11 to PkR98 million, neutralizing savings achieved in the HR space. The reason for this increase was due to rising maintenance cost of several legacy equipment. As the Exchange switches to new replacement hardware with extended warranties, this maintenance expense should normalize.

Key adjustments to the income statement related to the demutualization process and consequent revaluation included financial advisory, consultancy and legal fees amounting to PkR38million and incremental depreciation of PkR60million.

The balance sheet footing after revaluation of assets, stood at PkR9.52billion as at June 30, 2012 versus restated June 30, 2011 figure of PkR5.19billion. Reserves of the Exchange were PkR4.67billion at June 30, 2012 versus PkR3.95billion as at June 30, 2011. The net surplus on revaluation of assets was PkR3.29billion.

FOCUS ON INVESTORS

The underlying rationale for demutualization of the exchanges has been to a) further improve the governance structure of the capital market institutions and, b) to foster innovation and substantially enlarge the investor base in the country.

In this respect, the Exchange has already chalked out a 5-year development plan for the Capital Market. Key elements of this plan include doubling the existing investor base by calendar - end 2014 in the first phase. A nation-wide investor awareness programme has already been launched in July 2012 under the umbrella of the Institute of Capital Markets (ICM) with participation of all the capital market institutions and support of the Securities & Exchange Commission of Pakistan (SECP).

Major progress was also achieved in compensating investors who had suffered losses related to the 2008 financial crisis. Out of a total of 6,327 registered claims (not under litigation) received 70% claims have been settled. Further, over 50% of claimants have been compensated fully (100%). The exercise involved considerable resources and efforts by KSE and the total amount paid out from the Investor Protection Fund of KSE was PkR504million. This is a major milestone in the history of the Exchange and, keeping in view strengthened risk management regime, should greatly help restore investors' confidence in the capital market.

INTERNATIONAL OUTREACH

The Exchange has concluded agreements with two U.S. asset management firms to launch Exchange Traded Funds (ETFs) based on KSE-30 and KMI (Islamic) Indices to be traded on the New York Stock Exchange (NYSE). Separately, KSE is in discussions with the Bombay Stock Exchange to list the BSE's SENSEX 30 Index at KSE Futures Counter. In order to bring liquidity to the Futures Counter KSE has signed a market-making agreement for the KSE-30 Index



Futures Contracts with a leading brokerage house in August 2012, the first in the history of the Exchange and several applications for market-making are now pending.

OTHER KEY DEVELOPMENTS

Another 'big' story in FY12 has been the centralization of capital gains tax (CGT) computation, determination and collection at the National Clearing Company of Pakistan (NCCPL), in which KSE has 47.06% equity stake. This development has eliminated the huge cloud of uncertainty facing investors which caused market volumes to plummet in FY11.

The new CGT collection regime makes for simplified and efficient tax filing. The results of this are already visible. Average daily volume of shares traded was 95 million in FY11 which rose to 131 million in FY12. More important, in the first half of FY12, the volume had declined to 60 million shares and after the announcement of CGT centralized collection at NCCPL, the average daily volume surged to 196 million shares in the second half of FY12.

In addition to the above, in FY12, significant institutional and regulatory reforms have been carried out along with new product rollouts to both minimize market and investor risk, increase transparency, strengthen corporate governance and incentivize market participants.

CONTRIBUTION TO NATIONAL EXCHEQUER

The Capital Markets are amongst the larger contributors to the national exchequer. During the year 2011-12, the Exchange collected taxes from the members of the Exchange on securities market transactions and paid an aggregate amount of Rs.385 million to the government exchequer (Rs.362 million in 2010-2011).

INVESTMENTS IN ASSOCIATE AND OTHER COMPANIES

The Exchange currently holds investments in the following associate and other companies:

Name of company	Amount in vested (Rs. in million)	Percentage shareholding	As appearing in the accounts (Rs. in million)
Associates			
Central Depository Company of Pakistan Limited [CDC]	39.81	39.81	873.00
National Clearing Company of Pakistan Limited [NCCPL]	30.00	47.06	184.55
Others			
JCR-VIS Credit Rating Company Limited [JCR-VIS]	2.50	12.50	2.50
Pakistan Mercantile Exchange Limited [PMEX]*	42.09	19.14	22.09

* KSE holds 3,636,356 (2011: 3,636,356) ordinary shares of Rs.10 each; representing 19.14% equity in PMEX. Break-up value of each ordinary share of Rs.10 is Rs. Nil (2011: Nil) based on the unaudited accounts of PMEX available for the year ended June 30, 2012. The original cost of investment in PMEX is Rs.42.09 million.

During the year, a cash dividend @ 30% (2011: 30%) by CDC; cash dividend @ Nil (2011: Nil) by NCCPL and cash dividend @ 3% (2011: 8%) was declared by JCR-VIS for the financial year ended June 30, 2011 were received.



BOARD OF DIRECTORS

The Board of Directors of the Exchange as on June 30, 2012, comprised of 10 members. Out of these, 5 directors were elected from amongst the members of the Exchange, whereas 4 non-member directors were nominated and appointed by SECP. The Managing Director, by virtue of his office was the tenth director on the Board. Pursuant to requirements of the then Articles of Association of the Exchange, election of directors was conducted at the Extraordinary General Meeting held on December 29, 2011 where Mr. Abdul Majeed Adam, Mr. Muhammad Yasin Lakhani, Mr. Yaqoob Habib, Mr. Saeed Ahmed Butt and Haji Ghani Haji Usman were elected for the year 2012, to replace Mr. Abid Ali Habib, Mr. Mohammed Sohail, Mr. Zafar S. Moti, Mr. Ashraf Bava and Mr. Muhammad Qasim Lakhani. On the other hand, SECP retained the nominations of Mr. Muneer Kamal, Mr. Abdul Qadir Memon, Mr. Asif Qadir and Mr. Shazad G. Dada on the Board of the Exchange. Mr. Muneer Kamal was unanimously re-elected by the Board as Chairman for the year 2012.

With a view to promote good governance, SECP introduced a 'Fit and Proper Criteria' for persons desiring to act as directors on the boards of the stock and commodity exchanges, CDC and NCCPL, which has been duly implemented at KSE.

During the financial year ended June 30, 2012, 19 Board meetings (10 scheduled & 09 emergent) were held, in which Directors' attendance was as follows:

Name of Director	Number of meetings during the tenure within the period	Number of meetings attended
July 01, 2011 - December 31, 2011		
Mr. Muneer Kamal	07	06
Mr. Nadeem Naqvi	07	06
Mr. Ashraf Bava	07	07
Mr. Shazad G. Dada	07	07
Mr. Abid Ali Habib	07	07
Mr. Muhammad Qasim Lakhani	07	07
Mr. Abdul Qadir Memon	07	05
Mr. Zafar S. Moti	07	06
Mr. Asif Qadir	07	06
Mr. Mohammed Sohail	07	06
January 01, 2012 - June 30, 2012		
Mr. Muneer Kamal	12	10
Mr. Nadeem Naqvi	12	12
Mr. Abdul Majeed Adam	12	12
Mr. Saeed Ahmed Butt	12	07
Mr. Shazad G. Dada	12	10
Mr. Yaqoob Habib	12	12
Mr. Muhammad Yasin Lakhani	12	11
Mr. Abdul Qadir Memon	12	07
Mr. Asif Qadir	12	08
Haji Ghani Haji Usman	12	10
Leave of absence was granted to directors who could not attend some of the Board meetings.		



The Board records its appreciation of the contribution made by the outgoing Directors.

The KSE Board consists of a mix of experienced and successful professionals with diverse background. The non-member directors have a proven track record of running major institutions, while the member directors have a deep understanding of the working of the Exchange and the local equity market.

COMMITTEES

The Board constituted the following committees, mandated with distinctive terms of reference. The Committees comprising of members of the Board, trading members of the Exchange, outside market experts were formed under the chairmanship of various directors, as given below:

Committee	Chairman
i. Human Resources Committee	Mr. Muneer Kamal
ii. Audit Committee	Mr. Abdul Qadir Memon
iii. Advisory, Arbitration & Defaulters' Committee	Mr. Yaqoob Habib
iv. Companies Affairs and Corporate Governance Committee	Mr. Muhammad Yasin Lakhani
v. Development & Trading Affairs Committee	Mr. Abdul Majeed Adam
vi. Voluntary De-listing Committee	Mr. Nadeem Naqvi
vii. Market Development & New Products Committee	Mr. Abdul Majeed Adam
viii. Demutualization Committee	Haji Ghani Haji Usman
ix. Investment Committee	Mr. Muhammad Yasin Lakhani
x. Taxation Committee	Mr. Abdul Qadir Memon
xi. Committee for hearing appeals of members and for handling cases of suspension/expulsion & imposition of fines	Mr. Asif Qadir
xii. Index Experts Committee	Mr. Tariq Iqbal
xiii. IT Steering Committee	Mr. Nadeem Naqvi

AUDIT COMMITTEE

The Audit Committee was constituted by the Board under the requirements of the Code of Corporate Governance and comprised of following five members including the Chairman:

- | | |
|-------------------------------|----------|
| 1. Mr. Abdul Qadir Memon | Chairman |
| 2. Mr. Abdul Majeed Adam | Member |
| 3. Mr. Shazad G. Dada | Member |
| 4. Mr. Muhammad Yasin Lakhani | Member |
| 5. Mr. Asif Qadir | Member |

The Committee held five (05) meetings during the financial year 2011-12. The governing charter of the Audit Committee addresses requirements of the Code of Corporate Governance issued by SECP and includes adoption of international best practices in internal audit. The Committee is accountable to the Board for recommendation relating to appointment of external auditors, directing and monitoring the audit function and reviewing the accuracy and quality of the audit process. While the Chief Financial Officer is responsible for the accuracy of financial information included in the financial reports, the Committee provides the Board with additional assurance.



In addition, the Committee has oversight responsibilities for the control processes and for ensuring that the Exchange has an effective internal control framework. These controls include safeguarding of assets, maintaining of proper accounting records, complying with legislation and ensuring the reliability of financial information. The Committee monitors non-compliances identified through System Audits and any Special Audits of Brokerage Houses.

The Internal Audit Department is the main resource supporting the Committee as per the Code of Corporate Governance. The Head of Internal Audit reports to Chairman of the Committee with an administrative reporting line to the Managing Director.

CORPORATE GOVERNANCE - CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The Board of Directors and the Company remain committed to the principles of good corporate management practices with emphasis on transparency and disclosures. The Board and management are cognizant of their responsibilities and monitor the capital market operations and performance to enhance the accuracy, comprehensiveness and transparency of financial and non-financial information.

The Board is pleased to advise that KSE has voluntarily adopted the Code of Corporate Governance and has complied, in all material respects, with the best practices contained in the said Code, as fully explained in the attached Statement of Compliance. Further, as per the Code's requirements, the following specific statements are being made:

- Proper books of accounts of the Company have been maintained.
- The financial statements prepared by the management present fairly its state of affairs, the results of its operations and cash flows.
- Appropriate accounting policies have been consistently applied in preparation of financial statements which conform to the International Financial Reporting Standards, as applicable in Pakistan. The accounting estimates, wherever required, are based on reasonable and prudent judgment.
- The system of internal controls is sound in design. It has been effectively implemented by the management and is monitored by the internal and external auditors as well as the Board of Directors and the Audit Committee. The Board reviews the effectiveness of established internal controls through the Audit Committee and suggests, wherever required, further improvement in the internal control systems.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There is no reported instance of any material departure from the best practices of corporate governance.
- Significant deviations from last years' operating results, future plans and changes, if any, have been separately disclosed, as appropriate, in this report of the Directors.
- Value of investment of KSE Employees' Gratuity Fund is Rs.126.66 million based on unaudited accounts for the year June 30, 2012.
- Key operating and financial data of last 6 years has been included in this annual report.



CORPORATE SOCIAL RESPONSIBILITY

Karachi Stock Exchange, being a national institution and a responsible corporate citizen, strongly realizes its duty towards the society. In view of this, KSE has a defined policy for Corporate Social Responsibility activities.

During the year under review, the Board enhanced the policy threshold for corporate philanthropy activities and accordingly, approved following donations:

	Beneficiary	Amount (Rs.)
1.	Kharadar General Hospital	400,000/-
2.	Memon Medical Institute	800,000/-

AUDITORS

Ernst & Young Ford Rhodes Sidat Hyder & Co., Chartered Accountants, have completed their assignment and retired. Being eligible, they have offered themselves for reappointment. Based on the recommendation of the Audit Committee, the Board further recommends the reappointment of Ernst & Young Ford Rhodes Sidat Hyder & Co., Chartered Accountants, as KSE's auditors for the financial year ending on June 30, 2013.

ACKNOWLEDGEMENT

The Board wishes to express its gratitude to KSE members and other stakeholders for their continued commitment and support to KSE and the capital markets. The Board is also grateful to Securities and Exchange Commission of Pakistan, Federal Board of Revenue and the Ministry of Finance, Revenue & Economic Affairs, Government of Pakistan, for their active support and guidance to KSE at all times.

Furthermore, the Board would like to thank all Committee members for their guidance and support. The Board acknowledges and appreciates the professional expertise, diligence and dedication of all KSE staff members who were instrumental in achieving the desired milestones during a challenging year, especially in successfully enabling the demutualization process to be completed within the stipulated time frame..

For and on behalf of the Board of Directors

Sd/-
MUNEER KAMAL
Chairman

Sd/-
NADEEM NAQVI
Managing Director

Karachi

September 27, 2012



“Given how hard people work over many years to save for their futures and their families, it is worthwhile to take time to craft an investment strategy that can withstand a range of market outcomes”

*Neel Kashkari
MD & Head of Global Equities
Pacific Investment Management Company*



MARKET HIGHLIGHTS

DESCRIPTION	2009	2010	2011	2012
Total Listed Companies	651	652	639	590
Total Listed Capital (Rs. in million)	781,794	909,894	943,733	1,069,838
Total Market Capitalization (Rs. in million)	2,120,651	2,732,374	3,288,657	3,518,136
New Companies Listed	8	8	1	4
Listed Capital of New Companies (Rs. in million)	10,705	40,653	4,350	11,861
New Debt Instruments Listed	1	5	2	5
Listed Capital of New Debt Instruments (Rs. in million)	4,257	8,650	5,000	11,500
Total Shares Volume (million)	28,333	42,959	28,018	38,011
Average Daily Share Volume (million)	116	173	112	153
KSE INDICES				
KSE - 100 Index				
Year End	7162.18	9721.91	12496.03	13801.41
High	12221.43	10677.47	12681.94	14617.97
Low	4815.34	7270.72	9516.42	10842.26
KSE - All Share Index				
Year End	5121.73	6809.60	8663.10	9708.31
High	8791.08	7522.88	8794.69	10251.17
Low	3647.10	5194.43	6652.45	7549.52
KSE - 30 Index				
Year End	7571.08	9556.58	11586.49	11922.13
High	14230.42	10876.61	12476.12	12762.79
Low	4428.10	7711.91	9372.08	10060.64
KMI - 30 Index				
Year End	10647.69	14573.54	20936.20	23776.48
High	11421.34	16079.33	21344.19	25221.31
Low	6322.23	10871.59	14421.31	19436.79

NOTES:

- (i) The figures are from July to June.
- (ii) The total number of listed companies have been stated after 6 companies De-listed in 2009, 3 companies in 2010, 11 companies in 2011 and 51 companies in 2012 and 3 companies Merged in 2009, 4 companies in 2010, 3 companies in 2011 and 2 companies in 2012.
- (iii) The total listed capital has been stated after adjustment of capital of companies by way of merger, bifurcation and de-listing, etc.
- (iv) The KSE 100 Index was started in November 1991 with a base of 1000 points and it is recomposed semi annually and was last re-composed on February 29, 2012 closing statistics.
- (v) The KSE All Share Index based on the prices of August 29, 1995 = 1000, commenced w.e.f. September 18, 1995.
- (vi) The KSE - 30 Index based on the prices of June 30, 2005 = 10000, introduced w.e.f. September 01, 2006.
- (vii) The KMI - 30 Index introduced w.e.f. September 01, 2008.



MAJOR WORLD INDICES' PERFORMANCE July 2011 - July 2012

Exchange	30-Jun-11	30-Jun-12	Points Chg.	% Chg.
Philippines	4291	5246	955	22.3%
Thailand	1041	1172	131	12.5%
Pakistan	12496	13801	1305	10.4%
Indonesia	3889	3956	67	1.7%
Malaysia	1579	1599	20	1.3%
Vietnam	433	422	-11	-2.5%
India	18846	17430	-1416	-7.5%
Singapore	3120	2878	-242	-7.8%
Hong Kong	22398	19441	-2957	-13.2%
China	2762	2225	-537	-19.4%
Srilanka	6826	4966	-1860	-27.3%
US	2774	2935	162	5.8%
S&P 500 Index	1321	1362	41	3.1%
UK	5946	5571	-375	-6.3%
Nikkei 225 Japan	9816	9007	-809	-8.2%

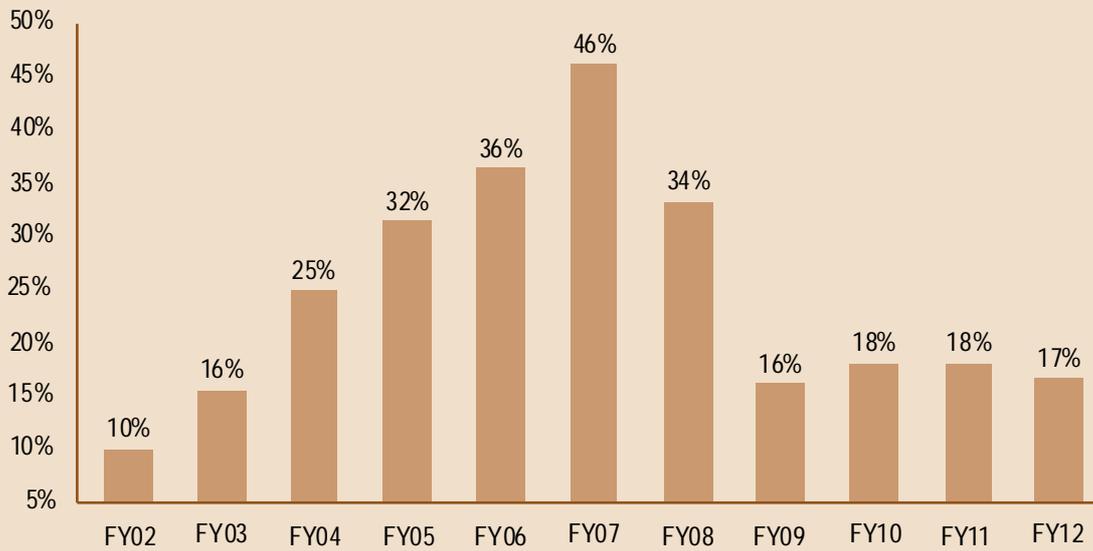
HISTORICAL ASSET CLASS RETURNS IN PAKISTAN

	KSE	Gold	DSC	PIBs	T-bills	Deposits*
2001	-16%	8%	15%	13%	11%	6%
2002	112%	9%	13%	10%	6%	4%
2003	66%	9%	9%	6%	2%	2%
2004	39%	15%	8%	7%	2%	1%
2005	54%	12%	8%	8%	7%	3%
2006	5%	26%	10%	10%	8%	3%
2007	40%	22%	10%	10%	7%	4%
2008	-58%	32%	11%	13%	11%	6%
2009	60%	33%	12%	13%	13%	6%
2010	28%	30%	12%	13%	13%	6%
2011	-6%	10%	13%	13%	13%	6%
Average	33%	20%	11%	10%	8%	4%

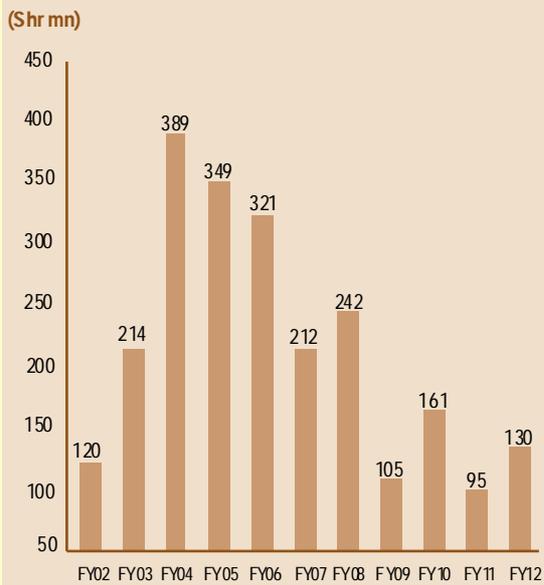
* Weighted average deposits rate as per SBP data



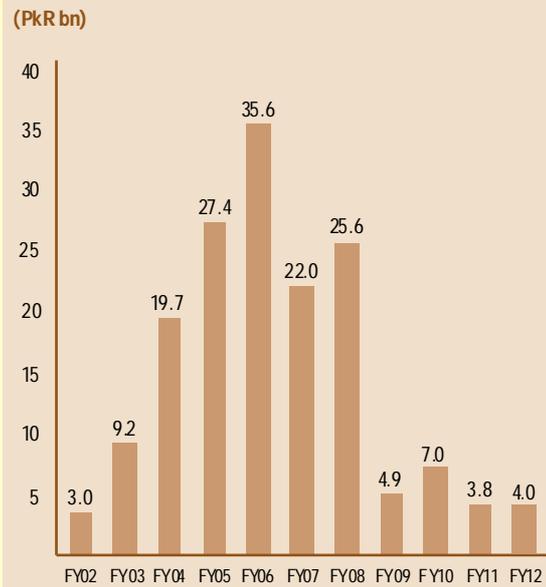
MARKET CAPITALIZATION-TO-GDP RATIO



AVG. DAILY VOLUME TRADED



AVG. DAILY VALUE TRADED



KSE INDICES

KSE 100 INDEX 2002 TO 2012



KSE 30 INDEX 2006 TO 2012

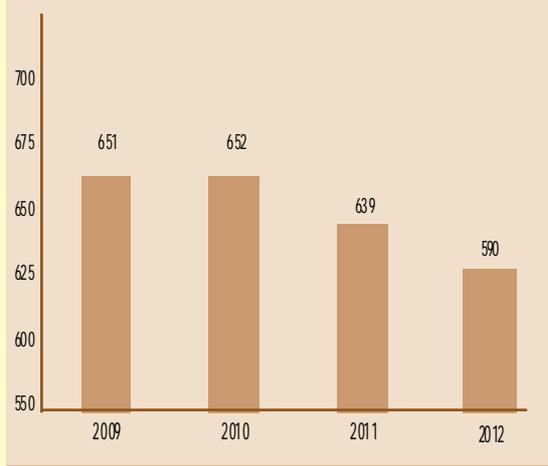


KMI 30 INDEX 2008 TO 2012

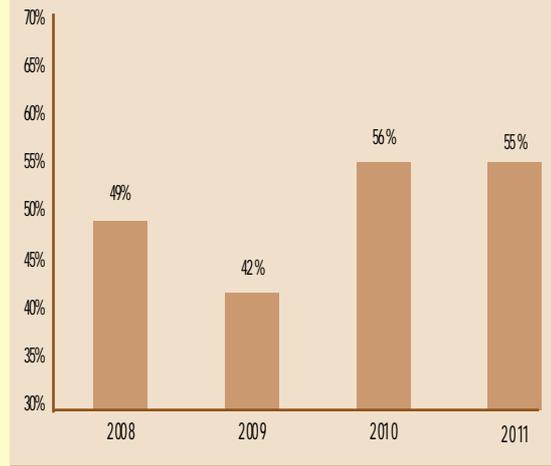


LISTED COMPANIES STATISTICS

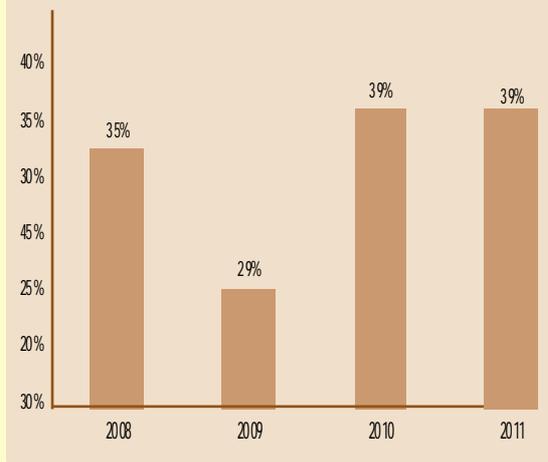
NUMBER OF LISTED COMPANIES



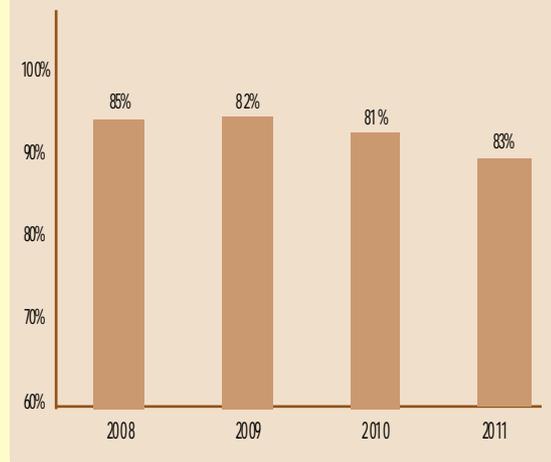
PERCENTAGE OF COMPANIES MAKING PROFIT



PERCENTAGE OF COMPANIES PAYING DIVIDENDS



PERCENTAGE OF COMPANIES THAT ANNOUNCED ANNUAL RESULTS



LISTED COMPANIES STATISTICS

LISTING OF NEW COMPANIES - EQUITY

(Rs. in million)

Name of Company	Date of Listing	Paidup Capital	Capital Offered to		Subscription Received	
			General Public/ Employees	Premium	General Public /Employees	Premium
Pakgen Power Limited (Offer for Sale @ Rs.9 premium per share)	21-07-2011	3,721	372	335	141	126
Engro Foods Limited (Offer for Sale @ Rs.15 premium per share)	10-08-2011	7,480	270	405	256	384
TPL Direct Insurance Limited (i)	22-09-2011	460	50	-	52	-
Next Capital Limited (ii)	27-04-2012	200	25	-	5	-
TOTAL		4,350	275	112	286	116

(i) Book Building Portion of the issue comprised of 10,000,000 Ordinary Shares (66.70% of the issue) at a floor price of PKR 10 per share

(ii) Book Building Portion of the issue comprised of 7,500,000 Ordinary Shares (75% of the issue) at a floor price of PKR 10 per share

LISTING OF NEW DEBT INSTRUMENTS

(Rs. in million)

Name of Company	Date of Listing	Amount Offered			Subscription Received			Amount Listed
		General Public	Others	Total Issue	General Public	Others	Total Issue	
Engro Fertilizer Limited (TFC-4) *	11-07-2011	-	-	-	-	-	-	4,000
Engro Fertilizer Limited (TFC-5) *	11-07-2011	-	-	-	-	-	-	2,000
Orix Leasing Pakistan Limited *	25-10-2011	-	-	-	-	-	-	1,000
Engro Corporation Limited (2nd Issue) **	04-11-2011	2,000	-	2,000	2,755	-	2,755	3,000
Summit Bank Limited	01-12-2011	375	1,125	1,500	1	1,125	1,126	1,500
TOTAL		2,375	1,125	3,500	2,756	1,125	3,881	11,500

* Privately placed listed Debt Securities under the schedule III of the Regulation Governing Over-The-Counter (OTC) Market.

** The Company has exercised the Green Shoe Option of Rs. 1,000 million.

PROSPECTUS CLEARED BY THE EXCHANGE

Sr. #	Name of Company
1	Saif Power Limited
2	TPL Trakker Limited
3	Aisha Steel Mills Limited
4	Javedan Corporation Limited (Preference Shares)
5	Treet Corporation Limited (PTC)
6	Karachi Electric Supply Company Limited (TFC-1)
7	Karachi Electric Supply Company Limited (TFC-2)
8	Karachi Electric Supply Company Limited (TFC-3)

LISTING OF OPEN-END MUTUAL FUND

(Rs. in million)

Sr. #	Name of Company	Date of Listing	Fund Size
1	ABL Government Securities Fund	15-12-2011	801
2	AKD Cash Fund	20-02-2012	119



APPLIED FOR LISTING

Sr. #	Name of Company
1	Pakistan International Bulk Terminal Limited
2	SFL Limited
3	Aisha Steel Mills Limited (Preference Shares)
4	Akzo Nobel Pakistan Limited
5	Pakistan Mobile Communications Limited (Privately Placed TFC)
6	Tameer Microfinance Bank Limited (TFC-1)
7	Tameer Microfinance Bank Limited (TFC-2)

DELISTING OF COMPANIES DUE TO MERGER/AMALGAMATION

(Rs. in million)

Sr.#	Name of Company	Merged With	Date of Merger
1	MyBank Limited	Summit Bank Limited	July 06, 2011
2	Azam Textile Mills Limited	Saritow Spinning Mills Limited	February 21 2012

DELISTING OF COMPANIES / SECURITIES

(Rs. in million)

Sr. #	Name of Company	Date of De-listing	Paid up Capital	Sr. #	Name of Company	Date of De-listing	Paid up Capital
1	Polyron Limited	July 18, 2011	172	27	Valika Woollen Mills Limited	February 01, 2012	10
2	Al-Meezan Mutual Fund	August 05, 2011	1375	28	Atlas Engineering Limited	March 21, 2012	247
3	Fecto Sugar Mills Limited	August 22, 2011	146	29	Kausar Paints Limited	March 26, 2012	13
4	Mehran Jute Mills Limited	February 01, 2012	31	30	Tri-Star Shipping Lines Limited	March 26, 2012	600
5	Siflaq International Limited	February 01, 2012	30	31	Tawakkal Limited	March 26, 2012	139
6	Pak Ghee Industries Limited	February 01, 2012	22	32	Tariq Cotton Mills Limited	March 26, 2012	7
7	Uqab Breeding Farms Limited	February 01, 2012	27	33	Sind Alkalis Limited	March 26, 2012	75
8	Unity Modaraba	February 01, 2012	300	34	Saitex Spinning Mills Limited	March 26, 2012	74
9	Tawakkal Garments Industries Ltd.	February 01, 2012	122	35	Qayyum Spinning Limited	March 26, 2012	120
10	Taga Pakistan Limited	February 01, 2012	26	36	Pakistan Dairies Limited	March 26, 2012	10
11	Sterling Insurance Company Limited	February 01, 2012	5	37	Pak Fibre Industries Limited	March 26, 2012	100
12	Schon Modaraba	February 01, 2012	234	38	Modern Textile Mills Limited	March 26, 2012	38
13	Rashid Textile Mills Limited	February 01, 2012	12	39	Karim Silk Mills Limited	March 26, 2012	10
14	Pakistan Northern Insurance Co. Ltd.	February 01, 2012	8	40	Junaid Cotton Mills Limited	March 26, 2012	25
15	Myflip Video Industries Limited	February 01, 2012	20	41	Harnai Woollen Mills Limited	March 26, 2012	5
16	First Dadabhoy Modaraba	February 01, 2012	50	42	First Tawakkal Modaraba	March 26, 2012	259
17	Long Term Venture Capital Modaraba	February 01, 2012	396	43	Crescent Spinning Mills Limited	March 26, 2012	151
18	Islamic Investment Bank Limited	February 01, 2012	198	44	Colony Woollen Mills Limited	March 26, 2012	4
19	InterAsia Leasing Company Limited	February 01, 2012	100	45	Bela Engineers Limited	March 26, 2012	34
20	Indus Polyester Company Limited	February 01, 2012	124	46	Bahawalpur Textile Mills Limited	March 26, 2012	10
21	Delta Insurance Company Limited	February 01, 2012	40	47	Awan Textile Mills Limited	March 26, 2012	87
22	Dadabhoy Leasing Company Limited	February 01, 2012	75	48	Adil Polypropylene Products Limited	March 26, 2012	55
23	Apex Fabrics Limited	February 01, 2012	58	49	Muslim Ghee Mills Limited	March 26, 2012	26
24	Alif Textile Industries Limited	February 01, 2012	39	50	Wazir Ali Industries Limited	May 07, 2012	80
25	Norrie Textile Mills Limited	February 01, 2012	49	51	Regent Textile Industries Limited	May 25, 2012	48
26	Turbo Tec Limited	February 01, 2012	100				

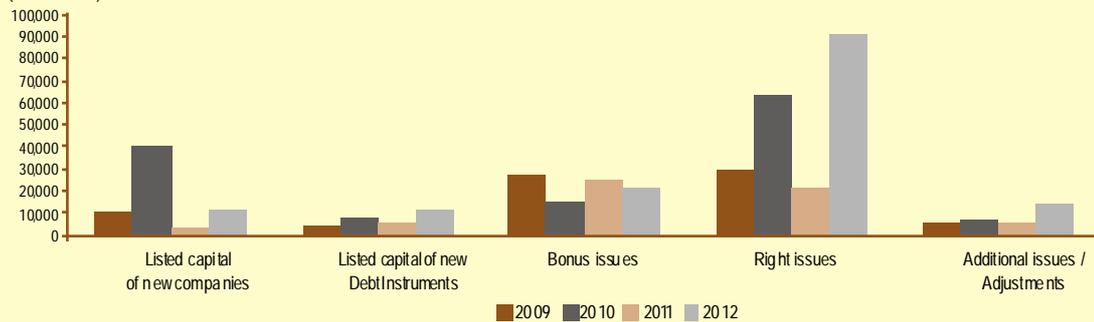


BREAK-UP OF LISTED CAPITAL ISSUED

(Rs. in million)

	2009	2010	2011	2012
Listed Capital of New Companies	10,705	40,653	4,350	11,861
Listed Capital of New Debt Instruments	4,257	8,650	5,000	11,500
Bonus Issues	26,744	16,457	24,122	19,902
Right Issues	29,987	62,528	21,689	91,725
Additional Issues / Adjustments	4,435	6,789	6,123	14,440
	76,129	135,078	61,284	149,428

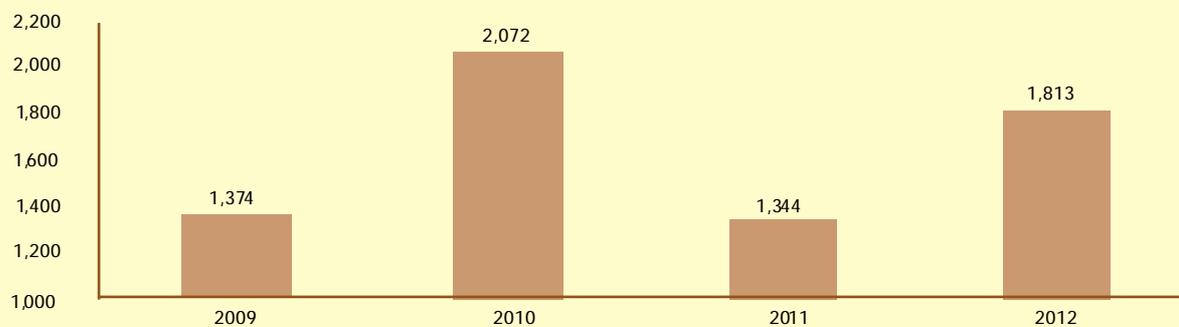
(Rs. in million)

**AVERAGE DAILY TURNOVER OF SHARES (READY)**

(In million)

	2009	2010	2011	2012
July	88.232	171.226	75.806	79.866
August	108.137	159.935	60.890	59.087
September	25.734	267.781	69.481	84.291
October	16.130	222.152	129.069	115.727
November	6.858	133.069	131.618	54.930
December	50.055	128.571	157.211	61.608
January	165.146	195.017	186.959	90.309
February	169.375	173.178	110.939	200.353
March	190.264	168.299	110.189	392.614
April	295.033	209.794	86.551	338.744
May	136.469	107.993	94.977	211.691
June	122.414	135.235	130.682	124.156
Total	1,373.847	2,072.251	1,344.372	1,813.375

(Shr mn)

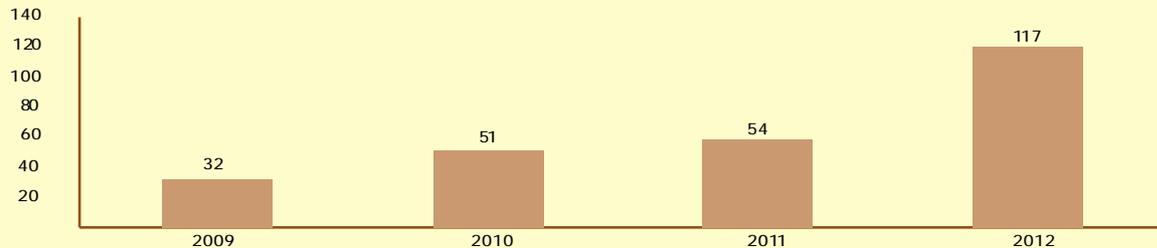


AVERAGE DAILY TURNOVER OF SHARES (Futures Counter)

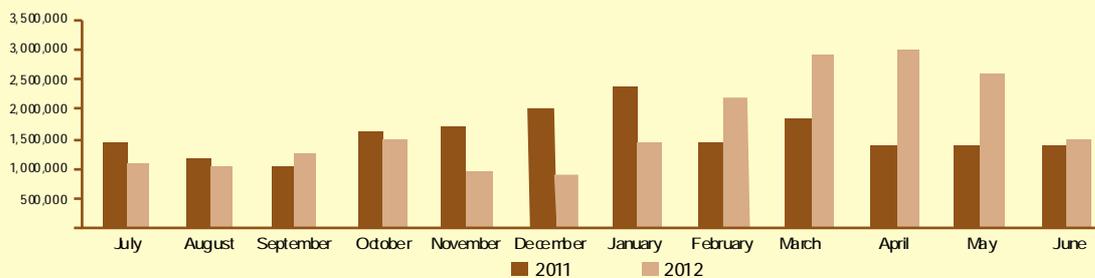
(In million)

	2009	2010	2011	2012
July	12.752	0.262	3.357	3.621
August	17.029	1.728	2.196	4.509
September	1.682	2.417	2.119	7.294
October	-	2.559	2.970	9.465
November	-	3.012	4.143	6.007
December	0.001	2.530	5.319	5.226
January	-	6.883	8.216	7.737
February	0.017	4.854	5.975	10.286
March	0.054	7.223	7.460	15.247
April	0.032	9.039	4.075	19.575
May	0.001	4.634	3.567	17.605
June	-	5.815	4.293	10.792
Total	31.569	50.955	53.690	117.362

(Shr mn)

**TRADES ON KARACHI AUTOMATED TRADING SYSTEM (KATS)**

Month	2011		2012	
	No. of Trades	Daily Average	No. of Trades	Daily Average
July	1,028,212	46,737	761,999	36,286
August	851,805	38,718	715,945	34,093
September	743,816	37,191	906,742	45,337
October	1,155,901	55,043	1,068,382	53,419
November	1,204,769	66,932	676,083	35,583
December	1,456,452	69,355	640,539	32,027
January	1,716,495	81,738	1,014,758	46,125
February	1,039,367	54,704	1,568,575	74,694
March	1,300,058	59,094	2,113,618	100,648
April	983,384	46,828	2,151,263	102,441
May	956,835	43,493	1,857,682	84,440
June	1,000,881	45,495	1,051,388	50,066
TOTAL	13,437,975		14,526,974	
Average Trades		53,777		57,930



SECTOR-WISE CAPITAL LISTED ON THE EXCHANGE 2012

(Rs. in million)

Sector Name	No. of Companies	2012 Paid up Capital
Oil & Gas	12	74,708.47
Chemicals	32	95,480.23
Forestry (Paper and Board)	4	1,199.33
Industrial Metals and Mining	8	8,455.71
Construction and Materials (Cement)	36	77,005.95
General Industries	13	3,588.93
Electronic and Electrical Goods	3	372.24
Engineering	11	1,633.31
Industrial Transportation	3	2,642.17
Support Services	1	3,853.91
Automobile and Parts	16	7,048.69
Beverages	4	555.60
Food Producers	54	20,423.69
Household Goods	13	4,428.13
Leisure Goods (Miscellaneous)	1	73.49
Personal Goods (Textile)	187	54,682.41
Tobacco	3	3,182.76
Health Care Equipment and Services	2	581.08
Pharma and Bio Tech	9	4,955.77
Media	3	2,788.29
Travel and Leisure	4	29,604.92
Fixed Line Telecommunication	5	68,878.47
Electricity	16	127,550.90
Multilities (Gas and Water)	2	14,574.77
Commercial Banks	23	382,507.44
Non Life Insurance	32	14,805.01
Life Insurance	4	2,477.58
Real Estate Investment and Services	2	2,813.84
Financial Services	40	31,556.59
Equity Investment Instruments	45	26,419.04
Software and Computer Services	1	779.10
Technology Hardware and Equipment	1	210.00
TOTAL	590	1,069,837.80



SECTOR WISE PERFORMANCE OF COMPANIES LISTED ON THE EXCHANGE - 2011

Name of Sector	Number of Companies	Companies that Announced Annual Results	Dividend Paying Companies	Profit Making Companies that Omitted Dividend	Profit Making Companies	Loss Making Companies
Oil & Gas	12	12	11	0	11	1
Chemicals	35	32	17	6	23	9
Forestry and Paper	4	3	2	1	3	0
Industrial Metals and Mining	8	6	4	0	2	4
Construction and Materials	37	34	3	9	12	22
General Industries	13	12	6	3	9	3
Electronic and Electrical Goods	3	3	1	0	1	2
Engineering	11	10	4	2	6	4
Industrial Transportation	4	2	2	0	2	0
Support Services	1	1	0	0	0	1
Automobile and Parts	19	16	9	4	13	3
Beverages	4	3	2	1	3	0
Food Producers	60	50	25	15	40	10
Household Goods	15	9	3	1	4	5
Leisure Goods (Miscellaneous)	1	1	1	0	0	1
Personal Goods (Textile)	209	166	67	34	101	65
Tobacco	3	3	1	1	2	1
Health Care Equipment and Services	2	1	1	0	1	0
Pharma and Bio Tech	9	9	9	0	9	0
Media	3	3	1	0	1	2
Travel and Leisure	4	4	1	2	3	1
Fixed Line Telecommunication	5	5	2	2	4	1
Electricity	16	15	6	2	8	7
Multiutilities (Gas and Water)	2	2	2	0	2	0
Commercial Banks	23	23	13	6	19	4
Non Life Insurance	35	24	17	3	20	4
Life Insurance	4	4	2	1	3	1
Real Estate Investment and Services	2	2	1	0	1	1
Financial Services	42	29	5	7	12	17
Equity Investment Instruments	50	40	30	5	35	5
Software and Computer Services	1	1	0	1	1	0
Technology Hardware and Equipment	1	1	0	0	0	1
TOTAL	638	526	248	103	351	175
PERCENTAGE		82.45%	38.87%	16.14%	55.02%	27.43%
2010						
TOTAL	644	523	252	106	358	165
PERCENTAGE		81.21%	39.13%	16.46%	55.59%	25.62%

Notes:

- 1 Based on the financial results of the companies up to December 31, 2011.
- 2 Companies omitted dividends are those companies, which have shown profit during the year but not declared dividend.
- 3 Dividend includes Cash / Stock Dividend.



"As time goes on, I get more and more convinced that the right method in investment is to put fairly large sums into enterprises which one thinks one knows something about and in the management of which one thoroughly believes."

*John Maynard Keynes
(in a letter to the chairman of an insurance company, 1934)*



FINANCIAL HIGHLIGHTS (Six years at a glance)

<i>(Rs. million)</i>	2007	2008	2009	2010	2011	2012
				RESTATED		
Balance Sheet						
Reserves	2,071	2,740	2,985	3,661	3,807	4,532
Surplus On Revaluation Of Assets - Net						3,288
Longterm Liabilities	612	269	261	362	248	185
Current Liabilities	9,353	5,994	621	1,320	1,137	1,518
Total Reserves & Liabilities	12,036	9,003	3,867	5,343	5,192	9,523
Fixed Assets	218	272	466	1,246	1,176	4,492
Other Longterm Assets	649	823	870	887	894	1,124
Current Assets	11,169	7,908	2,531	3,210	3,122	3,907
Total Assets	12,036	9,003	3,867	5,343	5,192	9,523
Operational Results						
Total Income	1,192	1,716	914	675	681	781
Total Expenses	506	715	535	637	639	774*
Profit Before Tax	686	1,001	379	38	42	7*
Profit After Tax	508	772	314	68	145	669*
Ratios						
Current Ratio	1.19	1.32	4.08	2.43	2.75	2.57
Quick Ratio	1.17	1.29	3.26	2.21	2.37	2.1

* The expense figure in FY 12 reflects impact of demutualization related costs including incremental depreciation. This impacts profit before tax. Profit After Tax reflects the impact of prior period tax adjustment & deferred taxation related to revaluation of assets.



REVIEW REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of The Karachi Stock Exchange (Guarantee) Limited (the Company) to comply with the said Code.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. 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 Company's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the 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.

Further, the Code requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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

We draw your attention to clause 8 of the Statement which mentions certain non-compliances with the Code.

Our conclusion is not qualified in respect of the above matter.

Sd/-

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

September 27, 2012

Karachi



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2012

This statement is being presented in compliance with the Code of Corporate Governance [CCG] as contained in Regulation No.35 of Listing Regulations of the Karachi Stock Exchange Limited 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. Karachi Stock Exchange ["the Company"], although not a listed company, has voluntarily adopted the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors on its Board of Directors. At present, the Board includes all independent non-executive directors other than the Managing Director.
2. The directors have confirmed that none of them is serving as a director in more than seven listed companies, besides this Company.
3. All the directors of the Company who are residents of Pakistan and are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI. None of the directors, who are entitled to trade on a stock exchange in Pakistan or who represent companies / firms with such entitlement, has been declared as a defaulter by that stock exchange.
4. No casual vacancies occurred in the Board during the year.
5. The Company has adopted a 'Statement of Ethics and Business Practices', which has been signed by all the directors of the Company. Similarly, the Company has also developed a 'Statement of Code of Conduct and Business Practices' which has been disseminated to all the employees of the Company.
6. The Board has adopted a vision and a mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and the Board has taken decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Managing Director.
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. The Board met at least once in every quarter with the total number of meetings held during the year ended June 30, 2012 being 19. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings except in the case of 11 meetings in emergent situations. The minutes of the meetings were appropriately recorded and circulated. The Chief Financial Officer of the Company has not attended all meetings of the Board of Directors except for the meetings where finance-related matters were discussed.
9. The Company made appropriate arrangements by circulating a presentation to the directors to acquaint them with CCG, applicable laws, their duties and responsibilities. During the year ended June 30, 2012, the Managing Director attended sessions, conducted by Pakistan Institute of Corporate Governance, to have certification under Directors' Training Program.



10. The Board approves the appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment. However, there was no new appointment against these posts during the year.
11. The Directors' Report for this year has been prepared in compliance with the requirements of CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the Managing Director and Chief Financial Officer before approval of the Board.
13. The Company has complied with all the corporate and financial reporting requirements of CCG.
14. The Board has formed an Audit Committee. It comprises of five (5) members, all of whom are non-executive directors, including the Chairman of the Committee.
15. The meetings of the Audit Committee were held at least once in every quarter prior to approval of interim and annual financial results of the Company and as required by CCG. The total number of meetings held during the year ended June 30, 2012 was 05. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
16. The Board has formed a Human Resources & Remuneration Committee. It comprises of seven (7) members out of which 6 are non-executive directors.
17. The Board has set-up an effective internal audit function through a combination of internal and outsourced expertise. Internal Auditors are conversant with the policies and procedures of the Company and are considered suitably qualified and experienced for the purpose. They are involved in the function on a full time basis.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan [ICAP] 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 ICAP.
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, except those which are not yet applicable, have been complied with.

Sd/-
MUNEER KAMAL
Chairman

Sd/-
NADEEM NAQVI
Managing Director

Karachi

September 27, 2012





FINANCIAL STATEMENTS



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of The **Karachi Stock Exchange (Guarantee) Limited** (the Company) as at 30 June 2012 and the related income and expenditure account, statement of comprehensive income, cash flow statement and statement of changes in funds and reserves together with the notes forming part thereof 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 Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. 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 misstatement. 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 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 account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 4.1 to the financial statements with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, income and expenditure account, statement of comprehensive income, statement of changes in funds and reserves and cash flow statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2012 and of the income, its comprehensive income, its cash flows and its changes in funds and reserves for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention to the contents of note 27 to the accompanying financial statements in respect of Contingencies. The ultimate outcome of the matters referred therein cannot presently be determined with certainty and, hence, no provision for any liability that may arise from such matters has been made in the financial statements. Our opinion is not qualified in respect of this matter.

Date: 27th September 2012
Karachi

sd/-
Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Audit Engagement Partner: Arslan Khalid



BALANCE SHEET AS AT JUNE 30, 2012

		2012	2011	2010
(Rupees in '000)				
	Note		Restated (Note 4.1.1)	Restated (Note 4.1.1)
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	7	3,613,539	299,387	368,016
Intangible assets	8	137,800	157,349	146,659
Investment property	9	740,115	719,744	731,309
Investment in associates	10	1,057,550	817,528	804,255
Long term investments	11	24,591	24,591	24,591
Long term deposits	12	37,160	37,160	37,139
Long term loans	13	5,643	13,810	20,709
		5,616,398	2,069,569	2,132,678
CURRENT ASSETS				
Trade Debts	14	17,326	72,914	17,035
Loans and advances	15	13,655	14,085	12,804
Prepayments	16	11,956	10,544	9,792
Other receivables	17	48,375	61,048	35,969
Short term investments	18	1,678,291	1,352,258	1,570,678
Taxation - net		621,574	264,884	222,609
Cash and bank balances	19	1,516,009	1,346,417	1,341,195
		3,907,186	3,122,150	3,210,082
TOTAL ASSETS		9,523,584	5,191,719	5,342,760
FUNDS, RESERVES AND LIABILITIES				
FUNDS				
General Entrance Fee Fund		140,295	140,295	140,295
RESERVES				
		4,532,411	3,807,194	3,660,590
		4,672,706	3,947,489	3,800,885
SURPLUS ON REVALUATION OF ASSETS - NET	20	3,288,222	-	-
NON-CURRENT LIABILITIES				
Deferred liability - Agent Welfare Fund		1,178	1,091	976
Dara F. Dastoor Scholarship Fund	21	2,213	2,229	2,231
Deferred tax liability	22	-	8,745	121,472
Long term deposits	23	41,112	95,723	97,473
		44,503	107,788	222,152
CURRENT LIABILITIES				
Provision for wealth tax	24	1,684	1,684	1,684
Deposits from members against exposures & losses	25	1,096,147	820,853	936,301
Trade and other payables	26	420,322	313,905	381,738
		1,518,153	1,136,442	1,319,723
CONTINGENCIES AND COMMITMENTS	27			
TOTAL FUNDS, RESERVES AND LIABILITIES		9,523,584	5,191,719	5,342,760

The annexed notes from 1 to 40 form an integral part of these financial statements.

Sd/-

Chairman

Sd/-

Managing Director



INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2012

	Note	<u>2012</u>	<u>2011</u>
		(Rupees in '000)	Restated (Note 4.1.1)
INCOME			
Listing fee	28	175,504	171,311
Income from exchange operations	29	<u>140,226</u>	<u>131,191</u>
		315,730	302,502
EXPENDITURE			
Administrative expenses	30	<u>(703,821)</u>	<u>(616,021)</u>
Financial and other charges	31	<u>(70,494)</u>	<u>(23,377)</u>
		(774,315)	(639,398)
OTHER OPERATING INCOME			
Management fee	32	<u>15,668</u>	<u>15,036</u>
Mark-up / interest income	33	<u>290,932</u>	<u>251,194</u>
Other income	34	<u>62,446</u>	<u>40,806</u>
		369,046	307,036
OPERATING LOSS		(89,539)	(29,860)
SHARE OF PROFIT OF ASSOCIATES	10.1	<u>96,524</u>	<u>71,319</u>
NET INCOME BEFORE TAXATION		6,985	41,459
Taxation	35	<u>662,222</u>	<u>103,479</u>
NET INCOME AFTER TAXATION		<u>669,207</u>	<u>144,938</u>

The annexed notes from 1 to 40 form an integral part of these financial statements.

Sd/-

Chairman

Sd/-

Managing Director



STATEMENT OF COMPREHENSIVE INCOME

Note	<u>2012</u>	<u>2011</u>
	(Rupees in '000)	Restated (Note 4.1.1)
Net income for the year	669,207	144,938
Other Comprehensive income		
Share of other comprehensive income of associates in respect of surplus on revaluation of available-for-sale investments	3,002	1,666
Total Comprehensive income for the year	<u>672,209</u>	<u>146,604</u>

The annexed notes from 1 to 40 form an integral part of these financial statements.

Sd/-

Chairman

Sd/-

Managing Director



CASH FLOW STATEMENT

	2012	2011
	(Rupees in '000)	
		Restated (Note 4.1.1)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before taxation	6,985	41,459
Non-cash adjustments to reconcile income before tax to net cash flows		
Depreciation	127,101	89,615
Amortisation of intangible assets	69,205	52,924
Provision for gratuity	13,318	16,346
Provision for trade debts considered doubtful	7,207	2,086
Provision against other receivables	-	641
Trade debts written-off directly	272	-
Mark-up / interest income	(290,932)	(251,194)
Dividend income	(75)	(200)
Fair value (gain) / loss on investment property	(20,371)	11,565
Reversal of provision against receivables on recovery	(275)	-
(Gain) / loss on disposal of fixed assets	(31)	2
Share of profit of associates	(96,524)	(71,319)
	(191,105)	(149,534)
	(184,120)	(108,075)
Working capital adjustments:		
(Increase) / Decrease in current assets		
Trade Debts	48,384	(57,965)
Loans and advances	430	(1,281)
Prepayments	(1,412)	(752)
Other receivables	4,538	(20,155)
	51,940	(80,153)
Increase / (Decrease) in current liabilities		
Deposits from members against exposures and losses	275,294	(115,448)
Trade and other payables	138,099	(84,179)
	281,213	(387,855)
Income tax refund	84,881	-
Income tax paid	(37,490)	(51,523)
	47,391	(51,523)



CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2012

	2012	2011
	(Rupees in '000)	
		Restated (Note 4.1.1)
Gratuity paid to fund	(45,000)	-
Increase in deferred liability	87	115
Decrease in Dara F. Dastoor Scholarship Fund	(16)	(2)
Decrease in long term deposits	(54,611)	(1,750)
Mark-up / interest received	286,961	252,300
	234,812	199,140
Net cash flows generated from / (used in) operating activities	516,025	(188,715)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure	(105,899)	(56,068)
Capital work-in-progress	4,297	(29,698)
Proceeds from sale of fixed assets	1,142	1,164
Investments purchased	(1,607,870)	(1,493,075)
Investments sold	1,293,943	1,704,824
Dividend received	59,787	59,912
Decrease in long term loans	8,167	6,899
Increase in long term deposits	-	(21)
	(346,433)	193,937
Net cash flows (used in) / generated from investing activities	169,592	5,222
Net increase in cash and cash equivalents	169,592	5,222
Cash and cash equivalents at the beginning of the year	1,346,417	1,341,195
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,516,009	1,346,417

The annexed notes from 1 to 40 form an integral part of these financial statements.

Sd/-

Chairman

Sd/-

Managing Director



STATEMENT OF CHANGES IN FUNDS AND RESERVES

FOR THE YEAR ENDED JUNE 30, 2012

	Funds	Revenue Reserves			Total
	General Entrance Fee Fund	General reserve	Un-appropriated Income	Others*	
(Rupees in '000)					
Balance as at July 01, 2010 - as previously reported	140,295	62,781	2,989,544	(655)	3,191,965
Effect of prior year adjustment - net of tax (note 4.1.1)	-	-	608,920	-	608,920
Balance as at July 01, 2010 - restated	140,295	62,781	3,598,464	(655)	3,800,885
Income after taxation for the year ended June 30, 2011 - restated	-	-	144,938	-	144,938
Other comprehensive income	-	-	-	1,666	1,666
Total comprehensive income			144,938	1,666	146,604
Balance as at June 30, 2011 - restated	140,295	62,781	3,743,402	1,011	3,947,489
Balance as at July 01, 2011 - restated	140,295	62,781	3,743,402	1,011	3,947,489
Income after taxation for the year ended June 30, 2012	-	-	669,207	-	699,207
Other comprehensive income	-	-	-	3,002	3,002
Total comprehensive income	-	-	669,207	3,002	672,209
Transferred from surplus on revaluation of operating fixed assets - net of tax	-	-	53,008	-	53,008
Balance as at June 30, 2012	140,295	62,781	4,465,617	4,013	4,672,706

The annexed notes from 1 to 40 form an integral part of these financial statements.

* This represents Company's share in the reserves of associates.

Sd/-

Chairman

Sd/-

Managing Director



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

1. LEGAL STATUS AND NATURE OF OPERATIONS

- 1.1 The Karachi Stock Exchange (Guarantee) Limited (the Company or KSE) was incorporated under the Companies Act, 1913 (now Companies Ordinance, 1984) on March 10, 1949 as a Company Limited by Guarantee.

The Company is engaged in conducting, regulating and controlling the trade or business of buying, selling and dealing in shares, scripts, participation term certificates, modaraba certificates, stocks, bonds, debentures stock, government papers, loans, and any other instruments and securities of like nature including, but not limited to, special national fund bonds, bearer national fund bonds, foreign exchange bearer certificates and documents of similar nature, issued by the Government of Pakistan or any other agency authorised by the Government of Pakistan.

The registered office of the Company is situated at Stock Exchange Building, Stock Exchange Road, Karachi.

- 1.2 Demutualisation and Corporatisation of the Karachi Stock Exchange (Guarantee) Limited

- 1.2.1 During the year, the Stock Exchanges (Corporatisation, Demutualisation and Integration) Act 2012 [the Act] has been enacted on May 09, 2012 to provide for the corporatisation and demutualisation of the stock exchanges in Pakistan and to facilitate the integration of the stock exchanges and for matter ancillary thereto.

- 1.2.2 According to the said Act, the KSE shall be converted from a company limited by guarantee to a public company limited by shares under the Companies Ordinance, 1984 and the majority ownership of the KSE shall be segregated from the right to trade on such stock exchange.

- 1.2.3 Pursuant to the above and in accordance with the requirements of the Act, the Securities and Exchange Commission of Pakistan (SECP) vide its letter date 20 July, 2012 has approved the revaluation of the assets and liabilities of the KSE, its proposed authorised and paid-up capital, name of its initial shareholders and directors, plan for the segregation of commercial and regulatory function and its Memorandum and Articles of Association. Subsequently, the general body of the KSE in its Extra Ordinary General Meeting held on August 13, 2012 has adopted the Memorandum and Articles of Association of the KSE to take effect from the date of corporatisation and demutualisation of the KSE. Accordingly, the paid-up capital of the KSE after the said corporatisation and demutualisation would be as follows:

- (a) Authorised capital of Rs. 10,000,000,000 (1,000,000,000 ordinary shares of Rs. 10 each); and
- (b) Paid up capital of Rs. 8,014,766,000 (801,476,600 ordinary shares of Rs. 10 each)

- 1.2.4 For the purposes of determination of the paid-up capital of the KSE and after demutualisation, the number of shares to be issued to the initial shareholders of the KSE, a revaluation of the assets of the KSE as of December 31, 2011 was carried out in accordance with the requirements of the Act. The results of such revaluation and its impact on the financial statements of the KSE are summarised below:



	December 31, 2011	
	(Un-audited)	
	Book Value	Revalued Amount
	(Rupees in '000)	
NON-CURRENT ASSETS		
Property and equipment	268,229	3,658,650
Intangible assets	158,767	158,767
Investment property	6,622	740,115
Investment in associates	821,439	1,021,647
Long term investments	24,591	24,591
Long term deposits	37,160	37,160
Long term loans	9,030	9,030
	1,325,838	5,649,960
CURRENT ASSETS		
Trade Debts	30,699	30,699
Loans and advances	17,666	17,666
Prepayments	27,268	27,268
Other receivables	78,991	78,991
Short term investments	1,363,509	1,363,509
Taxation - net	295,614	708,813
Cash and bank balances	1,266,964	1,266,964
	3,080,711	3,493,910
TOTAL ASSETS	4,406,549	9,143,870
TOTAL LIABILITIES	(1,126,994)	(1,129,104)
NET ASSETS	3,279,555	8,014,766
REPRESENTED BY:		
General Entrance Fee Fund		140,295
Reserves		4,533,241
Surplus on revaluation of property and equipment - net		3,341,230
		8,014,766

1.2.5 In order to incorporate the above referred revaluation of assets as mandated by the Act, the Company has made changes in its accounting policies in respect of valuation of operating fixed assets and investment property as detailed in note 4.1.1 and 4.1.2 of the financial statements.

1.2.6 Subsequent to the balance sheet date, the KSE has received a certificate of re-registration on August 27, 2012 from the SECP as evidence of its change in legal status from company limited by guarantee to a public company limited by shares in accordance with the requirements of the Act.

2. STATEMENT OF COMPLIANCE

These 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 (IASB) as are notified under the Companies Ordinance, 1984, and provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.



3. BASIS OF MEASUREMENT

- 3.1** These financial statements have been prepared under the historical cost convention except for operating fixed assets, investment property and certain investments which are valued on a fair value basis as stated in notes 4.2, 4.5 and 4.6 below.
- 3.2** These financial statements are presented in Pakistani Rupees which is the Company's functional and presentation currency.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 4.1** The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below:

4.1.1 Changes in accounting policies

Operating fixed assets- tangible

As referred to in note 1.2 to the financial statements, the Company, in order to comply with the requirements of the Stock Exchanges (Corporatisation, Demutaulisation and Integration) Act 2012, has changed its accounting policy in respect of measurement of operating fixed assets from the cost model to the revaluation model with effect from December 31, 2011 (also see note 4.2). This change in accounting policy has been applied prospectively in accordance with the requirements of International Accounting Standard (IAS) - 16 "Property, plant and equipment". The impact of such change in accounting policy on the current year financial statements is summarised below

	2012 (Rupees in '000)
Increase in carrying value of operating fixed assets	3,390,421
Increase in surplus on revaluation of assets	3,390,421
Decrease in the profit for the year	60,345

Investment Property

As referred to in note 1.2 to the financial statements, the Company, in order to comply with the requirements of the Stock Exchanges (Corporatisation, Demutaulisation and Integration) Act 2012, has changed its accounting policy in respect of measurement of investment property from the cost model to the revaluation model with effect from December 31, 2011 (also see note 4.5). This change in accounting policy has been applied retrospectively in accordance with the requirements of International Accounting Standard (IAS) - 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The impact of such change in accounting policy on the current and prior years financial statements is summarised below:

	2012	2011	2010
	(Rupees in '000)		
Increase in carrying value of investment property	733,322	712,951	724,159
Increase in related deferred tax liability - net	116,696	8,745	115,239
Increase in reserves	616,626	704,206	608,920
Increase in net income after tax	20,031	95,286	-



4.1.2 New and amended standards and interpretations

During the year, following amendments, interpretations and improvements to the accounting standards became effective:

IFRS 7 – Financial Instruments: Disclosures (Amendment)

IAS 24 – Related Party Disclosures (Revised)

IFRIC 14 – Prepayments of a Minimum Funding Requirement (Amendment)

In May 2010, International Accounting Standards Board (IASB) issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

IFRS 7 – Financial Instruments: Disclosures - Clarification of disclosures

IAS 1 – Presentation of Financial Statements - Clarification of statement of changes in equity

IAS 34 – Interim Financial Reporting - Significant events and transactions

IFRIC 13 – Customer Loyalty Programmes - Fair value of award credits

The adoption of the above standards, amendments, interpretations and improvements did not have any material effect on the financial statements of the Company.

4.2 Operating fixed assets - tangible

4.2.1 As per the new accounting policy, all categories of operating fixed assets are now carried at revalued amount, being its fair value at the date of its revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Previously, all fixed assets of the Company were carried at cost less accumulated depreciation and accumulated impairment losses.

4.2.2 The surplus arising on revaluation of operating fixed assets is credited to the 'surplus on revaluation of assets' account shown below reserves. A revaluation deficit is recognised in the income and expenditure account, except that the deficit offsets a previous surplus on any fixed asset, in which case, the deficit is charged to the balance of surplus on revaluation.

4.2.3 The depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the income and expenditure account; and an amount equal to incremental depreciation for the year (net of deferred taxation) is transferred from surplus on revaluation of assets to retained earnings through statement of changes in funds and reserves to record realisation of surplus to the extent of the incremental depreciation charge for the year. Upon disposal, any balance of revaluation surplus is transferred to retained earnings.

4.2.4 The depreciation is charged to income and expenditure account applying the diminishing balance method over its estimated useful life of the respective assets, except for "Computers and related accessories" which are depreciated using straight-line method. The assets' residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end. In respect of additions and disposals of assets, depreciation is charged from the month in which asset is available to use and continue depreciating it until it is derecognised i.e. up to the month preceding the disposal, even if during that period the asset is idle. Useful lives are determined by the management based on expected usage of asset, expected physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of assets and other similar factors.



4.2.5 Maintenance and repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gains and losses on disposal of assets, if any, are included in income currently.

4.2.6 An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

4.3 Capital work-in-progress

Capital work-in-progress is stated at cost. It consists of expenditure incurred and advances made in respect of tangible and intangible assets in the course of their construction and installation.

4.4 Intangible assets

These are stated at cost less accumulated amortisation. Amortisation is charged to income using the straight-line method at the rate disclosed in note 8 to the financial statements.

Amortisation on additions is charged for the full month in which an asset is put to use and on deletions up to the month immediately preceding the deletion.

Gains or losses on disposal of intangible assets, if any, are included in income currently.

4.5 Investment property

According to the new accounting policy, investment property is stated at fair value, which reflects market conditions at the reporting date. Gain or loss on remeasurement of investment property at fair value is recognised in income and expenditure account. Fair value is evaluated annually by an independent professional valuer on the basis of professional assessment of present market value. Previously, investment property of the Company was carried at cost less accumulated depreciation and accumulated impairment losses.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised as income in the period of derecognition.

Maintenance and normal repairs are charged to the income and expenditure account as and when incurred. Major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gains or losses on disposal of investment property, if any, are included in income currently.

4.6 Investments

The management of the Company determines the appropriate classification of its investments at the time of purchase or increase in holding and classifies / reclassifies its investment as subsidiaries, associates and joint ventures, at fair value through profit or loss account, held to maturity and available for sale.

All investments are initially recognised at cost, being the fair value of the consideration given including transaction costs associated with the investment except in the case of investments at fair value through profit



or loss account where transaction costs are charged to income and expenditure account when incurred.

Available for sale investments

Investments which are intended to be held for an indefinite period of time but may be sold in response to the need for liquidity are classified as available for sale. After initial recognition, these are stated at fair values (except for unquoted investments where active market does not exist) with any resulting gains or losses being taken to comprehensive income until the investment is disposed or impaired, at which time the respective surplus or deficit is transferred to income and expenditure account.

Unquoted investments where active market does not exist and whose fair value cannot be reliably measured are stated at cost.

Investments at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held-for-trading and financial assets designated upon initial recognition as at fair value through profit or loss. These securities are either acquired for generating a profit from short-term fluctuation in prices or are securities included in a portfolio in which a pattern of short-term profit taking exists, and related transaction costs are expensed out. These investments are measured at subsequent reporting dates at fair value and resulting gains and losses are included in the net income or expenditure for the year.

Held to maturity investments

Investments with fixed or determinable payments and fixed maturity where management has both the positive intent and ability to hold to maturity are classified as held to maturity and are stated at amortised cost. Provision for impairment in value, if any, is taken to income currently.

Investment in associates

Investments in associates are accounted for using the equity method, whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Company's share of the net assets of the associate. The income and expenditure account reflects the Company's share of the results of the operations of the associate. Where there has been a change recognised in the other comprehensive income or surplus on revaluation of assets of the associate, the Company recognises its share in its comprehensive income or surplus on revaluation of assets, as the case may be.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the same in the income and expenditure account.

Financial statements of the associates for the year ended June 30, 2012 have been used in applying the equity method. Associates' accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

4.7 Trade debts and other receivables

These are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.



An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off when identified.

4.8 Loans, advances and deposits

These are stated at cost.

4.9 Cash and cash equivalents

Cash in hand and at banks are carried at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and at bank and short term investments that are highly liquid in nature and are readily convertible into known amounts of cash, which are subject to insignificant risks of changes in value.

4.10 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

4.11 Revenue recognition

- Income from initial listing fee is recognised when the securities are initially listed on the ready board. Income from annual listing fee is recognised on an accrual basis.
- Income in respect of trading by members in shares, contracts and bonds is recognised at the trade date.
- Income in respect of trading by members in CFS is recognised when the financing is settled.
- Rental income, facilities and equipment fees, non-operating facilities income and membership fees are recognised on accrual basis while other fees are recognised when received.
- Investments purchased at premium or discount, are amortized through the income and expenditure account using the effective interest rate method.
- Income from investments and bank accounts is recognised on an accrual basis.
- Dividend income is recognised when the Company's right to receive dividend is established.
- Management fee from KSE Clearing House Protection Fund and KSE Investors Protection Fund is recognised on accrual basis as disclosed in note 31 to the financial statements.

4.12 Taxation

Current

Provision for current taxation is based on taxable income at current rates of taxation after taking into account all tax credits and tax rebates available, if any. The tax charge as calculated above is compared with turnover tax under Section 113 of the Income Tax Ordinance, 2001, and whichever is higher is provided for in the financial statements.



Deferred

Deferred tax is recognised, using the balance sheet liability method, on all major temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except for taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit or taxable temporary differences will be available against which the deductible temporary differences and / or carry-forward of unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

4.13 Staff retirement benefits

The Company operates an approved funded gratuity scheme (defined benefit plan) for all its permanent employees who attain the minimum qualification period for entitlement to gratuity. Provision is made annually, to cover obligations under the scheme, by way of a charge to income and expenditure account, calculated in accordance with the actuarial valuation. The most recent valuation in this regard was carried out as at June 30, 2012, using the Projected Unit Credit Method for valuation of the scheme. Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized actuarial gains or losses for each individual plan exceeds 10% of the higher of (a) the defined benefit obligation and (b) the fair value of plan assets. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

4.14 Compensated absences

The Company accounts for these benefits in the period in which the absences are earned. Accrual is made for employees compensated absences on the basis of accumulated leaves and the last drawn pay.

4.15 Impairment

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If any such indication exists, the recoverable amount of that asset is estimated and impairment losses are recognised in the income and expenditure account.

4.16 Foreign currency translation

Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange which approximate those prevailing on the balance sheet date. Gains and losses on translation are taken to income currently. Non-monetary items that are measured in terms of historical cost in a foreign



currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4.17 Financial instruments

All the financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. All the financial assets are derecognised at the time when the Company loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognised at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gains or losses on derecognition of the financial assets and financial liabilities are taken to income and expenditure account currently.

All regular way purchases of financial assets are recognised on a transaction date i.e. the date the Company receives the financial asset. All regular way sales of financial assets are recognized on the settlement date i.e. the date the asset is delivered to the counter party. Regular way purchases or sales of financial assets that require delivery of assets within the time generally established by regulation or convention the market place.

4.18 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

5. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgements about carrying values of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis.

The estimates and judgements that have a significant effect on the financial statements are in respect of the following:

	Notes
- Operating assets	4.2, 4.4, 4.5, 7, 8 & 9
- Classification of investments	4.6, 10, 11 & 18
- Provisions and contingencies	4.10, 26 & 27
- Deferred tax	4.12 & 22
- Post employment benefits	4.13 & 26
- Investment property	4.5 & 9



6. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards, interpretations and amendments with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard, interpretation or amendment:

Standard, interpretation or amendment	Effective date (accounting periods beginning on or after)
IFRS 7- Financial Instruments : Disclosures – (Amendments)	July 01, 2012
- Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	January 01, 2013
IAS 1- Presentation of Financial Statements – Presentation of items of comprehensive income	July 01, 2012
IAS 12- Income Taxes (Amendment) - Recovery of Underlying Assets	January 01, 2012
IAS 19 - Employee Benefits – (Amendment)	January 01, 2013
IAS 32 - Offsetting Financial Assets and Financial liabilities – (Amendment)	January 01, 2014
IFRIC 20- Stripping Costs in the Production Phase of a Surface Mine	January 01, 2013

The Company expects that the adoption of the above revisions and amendments of the standards will not materially affect the Company's financial statements in the period of initial application other than the amendments: to IAS-19' Employee Benefits'. Such amendments range from fundamental changes to simple clarifications and re-wording. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e, the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognised in other comprehensive income with no subsequent recycling to profit and loss.
- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

The Company is currently assessing the impact of the above amendments which are effective from 1 January 2013 on the financial statements. However, it is expected that the adoption of the said amendments will result in change in the Company's accounting policy related to recognition of actuarial gains and losses as referred to in note 4.13 to the financial statements.

Further, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.



Standard	IASB Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2015
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint Arrangements	January 01, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013

	Note	2012	2011
		(Rupees in '000)	
7. PROPERTY AND EQUIPMENT			
Operating fixed assets - Tangible	7.1	3,613,539	294,819
Capital work-in-progress		-	4,568
		3,613,539	299,387

7.1 OPERATING FIXED ASSETS – Tangible

	2012										
	Cost/Revalued Amount					Accumulated depreciation					Written down value
	As at	Adjustment of			As at	As at	Adjustment of			As at	As at
	July 01, 2011	Additions / (Disposals)	Accumulated Depreciation	Revaluation Surplus	June 30, 2012	Rate / period	July 01, 2011	Charge / (deletions)	Accumulated Depreciation	June 30, 2012	June 30, 2012
(Rupees in '000)					%	(Rupees in '000)					
Leasehold land	90	-	(60)	2,677,852	2,677,882	99 years	59	39,381	(60)	39,380	2,638,502
Building on leasehold land	94,457	-	(26,802)	673,589	741,244	5	25,067	20,266	(26,802)	18,531	722,713
Lift, generators and electric installation	124,196	425	(77,330)	3,148	50,439	25	70,635	12,963	(77,330)	6,268	44,171
Furniture and fixtures	22,879	579	(16,362)	-	7,096	20	15,636	1,401	(16,362)	675	6,421
Office equipment	67,470	2,317	(45,953)	3,165	26,999	20	43,459	5,166	(45,953)	2,672	24,327
Computers and related accessories	567,353	47,910	(462,085)	31,042	184,220	20 & 33.33	431,046	46,464	(462,085)	15,425	168,795
Vehicles	12,021	5,283	(8,292)	1,625	9,410	20	7,745	1,460	(8,292)	800	8,610
		(12,27)						(113)			
	888,466	55,287	(636,884)	3,390,421	3,697,290		593,647	127,101	(636,884)	83,751	3,613,539



2011											
	Cost/Revalued Amount					Rate / period	Accumulated depreciation			Written down value	
	As at	Adjustment of		As at	As at		Adjustment of		As at	As at	
	July 01, 2010	Additions/ (Disposals)	Accumulated Depreciation	Revaluation Surplus	June 30, 2011		July 01, 2010	Charge/ (deletions)	Accumulated Depreciation	June 30, 2011	June 30, 2011
	(Rupees in '000)					%	(Rupees in '000)				
Leasehold land	90	-	-	-	90	99 years	58	1	-	59	31
Building on leasehold land	63,616	30,841	-	-	94,457	5	21,723	3,344	-	25,067	69,390
Lift, generators and electric installation	88,813	35,383	-	-	124,196	25	53,738	16,897	-	70,635	53,561
Furniture and fixtures	16,837	6,042	-	-	22,879	20	14,076	1,560	-	15,636	7,243
Office equipment	61,539	5,931	-	-	67,470	20	38,042	5,417	-	43,459	24,011
Computers and related accessories	533,288	34,303	-	-	567,591	20 & 33.33	369,742	61,429	-	431,046	136,307
		(238)						(125)			
Vehicles	13,568	756	-	-	14,324	20	8,028	967	-	7,745	4,276
		(2,303)						(1,250)			
	777,751	110,715	-	-	888,466		505,407	89,615	-	593,647	294,819

7.1.1 As referred to in note 4.1.1, the operating fixed assets of the Company have been revalued during the year. The revaluation was carried by an independent professional valuer using appropriate and industry acceptable basis of revaluation by considering the market values and resulted in net surplus of Rs 3,390 million over the book values of respective properties as at the date of the revaluation.

Note	2012	2011	
	(Rupees in '000)		
7.1.2	Included in additions during the year are the following amounts transferred from capital work-in-progress:		
	Building on leasehold land	-	28,012
	Lift, generators and electric installation	425	26,691
	Furniture and fixtures	-	6,042
	Office equipment	197	4,807
	Computers and related accessories	39,971	32,083
	Vehicles	5,165	735
		45,758	98,370

7.1.3 Cost of fully depreciated assets is Rs.148.816 (2011: Rs. 241.567) million as at the year end.

8. INTANGIBLE ASSETS

Operating intangible assets	8.1	128,297	148,117
Intangible assets under development	8.2	9,503	9,232
		137,800	157,349



8.1 Operating intangible assets

2012								
	Cost			Rate	Accumulated amortisation			Written Down Value
	As at July 01, 2011	Additions	As at June 30, 2012		As at July 01, 2011	Charge for the year	As at June 30, 2012	As at June 30, 2012
	----- (Rupees in '000) -----			%	----- (Rupees in '000) -----			
Computer software	199,022	21,453	220,475	25	117,488	42,508	159,996	60,479
Internally developed software and market products	103,237	27,932	131,169	25	36,654	26,697	63,351	67,818
	302,259	49,385	351,644		154,142	69,205	223,347	128,297

2011								
	Cost			Rate	Accumulated amortisation			Written Down Value
	As at July 01, 2010	Additions	As at June 30, 2011		As at July 01, 2010	Charge for the year	As at June 30, 2011	As at June 30, 2011
	- (Rupees in '000)			%	(Rupees in '000)			
Computer software	151,766	47,256	199,022	25	81,875	35,613	117,488	81,534
Internally developed software and market products	49,035	54,202	103,237	25	19,343	17,311	36,654	66,583
	200,801	101,458	302,259		101,218	52,924	154,142	148,117

	2012	2011
	(Rupees in '000)	
8.2 Intangible assets under development		
Internally developed software	1,949	1,367
Internally developed market products	6,554	6,865
Computer software	11,150	11,150
	19,653	19,382
Provision for impairment	(10,150)	(10,150)
	9,503	9,232

9. INVESTMENT PROPERTY

Opening balance as at 1 July	719,744	731,309
Gain / (loss) from changes in fair value	20,371	(11,565)
Closing balance as at 30 June	740,115	719,744

9.1 As referred to in note 4.1.1, the investment property of the Company have been revalued during the year. The revaluation was carried by an independent professional valuer using appropriate and industry acceptable basis of revaluation by considering the market values and resulted in a fair value of Rs733.322 million over the book values of such investment property as at the date of revaluation.

9.2 The rental income for the year from the investment property amounted to Rs.39.560 (2011: Rs.37.942) million [also see note 33].



	Note	2012	2011
(Rupees in '000)			
10. INVESTMENT IN ASSOCIATES - under equity method of accounting			
Unquoted companies			
Central Depository Company of Pakistan Limited [(CDC) (25,875,200 shares having face value Rs. 258,752,000)]		873,000	642,103
National Clearing Company of Pakistan Limited [(NCCPL) (3,750,000 shares having face value Rs. 37,500,000)]		184,550	175,425
	10.1	1,057,550	817,528

10.1 Movement schedule for associates

	2012		
	CDC	NCCPL	Total
(Rupees in '000)			
Opening Balance	642,103	175,425	817,528
Share of profit for the year	88,063	8,461	96,524
Surplus on revaluation of associates			
' available-for-sale investments	2,338	664	3,002
Dividend received during the year	(59,712)	-	(59,712)
Surplus on revaluation of property & equipment - net	200,208	-	200,208
Closing balance	873,000	184,550	1,057,550

	2011		
	CDC	NCCPL	Total
(Rupees in '000)			
Opening Balance	630,545	173,710	804,255
Share of profit for the year	69,745	1,574	71,319
Surplus on revaluation of associates			
' available-for-sale investments	1,525	141	1,666
Dividend received during the year	(59,712)	-	(59,712)
Closing balance	642,103	175,425	817,528



10.2 Summarised financial information of the associates of the Company are as follows:

2012							
Name of associate	Country of incorporation	Total assets	Total liabilities	Net assets	Share of net assets	Revenues	Interest held %
(Rupees in '000)							
Central Depository Company of Pakistan Limited	Pakistan	2,584,689	391,778	2,192,911	873,000	823,342	39.81
Break-up value of each Ordinary share of Rs.10 is Rs.33.73 based on the latest audited accounts available for the year ended June 30, 2012.							
National Clearing Company of Pakistan Limited	Pakistan	1,066,706	674,545	392,161	184,550	126,280	47.06
Break-up value of each Ordinary share of Rs.10 is Rs 49.21 based on the latest audited accounts available for the year ended June 30, 2012.							
		3,651,395	1,066,323	2,585,072	1,057,550	949,622	
2011							
Name of associate	Country of incorporation	Total assets	Total liabilities	Net assets	Share of net assets	Revenues	Interest held %
(Rupees in '000)							
Central Depository Company of Pakistan Limited	Pakistan	1,892,876	279,955	1,612,921	642,103	770,542	39.81
Break-up value of each Ordinary share of Rs.10 is Rs.32.26 based on the latest audited accounts available for the year ended June 30, 2011.							
National Clearing Company of Pakistan Limited	Pakistan	911,588	538,819	372,769	175,425	101,636	47.06
Break-up value of each Ordinary share of Rs.10 is Rs 58.47 based on the latest audited accounts available for the year ended June 30, 2011.							
		2,804,464	818,774	1,985,690	817,528	872,178	



	Note	2012	2011
(Rupees in '000)			
11. LONG TERM INVESTMENTS			
Available for sale - unquoted			
JCR VIS Credit Rating Company Limited, a related party		2,500	2,500
250,000 (2011: 250,000) Ordinary shares of Rs.10 each, representing 12.50% (2011: 12.50%) shareholding.			
Pakistan Mercantile Exchange Limited (PMEX), a related party			
[Formerly: National Commodity Exchange Limited (NCEL)]			
3,636,356 (2011: 3,636,356) Ordinary shares of Rs.10 each, representing 19.14% (2011: 19.14%) shareholding.			
The original cost of investment in PMEX is Rs.42.091 million.		22,091	22,091
		24,591	24,591
12. LONG TERM DEPOSITS			
Earnest money	12.1	33,819	33,819
Utilities		1,915	1,915
Others		1,426	1,426
		37,160	37,160
12.1	This includes 10% of the bid amount, amounting to Rs.32.999 (2011: Rs.32.999) million, paid by the Company to Pakistan Railways during the year ended June 30, 1993 as earnest money against the purchase of land. However, as a result of certain legal proceedings, initiated by one of the bidders, Pakistan Railways cancelled the sale of railway land to the Company and requested the Company to apply for the refund of the above-referred amount.		
	During the year ended June 30, 2002, based upon the legal advice obtained, the Company filed a counter suit against Pakistan Railways for the specific performance of the agreement which, if decided in favour of the Company, may require the Company to purchase the land and pay the balance of the purchase consideration, amounting to Rs.296.995 (2011: Rs.296.995) million. The said case is pending adjudication in High Court of Sindh.		
13. LONG TERM LOANS			
Employees - Considered good, secured	13.1	13,650	24,182
Recoverable within one year shown under current assets	15	(8,007)	(10,372)
		5,643	13,810
Loans outstanding for periods exceeding three years		-	908
Others		5,643	12,902
		5,643	13,810



- 13.1** These personal loans are sanctioned for the purchase of motorcycles, performing Hajj and daughter marriage. These are secured against the outstanding balances in the KSE Employees' Gratuity Fund. These are recoverable in monthly installments over a period, ranging between 2 and 6 (2011: 2 and 6) years and are interest free.

14. TRADE DEBTS	Note	2012	2011
		(Rupees in '000)	
Unsecured			
Considered good			
Due from members	14.2	1,883	4,829
Due from companies		15,443	68,085
		17,326	72,914
Considered doubtful			
Due from companies		24,917	19,348
		42,243	92,262
Provision for doubtful debts	14.1	(24,917)	(19,348)
		17,326	72,914
14.1 Reconciliation of provision for trade debts			
Opening balance		19,348	17,262
Provision for the year	30	7,207	2,086
Amount written off		(1,363)	-
Amount recovered		(275)	-
Closing balance		24,917	19,348
14.2 Included herein is a sum of Rs.0.144 (2011: Rs.0.044) million due from related parties.			
15. LOANS AND ADVANCES			
Loans			
Secured, considered good			
Current portion of long term loans to employees	13	8,007	10,372
Unsecured, considered doubtful			
Financial assistance to members	15.1	-	2,963
Less: Provision		-	(2,963)
		8,007	10,372
Advances, considered good			
Employees		3,646	1,758
Suppliers		2,002	1,955
		5,648	3,713
		13,655	14,085



- 15.1** The outstanding balance pertains to a Member-Finacee who was expelled from the membership of the Company on account of failure to pay his clients' / investors' legitimate claims, failure to honour arbitration awards and non-fulfilment of his financial obligations towards the Company. During the year, the Board of Directors in its meeting held on April 24, 2012 decided to write off outstanding balance of financial assistance against the provision held thereagainst.

	Note	<u>2012</u>	<u>2011</u>
(Rupees in '000)			
16. PREPAYMENTS			
Maintenance of information technology equipments / software		10,747	9,279
Insurance		453	892
Others		756	373
		<u>11,956</u>	<u>10,544</u>
17. OTHER RECEIVABLES			
Due from members	17.1	4,145	4,045
Due from non-members	17.1	19,798	21,306
Management fee receivable	32	7,834	15,036
Interest / profit accrued on PLS savings accounts		1,723	9,858
Due from an ex-member	17.2	6,574	6,574
Others		10,442	4,870
		50,516	61,689
Less: Provision for doubtful receivable		(2,141)	(641)
		<u>48,375</u>	<u>61,048</u>

- 17.1** This represents amount due on account of license fee, data vending fee, advertisement and reimbursement of electricity charges, etc. incurred by the Company.

- 17.2** This represents amount due from an ex-member upon the cancellation of his membership and declaration as a defaulter. As a result thereof, certain shares of the ex-member were taken over by the Company in order to square up the ex-member's position and are held pending the outcome of a law suit brought against the Company by him in the Honourable High Court of Sindh (refer note 27.4, 27.5 and 27.6). The market value of these shares as at June 30, 2012 amounted to Rs. 15.192(2011: Rs.14.243) million.

18. SHORT TERM INVESTMENTS

Held to maturity

Term Deposit Certificates	18.1	284,008	320,406
Certificates of Investments		-	106,856
Market Treasury Bills	18.2	1,394,283	924,996
		<u>1,678,291</u>	<u>1,352,258</u>



- 18.1** These represent Term Deposit Certificates (having a face value of Rs.270 (2011: Rs. 300) million including interest accrued thereon of Rs. 14.008 (2011: Rs.20.406) million placed with various financial institutions on short term basis. The rate of return range from 11.50 % to 12.00% (2011: 13.50 % to 13.60%) per annum. These will mature latest by December 31, 2012.
- 18.2** These represent Market Treasury Bills having cost of Rs.1,337.870 (2011: Rs.893.943) million and interest accrued thereon of Rs.56.413 (2011: Rs.31.053) million. The effective rate of return ranges from 11.69 % to 13.29% per annum. These will mature latest by March 21, 2013.

19. CASH AND BANK BALANCES		<u>2012</u>	<u>2011</u>
		(Rupees in '000)	
In hand		1	3
With banks on			
Current accounts	19.1 & 19.3	7,945	8,226
PLS savings accounts in:			
foreign currency		28,249	17,084
local currency	19.1 to 19.4	1,479,814	1,321,104
		<u>1,516,009</u>	<u>1,346,417</u>

- 19.1** Included in 'Current Accounts' and 'PLS Savings Accounts' are Rs.0.65 (2011: Rs.2.281) million and Rs. 1,095.497 (2011: Rs.818.572) million, respectively, aggregating to Rs. 1,096.147(2011: Rs. 820.853) million, representing deposits from members against exposures and losses (note 25). These deposits are utilised by the Company in the event of default of members to recover losses therefrom, as provided for in the relevant regulations of the Company. Rate of return on PLS savings accounts varies from 6 % to 11.70% (2011: 5.0% to 11.50%). However, the effective rate for the year is 11.78%
- 19.2** Included herein are funds earmarked by the Company against the outstanding balance in the Dara F. Dastoor Scholarship Fund, amounting to Rs. 2.213 (2011: Rs.2.229) million (refer note 21).
- 19.3** Included herein are balances, aggregating to Rs.8.382 (2011: Rs.8.382) million, deposited with the Company by members and an ex-member with respect to certain arbitration cases pending settlement (refer note 26.1).
- 19.4** Included herein is Rs. 267.120 (2011: Rs. 129.825) million held by the Company on account of disposal of membership cards of defaulting / expelled members (refer note 26.2).



	Note	2012	2011
		(Rupees in '000)	
20. SURPLUS ON REVALUATION OF ASSETS - NET			
Operating fixed assets	7.1	3,390,421	-
Share of associate's surplus on revaluation of fixed assets	10.1.1	200,208	-
		<u>3,590,629</u>	<u>-</u>
Related deferred tax liability on revaluation of the Company's operating fixed assets		(249,399)	-
Net surplus on revaluation of assets recognised during the year		<u>3,341,230</u>	<u>-</u>
Incremental depreciation on operating fixed assets (net of deferred tax) transferred to retained earnings		(53,008)	-
Balance of surplus as of 30 June		<u>3,288,222</u>	<u>-</u>

20.1 In terms of the requirements of the Stock Exchanges (Corporatisation, Demutualisation and Integration) Act 2012 [the Act], the shares to be issued to the initial shareholders of the Company upon demutualisation shall be determined after taking into account the revaluation of the assets of the Company. Accordingly, notwithstanding to the provisions of section 235 of the Companies Ordinance, 1984, the balance of above surplus would be considered as part of the equity of the Company on the effective date of demutualisation as of December 31, 2011 (the revaluation date). This treatment regarding the surplus has also been approved by the SECP.

21. DARA F. DASTOOR SCHOLARSHIP FUND

Opening balance		2,229	2,231
Profit on bank deposits during the current year	21.1	213	220
		<u>2,442</u>	<u>2,451</u>
Scholarships awarded during the year		(229)	(222)
		<u>2,213</u>	<u>2,229</u>

21.1 This represents profit on bank deposits at a rate of 10.15% (2011: 11.00%) per annum earmarked by the Company and allocated by the Board of Directors of the Company for the purposes of utilizing the same for the scholarship of the children of employees

22. DEFERRED TAX LIABILITY

Deductible temporary differences arising from:

Provision against receivable from member		224	1,037
Provision for debts considered doubtful		8,721	6,772
Unused tax losses	22.1	386,405	136,053
Minimum tax paid		9,346	6,208
		<u>404,696</u>	<u>150,070</u>



	Note	2012 (Rupees in '000)	2011 Restated
Taxable temporary differences arising from:			
Revaluation of property and equipment	20	(249,399)	-
Revaluation gain on investment property		(116,696)	(113,399)
Differences between written down values and tax base of assets		(32,630)	(39,445)
Share of profit from associate		(5,971)	(5,971)
		-	(8,745)

22.1 The Company has not recognised deferred tax asset of Rs.88.965 million on account of carry forward tax losses in accordance with the accounting policy as disclosed in note 4.12.

23. LONG TERM DEPOSITS

Clearing house deposits from members	23.1	37,630	92,241
Other security deposits		3,482	3,482
		41,112	95,723

23.1 During the year, the Company has waived the requirement for maintaining basic deposit by members for trading in deliverable future contracts. Accordingly, all such existing deposits of active members amounting to Rs.49.5 million were transferred to 'deposits from members against exposures and losses'

24. PROVISION FOR WEALTH TAX

24.1	1,684	1,684
------	-------	-------

24.1 Included here in are (a) a sum of Rs.0.500 (2011: Rs.0.500) million, representing provision in respect of the assessed liability for the assessment year 1999-2000 and (b) a sum of Rs.1.184 (2011: Rs.1.184) million, representing provision for the assessment year 2000-2001 the assessment of which is currently pending finalisation by the relevant tax authorities.

Further, the Inspecting Additional Commissioner raised an additional demand of Rs.19.184 million in respect of assessment years 1996-97 to 1999-2000 against which various appeals have been filed by the Company with the Income Tax Appellate Tribunal (ITAT). During the year ended June 30, 2002, the ITAT on appeals filed by the Company allowed relief to the Company by cancelling the wealth tax orders and allowing exemption under the Wealth Tax Act 1963. Against this decision of the ITAT, during the year ended June 30, 2007, the Income Tax Department filed an appeal with the Honourable High Court of Sindh against the order issued by the ITAT. Pending the resolution of these matters, no provision has been made in the financial statements of the current year for a sum of Rs.19.184 (2011: Rs.19.184) million [note 27.17].

25. DEPOSITS FROM MEMBERS AGAINST EXPOSURES AND LOSSES

Deposits from members against exposures and losses	25.1 to 25.3	1,096,147	820,853
--	--------------	-----------	---------

25.1 Included herein is a sum of Rs.74.562 (2011: Rs.45.755) million of deposits against exposures and losses from related parties.



25.2 In addition to the amount deposited by members against their exposures and losses, the members have also (a) pledged their shares, amounting to Rs.4,231.250 (2011: Rs.3,242.711) million, in the CDC account of the Company (b) provided bank guarantees amounting to Rs. 1,036.341 (2011: Rs. 1,040.200) million and (c) pledged government securities amounting to Rs. 50 (2011: Nil) million.

25.3 Included here in is a sum of Rs. 1,095.499 (2011: 237.815) million placed in saving accounts on which interest is paid to members at the rate ranging from 5% to 10.5% (2011: 4% to 10.5%).

	Note	2012	2011
		(Rupees in '000)	
26. TRADE AND OTHER PAYABLES			
Deposits against Arbitration	26.1	8,382	8,382
Accrued expenses		70,769	72,347
		79,151	80,729
Other liabilities			
Due to members		159	6,488
Due to non-members		240	274
Retention money		535	1,533
Fees and rent received in advance		20,585	23,200
Amount held against defaulted/ expelled members	26.2	267,120	129,825
Amount received in respect of employees' motorcycle installments		1,233	1,387
Employees' Gratuity Fund	26.3	14,713	46,395
Tax deducted at source		79	-
Taxes collected from members		5	11,002
SECP transaction fee		212	315
Payable to members against return on cash margins on future contracts	31.1	24,927	6,507
Workers' Welfare Fund payable		143	1,075
Others		11,220	5,175
		341,171	233,176
		420,322	313,905

26.1 This represents amount deposited with the Company by members with respect to certain arbitration cases pending settlement (also see note 19.3).

26.2 This represents amount obtained on disposal of membership cards of defaulting / expelled members, including profit accrued thereon, deposited in a separate bank account to be utilised for the settlement of dues of the defaulting members, including investors claim, if any (also see note 19.4)



26.3 Employees' Gratuity Fund		14,713	46,395
26.3.1 Principal actuarial assumptions			
Significant actuarial assumptions used in the valuation are as follows			
		2012	2011
		% per annum	
Discount rate		12.5%	13.50%
Increase in salaries		9%	10%
Expected return on plan assets		11%	13%
		2012	2011
		(Rupees in '000)	
26.3.2 Liability recognised in the balance sheet:			
Present value of obligation		135,697	113,976
Fair value of plan assets		(109,671)	(63,588)
		26,026	50,388
Unrecognised actuarial loss		(11,313)	(3,993)
		14,713	46,395
26.3.3 Expense recognised in Income and Expenditure Account:			
Current service cost		9,151	9,911
Interest cost		14,611	15,354
Expected return on plan assets		(10,444)	(9,351)
Actuarial loss recognised during the year		-	432
		13,318	16,346
26.3.4 Movement in the liability recognised in the balance sheet:			
Opening balance		46,395	30,049
Charge for the year	30.1	13,318	16,346
Contributions		(45,000)	-
Closing balance		14,713	46,395
26.3.5 Actual return on plan assets		12,628	4,789
26.3.6	The expected return on plan assets was determined by considering the market expectations and depends upon the assets portfolio of the fund, at the beginning of the year, for returns over the entire life of the related obligation.		



	2012	2011	2010	2009	2008
	------(Rupees in '000)-----				
26.3.7 Historical information					
Present value of defined benefit obligation	135,697	113,976	-	115,411	100,052
Fair value of plan assets	(109,671)	(63,588)	-	(85,297)	(35,933)
	26,026	50,388	-	30,114	64,119
Experience adjustment on plan liabilities	9,461	16,266	11,762	-	(443)
Experience adjustment on plan assets	(2,142)	(4,561)	(13,610)	-	1,604

27. CONTINGENCIES AND COMMITMENTS

Contingencies

27.1 The income tax assessments of the Company have been finalized up to and including the tax year 2011, corresponding to the income year ended June 30, 2011. However, the Company has filed an application in the Honourable High Court of Sindh against the decision of ITAT in respect of the additions made by the Taxation Officer of Rs.36.583 million on account of tax gain / (loss) on disposal / write off of fixed assets in tax year 2003, which is currently pending adjudication.

The management of the Company is hopeful that the outcome of the appeal would be in favour of the Company and, hence, pending the resolution of this matter, provision amounting to Rs.15.731 million has not been made in the financial statements of the current year.

27.2 A lawsuit was filed by a commercial bank against the Company for the recovery of Rs.500 (2011: Rs.500) million as damages for defamation on the grounds that the Company placed the bank on Defaulters Counter illegally and malafidely, which caused loss of reputation to the bank. The said law suit is currently pending in the Honourable High Court of Sindh. The management believes that, it is unlikely that the court would award substantial damages in favour of the bank as the Company acted in good faith and public interest. Accordingly, no provision has been made by the Company in the financial statements of the current year for any liability that may arise as a result of this lawsuit.

27.3 A lawsuit was filed by five investors against the Company and an ex-member for declaration, injunction and recovery of damages, aggregating to Rs.70.00 (2011: Rs. 70.00) million together with interest thereon @ 22% (2011: 22%) per annum with quarterly rests, or any other relief that may be apt. The investors alleged that the Company had unlawfully taken possession and disposed off some shares belonging to the petitioners that were lying with the above-mentioned ex-member. The Company considers the said lawsuit to be untenable and not maintainable in the court of law and has, therefore, not made provision in the financial statements for any liability that may arise as a result of this law suit.

27.4 An ex-member filed a lawsuit during the year ended June 30, 2000 against the Company, Central Depository Company of Pakistan Limited and the SECP, in the Honourable High Court of Sindh, for cancelling his membership and declaring him as a defaulter. He further claimed damages of Rs.300 (2011: Rs.300)



million from each. The Company had declared him as a defaulter in accordance with its regulations as the said member had not made payments to settle his liability to the Company for the ready clearing dues and exposure and losses, aggregating to Rs.351.392 (2011: Rs.351.392) million. A sum of Rs.302.882 (2011: Rs.302.882) million including receivables amounting to Rs.6.574 (2011: Rs.6.574) million shown under other receivables was subsequently realized by the Company from the sale of the assets of the ex-member and the Company squared up his position by paying Rs.48.509 (2011: Rs.48.509) million from the Clearing House Protection Fund, which is still due from him.

The ex-member had also filed a constitutional petition against the Company, alleging certain technical deviations on part of the Company from the existing rules and regulations which was later withdrawn by the defaulting member. As per the legal advisor of the Company, the overall position of the Company seems to be sound and the Company has a fairly good defence in the said lawsuit. Accordingly, no provision has been made by the Company in the financial statements for any liability that may arise as a result of this lawsuit (refer note 17.2).

- 27.5** A fund management and investment Company filed a lawsuit in the Honourable High Court of Sind against an ex-member, as referred to in note 27.4 above, CDC, SECP and the Company during the year ended June 30, 2000. The fund management and investment Company (the petitioner), currently being represented by an official liquidator as the petitioner has since gone into liquidation, alleged that the Company had unlawfully taken the delivery of shares for which the petitioner had entered into contracts for purchase with the ex-member, discussed above. The petitioner claimed declaration, injunction and delivery of the undelivered shares and damages of Rs.500.00 (2011: Rs.500.00) million. According to the legal advisor, the Company has a very good defence in the said lawsuit. For this reason, no provision has been made by the Company in the financial statements for any liability that may arise as a result of this lawsuit (refer note 17.2).
- 27.6** In addition to the lawsuits disclosed in note 27.4 & 27.5 above, five law suits in prior years, involving the ex-members' default were filed by Mr. Iftikhar Ahmed Shafi, Mian Nisar Elahi, Shafi Chemical Industries, Diamond Industries Limited and Mr. Muhammad Ali, against several other defendants and the Company in the Honourable High Court of Sindh for the recovery of damages of Rs.5,606.612 (2011: Rs.5,606.612) million, Rs.428.440 (2011: Rs.428.440) million, Rs.49.777 (2011: Rs.49.777) million, Rs.743.026 (2011: Rs.743.026) million, and Rs. 23.419 (2011: 23.419) million respectively, for declaration, injunction, recovery of shares, damages and compensation. The legal advisor of the Company considers that above mentioned lawsuits would be decided in favour of the Company. Hence, no provision has been made in the financial statements for any liability that may arise as a result of these lawsuits (refer note 17.2).
- 27.7** The Islamabad Stock Exchange (Guarantee) Limited filed a complaint with the Competition Commission of Pakistan (the Commission) against the Company alleging abuse of its dominant position in securities market in contravention of Section 3 of the Competition Ordinance, 2007. The Commission after giving due consideration issued a show cause notice to the Company, against which the Company filed a petition in the Honourable High Court of Sindh. The Court allowed the Commission to proceed further but restrained it from passing any final order. The Islamabad Stock Exchange filed two separate civil petitions for leave to appeal against orders of the Honourable High Court of Sindh in the Honourable Supreme Court of Pakistan.



The Honourable Supreme Court of Pakistan in its Order dated November 13, 2008 vacated the above stay order and disposed off the stay application and fixed the petition for regular hearing.

Further, on May 29, 2009 the Commission passed a final order and directed the Company to take corrective measures along with the other exchanges of Pakistan and to enter into an arrangement similar to that existing between Lahore Stock Exchange and Islamabad Stock Exchange. In case of failure to comply with the direction of the Commission, the Company will be liable to pay a penalty of Rs.50 (2011: Rs. 50) million at the end of the six month period and thereafter an additional penalty of Rs.250,000 per day, if the non-compliance continues. The Company has filed an appeal before the Supreme Court against the Commission's Order. As per the legal advisor, the Company has a reasonable case in respect of the above. Hence, no provision for any liability which may arise in this regard has been made in the financial statements of the Company.

27.8 The single bench of the Competition Commission (the Commission) of Pakistan passed an order on March 18, 2009, thereby penalizing the Company for a sum of Rs.6 (2011: Rs. 6) million for placement of floor. The Company filed an appeal before the Appellate Bench of the Commission. The Commission after conducting multiple hearings of the said appeal finally issued its order on November 26, 2009. The Commission reduced the penalty by 50% (fifty percent) restricting it to a nominal sum of Rs. 500,000/-. The Company filed an appeal in Honourable Supreme Court of Pakistan against the Order dated November 26, 2009 passed by the Appellate Bench of the Commission. On February 11, 2010, the case was fixed for hearing of application for interim relief. The Advocate for the Commission undertook on behalf of the Commission that no coercive action will be taken against KSE in pursuance of the impugned Order till next date of hearing. The legal advisor of the Company is confident that the said appeal would ultimately be decided in favour of the Company and, hence, no provision has been made in these financial statements.

27.9 A member filed a suit against the Company, the SECP and others claiming that they are a corporate brokerage house and have around 200 clients trading in shares of scrips of companies listed at the Exchange.

One such company, M/s. Noorie Textile Mills Limited (Noorie), is also listed with Exchange. CDC found some irregularity in the shares of Noorie, such that the paid up capital of Noorie was wrongly entered into CDS as Rs.589.600 million instead of Rs.59.860 million. On September 02, 2008, after due enquiry, the CDC revoked Noorie's CDS eligibility.

Accordingly, the SECP vide its notification dated September 02, 2008 suspended CDC participant status of the member (plaintiff) and froze the subaccounts of two of its clients who were dealing in Noorie's shares. The effect of notification was that plaintiff's access to the Exchange was denied.

The plaintiff being aggrieved sustained losses and damages amounting to Rs.206 (2011: Rs. 206) million. The Court on application of the plaintiff ordered suspension of the SECP notification. Subsequently, a counter affidavit was filed by the Company to modify the stay order and plaintiff was restrained from disposing off its assets. As per the legal advisor, the Company has a reasonable case in respect of the above. Hence, no provision for any liability which may arise in this regard has been made in the financial statements of the Company.

27.10 An investor has filed a claim of Rs. 2.8 (2011: Rs. 2.8) million as a suit for recovery and an application for appointment of receiver against the Company and an ex-Member. Written statement and Counter



Affidavit have been filed on behalf of the Company. As per the legal advisor, the Company has a reasonable case in respect of the above. Hence, no provision for any liability which may arise as result of the lawsuit in the financial statements of the Company.

- 27.11** As a result of a dispute between the Company and a member (suspended), whereby the member (suspended) was not sharing certain information relating to trading of shares, the Company complained to the SECP and the member (suspended) fearing about any coercive action by the Company and SECP, filed a suit against the Company in the Honourable High Court of Sindh. However, the SECP before filing the law suit by the member , had already suspended the license of the brokerage of the member. The member (suspended) has filed the above law suit for declaration, permanent injunction, mandatory injunction and damages of Rs. 2,000 (2011: Rs 2,000) million against the Company. The member (suspended) sought direction against the Company to restore its membership and registration to its original position. However, the management believes that, it is unlikely that the Court would award damages in in favour of the investor. Accordingly, no provision has been made by the Company in the financial statements for any liability that may arise as a result of this lawsuit.
- 27.12** An investor was using the services of an expelled member for trading of securities of listed companies. However, the investor claimed that the expelled member with mala fide intentions misappropriated funds and trading profit and fictitiously transferred them in the names of his relatives. In March, 2010, the investor requested the expelled member to liquidate his shares, however, the expelled member kept on delaying the matter which created doubts. In view of various complaints against the expelled member, The Company under its Notice dated August 26, 2010 expelled its membership. The investor alleged that the Company despite various objections and in violation of provision / regulations conveniently permitted the expelled member to function (prior to August 26, 2010). Accordingly, during the year, the investor filed a lawsuit in the High Court of Sindh of Rs. 20 million against the Company and other parties for the award of damages. However, the management believes that, it is unlikely that the Court would award damages in in favour of the investor. Accordingly, no provision has been made by the Company in the financial statements for any liability that may arise as a result of this lawsuit.
- 27.13** A member filed a suit in the Honourable High Court of Sindh against the SECP, the Company and others whereby the member pleaded that it has suffered losses on account of trades executed by one of its client/investor. Further, the SECP asks the Company to initiate any inquiry against the member and thereafter requiring the member to maintain status quo in respect of the securities retained by the Company. The member has therefore sought judgment in decree of the Court, among others to:
- declare that the show cause notice issued by SECP and the directions issued by SECP to the Company are unlawful and without jurisdiction.
 - declare that the inquiry being conducted by the Company on SECP's direction is void and without any lawful justification.
 - restrain the SECP and the Company from cancelling the member's license/membership or from taking any coercive action against them.
 - award damages of Rs. 50 million in favour of the member and against all the defendants (jointly and severally liable) for harassing and damaging the member's reputation.



The management of the Company believes that no provision against the above matter is required to be made in these financial statements. The said matter is dealt with by the in house legal department of the Company.

- 27.14** During the year, a customer of the member of the Company has filed a case against the Company in Honourable High Court of Sindh, wherein, an amount of Rs. 91 million has been claimed by the customer of the member from the Company on account of alleged loss of investment and damages said to have been arisen due to fixation of a floor price and closure of the exchange in the year 2008. The legal advisor the Company anticipate a positive outcome to the matter from the standpoint of the Company and accordingly no provision against the above matter has been made by the management in these financial statements.
- 27.15** During the year, the plaintiff, who has purchased office within the premises of the Company from the ex-member, has alleged that the Company is unlawfully imposing restrictions on him for operating in the newly purchased office despite the fact that he has paid all outstanding dues relating to such purchase. In the circumstances, the Plaintiff prayed the Court to declare that he is the lawful owner of the subject office and has all legal rights to use and occupy the same without any hindrance on part of the Company. The plaintiff has launched a claim of Rs. 5 million from the Company in this regard. The legal advisor the Company is optimistic that the matter will be decided in favour of the Company and accordingly no provision against the above matter has been made by the management in these financial statements.
- 27.16** In addition to the law suits disclosed above, several law suits having no financial effect on the Company have also been filed against the Company.
- 27.17** Contingency relating to wealth tax amounts to Rs.19.184 (2011: Rs.19.184) million, as discussed in detail in note 24. Pending resolution of this matter, no provision has been made in the financial statements of the current year for any liability that may arise on this account.

The potential financial impact of the contingencies disclosed in notes 27.1 to 27.17 above, aggregated to Rs.10,681.482 (2011: Rs.10,642.006) million at the end of the current year. No provision has been made in the financial statements for any liability that may arise as a result of these lawsuits as the management is confident about the favourable outcome of above stated matters.

Commitments

27.18 Capital expenditure

Aggregate commitments for capital expenditure at the end of the year were Rs.21.733 (2011: Rs.21.346) million.

	Note	2012	2011
		(Rupees in '000)	
28. LISTING FEE			
Annual listing fees		117,950	57,281
Initial listing fees		57,554	114,030
	28.1	175,504	171,311



28.1 During the year, the Board of Directors of the Company in their meeting held on July 29, 2011 approved the proposal for revising the mechanism of calculating annual and initial listing fee as prescribed in the Listing Regulations of the Company. The Company in exercise of the powers conferred under Sub-Section (1) of the Securities & Exchange Ordinance, 1969, with the prior approval of the SECP, has made such amendment in the Listing Regulations. Accordingly, the Company has charged the revised annual and initial listing fee with effect from October 01, 2011.

	Note	<u>2012</u>	<u>2011</u>
		(Rupees in '000)	
29. INCOME FROM EXCHANGE OPERATIONS			
Trading fees		54,360	44,986
Facilities and equipment fees		49,926	55,860
Income from non-trading facilities		25,231	21,058
Membership fees		2,070	2,010
Other fees		8,639	7,277
		<u>140,226</u>	<u>131,191</u>
30. ADMINISTRATIVE EXPENSES			
Salaries and other benefits	30.1	271,107	308,435
Property rent and tax		1,294	1,294
Fuel and power		33,973	31,631
Repairs and maintenance		22,380	16,598
Computer maintenance and related expenses		76,072	61,347
Insurance		7,523	7,164
Telephone, courier and postage		2,912	3,572
Printing and stationery		7,170	6,723
Donations	30.2	1,200	1,200
Audit fee		650	650
Legal and professional charges		13,289	9,800
Demutualization expense		35,250	-
Depreciation			
- operating fixed assets	7.1	127,101	89,615
Amortisation of intangible assets	8	69,205	52,924
Travelling and conveyance		4,544	1,850
Entertainment expenses		3,803	3,034
Reception, meetings and functions		4,065	3,016
Advertisements, marketing and development		1,517	1,584
Provision for trade debts considered doubtful	14.1	7,207	2,086
Trade debts written-off directly		272	-
Provision against other receivables		1,500	641
Security expenses		9,007	10,493
Subscription fee		2,135	1,800
Other expenses		645	564
		<u>703,821</u>	<u>616,021</u>



- 30.1 Included herein is a sum of Rs.13.318 (2011: Rs.16.346) million and Rs.Nil (2011: Rs.27.919) million in respect of retirement benefits and compensated absences, respectively.
- 30.2 Donations are paid to Medical Institutions, as per the policy approved by Board of Directors, in which none of the directors of the Company is interested in any capacity.

	Note	<u>2012</u>	<u>2011</u>
(Rupees in '000)			
31. FINANCIAL AND OTHER CHARGES			
Return on cash margin against ready and future exposure and losses	31.1 & 31.2	70,199	22,168
Provision against contribution for Workers' Welfare Fund		143	1,075
Bank charges		152	70
Exchange loss		-	62
Loss on sale of fixed assets		-	2
		<u>70,494</u>	<u>23,377</u>

- 31.1** Pursuant to the implementation of new risk management system with effect from December 04, 2006, the Company has accrued return on cash margins deposited by members against future contracts at various rates ranging between 5% and 10.5% (2011: 4% and 10.5%) per annum, after deducting 1% service charges, as per the Directive issued by the SECP.
- 31.2** During the year, the regulations related to risk management were revised by the Company which has also been approved by the SECP. As per the revised regulations, the members are entitled to mark-up on the cash amount deposited with the Company as exposure margin, mark to market losses and other margins, if applicable. Previously, the members were entitled to mark-up on cash amount deposited with the Company in respect of exposure margins against deliverable future contracts only. The revised regulations are effective from July 01, 2011 and resulted in additional financial charges of Rs.42.824 million during the year.

32. MANAGEMENT FEE

The Company manages KSE Clearing House Protection Fund and KSE Investors Protection Fund which includes provision of services related to finance and investment, risk management and customers services and investors complaints. The Board of Directors of the Company in its meeting held on September 8, 2011 has approved a management fee charge from such funds at the rate of 0.5 percent per annum of the respective fund size as at June 30 of the preceding financial year subject to a maximum of Rs. 10 million per fund. Accordingly, an aggregate sum of Rs. 15.668 million has been accrued as management fee income in the financial statements.



	Note	2012	2011
		(Rupees in '000)	
33. MARK-UP / INTEREST INCOME			
Return on:			
short term investments		186,637	134,940
PLS savings accounts		104,295	116,254
		<u>290,932</u>	<u>251,194</u>
34. OTHER INCOME			
Rental income from investment property		39,560	37,942
Fair value gain / (loss) on Investment property		20,371	(11,565)
Realised gain on sale of investments		-	13,363
Dividend income		75	200
Other income		-	866
Gain on sale of fixed assets		31	-
Exchange gain		2,134	-
Reversal of provision against receivables on recovery		275	-
		<u>62,446</u>	<u>40,806</u>
35. TAXATION			
Current	35.1	9,118	9,248
Prior	35.2	(413,199)	-
Deferred		(258,141)	(112,727)
		<u>(662,222)</u>	<u>(103,479)</u>

- 35.1** This represents turnover tax under relevant sections of the Income Tax Ordinance, 2001 due to the tax loss during the year.
- 35.2** During the year, the Company has obtained tax exemption certificate from relevant tax authority in respect of deduction of tax on profit on debt under Section 151 (1) and deduction on payments for goods and services under Section 153 (1) of the Income Tax Ordinance, 2001. Accordingly, the Company has revised its tax returns for the tax years 2006 to 2010 in order to claim the said exemption. Consequently, the Company has recognized a tax adjustment of Rs. 413.199 million during the year in these financial statements.
- 35.3** The numerical reconciliation between the accounting profit and the taxable income has not been presented in these financial statements due to tax loss during the year.



36. REMUNERATION OF MANAGING DIRECTOR AND DIRECTORS

The aggregate amounts charged in the financial statements for the year in respect of remuneration, including benefits, to the Managing Director and Directors of the Company are as follows:

	2012		
	Managing Director	Directors	Total
	(Rupees in '000)		
Managerial remuneration	11,686	-	11,686
Annual performance payout	2,640	-	2,640
Reimbursement of expenses	434	-	434
Fees	-	2,090	2,090
	<u>14,760</u>	<u>2,090</u>	<u>16,850</u>
Number	<u>1</u>	<u>8</u>	

	2011		
	Managing Director	Directors	Total
	(Rupees in '000)		
Managerial remuneration	11,121	24	11,145
Reimbursement of expenses	450	136	586
Fees	-	1,020	1,020
	<u>11,571</u>	<u>1,180</u>	<u>12,751</u>
Number	<u>1</u>	<u>8</u>	

36.1 The Managing Director of the Company is also provided with the free use of Company owned and maintained car.

37. RELATED PARTY TRANSACTIONS

The related parties comprise of associates, companies with common directorship, staff gratuity fund, directors and key management personnel. The Company in the normal course of business carries out transactions with various related parties.

The balances with related parties are disclosed in respective notes to the financial statements. Following are the details of transactions with related parties during the year ended June 30, 2012 and June 30, 2011.

	Note	2012	2011
		(Rupees in '000)	
Management fee	32		
KSE Clearing House Protection Fund		10,000	10,000
KSE investors Protection Fund		5,668	5,036
		<u>15,668</u>	<u>15,036</u>



	Note	2012	2011
		(Rupees in '000)	
Dividend income			
Central Depository Company of Pakistan		59,712	59,712
JCR-VIS Credit Rating Company Limited		75	200
		<u>59,787</u>	<u>59,912</u>
Income from investment property			
Central Depository Company of Pakistan		4,932	6,253
National Clearing Company of Pakistan Limited		8,595	8,385
		<u>13,527</u>	<u>14,638</u>
Trading fees			
Aba Ali Habib Securities (Private) Limited		922	1,560
Adam Securities (Private) Limited		741	-
Dawood Equity Limited		74	-
Fortune Securities Limited		227	-
Ghani Osman Securities (Private) Limited		451	-
Lakhani Securities (Private) Limited		40	-
Nael Capital (Private) Limited		52	105
Topline Securities (Private) Limited		710	410
Trade-In Securities (Private) Limited		51	-
Y.H.Securities (Private) Limited		85	-
Zafar Moti Capital Securities (Private) Limited		37	72
		<u>3,390</u>	<u>2,147</u>
Facilities and equipment fees			
Aba Ali Habib Securities (Private) Limited		299	403
Adam Securities (Private) Limited		766	-
Dawood Equity Limited		168	-
Fortune Securities Limited		323	381
Ghani Osman Securities (Private) Limited		382	-
Lakhani Securities (Private) Limited		12	-
Nael Capital (Private) Limited		53	55
Topline Securities (Private) Limited		220	262
Trade-In Securities (Private) Limited		618	-
Zafar Moti Capital Securities (Private) Limited		109	149
		<u>2,950</u>	<u>1,250</u>
Listing fees			
KASB Bank Limited		321	10,193
Engro Corporation Limited		636	849
Engro Polymer & Chemicals Limited		463	194
		<u>1,420</u>	<u>11,236</u>
Retirement benefit plan			
Payment made to gratuity fund during the year		<u>45,000</u>	-



38. FINANCIAL RISK MANAGEMENT

The Company's principal financial liabilities comprise long term and short term deposits, accrued and other liabilities. The financial assets comprise of short term investments, cash at bank, trade debts, loans and advances, long term deposits and other receivables.

The Company is exposed to market risk, credit risk and liquidity risk.

38.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise of interest rate risk, equity price risk and currency risk. The Company is exposed to market risk as a result of mismatches or gaps in the amounts of financial assets and financial liabilities that mature or reprice in a given period. The Company manages this risk by matching the repricing of financial assets and liabilities through risk management strategies.

38.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's short term investments and bank deposits in saving accounts. At the balance sheet date, the interest rate profile of the Company's interest-bearing financial instruments is as follows:

	2012			
	Interest / mark-up bearing			
	Effective yield / mark-up rate %	Up to six months	More than six months and upto one year	Total
	(Rupees in '000)			
Financial assets				
Short term investments	11.50 - 13.29	1,222,337	455,954	1,678,291
Cash and bank balances	6 - 11.5	1,508,063	-	1,508,063
		<u>2,730,400</u>	<u>455,954</u>	<u>3,186,354</u>
Financial liabilities				
Deposits from members against exposures and losses	5 - 10.50	1,096,147	-	1,096,147
		<u>1,096,147</u>	<u>-</u>	<u>1,096,147</u>
	2011			
	Interest / mark-up bearing			
	Effective yield / mark-up rate %	Up to six months	More than six months and upto one year	Total
	(Rupees in '000)			
Financial assets				
Short term investments	13.50 - 13.88	767,350	584,908	1,352,258
Cash and bank balances	5 - 11.5	1,338,188	-	1,338,188
		<u>2,105,538</u>	<u>584,908</u>	<u>2,690,446</u>
Financial liabilities				
Deposits from members against exposures and losses	4 - 10.50	237,815	-	237,815
		<u>237,815</u>	<u>-</u>	<u>237,815</u>

The following table demonstrates the sensitivity of Company's income for the year to a reasonably possible change in interest rates, with all other variables held constant.

	Effect On Income	
	2012	2011
	(Rupees in '000)	
Change in basis point		
+ 100	20,902	24,526
- 100	(20,902)	(24,526)



38.3 Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of change in foreign exchange rates relates only to the bank balance in saving accounts maintained in US dollars amounting to Rs. 28.249 (2011:Rs.17.084) million [US dollars 0.301 (2011: US dollars 0.198) million].

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's income before tax and reserves.

	Change in US dollar rate	Effect on income before tax	Effect on reserves
		(Rupees in '000)	
2012	+10%	(2,825)	(1,836)
	-10%	2,825	1,836
2011	+10%	(1,708)	(1,110)
	-10%	1,708	1,110

38.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company is exposed to credit risk on its short term investments, deposits, trade debts, loans and advances, cash at bank and other receivables. The table below shows the maximum exposure to credit risk for the components of the balance sheet.

	2012	2011
	(Rupees in '000)	
Financial assets		
Short term investments	1,678,291	1,352,258
Cash at bank	1,516,008	1,346,414
Trade debts	17,326	72,914
Loans and advances	13,655	14,085
Long term deposits	37,160	37,160
Other receivables	48,375	61,048
	3,310,815	2,883,879

Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial assets is broadly diversified and transactions are entered



into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk. The table below analyses the credit quality of Company's exposure in respect of short term investments and cash at bank:

Ratings *	2012	2011
	----- (%) -----	
AAA	43.84	38.24
AA+	29.11	35.02
AA	13.46	15.66
AA-	4.45	6.30
A	7.99	3.50
A-	0.18	1.28
BBB	0.97	-
	100.00	100.00

* Ratings are performed by PACRA and JCR-VIS

38.5 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in releasing funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to the Company's reputation. The table below summarizes the maturity profile of Company's financial liability: Long term deposits

	2012			Total
	On demand	Upto three months	More than one year	
Long term deposits	-	-	41,112	41,112
Deposits from members against exposures and losses	1,096,147	-	-	1,096,147
Trade and other payables	395,395	24,927	-	420,322
TOTAL	1,491,542	24,927	41,112	1,557,581

	2011			Total
	On demand	Upto three months	More than one year	
Long term deposits	-	-	95,723	95,723
Deposits from members against exposures and losses	546,891	273,962	-	820,853
Trade and other payables	265,059	6,507	-	271,566
TOTAL	811,950	280,469	95,723	1,188,142



39. DATE OF AUTHORISATION FOR ISSUE

These financial statements have been authorised for issue on September 27th, 2012 by the Board of Directors of the Company.

40. GENERAL

40.1 Figures have been rounded off to the nearest thousand rupees.

40.2 Comparative figures have been restated due to the change in accounting policy as detailed in note 4.1.1 to the financial statements. Additionally, certain corresponding figures have been re-arranged and re-classified wherever necessary, for the purpose of comparison. Major reclassifications during the year are as follows:

Statement	Components	Reclassification from	Reclassification to	Rupees in '000	
				2011	2010
Balance Sheet	Capital work-in-progress	Property and equipment	Intangible assets	9,232	47,076
Balance Sheet	Dara F. Dastoor Scholarship Fund	Funds	Non-Current Liabilities	2,229	2,231

Sd/-

Chairman

Sd/-

Managing Director





FORM OF PROXY (65th Annual General Meeting)

I/We, _____ of _____, holding Computerized National Identity Card No. _____ and being a member of Karachi Stock Exchange Limited, hereby appoint _____ of _____ holding Computerized National Identity Card No. _____ as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Exchange, to be held on 22nd day of October, 2012 and at any adjournment thereof.

As witness my/our hand/seal this _____ day of _____, 2012

WITNESSES:

1. Signature _____	2. Signature _____
Name _____	Name _____
Address _____	Address _____
_____	_____
CNIC No. _____	CNIC No. _____

CDC Account No.

To be signed by above-named shareholder

Revenue
Stamp of
Rs.5/-

Notes:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Exchange, not less than 48 hours before the time of holding the meeting.
2. The Proxy Form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
3. Attested copies of CNIC of the appointer and the proxy-holder shall be furnished with the Proxy Form.
4. The proxy-holder shall produce his original CNIC at the time of the meeting.
5. In case of corporate entity, the Board of Directors' resolution / Power of Attorney with specimen signature shall be submitted along with Proxy Form.



SERVING INVESTORS AND INDUSTRY

KARACHI STOCK EXCHANGE LIMITED

Stock Exchange Building,
Stock Exchange Road, Karachi-Pakistan.
CAN : (+92-21) 37410875, Fax : (+92-21) 37410875
URL : www.kse.com.pk, Email : info@kse.com.pk

