

# PAKISTAN CAPITAL MARKET FUND

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## **PAKISTAN CAPITAL MARKET FUND FUND'S INFORMATION**

### **Management Company**

Arif Habib Investments Limited  
8th Floor, Techno City, Corporate Tower,  
Hasrat Mohani Road, Karachi

### **Board of Directors of the Management Company**

Mian Mohammad Mansha	Chairman(subject to the approval of SECP)
Mr. Nasim Beg	Executive Vice Chairman
Mr. Yasir Qadri	Chief Executive (subject to the approval of SECP)
Syed Salman Ali Shah	Director (subject to the approval of SECP)
Mr. Haroun Rashid	Director (subject to the approval of SECP)
Mr. Ahmed Jahangir	Director (subject to the approval of SECP)
Mr. Samad A. Habib	Director
Mr. Mirza Mahmood Ahmad	Director (subject to the approval of SECP)

### **Company Secretary & CFO of the Management Company**

Mr. Muhammad Saqib Saleem

### **Audit Committee**

Mr. Nasim Beg  
Mr. Haroun Rashid  
Mr. Samad A. Habib  
Mr. Ali Munir

### **Trustee**

Central Depository Company of Pakistan Limited  
CDC House, 990B, Block 'B', S.M.C.H.S,  
Main Shahrah-e-Faisal, Karachi-74400

### **Bankers**

Summit Bank Limited  
Bank AL Habib Limited  
Habib Metropolitan Bank Limited  
Allied Bank Limited  
Bank Alfalah Limited  
Standard Chartered Bank (Pakistan) Limited

### **Auditors**

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

### **Legal Advisor**

Bawaney & Partners  
404, 4th Floor, Beaumont Plaza,  
Beaumont Road, Civil Lines, Karachi-75530

### **Registrar**

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

### **Rating**

AM2 (Positive Outlook) –  
Management Quality Rating assigned by PACRA

# **PAKISTAN CAPITAL MARKET FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011**

The Board of Directors of Arif Habib Investment Limited, the Management Company of Pakistan Capital Market Fund (PCMF), is pleased to present the Annual Report on the affairs of PCMF for the year ended 30th June, 2011.

## **Economy & Money Market Overview and Outlook**

Despite continued macro-economic challenges throughout the period, the year under review (July '10-June '11) was not as turbulent as it was expected to be due to concerns over payments from foreign donor agencies and devastation caused by floods throughout the country. Record-high levels of remittances and cotton prices saved the day and kept external account position under control.

During the year, exports rose to US\$ 25.4 billion, 29% higher on a YoY basis, reducing the trade deficit to around US\$ 10.3 billion, 11% lower YoY. In addition to contained trade deficit, record-high level of workers' remittances flow has taken the current account balance to a surplus of US\$ 437 million, for the first time after FY04. Despite meager financial account flows, country's balance of payment position improved significantly during the year by around US\$ 2.5 billion - taking the FX reserves to a record level of US\$ 18.2 billion, consequently keeping PKR-USD exchange rate largely stable during the year.

Post-flood, inflationary pressures have risen significantly amidst supply-side issues as well as phasing out of power subsidies, CPI inflation averaged higher at around 14.6% during 1H FY11. Due to relatively lower food inflation as well as no major electricity pass-through during the latter half, CPI inflation averaged at a lower level of 13.3% - taking the average FY11 inflation to 13.9%. Real economy, however, did not have much to show with Real GDP growth stood at a paltry 2.4%, much lower than the target. Loss in agriculture produce because of floods caused a major dent towards country's economic growth during the period under review. Services sector, however, was able to provide some support with a growth of 4.1%, bringing the overall GDP growth to 2.4%.

Fiscal indiscipline has remained a cause of concern for the economic managers as the country is expected to witness yet again a deficit of over 6% of the GDP during FY11. Even during the first 9M of the fiscal year, the country witnessed a fiscal deficit of Rs. 783 billion, 4.3% of the revised GDP. Slower growth in revenue collection coupled with higher current expenditure has been the chief reason behind ballooning fiscal deficit. Unfortunately, development expenditure is expected to be under-spent for yet another year to meet revised fiscal deficit targets. In addition of having a higher fiscal deficit, the financing mix is also alarming as the country had to resort to domestic sources of funding to a large extent in the absence of sizeable foreign flows during the period under review.

Considering the volatility in the macroeconomic variables, the State Bank of Pakistan has also altered its monetary stance at least twice during the year. Citing the deteriorating macroeconomic fundamentals during the 1H FY11 mainly in the backdrop of floods, the SBP raised its policy discount rate cumulatively by 150 bps to 14.0%. However, gradual improvement towards external account through remittances and increased textile exports as well as lower levels of government borrowing from SBP has compelled the central bank to keep its policy DR unchanged for the next 3 policies during 2H FY11. Due to an overall higher interest rate environment, 1 year PKRV averaged at around 13.4% during FY11, much higher than the average 12.2% a year ago.

During FY11, key monetary indicators have also been better as compared to that of last year with money supply (M2) posting a strong growth of 15.9%. Although Net Domestic Asset (NDA) growth has been a key contributor behind M2 growth during this year as well, sizeable YoY growth of 43% in Net Foreign Assets (NFA) has been commendable - also reflecting strong BOP position.

In absence of foreign donor payments coming through, government's need to borrow continues to be a barrier in way of significant drop in interest rates or growth in credit. However, in absence of new credit creation, existing Term Finance Certificates (TFC) market became liquid and bank issued TFCs commanded improvement in prices during the period under review. Moreover, GoP Ijarah Sukuk (GIS) has also emerged as an attractive instrument during the year for conventional markets in general and Shariah compliant markets in particular. In addition of giving strong interest yield, GIS has also provided potential for capital gains due to its demand-supply gap and therefore has seen significant activities during the year in both primary as well as secondary markets.

Citing contained inflationary pressures, strong external account position and lower levels of government borrowing from SBP, the central bank decided to lower its policy discount rate by 50 bps to 13.5% in its Jul'11 monetary policy review.

We believe that the materialization of sizeable foreign inflows will continue to be the single most important variable especially in the backdrop of sustained oil prices, downward trend in cotton prices and debt repayments including IMF. Going forward, liquidity and interest rate direction will be largely dependent on the magnitude and sources of fiscal funding. In the absence of foreign flows, greater reliance will be on domestic sources - which could rebound inflation and interest rates. In this fast changing interest rates scenario, the fund will remain committed towards superior quality assets while continue to exploit attractive opportunities in the market.

## **Equities Market Overview and Outlook**

Equities recorded second consecutive year of stellar performance with the KSE-100 index rising by about 29% in FY11 on top of 36% return posted in FY10. Pakistan equity market also remained the 3rd best performing market in the region after Indonesia and Thailand which posted 33% and 31% returns respectively.

KSE -100 Index made the fresh start with 76 points plus at 9,740 on its 1st day and closed the first month in same zeal at +8.2%. However the momentum halted abruptly as severe floods hit across provinces causing substantial damages and losses. Economic gloom pulled the index in the negative territory making a low of 9,488 on August 17, 2010. However persistent foreign inflow amounting to USD 105 m in the first quarter, turned the sentiment at KSE positive and second quarter proved to be the best performing period of the year and about 74% of the total annual performance could be attributed to this period. With the exception of initial period, market remained lackluster during most part of the 2nd half of the year where major dampeners included the political unrest in MENA region and highly volatile US-Pak diplomatic relationship. KSE-100 index closed the year at 12,496, down 2.1% from its year high of 12,768 made on Jan 17, 2011; overall 29% up YoY.

# PAKISTAN CAPITAL MARKET FUND

## REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY

### FOR THE YEAR ENDED JUNE 30, 2011

While returns remained impressive, volumes were unprecedentedly low. In its first year, post imposition of CGT, retail investors remained largely inactive as foreign investors and local institutions including Banks, Corporates and Mutual Funds demonstrated marginal interest. During the year, average daily turnover declined significantly to about 95 million shares, down 40% on YoY basis. KSE Management attempted to enthuse the market by introducing leverage products including Margin Trading System and Market Financing System and made few modifications in futures market, but to no avail.

Macro-economic factors challenging the KSE performance included strong detriments like capital gains tax, a cumulative 150 basis points increase in discount rate in an already high interest rate environment, economic loss due to floods and higher Oil prices and lower foreign flows. Some of the positives that propelled KSE in positive territory included strong external account position on the back of increased textile exports, flood-related foreign aids, coalition support fund and record-high remittances ultimately translating in a relatively stable exchange rate and record FX reserves. Moreover, strong liquidity from booming rural economy and persistent foreign interest in domestic equities, which continued to trade at a discount of around 35-40% despite strong dividend yield (near 7%) and corporate earnings growth (+20% YoY) helped the market to exhibit strong performance.

Sector wise, Food Producers, Metals and Mining, Beverages and Chemicals outperformed the KSE-100 index while the major sectors and index heavy weights including Banks and Oil & Gas Sectors remained among the underperformers while best performing stocks included Nestle, FFC, FFBL, POL and LOTPTA.

We believe that the global economic environment would remain jittery in the near term, which could provide further hiccups to the international as well as local equity markets. An unexpected 50 bps DR cut by the SBP during the early part of FY12 bodes well for the market, however, a ballooning fiscal deficit would continue to 'crowd out' domestic capital markets. Strong earnings growth, sizeable discount to regional markets, high dividend yields and relatively cheaper PE valuations warrant decent returns for long term investors in our view.

#### Fund's Performance

The investment objective of the fund is to maximize returns available from Pakistan's capital market by investing the fund in equity as well as debt instruments while diversifying the risk within the market. The fund is benchmarked against a composite based on 50% KSE-100 Index and 50% 1 year T-Bills. On the equities front, the fund maintained its exposure in those sectors and stocks that are largely immune fundamentally from weak macroeconomic indicators and offers attractive earnings and dividend yields. The fund maintained a sizeable exposure within Oil & Gas and Chemical sectors, which have performed well. However, exposure towards selected stocks within OMC and Paper & Board has under-performed the market, hence affecting the returns of the fund. The fund remained committed towards its philosophy of top-down investment approach, where macroeconomic factors play a critical role in setting the overall strategy of the fund.

On the fixed income side, the fund continued managing its Treasury Bills exposure according to market conditions and interest rate outlook. The fund reduced its exposure in preference shares during the year while keeping its TFCs exposure largely unchanged. The fund generated a return of 14.0% during the year as against its benchmark return of 21.9%, while since inception return of the fund stands at 149.6% as against its benchmark return of 136.4%.

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

Performance Information (%)	PCM	Benchmark
Last twelve Months Return	14.0%	21.9%
Since Inception	149.6%	136.4%

During the year your fund earned net income of Rs 42.625 Million. The Board in the meeting held on 4th July, 2011 has declared final distribution amounting to Rs. 28.89 million (i.e. Rs. 0.60 per unit).

During the period, units worth Rs.132.892 Million (including Rs. 129.27 million worth of bonus units) were issued and units with a value of Rs. 115.625 Million were redeemed. As on 30th June, 2011 the NAV of the Fund was Rs. 8.06 per unit.

#### Update on Workers' Welfare Fund

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party.

Subsequently, clarifications were issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. These clarifications were forwarded by the Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal.

# **PAKISTAN CAPITAL MARKET FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011**

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

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

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

The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs. 3.671 million.

## **Corporate Governance**

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

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

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company, hence the disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. As per note 1.2 of financial statements, MCB Asset Management Company Limited merged with and into Arif Habib Investments Limited on June 27, 2011. Statement showing attendance of Board meetings is as under:

**PAKISTAN CAPITAL MARKET FUND  
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY  
FOR THE YEAR ENDED JUNE 30, 2011**

**Attendance of Board Meetings From 1st July 2010 to 30th June 2011.**

S. No.	Name	Designation	Meetings			
			Total	Attended	Eligible to attend	Leave Granted
1.	Mr. Shafi Malik *	Former Chairman	15	15	15	-
2.	Mr. Nasim Beg **	Executive Vice Chairman	15	15	15	-
3.	Mr. Muhammad Akmal Jameel *	Former Director	15	15	15	-
4.	Mr. Muhammad Kashif *	Former Director	15	11	15	4
5.	Syed Ajaz Ahmed *	Former Director	15	13	15	2
6.	Mr. Sirajuddin Cassim *	Former Director	15	4	15	11
7.	Mr. S. Gulrez Yazdsni *	Former Director	15	13	15	2
8.	Mr. Samad A. Habib ***	Director	15	5	5	-
9.	Mian Mohammad Mansha ****	Chairman	15	1	1	-
10.	Mr. Yasir Qadri ****	Chief Executive	15	1	1	-
11.	Syed Salman Ali Shah ****	Director	15	1	1	-
12.	Mr. Haroun Rashid ****	Director	15	1	1	-
13.	Mr. Ahmed Jahangir ****	Director	15	1	1	-
14.	Mr. Mirza Mahmood Ahmad ***	Director	15	1	1	-

\* Resigned on 27th June, 2011  
 \*\* Mr. Nasim Beg resigned as Chief Executive on 27th June, 2011 and appointed as Executive Vice Chairman on the same date.  
 \*\*\* Mr. Samad A. Habib was elected as director on 7th February, 2011 and his appointment approved by SECP on 31st March, 2011.  
 \*\*\*\*Appointed on 27th June, 2011 and their approval of appointment from SECP is awaited.

- m. The trades in the units of the fund were carried out by the Directors, CE, CFO/Company Secretary of the Management Company and their spouses and minor children, are as under:

S. No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman	-	60.34	17.55

**External Auditors**

The fund's external auditors, Messers A.F. Ferguson & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2012. The audit committee of the Board has recommended reappointment of A.F. Ferguson & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2012.

**Acknowledgement**

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

**For and on behalf of the board**

Yasir Qadri  
Chief Executive

Karachi: 20th September, 2011

# PAKISTAN CAPITAL MARKET FUND REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2011

## Fund Type and Category

Pakistan Capital Market Fund (PCMF) is an Open-End Balanced Scheme

## Fund Benchmark

The benchmark for Pakistan Capital Market Fund is 50% KSE 100 Index + 50% 1 Year T-Bill

## Investment Objective

The objective of the Fund is to maximize returns available from Pakistan's capital market by investing the Fund Property in equity as well as debt instruments while diversifying the risk within the market.

## Investment Strategy

Pakistan Capital Market Fund (PCM) is an open-end balanced fund that invests in a range of asset classes such as equity and debt in Pakistani market. The asset allocation to equities and debt is made on the basis of relative attractiveness of each asset class. The investment process is driven by fundamental research. For equities investment, fundamental outlook of sectors/companies and DCF (Discounted Cash Flow) valuations are the primary factors in sectors' allocation and stock selection. For debt investment, interest rate outlook is the key determining factor and allocation to this segment is increased when the yields are comparatively higher compared to the total returns on equities. Investment is made in corporate bonds (investment grade) and government bonds. Cash is kept in deposits with highly rated banks. PCM is a long only Fund and cannot undertake leveraged investments. Under the NBFC Rules, it is only allowed to borrow up to 15% of net assets for up to 90 days to meet redemption needs.

## Manager's Review

PCM delivered 14% return vis-à-vis benchmark (50% KSE100+50% 1 Yr T-Bill) return of 21.9% in FY11. Net assets of the fund which were Rs 0.44bn at the beginning of the period were reduced by around 12% to Rs 0.39bn. Average equity allocation of the fund comes out to be around 54.6% for the year.

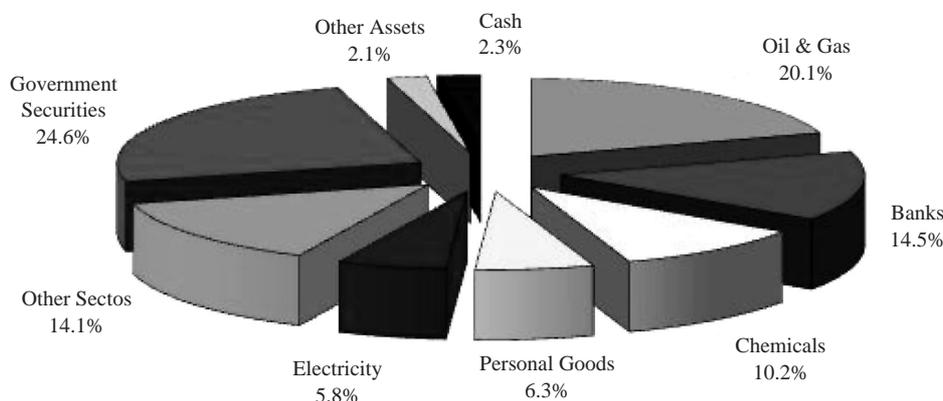
During the year fund liquidated its positions in HUBC, NESTLE, FFBL and FFC. These companies became overvalued as per fund manager's estimation. Fund took new positions in LUCK, PSO and FATIMA. Apart from these major changes, exposures of various holdings were adjusted considering varying market conditions and changing risk profiles of companies and sectors. In August 2010 fund manager used prudence and aggressively reduced equity allocation in anticipation of the potential damages due to worst ever flood in the history of Pakistan which could have negative implication on the economy. Equity allocation was brought down from July 2010 of 60.7% to 35.7% in September 2010. When the dust settled fund manager gradually retrieved fund's equity allocation to 64.2% in February 2011.

Substantial portion of the portfolio remained concentrated in Oil and Gas and Chemicals sectors during the year which performed well. Out of the major holdings NESTLE, FFC, POL, PPL and FATIMA outperformed the benchmark KSE100 while ABL, LUCK, ENGRO, PSO, KAPCO, PKGS and PSMC underperformed the Index. Underperformance of the fund is mainly attributed to PKGS, ABL, KAPCO, LUCK, PSO and PSMC in which fund has major stake and which could not perform up to the mark. Another reason for underperformance remained aggressive reduction in equity allocation after the flood as market didn't respond as anticipated.

PCM's portfolio mostly consists of fundamentally strong profitable companies which have good earnings growth prospects in future. Moreover we are in process of realigning portfolio to the new economic developments. Although dependent on market conditions, we are confident to deliver better performance in future on the back of strategic changes we are making in the portfolio.

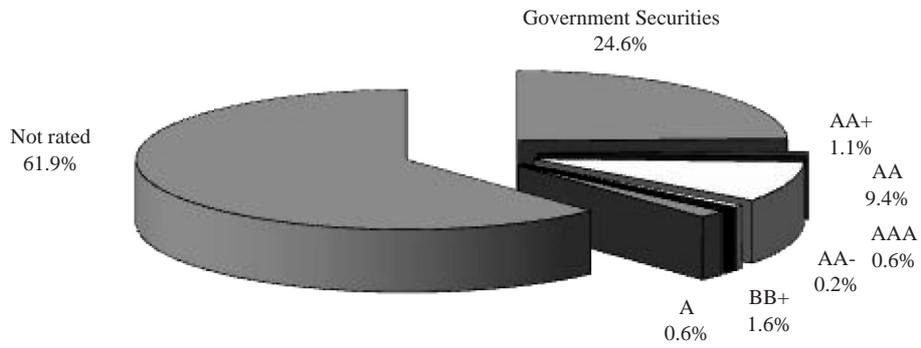
On the fixed income side, PCM reduced its preference shares holding from 5.6% to 4.3%. No changes were made in TFC portfolio during the period and fund maintained its position in Maple Leaf Sukuk which fluctuated between 10% and 11% of Net Assets. In order to maximize fund's returns excess cash was kept at minimum and mostly invested in Treasury Bills.

Asset Allocation as on June 30, 2011 (% of total assets)



**PAKISTAN CAPITAL MARKET FUND  
REPORT OF THE FUND MANAGER  
FOR THE YEAR ENDED JUNE 30, 2011**

**Asset Quality as on June 30, 2011(% of total assets)**



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**Mr. Mohsin Pervaiz**  
**Fund Manager**

**Karachi: September 20, 2011**

# **PAKISTAN CAPITAL MARKET FUND TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2011**

## **Report of the Trustee pursuant to Regulation 41(h) and clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

The Pakistan Capital Market Fund (the Fund), an open-end Fund was established under a trust deed dated October 27, 2003, executed between Arif Habib Investments Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2011 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the management company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

**Muhammad Hanif Jakhura**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

Karachi: October 26, 2011

## **PAKISTAN CAPITAL MARKET FUND STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011**

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of **Pakistan Capital Market Fund** ("the Fund") to comply with the Code of Corporate Governance contained in Listing Regulations of Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes three independent non-executive directors out of a total strength of eight directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year Mr. Muhammad Shafi Malik, Mr. Sirajuddin Cassim, Mr. Muhammad Akmal Jameel, Mr. Muhammad Kashif, Mr. S. Gulrez Yazdani and Syed Ajaz Ahmed had resigned and were replaced by Mian Mohammad Mansha, Mr. Haroun Rasheed, Mr. Ahmed Jahangir, Mr. Yasir Qadri, Dr. Salman Shah and Mr. Mirza Mehmood Ahmad, respectively, as directors of the Management Company, on the same day due to merger as fully explained in note 1 to the financial statements.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive (CE) has been taken by the Board. As on June 30, 2011, there are no other executive directors of the Management Company besides the Executive Vice Chairman and Chief Executive.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated and signed by the Chairman of the Board of Directors.
9. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. The Company has planned to conduct an orientation course for its directors, in the near future to appraise them of their duties and responsibilities.
11. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive.
12. The Directors' Report of the Fund for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The Directors, CE and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
14. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
15. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee for the Management Company. It comprises of four members, out of which two are non-executive directors.
17. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.
18. The Company has an effective internal audit function which was headed by the Head of Internal Audit who resigned on amalgamation. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.

**PAKISTAN CAPITAL MARKET FUND  
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2011**

19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the board

**Yasir Qadri**  
**Chief Executive**

Karachi: September 20, 2011

**PAKISTAN CAPITAL MARKET FUND  
REVIEW REPORT TO THE UNIT HOLDERS ON THE  
STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES  
OF THE CODE OF CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2011**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Arif Habib Investments Limited (the Management Company) for and on behalf of Pakistan Capital Market Fund to comply with the requirements of Chapter XI of the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchange where the Fund is listed.

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

As part of our audit of the 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.

Sub-Regulation (xiii a) of Listing Regulation No. 35 requires the Management 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 prices 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 the above requirements 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 prices 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 Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2011.

**A.F. Ferguson & Co.  
Chartered Accountants**

**Karachi  
Dated: October 25, 2011**

# **PAKISTAN CAPITAL MARKET FUND INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2011**

We have audited the accompanying financial statements of **Pakistan Capital Market Fund ("the Fund")**, which comprise of the statement of assets and liabilities as at June 30, 2011, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the approved accounting standards as applicable in Pakistan, and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## ***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standard on Auditing as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements give a true and fair view of the state of the financial position of the Fund's as at June 30, 2011, and of its financial performance, cash flows and transactions for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

## ***Other matters***

In our opinion, the financial statements have been prepared in all material respects in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

## ***Emphasis of matter paragraph***

We draw attention to note 13.1 to the accompanying financial statements which refers to an uncertainty relating to the future out come of the litigation regarding contribution to the Worker's Welfare Fund which is currently pending at judgement at the Honourable High Court of Sindh. Our Opinion is not qualified in respect of this matter.

**A.F. Ferguson & Co.**  
**Chartered Accountants**  
**Engagement Partner: Rashid A. Jaffer**

**Karachi**  
**Dated: October 25, 2011**

# **FINANCIAL STATEMENTS**

**PAKISTAN CAPITAL MARKET FUND  
STATEMENT OF ASSETS AND LIABILITIES  
AS AT JUNE 30, 2011**

	Note	2011	2010
<b>(Rupees in '000)</b>			
<b>ASSETS</b>			
Bank balances	4	9,272	36,930
Investments	5	377,621	403,321
Dividend and profit receivable	6	4,873	5,453
Advances and deposits	7	3,267	3,267
Conversion cost	8	-	575
<b>TOTAL ASSETS</b>		<b>395,033</b>	<b>449,546</b>
<b>LIABILITIES</b>			
Payable to Arif Habib Investments Limited - Management Company	9	652	727
Payable to Central Depository Company of Pakistan Limited - Trustee	10	65	73
Payable to Securities and Exchange Commission of Pakistan	11	366	463
Payable on redemption of units		-	141
Dividend payable		2,798	2,805
Accrued expenses and other liabilities	12	934	789
<b>TOTAL LIABILITIES</b>		<b>4,815</b>	<b>4,998</b>
<b>NET ASSETS</b>		<b>390,218</b>	<b>444,548</b>
<b>UNIT HOLDERS' FUND (as per statement attached)</b>		<b>390,218</b>	<b>444,548</b>
<b>CONTINGENCIES &amp; COMMITMENTS</b>	13		
<b>(Number of Units)</b>			
<b>NUMBER OF UNITS IN ISSUE</b>		<b>48,429,525</b>	<b>44,576,814</b>
<b>(Rupees)</b>			
<b>NET ASSET VALUE PER UNIT</b>	3.10	<b>8.06</b>	<b>9.97</b>

The annexed notes 1 to 27 form an integral part of these financial statements.

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

Chief Executive

Director

**PAKISTAN CAPITAL MARKET FUND  
INCOME STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2011**

	Note	2011	2010
<b>(Rupees in '000)</b>			
<b>INCOME</b>			
Capital gain on sale of investments - net		17,442	90,273
Income from investment in government securities		15,352	2,925
Income from term finance certificates		6,453	13,801
Income from placements with financial institutions		-	43
Income from preference shares		2,544	3,649
Dividend income		13,891	25,047
Profit on bank deposits		1,997	6,342
		<u>57,679</u>	<u>142,080</u>
Unrealised appreciation / (diminution) on re - measurement of investments classified as 'financial assets at fair value through profit or loss'	5.7	18,833	(1,127)
Provision against non - performing exposure	5.3.1	-	(2,471)
		<u>76,512</u>	<u>138,482</u>
Impairment loss on investments classified as 'available for sale'	5.8	(654)	(1,032)
Reversal of income from non - performing term finance certificates and sukuk bonds		2,471	(382)
		<u>78,329</u>	<u>137,068</u>
<b>OPERATING EXPENSES</b>			
Remuneration of Arif Habib Investments Limited - Management Company	9.1	8,611	10,388
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	861	1,039
Annual fee - Securities and Exchange Commission of Pakistan	11	366	463
Securities transaction cost		909	1,335
Bank charges		66	64
Fees and subscription		258	507
Legal and professional charges		62	60
Auditors' remuneration	14	481	422
Amortisation of conversion cost		575	1,468
Printing charges		378	255
		<u>12,567</u>	<u>16,001</u>
<b>Net income from operating activities</b>		<u>65,762</u>	<u>121,067</u>
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed		(23,137)	19,874
<b>Net income for the year before taxation</b>		<u>42,625</u>	<u>140,941</u>
<b>Taxation</b>	15	-	-
<b>Net income for the year after taxation</b>		<u>42,625</u>	<u>140,941</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Net unrealised diminution on remeasurement of investments classified as 'available for sale'	5.8	(8,087)	(13,445)
<b>Total comprehensive income for the year</b>		<u>34,538</u>	<u>127,496</u>
<b>Earnings per unit</b>	3.11		

The annexed notes 1 to 27 form an integral part of these financial statements.

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

Chief Executive

Director

**PAKISTAN CAPITAL MARKET FUND  
DISTRIBUTION STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2011**

	2011	2010
	<b>(Rupees in '000)</b>	
<b>Accumulated loss brought forward</b>		
- Realised loss	(9,271)	(91,950)
- Unrealised income / (loss)	(4,598)	(48,564)
	(13,869)	(140,514)
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed	1,877	
		(14,296)
Net income for the year	42,625	140,941
Final distribution for the year ended June 30, 2010: Rs.2.9 per unit (2009:Nil)		
- Cash distribution	-	-
- Bonus units	(129,272)	-
	(98,639)	(13,869)
Accumulated losses carried forward		
Accumulated losses comprising of		
- Realised loss	(108,914)	(9,271)
- Unrealised income / (loss)	10,275	(4,598)
	(98,639)	(13,869)

The annexed notes 1 to 27 form an integral part of these financial statements.

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

Chief Executive

Director

**PAKISTAN CAPITAL MARKET FUND  
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

Note	2011	2010
	(Rupees in '000)	
Net assets at the beginning of the year	444,548	548,937
Issue of 482,844 units (2010: 2,239,512 units)	3,620	19,781
Redemption of 14,914,825 units (2010:23,998,493 units)	(115,625)	(231,792)
	<u>(112,005)</u>	<u>(212,011)</u>
	332,543	336,926
Issue of 18,284,691 bonus units for the year ended June 30, 2010 (2009 :Nil units)	129,272	-
Element of (income) / loss and capital (gains) / losses included in prices of units sold less those in units redeemed		
- amount representing income / (loss) and capital gains / (losses) - transferred to the Income Statement	23,137	(19,874)
- amount representing unrealised capital (gains) / losses and capital (gains) / losses that form part of the unit holders' fund - transferred to Distribution Statement	(1,877)	14,296
	<u>21,260</u>	<u>(5,578)</u>
Net unrealised diminution during the year on remeasurement of investments classified as 'available for sale'	5.8 (8,087)	(13,445)
Final distribution for the year ended June 30, 2010 :Rs 2.9 per unit (2009 :Nil)		
- Cash distribution	-	-
- Bonus units	(129,272)	-
Capital gain / (loss) on sale of investments	17,442	90,273
Unrealised appreciation / (diminution) on re-measurement of investments classified as 'fair value through profit or loss'	18,833	(1,127)
Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units redeemed - amount representing income / (losses) that form part of the unit holders' fund	1,877	(14,296)
Other net income for the year	6,350	51,795
	<u>(84,770)</u>	<u>126,645</u>
Net assets as at the end of the year	<u>390,218</u>	<u>444,548</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

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

Chief Executive

Director

**PAKISTAN CAPITAL MARKET FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011**

	2011	2010
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year before taxation	42,625	140,941
<b>Adjustments for non - cash and other items:</b>		
Amortisation of conversion cost	575	1,468
Unrealised diminution on remeasurement of investments classified as at fair value through profit or loss	(18,833)	1,127
Net element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed	23,137	(19,874)
Dividend income	(13,891)	(25,047)
Impairment loss on equity investments classified as 'available for sale'	654	1,032
Provision against non- performing exposure	-	2,471
Reversal of income from non - performing term finance certificates and sukuk bonds	(2,471)	382
	<b>31,796</b>	<b>102,500</b>
<b>(Increase) / decrease in assets</b>		
Receivable against sale of investments	-	14,467
Investments	38,263	62,264
Profit and dividend receivable	1,096	(1,241)
Deposits and other receivables	-	(125)
	<b>39,359</b>	<b>75,365</b>
<b>Increase / (decrease) in liabilities</b>		
Payable against purchase of investments	-	(8,068)
Payable on redemption of units	(141)	(724)
Payable to Arif Habib Investments Limited- Management Company	(75)	(165)
Payable to the Central Depository Company of Pakistan Limited - Trustee	(8)	(20)
Payable to Securities and Exchange Commission of Pakistan	(97)	(120)
Accrued expenses and other liabilities	145	(34)
	<b>(176)</b>	<b>(9,131)</b>
<b>Dividend received</b>	<b>13,375</b>	<b>27,911</b>
Net cash generated from operating activities	<b>84,354</b>	<b>196,645</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Receipt from issue of units	3,620	19,781
Payment on redemption of units	(115,625)	(231,792)
Dividend paid	(7)	(108)
<b>Net cash used in financing activities</b>	<b>(112,012)</b>	<b>(212,119)</b>
<b>Net decrease in cash and cash equivalents during the year</b>	<b>(27,658)</b>	<b>(15,474)</b>
Cash and cash equivalents at the beginning of the year	36,930	52,404
<b>Cash and cash equivalents at the end of the year</b>	<b>9,272</b>	<b>36,930</b>

The annexed notes 1 to 27 form an integral part of these financial statements.

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

Chief Executive

Director

# PAKISTAN CAPITAL MARKET FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

#### 1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Capital Market Fund (PCMF) was established under a trust deed executed between Arif Habib Investments Limited (AHIL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee on October 27, 2003. The Investment Adviser of PCMF obtained the requisite license from the Securities and Exchange Commission of Pakistan (SECP) to undertake investment advisory services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Formation of PCMF as a closed-end scheme was authorized by SECP on November 5, 2003.

During the year 2005, the Fund was converted from a closed-end scheme to an open-end scheme. The Fund is listed on all three stock exchanges in Pakistan.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. The registered office of the management company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

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

The Fund has been categorised as balanced scheme as per the criteria laid down by the Securities and Exchange Commission of Pakistan for categorization of Collective Investment Schemes (CIS) and listed on the Lahore Stock Exchange on January 13, 2011. Units are offered for public subscription on a continuous basis. The units are transferrable and can be redeemed by surrendering them to the Fund.

The Fund primarily invests in a mix of listed equity and debt securities, unlisted government securities and secured debt securities, money market transactions and reverse repurchase transactions.

Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of 'AM2 (positive outlook)' and '4-Star normal' rating to the Management Company and the Fund respectively.

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

#### 2. Basis of preparation

##### 2.1 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 as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

##### 2.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

There are certain new standards, amendments and interpretations that became effective during the year and are mandatory for accounting periods beginning on or after July 1, 2010 but are considered not to be relevant or did not have any significant effect on the Fund's operations and are, therefore, not detailed in these financial statements.

##### 2.3 New and amended standards and interpretations that are not yet effective and have not been early adopted

The following revised standard has been published and is mandatory for accounting periods beginning on or after July 1, 2011:

# PAKISTAN CAPITAL MARKET FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund will apply the revised standard from July 1, 2011. The Fund is currently in the process of assessing the impact, if any, of the revised standard on the related party disclosures.

There are other amendments to the standards, improvements to International Financial Reporting Standards 2010 and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

#### 2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments (note 3.2 and note 5).

#### 2.5 Accounting convention

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

#### 2.6 Functional and presentation currency

The financial statements are presented in Pak Rupees, which is the Fund's functional and presentation currency.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below:

#### 3.1 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of assets and liabilities at cost. Cash and cash equivalents comprise of bank balances and short term investments having original maturities of less than three months.

#### 3.2 Financial assets

##### 3.2.1 Classification

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

##### a) Fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading in the 'financial assets at fair value through profit or loss' category.

##### b) Loans and receivables

These are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market.

##### c) Available for sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

# PAKISTAN CAPITAL MARKET FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

#### 3.2.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

#### 3.2.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

#### 3.2.4 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss and available for sale are valued as follows:

##### a) Basis of valuation of term finance certificates

Investment in term finance certificates and sukuk bonds are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no.1 of 2009 dated January 06, 2009. Under the said directive, investment in term finance certificates are valued on the basis of traded, thinly traded and non traded securities. Accordingly, investment in term finance certificates have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular.

##### (b) Basis of valuation of equity securities

The investment of the Fund in equity securities is valued on the basis of closing quoted market prices available at the stock exchange.

Net gains and losses arising on changes in the fair value of financial assets carried at fair value through profit or loss are taken to the Income Statement.

Net gains and losses arising on changes in fair value of available for sale financial assets are shown as other comprehensive income in the income statement until these are derecognised. At this time, the cumulative gain or loss previously shown as other comprehensive income is reclassified as capital gain / (loss) in the income statement.

Subsequent to initial recognition financial assets classified as 'loans and receivables' are carried at amortised cost using the effective interest method.

Gain or loss is also recognised in the 'income statement' when financial assets carried at amortised cost are derecognised or impaired, and through the amortisation process.

##### (c) Basis of valuation of government securities

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Market Association of Pakistan.

#### 3.2.5 Impairment

The carrying amounts of the Fund's assets are revalued at each balance sheet date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement. In case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income is reclassified from other comprehensive income and recognised in the income statement. Impairment losses recognised on equity financial assets recognised in the income statement are not reversed through the income statement. For loans and receivables, a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

# **PAKISTAN CAPITAL MARKET FUND**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED JUNE 30, 2011**

Provision for non-performing debt securities is made in accordance with the criteria for provision of non-performing debt securities specified in Circular No. 1 of 2009 dated January 06, 2009 and Circular No. 13 of 2009 dated May 04, 2009 issued by the SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of the Management Company.

#### **3.2.6 Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

#### **3.2.7 Offsetting of financial assets and liabilities**

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

#### **3.2.8 Reclassification**

The Fund may choose to reclassify a non-derivative trading financial asset in equity securities out of the 'held for trading' category to the 'available for sale' category if the financial asset is no longer held for the purpose of selling it in the near term. Such reclassifications are made only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. Reclassifications are made at fair value as of the reclassification date which then becomes the new cost and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made.

#### **3.3 Financial liabilities**

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

#### **3.4 Derivatives**

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

#### **3.5 Securities under repurchase / resale agreements**

Transactions of purchase under resale (reverse-repo) of marketable and government securities are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the Statement of Assets and Liabilities. Amount paid under these agreements are included in receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the reverse-repo agreement.

All reverse repo transactions are accounted for on the settlement date.

#### **3.6 Proposed distribution**

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

#### **3.7 Issue and redemption of units**

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

# PAKISTAN CAPITAL MARKET FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the Unit Holder's Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

#### 3.9 Provisions

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

#### 3.10 Net asset value per unit

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

#### 3.11 Earnings per unit

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

#### 3.12 Taxation

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

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

#### 3.13 Revenue recognition

- Profit on investments is recognised on an accrual basis. (In case of financial assets classified as non-performing, income is recognised on receipt basis).
- Profit on bank deposits is recognised on an accrual basis.
- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised capital gains / (losses) arising on marking to market of investments classified as 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.

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— Dividend income is recognised when the right to receive dividend is established.

**3.14 Foreign currency translation**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the Income Statement within the fair value net gain or loss.

**4. BANK BALANCES**

	Note	2011	2010
		(Rupees in '000)	
In current accounts		3,520	3,176
In saving accounts	4.1	5,752	33,754
		9,272	36,930

4.1 These balances carry mark-up rate ranging from 5% to 10.5% (2010: 5% to 11.25%)

**5. INVESTMENTS**

	Note	2011	2010
		(Rupees in '000)	
<b>Fair value through profit or loss</b>			
Listed equity securities	5.1	191,444	191,078
Listed preference shares	5.2	16,667	25,000
Term finance certificates-listed	5.3	44,308	47,513
Government securities	5.4	97,041	93,381
		349,460	356,972
<b>Available for sale</b>			
Listed equity securities	5.5	28,161	46,349
		377,621	403,321

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5.1 Listed equity securities- 'at fair value through profit or loss'

Name of the Investee company	Number of shares					Balance as at June 30, 2011			Market value as percentage of total investments	Market value as percentage of total net assets	Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 1, 2010	Purchased during the year	Bonus / Right Issue during the year	Sales during the year	As at June 30, 2011	Cost	Market value	Appreciation / (Dumunation)			
<b>SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs 10 each unless stated otherwise</b>						----- <b>(Rupees in '000)</b> -----					
<b>OIL AND GAS</b>											
Pakistan Oilfields Limited	118,569	-	-	40,000	78,569	16,850	28,207	11,357	7.47	7.23	0.03
Pakistan Petroleum Limited	154,000	24,000	17,200	92,000	103,200	16,729	21,370	4,641	5.66	5.48	0.01
Pakistan State Oil	-	113,000	-	-	113,000	31,850	29,898	(1,952)	7.92	7.66	0.07
						<b>65,429</b>	<b>79,475</b>	<b>14,046</b>			
<b>CHEMICALS</b>											
Engro Corporation Limited	196,240	138,000	27,600	196,240	165,600	26,267	27,034	767	7.16	6.93	0.04
Fauji Fertilizer Bin Qasim Limited	223,451	-	-	223,451	-	-	-	-	-	-	-
Fauji Fertilizer Company Limited	231,224	-	-	231,224	-	-	-	-	-	-	-
ICI Pakistan Limited	-	191,500	-	191,500	-	-	-	-	-	-	-
Fatima Fertilizer Company Limited	-	800,000	-	-	800,000	9,840	13,312	3,472	3.53	3.41	0.04
						<b>36,107</b>	<b>40,346</b>	<b>4,239</b>			
<b>CONSTRUCTION AND MATERIALS</b>											
Lucky Cement Limited	-	205,000	-	-	205,000	14,360	14,522	162	3.85	3.72	0.06
						<b>14,360</b>	<b>14,522</b>	<b>162</b>			
<b>GENERAL INDUSTRIALS</b>											
Packages Limited	74,624	-	-	-	74,624	8,792	8,209	(583)	2.17	2.10	0.09
						<b>8,792</b>	<b>8,209</b>	<b>(583)</b>			
<b>AUTOMOBILE AND PARTS</b>											
Pak Suzuki Motor Company Limited	85,000	-	-	85,000	-	-	-	-	-	-	-
						-	-	-			
						-	-	-			
<b>HOUSEHOLD GOODS</b>											
Pak Elektron Limited	627,570	-	-	36,092	591,478	11,868	3,921	(7,947)	1.04	1.00	0.49
						<b>11,868</b>	<b>3,921</b>	<b>(7,947)</b>			
<b>ELECTRICTY</b>											
The Hub Power Company Limited	316,500	-	-	316,500	-	-	-	-	-	-	-
Kot Addu Power Company Limited	541,470	-	-	-	541,470	25,991	23,072	(2,919)	6.11	5.91	0.06
						<b>25,991</b>	<b>23,072</b>	<b>(2,919)</b>			

**PAKISTAN CAPITAL MARKET FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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Name of the Investee company	Number of shares					Balance as at June 30, 2011			Market value as percentage of total investments	Market value as percentage of total net assets	Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 1, 2010	Purchased during the year	Bonus / Right Issue during the year	Sales during the year	As at June 30, 2011	Cost	Market value	Appreciation / (Dumunation)			

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

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

**BANKS**

Allied Bank Limited	310,384	-	31,038	-	341,422	18,332	21,899	3,567	5.80	5.61	0.04
						<u>18,332</u>	<u>21,899</u>	<u>3,567</u>			

**PHARMA AND BIO TECHNOLOGY**

Searl Pakistan Limited	-	176,495	-	176,495	-	-	-	-	-	-	-
						-	-	-			

Total as at June 30, 2011

180,879    191,444    10,565

Total as at June 30, 2010

193,883    191,078    (2,805)

5.2 Listed preference shares- ' Fair value through profit or loss'

Name of the Investee company	Number of shares					Balance as at June 30, 2011			Market value as percentage of total investments	Market value as percentage of total net assets	Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 1, 2010	Purchased during the year	Bonus / Right Issue during the year	Sales during the year	As at June 30, 2011	Cost	Market value	Appreciation / (Dumunation)			

-----Number of certificates-----

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

**PERSONAL GOODS**

Masood Textile Mills Limited	2,500,000	-	-	833,333	1,666,667	16,667	16,667	-	4.41	4.27	2.78
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Total as at June 30, 2011

16,667    16,667    -

Total as at June 30, 2010

25,000    25,000    -



**PAKISTAN CAPITAL MARKET FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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**5.4 Government securities - 'at fair value through profit or loss'**

Issue Date	Face value in denomination of Rs '000					Balance as at June 30, 2010			Market value as a percentage of total investment	Market value as a percentage of net assets
	Tenor	As at July 1, 2010	Purchases during the year	Sales / matured during the year	As at June 30, 2011	Cost	Market value	Appreciation / (Dumunation)		

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

**Market Treasury Bills**

May 20, 2010	3 Months	50,000	-	50,000	-	-	-	-	-	-
June 3, 2010	3 Months	20,000	-	20,000	-	-	-	-	-	-
June 17, 2010	3 Months	25,000	-	25,000	-	-	-	-	-	-
July 15, 2010	3 Months	-	15,000	15,000	-	-	-	-	-	-
August 13, 2010	3 Months	-	50,000	50,000	-	-	-	-	-	-
July 29, 2010	3 Months	-	10,000	10,000	-	-	-	-	-	-
August 27, 2009	12 Months	-	50,000	50,000	-	-	-	-	-	-
August 26, 2010	3 Months	-	80,000	80,000	-	-	-	-	-	-
September 9, 2010	3 Months	-	75,000	75,000	-	-	-	-	-	-
November 4, 2010	3 Months	-	25,000	25,000	-	-	-	-	-	-
November 16, 2010	3 Months	-	75,000	75,000	-	-	-	-	-	-
December 2, 2010	3 Months	-	75,000	75,000	-	-	-	-	-	-
February 24, 2011	3 Months	-	75,000	75,000	-	-	-	-	-	-
April 7, 2011	3 Months	-	20,000	20,000	-	-	-	-	-	-
June 2, 2011	3 Months	-	75,000	-	75,000	73,527	73,513	(14)	19.47	18.84
June 30, 2011	6 Months	-	25,000	-	25,000	23,530	23,528	(2)	6.23	6.03
<b>Total as at June 30, 2011</b>						<b>97,057</b>	<b>97,041</b>	<b>(16)</b>		
<b>Total as at June 30, 2010</b>						<b>93,414</b>	<b>93,381</b>	<b>(33)</b>		

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**5.5 Listed equity securities - 'available for sale'**

Name of the Investee company	Number of shares					Balance as at June 30, 2011			Market value as percentage of total investments	Market value as percentage of net assets	Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at July 1, 2010	Purchased during the year	Bonus / Right Issue during the year	Sales during the year	As at June 30, 2011	Cost less impairment	Market value	Appreciation / (Dumunation)			
<b>Shares of listed companies - Fully paid ordinary shares of Rs 10 each unless stated otherwise</b>						----- <b>(Rupees in '000)</b> -----					
<b>GENERAL INDUSTRIALS</b>											
Packages Limited	134,307	-	-	-	134,307	18,351	14,774	(3,577)	3.91	3.79	0.16
						<b>18,351</b>	<b>14,774</b>	<b>(3,577)</b>			
<b>AUTOMOBILE AND PARTS</b>											
Pak Suzuki Motors Company Limited	159,305	-	-	76,258	83,047	4,530	5,194	664	1.38	1.33	0.10
						<b>4,530</b>	<b>5,194</b>	<b>664</b>			
<b>FOOD PRODUCERS</b>											
Nestle Pakistan Limited	5,935	-	-	5,935	-	-	-	-	-	-	-
						<b>-</b>	<b>-</b>	<b>-</b>			
<b>PERSONAL GOODS</b>											
Kohinoor Mills Limited	361,484	-	-	-	361,484	1,142	380	(762)	0.10	0.10	0.71
Suraj Cotton Mills Limited	211,446	-	-	-	211,446	2,685	7,813	5,128	2.07	2.00	1.17
						<b>3,827</b>	<b>8,193</b>	<b>4,366</b>			
<b>Total as at June 30, 2011</b>						<b>26,708</b>	<b>28,161</b>	<b>1,453</b>			
<b>Total as at June 30, 2010</b>						<b>34,311</b>	<b>46,349</b>	<b>12,038</b>			

**5.6** Investments include quoted equity securities with market value of Rs 29,051,327 (2010: Rs 28,584,340) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular No. 11 dated October 23, 2007 issued by the Securities and Exchange Commission of Pakistan.

**PAKISTAN CAPITAL MARKET FUND**  
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5.7 Net unrealised diminution on remeasurement of investments classified as 'fair value through profit or loss' - net	Note	2011	2010
		(Rupees in '000)	
Market value of investments		349,460	356,972
Cost of investments		(339,185)	(361,570)
		<u>10,275</u>	<u>(4,598)</u>
Net unrealised diminution on remeasurement of investments at the beginning of the year		4,598	48,564
Provision against non performing debt securities		-	2,471
Realised on disposal during the year		6,431	(47,564)
		<u>11,029</u>	<u>3,471</u>
Reversal of provision against non-performing debt securities	5.3.1	(2,471)	-
		<u>18,833</u>	<u>(1,127)</u>
5.8 Net unrealised appreciation / (diminution) in value of investments classified as 'available-for-sale'			
Market value of investments		28,161	46,349
Cost less impairment		(26,708)	(34,311)
		<u>1,453</u>	<u>12,038</u>
Impairment loss on financial assets classified as 'available for sale' - transferred to income statement	5.9	654	615
Reversal during the year		<u>2,107</u>	<u>12,653</u>
Less: Net unrealised appreciation in fair value of investments at the beginning of the year		-	(26,098)
Realised on disposal		2,459	(13,445)
		<u>(8,087)</u>	<u>(13,445)</u>
5.9 As at June 30, 2011, the management has carried out a scrip wise analysis of impairment in respect of equity securities classified as available for sale and has determined that an impairment loss amounting to Rs. 0.654 million (2010:1.032 million) for the year ended June 30, 2011 be charged to the income statement.			
5.10 Movement in provision against debt securities	Note	2011	2010
		(Rupees in '000)	
Opening balance		2,471	-
Charge for the year		-	2,471
Reversals during the year	5.3.1	(2,471)	-
Closing balance		<u>-</u>	<u>2,471</u>
6. DIVIDEND AND PROFIT RECEIVABLE			
Dividend receivable		516	-
Profit accrued on bank deposits		84	155
Profit accrued on term finance certificates		1,729	1,649
Profit accrued on preference shares		2,544	3,649
		<u>4,873</u>	<u>5,453</u>
7. ADVANCES AND DEPOSITS			
Advance tax		342	342
Deposit with National Clearing Company of Pakistan Limited		2,625	2,625
Deposit with Central Depository Company of Pakistan Limited		300	300
		<u>3,267</u>	<u>3,267</u>

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**8. CONVERSION COST**

	2011	2010
	(Rupees in '000)	
Conversion cost at the beginning of the year	575	2,043
Less: amortisation during the year	575	1,468
	<u>-</u>	<u>575</u>

**9. PAYABLE TO THE MANAGEMENT COMPANY**

Management fee	<u>652</u>	<u>727</u>
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**9.1** Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund. The management company has charged remuneration at two percent per annum.

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

	Note	2011	2010
		(Rupees in '000)	
Trustee fee	10.1	<u>65</u>	<u>73</u>
		<u>65</u>	<u>73</u>

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

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2011 is as follows:

Amount of funds under management (average NAV)	Tariff per annum
Upto Rs 1,000 million	Rs 0.7 million or 0.20% per annum of NAV whichever is higher.
On an amount exceeding Rs 1,000 million	Rs 2 million plus 0.10% per annum of NAV exceeding Rs 1,000 million.

The remuneration is paid to the trustee monthly in arrears.

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

Under the provisions of the NBFC Regulations, a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the Fund.

**12. ACCRUED EXPENSES AND OTHER LIABILITIES**

	2011	2010
	(Rupees in '000)	
Brokerage payable	4	24
FED Payable	-	4
Auditor's remuneration payable	320	280
Credit rating fee	100	100
Legal and professional charges payable	55	60
Printing and related expenditure payable	330	300
Others	<u>125</u>	<u>21</u>
	<u>934</u>	<u>789</u>

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**13. CONTINGENCIES AND COMMITMENTS**

**13.1 CONTRIBUTION TO WORKERS WELFARE FUND**

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In light of this, Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party.

Subsequently, clarifications were issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. These clarifications were forwarded by the Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal.

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

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company believes that the Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company. The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs 3.671 million (including 0.852 million for the current year).

**13.2** There were no other contingencies and commitments outstanding as at June 30, 2011.

**14. AUDITOR'S REMUNERATION**

	2011	2010
	(Rupees in '000)	
Annual audit fee	250	225
Half yearly review	125	100
Other certifications and services	75	60
Out of pocket expenses	31	37
	<b>481</b>	<b>422</b>

**15. TAXATION**

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

**16. DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. The Board of directors of the Management Company has approved the category of the Fund as 'Balanced Fund'.

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In accordance with clause (iv) of the investment criteria laid down for 'Balanced scheme', the Fund is required to invest in debt securities having rating not lower than A- (A Minus). However, as at June 30, 2011, the Fund is in non-compliance with the above-mentioned requirement in respect of the following:

Name of non-compliant investment	Name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
Investment in debt securities*	Maple Leaf Cement Factory Limited - Term Finance Certificate	6,107	-	6,107	1.57%	1.55%
Investment in debt securities**	Maple Leaf Cement Factory Limited (31-3-2011) - Term Finance Certificate	263	-	263	0.07%	0.07%

\* At the time of purchase, the said Sukuk was in compliance of the said circular (i.e. investment grade) and was subsequently downgraded to Non-investment grade.

\*\* This was issued against outstanding markup receivable from Maple Leaf Cement Factory Limited against a restructuring agreement. Rated as non investment grade

**17. TRANSACTIONS WITH CONNECTED PERSONS**

Connected persons of the Fund include the Management Company (AMC), other collective investment schemes being managed by the Management Company, the Trustee, directors and key management personnel and other associated undertakings.

Performance fee payable to the Management Company is determined in accordance with the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and constitutive documents of the Fund.

Other transactions with connected persons are in the normal course of business and are carried out on agreed terms.

**17.1 Details of the transactions with connected persons are as follows:**

	2011	2010
	(Rupees in '000)	
<b>Management Company</b>		
Units redeemed Nil units (2010: 1,318,754 units)	-	11,961
Issue of Nil bonus units (2010: Nil units)	-	-
Remuneration for the year	8,611	10,388
Sales load for the year	39	18
<b>Arif Habib Investments Limited - Employee Provident Fund</b>		
Redemption of 225,629 units (2010: Nil units)	1,821	-
Bonus units issued : 65,629 (2010: Nil units)	464	-
<b>Summit Bank Limited ( Formerly Arif Habib Bank Limited)</b>		
Profit on bank deposits	24	5,669
<b>Other related parties</b>		
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration for the year	861	1,039
CDS charges for the year	11	19
CDS Induction Charges	68	68
<b>Directors and executives of the management company</b>		
Issue of 16,042 units (2010: 67,129 units)	118	670
Units redeemed 578,532 units (2010: 232,674 units)	4,635	2,356
Issue of 164,969 bonus units (2010: Nil units)	1,166	-

**PAKISTAN CAPITAL MARKET FUND  
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	2011	2010
	(Rupees in '000)	
<b>Arif Habib Limited - Brokerage house</b>		
Brokerage paid*	138	263
<b>Summit Capital Private Limited</b>		
Brokerage paid*	8	-

The amount disclosed represents the amount of brokerage paid to connected persons and not the purchase or sale value of securities transacted through them. The purchase or sale value has not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.

**17.2 Amounts outstanding as at the year end**

	June 30, 2011	June 30, 2010
	(Rupees in '000)	
<b>Management Company</b>		
Payable to the Management Company	652	727
<b>Directors and executives of the management company</b>		
Units held 4,662 units (2010: 402,183)	38	4,010
<b>Summit Bank Limited (Formerly Arif Habib Bank Limited)</b>		
Profit Receivable	-	131
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Security deposit	300	300
Payable to Central Depository Company of Pakistan Limited - Trustee	65	73

**18. PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER**

Details of members of investment committee of the Fund are as follows

		2011		
	Designation	Qualification	Experience in years	
1	Mr. Yasir Qadri	Chief Executive Officer	MBA	16
2	Mr. Kashif Rafi	Fund Manager - Fixed Income	MBA, CFA (Level 1)	10
3	Mr. Muhammad Asim	Fund Manager - Equity	MBA & CFA	8
4	Mr. Syed Akbar Ali	Senior Research Analyst	MBA & CFA	6
5	Mr. Mohsin Pervez	Senior Research Analyst	MBA	10

**18.1** Mr. Mohsin Pervez is the manager of the Fund. He is also the fund manager of Pakistan Strategic Allocation fund.

**19. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID**

		2011
1	Arif Habib Limited	23.77%
2	KASB Securities Limited	8.74%
3	Invest and Finance Securities Limited	8.17%
4	NAEL Capital (Private) Limited	7.48%
5	D.J.M. Securities(Private) Limited	7.40%
6	Aba Ali Habib Securities (Private) Limited	5.93%
7	Foundation Securities(Private) Limited	5.04%
8	First Capital Equities Limited	4.77%
9	Invisor Securities(Private) Limited	3.39%
10	Casim Investment (Private) Limited	3.03%

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		2010
1	Arif Habib Limited	23.00%
2	First Capital Equities Limited	13.66%
3	Invest Capital Investment Bank Limited	8.42%
4	JS Global Capital Limited	6.23%
5	H. H. Misbah Securities (Private) Limited	6.21%
6	Pearl Securities Limited	5.17%
7	Alfalsh Securities (Private) Limited	4.64%
8	KASB Securities Limited	3.21%
9	Ample Securities (Private) Limited	2.98%
10	BMA Capital Management Limited	2.93%

**20. PATTERN OF UNIT HOLDING**

June 30 2011			
	Number of Unit Holders	Investment Amount	Percentage of total investment
----- (Rupees in '000) -----			
Individuals	3,516	272,886	69.93
Bank / DFIs	8	78,480	20.11
Insurance companies	4	1,022	0.27
Non Banking Finance Companies	-	-	-
Retirement funds	8	19,359	4.96
Public Limited Companies	3	204	0.05
Others	33	18,267	4.68
	<u>3,572</u>	<u>390,218</u>	<u>100.00</u>

June 30 2010			
	Number of Unit Holders	Investment Amount	Percentage of total investment
----- (Rupees in '000) -----			
Individuals	3,804	291,046	65.47
Directors	1	-	-
Bank / DFIs	7	80,791	18.17
Insurance companies	4	897	0.20
Non Banking Finance Companies	2	81	0.02
Retirement funds	15	50,922	11.45
Others	45	20,810	4.68
	<u>3,878</u>	<u>444,547</u>	<u>100.00</u>

**21. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS**

The 74th, 75th, 76th, 77th, 78th, 79th, 80th, 81st, 82nd, 83rd, 84th, 85th, 86th, 87th and 88th Board meetings were held on July 5, 2010, August 3, 2010, August 4, 2010, October 22, 2010, October 25, 2010, November 12, 2010, December 20, 2010, December 30, 2010, February 17, 2011, February 19, 2011, April 16, 2011, April 21, 2011, April 23, 2011, June 15, 2011, June 27, 2011 respectively. Information in respect of attendance by Directors in the meetings is given below:

**PAKISTAN CAPITAL MARKET FUND  
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Name of persons attending the meeting	Number of Meetings			Meeting not attended
	Held	Attended	Leave Granted	
1 Mr. Shafi Malik*	15	15	-	-
2 Mr. Nasim Beg****	15	15	-	-
3 Mr. Sirajuddin Cassim*	15	4	11	74th to 83rd and 88th meeting
4 Mr. S. Gulrez Yazdani *	15	13	2	75th and 76th meeting
5 Mr. Muhammad Akmal Jameel*	15	15	-	-
6 Syed Ajaz Ahmed*	15	13	2	74th and 88th meeting
7 Mr. Muhammad Kashif Habib*	15	11	4	74th, 77th, 87th and 88th meeting
8 Mr. Samad A. Habib**	5	5	-	-
9 Mian Mohammad Mansha***	1	1	-	-
10 Mr. Yasir Qadri***	1	1	-	-
11 Syed Salman Ali Shah***	1	1	-	-
12 Mr. Haroun Rashid***	1	1	-	-
13 Mr. Ahmed Jahangir***	1	1	-	-
14 Mr. Mirza Mahmood Ahmad***	1	1	-	-

\* The above directors retired in the 88th meeting held on June 27,2011

\*\* Mr.Samad A.habib was appointed as director during the year in the extraordinary general meeting held on February 7,2011 and approved by SECP on March 31,2011

\*\*\* The above directors have been appointed in place of retiring directors in the 88th meeting held on June 27,2011

\*\*\*\* Mr. Nasim Beg has been appointed as Executive Vice Chairman during the year. Previously, he was working as Chief Executive Officer.

## 22. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

### 22.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

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

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

#### 22.1.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

#### 22.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates.

**PAKISTAN CAPITAL MARKET FUND  
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**a) Sensitivity analysis for variable rate instruments**

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2011, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 0.11 million (2010: Rs 0.116 million).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by the Financial Market Association of Pakistan is expected to change over time. Further, incase of variable rate instruments, the sensitivity has been done from the last repricing date. Accordingly, the sensitivity analysis prepared as of June 30, 2011 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

**b) Sensitivity analysis for fixed rate instruments**

As at June 30, 2011, the Fund holds Government securities which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Markets Association of Pakistan on June 30, 2011 with all other variables held constant, the net income for the year and net assets would be lower by Rs 0.21 million (2010: Rs 0.131 million). In case of 100 basis points decrease in rates announced by the Financial Markets Association of Pakistan on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be higher by Rs 0.21 million (2010:Rs 0.131 million).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by the Financial Market Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2011 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on the settlement date.

As at June 30, 2011						
Exposed to yield / interest rate risk					Not exposed to yield / interest rate risk	Total
Up to three months	More than three months and up to one year	More than one year				
------(Rupees in '000)-----						
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Balances with banks	5,752	-	-	3,520	9,272	
Investments	73,513	23,528	60,975	219,605	377,621	
Dividend and profit receivable	-	-	-	4,873	4,873	
Advances and deposits	-	-	-	2,925	2,925	
<b>Sub Total</b>	<b>79,265</b>	<b>23,528</b>	<b>60,975</b>	<b>230,923</b>	<b>394,691</b>	
<b>Financial liabilities</b>						
Payable on redemption of units	-	-	-	-	-	
Payable to the Management Company	-	-	-	652	652	
Payable to Central Depository Company of Pakistan Limited -Trustee	-	-	-	65	65	
Accrued expenses and other liabilities	-	-	-	934	934	
Dividend payable	-	-	-	2,798	2,798	
<b>Sub Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,449</b>	<b>4,449</b>	
<b>On-balance sheet gap</b>	<b>79,265</b>	<b>23,528</b>	<b>60,975</b>	<b>226,474</b>	<b>390,242</b>	
<b>Off-balance sheet financial instruments</b>						
<b>Off-balance sheet gap</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

**PAKISTAN CAPITAL MARKET FUND**  
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As at June 30, 2010					
	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	Total
	Up to three months	More than three months and up to one year	More than one year		
<b>On-balance sheet financial instruments</b>	------(Rupees in '000)-----				
<b>Financial assets</b>					
Balances with banks	33,754	-	-	3,176	36,930
Investments	93,381	-	72,513	237,427	403,321
Dividend and profit receivable	-	-	-	5,453	5,453
Advances and deposits	-	-	-	2,925	2,925
<b>Sub Total</b>	127,135	-	72,513	248,981	448,629
<b>Financial liabilities</b>					
Payable on redemption of units		-		141	141
Payable to the Management Company	-	-	-	727	727
Payable to Central Depository Company of Pakistan Limited -Trustee	-	-	-	73	73
Accrued expenses and other liabilities	-	-	-	789	789
Dividend payable	-	-	-	2,805	2,805
<b>Sub Total</b>	-	-	-	4,535	4,535
<b>On-balance sheet gap</b>	127,135	-	72,513	244,446	444,094
<b>Off-balance sheet financial instruments</b>					
<b>Off-balance sheet gap</b>	-	-	-	-	-

**22.1.3 Price Risk**

The Fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities as available for sale and at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks in accordance with the risk management guidelines adopted by the Management Company. The Fund's constitutive document / NBFC Regulations also limit individual equity securities to no more than 10% of net assets, or issued capital of the investee company and sector exposure limit to 25% of net assets.

In case of 5% increase in KSE 100 index on June 30, 2011, net income and net assets of the Fund would increase by Rs 12.205 million (2010: Rs 10.964 million) as a result of gains/losses on equity securities at fair value through profit or loss.

In case of 5% decrease in KSE 100 index on June 30, 2011, net income and net assets of the Fund would decrease by Rs 12.205 million (2010: Rs 10.918 million) as a result of gains/losses on equity securities at fair value through profit or loss.

The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index, having regard to the historical volatility of the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2011 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 100 index.

**PAKISTAN CAPITAL MARKET FUND  
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**22.2 Credit risk**

Credit risk represents the risk of loss if counter parties fail to perform as contracted. Credit risk arises from deposits with banks and financial institutions, and credit exposure arising as a result of dividends receivable on equity securities. For banks and financial institutions, credit ratings and other factors are evaluated. Credit risk on dividend receivable is minimal due to statutory protection. All transactions in listed securities are settled / paid for upon delivery using the National Clearing Company of Pakistan Limited. The risk of default is considered minimal due to inherent systematic measures taken therein. In addition, the internal risk management policies and investment guidelines (approved by the Board of Directors) require the Fund to invest in debt securities that have been rated as investment grade by a well known rating agency.

The analysis below summarises the credit rating quality of the Fund's financial assets as at June 30, 2011:

<b>Bank Balances by rating category</b>	<b>2011</b>
Allied Bank Limited	AA
Askari Bank Limited	AA
Bank Al Falah Limited	AA
Bank AL Habib Limited	AA+
Bank of Punjab	AA-
Deutsche Bank Limited	A+
Habib Bank Limited	AA+
Habib Metropolitan Bank Limited	AA+
MCB Bank Limited	AA+
Meezan Bank Limited	AA-
Standard Chartered Bank (Pakistan) Limited	AAA
Summit Bank Limited	A
United Bank Limited	AA+
	<b>2010</b>
Bank Al Habib Limited	AA+
Standard Chartered Bank (Pakistan) Limited	AAA
MCB Bank Limited	AA+
Allied Bank Limited	AA
Bank Alfalah Limited	AA
KASB Bank Limited	A
Bank of Punjab	AA-
Royal Bank of Scotland	AA
Arif Habib Bank Limited	A
Habib Metropolitan Bank Limited	AA+
Deutsche Bank AG	AA+
Askari Bank Limited	AA
Meezan Bank Limited	AA-
United Bank Limited	AA+
Habib Bank Limited	AA+

The analysis below summarises the credit quality of the Fund's investment in Term Finance Certificates as at June 30, 2011 and June 30, 2010:

<b>Term Finance Certificates by rating category</b>	<b>2011</b>	<b>2010</b>
	<b>(Rupees in '000)</b>	
AA	80.06%	71.95%
A	5.56%	15.37%
D	14.38%	12.68%

**PAKISTAN CAPITAL MARKET FUND  
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**22.2.1** The maximum exposure to credit risk before any credit enhancement as at June 30, 2011 is the carrying amount of the financial assets.

**22.2.2** A reconciliation of provision made during the year in respect of outstanding debt securities is given in note 5.10 to these financial statements.

**22.2.3** An analysis of the financial assets that are individually impaired as per the requirements of Circular No. 1 dated January 6, 2009 and Circular No. 13 dated May 4, 2009 issued by the Securities and Exchange Commission of Pakistan are as under:

	2011	2010
	(Rupees in '000)	
<b>Term Finance Certificates</b>	-	-
15 to 89	-	-
90 to 179	-	-
180 to 270	-	382
270 to 365	-	-
over 365	-	-

**Concentration of credit risk**

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

**22.3 Liquidity risk**

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligation in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions, if any, at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

For the purpose of making redemptions the Fund has the ability to borrow in the short term, however such need did not arise during the year. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

The Fund did not withhold any redemption requests during the year.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

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As at June 30, 2011			
Total	Upto three months	More than three months and upto one year	More than one year

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

**Liabilities**

Payable to the Management Company	652	652	-	-
Payable to Central Depository Company of Pakistan	65	65	-	-
Dividend payable	2,798	2,798	-	-
Accrued expenses and other liabilities	934	934	-	-
Payable on redemption of units	-	-	-	-
	<u>4,449</u>	<u>4,449</u>	<u>-</u>	<u>-</u>

As at June 30, 2010			
Total	Upto three months	More than three months and upto one year	More than one year

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

**Liabilities**

Payable to the Management Company	727	727	-	-
Payable to Central Depository Company of Pakistan	73	73	-	-
Dividend payable	2,805	2,805	-	-
Accrued expenses and other liabilities	789	789	-	-
Payable on redemption of units	141	141	-	-
	<u>4,535</u>	<u>4,535</u>	<u>-</u>	<u>-</u>

**22.4 Financial instruments by category**

-----As at June 30, 2011-----			
Loans and receivables	Assets 'as fair value through profit or loss'	Available for sale	Total

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

**Assets**

Balances with banks	9,272	-	-	9,272
Investments	-	349,460	28,161	377,621
Dividend and profit receivable	4,873	-	-	4,873
Deposits	2,925	-	-	2,925
	<u>17,070</u>	<u>349,460</u>	<u>28,161</u>	<u>394,691</u>

**PAKISTAN CAPITAL MARKET FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

-----As at June 30, 2011-----		
Liabilities 'as fair value through profit or loss'	Other financial liabilities	Total
------(Rupees in '000)-----		
Payable to the Management Company	652	652
Payable to Central Depository Company of Pakistan	65	65
Dividend payable	2,798	2,798
Accrued expenses and other liabilities	934	934
	<u>4,449</u>	<u>4,449</u>

**Liabilities**

Payable to the Management Company	-	652	652
Payable to Central Depository Company of Pakistan	-	65	65
Dividend payable	-	2,798	2,798
Accrued expenses and other liabilities	-	934	934
	-	<u>4,449</u>	<u>4,449</u>

-----As at June 30, 2010-----			
Loans and receivables	Assets 'as fair value through profit or loss'	Available for sale	Total
------(Rupees in '000)-----			
Balances with banks	-	-	36,930
Investments	356,972	46,349	403,321
Dividend and profit receivable	-	-	5,453
Deposits	-	-	2,925
	<u>356,972</u>	<u>46,349</u>	<u>448,629</u>

**Assets**

Balances with banks	36,930	-	-	36,930
Investments	-	356,972	46,349	403,321
Dividend and profit receivable	5,453	-	-	5,453
Deposits	2,925	-	-	2,925
	<u>45,308</u>	<u>356,972</u>	<u>46,349</u>	<u>448,629</u>

-----As at June 30, 2010-----		
Liabilities 'as fair value through profit or loss'	Other financial liabilities	Total
------(Rupees in '000)-----		
Payable to the Management Company	727	727
Remuneration Payable to the Trustee	73	73
Dividend payable	2,805	2,805
Accrued expenses and other liabilities	789	789
Payable on Redemption of Units	141	141
	<u>4,535</u>	<u>4,535</u>

**Liabilities**

Payable to the Management Company	-	727	727
Remuneration Payable to the Trustee	-	73	73
Dividend payable	-	2,805	2,805
Accrued expenses and other liabilities	-	789	789
Payable on Redemption of Units	-	141	141
	-	<u>4,535</u>	<u>4,535</u>

**22.5 Fair value of financial assets and liabilities**

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

Effective January 1, 2009, the Fund adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

**PAKISTAN CAPITAL MARKET FUND  
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- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

-----As at June 30, 2011-----			
Level 1	Level 2	Level 3	Total
------(Rupees in '000)-----			

**ASSETS**

Investment in securities - at fair value through profit or loss	<b>236,272</b>	<b>134,979</b>	<b>6,370</b>	<b>377,621</b>
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**23. CAPITAL RISK MANAGEMENT**

The Fund's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong capital base to meet unexpected losses or opportunities. In accordance with the NBFC Regulations the Fund is required to distribute at least ninety percent of its income from sources other than capital gain as reduced by such expenses as are chargeable to the Fund.

The Fund manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Fund may adjust the amount of dividend paid to shareholders or issue new shares.

In accordance with the risk management policies stated in note 22, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments.

The Fund is not subject to externally imposed capital requirements.

**24. NON - ADJUSTING EVENT AFTER THE REPORTING DATE**

The Board of Directors of the Management Company in its meeting held on July 4, 2011 proposed a final bonus distribution in respect of the year ended June 30, 2011 of Rs 0.5966 per unit (2010: Rs. 2.9 per unit) amounting to Rs. 28.89 million (2010: Rs 129.27 million). The financial statements for the year ended June 30, 2011 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2012.

**25. CORRESPONDING FIGURES**

No significant rearrangements or reclassification were made to corresponding figures in these financial statements.

**26. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on September 20, 2011 by the Board of Directors of the Management Company.

**27. GENERAL**

Figures have been rounded off to the nearest thousand rupees.

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

Chief Executive

Director

**PAKISTAN CAPITAL MARKET FUND  
PATTERN OF HOLDING AS PER REQUIREMENT OF  
CODE OF CORPORATE GOVERNANCE  
AS AT JUNE 30, 2011**

Category	No. of Unit Holders	Units
<b>Associated Company, Undertakings, and Related Parties</b>		
Arif Habib Investments Limited		
Summit Bank Limited		
	-	-
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarbas and Mutual Funds.</b>	12	9,866,819
<b>Trust</b>	8	2,402,638
<b>Corporate</b>	3	25,331
<b>Individuals</b>	3,516	33,867,698
<b>Others</b>	33	2,267,039
	<u>3,572</u>	<u>48,429,525</u>

**PAKISTAN CAPITAL MARKET FUND  
PATTERN OF UNIT HOLDING (SIZE)  
AS AT JUNE 30, 2011**

No. of Unit Holders	Units Holdings	Total Units Held
2,824	1 - 10000	6,927,850
685	10001 - 100000	16,937,521
62	100001 - 1000000	14,904,922
1	1000001 - onwards	9,659,232
<u>3,572</u>		<u>48,429,525.03</u>

## PAKISTAN CAPITAL MARKET FUND PERFORMANCE TABLE

	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004
------(Rupees in '000)-----								
Net Assets	390,218	444,548	548,937	835,029	1,084,197	1,435,651	1,698,167	1,618,903
Net Income	42,625	140,941	(153,427)	86,943	108,929	392,053	525,758	126,354
Net Asset Value per Unit	8.06	9.97	8.28	10.85	14.59	14.53	13.08	9.97
Dividend distribution - interim (%)	-	-	-	-	-	-	12.50	-
Dividend distribution - final (%)	6.00	29.00	-	3.00	30.00	30.00	17.50	8.25
------(Rupees)-----								
Closing selling price per unit	8.22	10.17	8.45	11.30	14.96	14.90		
Highest selling price per unit	8.47	10.80	10.81	13.35	14.98	6.92		
Lowest selling price per unit	7.26	8.69	7.14	10.78	11.31	12.44		
Closing repurchase price per unit	8.06	9.97	8.28	10.85	14.59	14.53		
Highest repurchase price per unit	8.22	10.58	10.38	13.02	14.61	16.50		
Lowest repurchase price per unit	7.04	8.52	7.00	10.35	11.03	12.13		
Dividend distribution - Final		2.90	-	0.30	3.00	3.00		
<b>Announcement Date of Distribution</b>								
Final	July 4, 2011	July 5, 2010	-	July 3, 2008	July 4, 2007	July 4, 2006		
<b>Percentage</b>								
Total return of the Fund	13.97	20.41	(21.52)	(6.38)	26.54	28.24		
Income Distribution	8.44	35.02	-	2.59	26.02	26.48		
Capital growth	5.53	(14.61)	(21.52)	(8.97)	0.52	1.77		
Average return of the fund								
One Year	13.97	20.41	(21.52)	(6.38)	26.54	28.24		
Two Year	37.30	(2.79)	(14.27)	8.84	26.84	34.64		
Three Year	7.70	(4.00)	(2.40)	14.63	31.88	-		

### Disclaimer

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