

**PAKISTAN
CAPITAL MARKET FUND**

CONTENTS

Fund's Information	247
Report of the Directors of the Management Company	248
Trustee Report to the Unit Holders	250
Independent Auditors' Report on Review of Condensed Interim Financial Information	251
Condensed Interim Statement of Assets and Liabilities	252
Condensed Interim Income Statement (Un-audited)	253
Condensed Interim Distribution Statement (Un-audited)	254
Condensed Interim Statement of Movement in Unit Holders' Funds (Un-audited)	255
Condensed Interim Cash Flow Statement (Un-audited)	256
Notes to and forming part of the Condensed Interim Financial Information (Un-audited)	257

FUND'S INFORMATION

Management Company	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors of the Management Company	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
Chief Financial Officer & Company Secretary 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	MCB Bank Limited Allied Bank Limited Bank Al-Habib Limited Bank Alfalah Limited Habib Metropolitan Bank Limited Standard Chartered Bank Limited (Pakistan) The Bank of Punjab	
Auditors	A.F. Ferguson & Co. Chartered Accountants State Life Building No.1-C, I.I. Chundrigar Road, Karachi-74000	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	Arif Habib Investments Limited 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.	
Rating	AM2 (Positive Outlook) Management Quality Rating assigned by PACRA	

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

Dear Investor,

On behalf of the Board of Directors, I am pleased to present **Pakistan Capital Market Fund's** accounts review for the first half ended December 31, 2011.

ECONOMY AND MONEY MARKET OVERVIEW

On the macroeconomic front, inflationary pressures have remained largely on the lower side during the period with YoY CPI inflation averaging 10.9% amid change in CPI methodology as well as high base-effect of last year. External account, however, has started deteriorating significantly with 1H FY12 current account balance posting a sizeable deficit of US\$ 2.2 billion amid higher trade deficit despite record remittances flows. On the fiscal side, the government posted a budget deficit of 1.2% of GDP during 1Q FY12 with its entire funding coming from the domestic sources. Non-realization of official flows is not only hurting the BOP position, it would continue to affect the funding profile of fiscal deficit - which would have its implications on the monetary mechanism as well as exchange rate. Citing some improvements in key macro variables, the SBP decided to ease its monetary stance by lowering its policy discount rate cumulatively by 200 bps to 12.0% during early part of the period. Significant deterioration in macroeconomic balances, however, has compelled them to keep DR unchanged during the latter part.

In the money market, short term market rates remained on the higher side amid tight liquidity scenario in the system. Due to sizeable depletion in net foreign assets (NFA) of the banking system, market liquidity remained largely tight almost throughout the period - compelling the SBP to constantly inject significant amount of money in the system through OMOs in order to calm down the market.

EQUITIES MARKET OVERVIEW

Bearish trend continued at the local bourses with the KSE-100 index went down by 9.2% during the period under review with abysmally low volumes. Attractive valuations were marred by the dearth of liquidity, extremely volatile global markets and fragile domestic economic and geo-political conditions. Deteriorating macroeconomic balances coupled with rising tension in the political arena restrained local investors from taking counter positions against foreigners, which remained net seller during the period with a net FIPI outflow of over US\$ 151 million. Even a cumulative reduction in DR of 200 bps by the SBP during early part of the period failed to generate strong momentum among equity investors due to fear of aggressive sell off by foreign investors as well as lack of clarity on political and macro fronts. Sector-wise, Chemicals and Oil & Gas sectors remained centre of major activity although interest was also seen in few other stocks related to various sectors based on their respective fundamentals and valuations.

FUND PERFORMANCE

During the period under review, the fund delivered a return of -6.0% as against its benchmark return of -2.3%, an underperformance of 3.7%. On the equities front, the overall allocation increased during the period to 63.3% from 55.6% at the beginning. The fund increased its exposure mainly in Banks, Chemical and Electricity sectors, while exposure was reduced in Personal Goods sector.

On the fixed income side, the fund built its exposure towards GoP Ijarah Sukuk to 11.7% by half-end to take advantage of potentially higher capital gains as well as attractive yields. The fund, on the other hand, has sold its entire Treasury Bills exposure during the period, while maintaining its exposure in TFCs to around 12% during the period under review.

FUTURE OUTLOOK

Despite continued improvement on inflation front, fragile external and fiscal accounts would continue to keep a check on the SBP's future monetary direction. We continue to flag realization of foreign flows as the single most important variable especially in the backdrop of sustained oil prices, downward trend in cotton prices and debt repayments including IMF. In our opinion, the absence of foreign flows and government's greater reliance on domestic sources for fiscal funding could result in rebound of inflation and interest rates going forward.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

Although the external environment may remain challenging in the near term, the stock market may find support from the December earnings season with a focus on dividend laden results including Banking, Electricity and Chemicals Sectors and could redraw attention to the fundamental strength in the listed companies. Strong earnings growth, high dividend yield and relatively cheaper valuations offer decent returns for long term investors in our opinion.

ACKNOWLEDGMENT

The Board is thankful to the Fund's valued investors, the Securities and Exchange Commission of Pakistan and the Trustees of the Fund for their continued cooperation and support. The Directors also appreciate the efforts put in by the management team.

On behalf of Directors,

Yasir Qadri
Chief Executive Officer
Dated: January 27, 2012

TRUSTEE REPORT TO THE UNIT HOLDERS

Report of the Trustee pursuant to Regulation 41(h) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We Central Depository Company of Pakistan Limited, being the Trustee of Pakistan Capital Market Fund (the Fund) are of the opinion that Arif Habib Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the six months period ended December 31, 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: February 24, 2012

INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **Pakistan Capital Market Fund** as at December 31, 2011 and the related condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement together with the notes forming part thereof (here-in-after referred to as the 'condensed interim financial information'), for the half year ended December 31, 2011. The Management Company (Arif Habib Investments Limited) is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement for the quarters ended December 31, 2011 and December 31, 2010 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2011.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2011 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Emphasis of matter paragraph

We draw attention to note 7.1 to the condensed interim financial information which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers' Welfare Fund which litigation is currently pending adjudication at the Honorable High Court of Sindh. Our conclusion is not qualified in respect of this matter.

Chartered Accountants
Dated: January 27, 2012
Karachi

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT 31 DECEMBER 2011

		Un-Audited December 31, 2011 -----Rupees in '000-----	Audited June 30, 2011
ASSETS	Note		
Balances with banks		31,046	9,272
Investments	4	308,434	377,621
Dividend and profit receivable		3,281	4,873
Advances, deposits and prepayments		3,312	3,267
Total assets		<u>346,073</u>	<u>395,033</u>
LIABILITIES			
Payable to the Management Company		669	652
Payable to the Trustee		58	65
Annual fee payable to the Securities and Exchange Commission of Pakistan		155	366
Payable against purchase of investments		9,382	-
Dividend payable		2,798	2,798
Accrued expenses and other liabilities		990	934
Total liabilities		<u>14,052</u>	<u>4,815</u>
 NET ASSETS		 <u>332,021</u>	 <u>390,218</u>
 Unit holders' funds (as per statement attached)		 <u>332,021</u>	 <u>390,218</u>
CONTINGENCIES AND COMMITMENTS	6		
		-----Number of units-----	
Number of units in issue		<u>47,407,096</u>	<u>48,429,525</u>
		-----Rupees-----	
NET ASSET VALUE PER UNIT	3.4	<u>7.00</u>	<u>8.06</u>

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM INCOME STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

		Half year ended		Quarter ended	
		December 31,		December 31,	
		2011	2010	2011	2010
Note		-----Rupees in '000-----		-----Rupees in '000-----	
INCOME					
Capital gain / (loss) on sale of investments - net		(8,108)	13,637	(8,458)	(22)
Dividend income		9,911	5,630	7,074	4,115
Income from government securities		3,414	10,004	1,440	5,591
Income from term finance certificates		3,274	3,475	1,796	1,929
Profit on bank deposits		1,112	810	506	359
Income from preference shares		749	1,253	331	604
Other income		59	-	59	-
		10,411	34,809	2,748	12,576
Net unrealised (diminution) / appreciation on remeasurement of investments classified as financial assets 'at fair value through profit or loss'	4.6	(23,562)	20,759	(26,254)	20,838
Impairment loss on equity investments classified as 'available-for-sale'		-	(2,498)	-	-
(Provision) / reversal of provision against non-performing debt securities	4.8	(704)	2,471	(703)	-
Total income		(13,855)	55,541	(24,209)	33,414
OPERATING EXPENSES					
Remuneration of the Management Company		3,654	4,458	1,775	2,221
Sindh sales tax on remuneration of the Management Company	5	585	-	284	-
Remuneration of the Trustee		365	446	177	222
Annual fee - Securities and Exchange Commission of Pakistan		155	189	75	94
Securities transaction cost		997	615	571	239
Bank charges		47	40	36	27
Fees and subscriptions		96	129	48	64
Legal and professional charges		30	30	15	15
Auditors' remuneration		295	247	152	117
Printing and related costs		535	199	447	111
Amortisation of conversion costs		-	575	-	205
Total operating expenses		6,759	6,928	3,580	3,315
Net (loss) / income from operating activities		(20,614)	48,613	(27,789)	30,099
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net		685	(41,452)	289	8,647
Net (loss) / income for the period before taxation		(19,929)	7,161	(27,500)	38,746
Taxation	7	-	-	-	-
Net (loss) / income for the period after taxation		(19,929)	7,161	(27,500)	38,746
Other comprehensive income / (loss) for the period					
Net unrealised (diminution)/appreciation in fair value / Reclassification adjustment for net gains realised on disposal of investments classified as 'available-for-sale'	4.7	(1,453)	(4,105)	5,065	3,896
Total comprehensive (loss) / income for the period		(21,382)	3,056	(22,435)	42,642
Earnings / (loss) per unit	3.5				
The annexed notes 1 to 12 form an integral part of this condensed interim financial information.					

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

	Half year ended December 31,		Quarter ended December 31,	
	2011	2010	2011	2010
	----Rupees in '000----		----Rupees in '000----	
Accumulated loss brought forward	(98,639)	(13,869)	(121,855)	(171,366)
Final distribution for the year ended June 30, 2011:				
Rs 0.5966 (2010: Rs 2.90) per unit (Date of distribution: July 4, 2011)				
- Bonus distribution	(28,893)	(129,272)	-	-
	(28,893)	(129,272)	-	-
Net (loss) / income for the period after taxation	(19,929)	7,161	(27,500)	38,746
Element of (loss) / income and capital gains / (losses) included in prices of units issued less those in units redeemed	2,301	3,034	4,195	(326)
	(17,628)	10,195	(23,305)	38,420
Accumulated loss carried forward	(145,160)	(132,946)	(145,160)	(132,946)

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

	Half year ended December 31,		Quarter ended December 31,	
	2011	2010	2011	2010
	-----Rupees in '000-----		-----Rupees in '000-----	
Net assets at the beginning of the period	390,218	444,548	367,527	437,924
Issue of 87,122 units (2010: 364,123 units) and 87,122 units (2010: 41,402 units) for the half year and quarter respectively	637	2,665	637	312
Redemption of 4,982,615 units (2010: 6,064,935 units) and 1,812,082 units (2010: 3,344,956 units) for the half year and quarter respectively	(36,767)	(44,517)	(13,419)	(25,027)
	(36,130)	(41,852)	(12,782)	(24,715)
Issue of 3,873,064 bonus units (2010: 18,284,691 units)	28,893	129,272	-	-
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net				
- amount representing (income) / loss and capital (gains) / losses - transferred to income statement	(685)	41,452	(289)	(8,647)
- amount representing (income) / loss that forms part of unit holders' fund - transferred to distribution statement	(2,301)	(3,034)	(407)	326
	(2,986)	38,418	(696)	(8,321)
Net unrealised (diminution)/appreciation in fair value / Reclassification adjustment for net gains realised on disposal of investments classified as 'available-for-sale'	(1,453)	(4,105)	5,065	3,896
Capital gain / (loss) on sale of investments - net	(8,108)	13,637	(8,458)	(22)
Net unrealised (diminution) / appreciation in fair value of investments classified as financial assets 'at fair value through profit or loss'	(23,562)	20,759	(26,258)	20,838
(Provision) / reversal of provision against non-performing debt securities	(704)	-	(703)	-
Other income (net of expenses)	12,445	(27,235)	7,919	17,930
	(19,929)	7,161	(27,500)	38,746
Element of (loss) / income and capital (losses) /gains included in prices of units issued less those in units redeemed - amount representing income / (loss) and capital gains / (losses) transferred to distribution statement	2,301	3,034	407	(326)
Distributions:				
Final distribution for the year ended June 30, 2011: Rs 0.5966 (2010: Rs 2.90) per unit (Date of distribution : July 4, 2011)				
- Bonus distribution	(28,893)	(129,272)	-	-
Net assets as at the end of the period	332,021	447,204	332,021	447,204

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

	Half year ended December 31,		Quarter ended December 31,	
	2011	2010	2011	2010
	-----Rupees in '000-----		-----Rupees in '000-----	
CASH FLOWS FROM OPERATING ACTIVITIES				
Net (loss) / income for the period before taxation	(19,929)	7,161	(27,500)	38,746
Adjustments:				
Amortisation of conversion costs	-	575	-	205
Net unrealised (diminution) / appreciation on remeasurement of investments classified as financial assets 'at fair value through profit or loss'	23,562	(20,759)	26,254	(20,838)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net	(685)	41,452	(289)	(8,647)
Dividend income	(9,911)	(5,630)	(7,074)	(4,115)
Impairment loss on equity investments classified as 'available-for-sale'	-	2,498	-	-
(Provision) / reversal of provision against non-performing debt securities	704	(2,471)	703	-
	(6,259)	22,826	(7,906)	5,351
Decrease / (increase) in assets				
Receivable against issue of units	-	(110)	-	(110)
Investments - net	43,468	(11,280)	(20,401)	15,300
Dividend and profit receivable	1,592	2,373	3,541	2,039
Advances, deposits and prepayments	(45)	(78)	(57)	10
	45,015	(9,095)	(16,917)	17,239
Increase / (decrease) in liabilities				
Payable to the Management Company	17	23	(33)	28
Payable to the Trustee	(7)	2	(3)	3
Annual fee payable to the Securities and Exchange Commission of Pakistan	(211)	(274)	75	94
Payable against purchase of investments	9,382	-	1,516	(2,400)
Payable against redemption of units	-	641	-	732
Accrued expenses and other liabilities	56	(47)	(3,033)	(1,296)
	9,237	345	(1,478)	(2,839)
Dividend income received	9,911	5,630	7,948	5,068
Net cash inflow / (outflow) from operating activities	57,904	19,706	(18,353)	24,819
CASH FLOW FROM FINANCING ACTIVITIES				
Net payments against redemption of units	(36,130)	(41,852)	(12,782)	(24,715)
Distributions during the period	-	(7)	-	(7)
Net cash outflow on financing activities	(36,130)	(41,859)	(12,782)	(24,722)
Net increase / (decrease) in cash and cash equivalents during the period	21,774	(22,153)	(31,135)	97
Cash and cash equivalents at the beginning of the period	9,272	36,930	62,181	14,680
Cash and cash equivalents as at the end of the period	31,046	14,777	31,046	14,777

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2011

1 LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Capital Market Fund (the Fund) was established under a trust deed executed between Arif Habib Investments Limited ("the Management Company", "AHIL") and Central Depository Company of Pakistan Limited (CDC) as Trustee on October 27, 2003. The Investment Adviser of the Fund 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 the Fund 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 Non-Banking Finance Companies (Establishment and Regulation) Rules 2003 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 June 27, 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 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 July 30, 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHIL/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 a Balanced Scheme' as per the criteria laid down by the Securities and Exchange Commission of Pakistan for categorization of Collective Investment Schemes (CISs). 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 (PACRA) has assigned asset management rating of 'AM2 (Positive outlook)' and '2 Star / 3 Star' to the Management Company and the Fund respectively.

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

2 BASIS OF PREPARATION

2.1 Statement of compliance

This condensed interim financial information has been prepared in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. Approved accounting standards comprise of International Accounting Standard (IAS) 34: 'Interim Financial Reporting', the Trust Deed, Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules), Non Banking Finance Companies and Notified Entities Regulations 2008 (NBFC Regulations) and the directives issued by the 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 IAS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.2 This condensed interim financial information does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual published financial statements of the Fund for the year ended June 30, 2011.

2.3 This condensed interim financial information is unaudited. However, a limited scope review has been performed by the external auditors in accordance with the requirements of the Code of Corporate Governance. Accordingly, the Board of Directors of the Management Company declare that this condensed interim financial information gives a true and fair view of the state of affairs of the Fund.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied for the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual published financial statements of the Fund for the year ended June 30, 2011.

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

During the period the Fund has revised the methodology for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised methodology, element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed to the extent that it is represented by income earned during the year is recognised in income statement and 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 included in the distribution statement. Previously, the element of income / (loss) and capital gains (losses) pertaining to unrealised gains / (losses) on investments classified as 'available for sale' was being recognised in the distribution statement and the remaining amount was included in the income statement.

The revised methodology, in the opinion of the management, would ensure that continuing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund.

3.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current period:

The following new standards and amendments to existing standards are mandatory for the first time for the financial year beginning July 1, 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 adoption of the revised standard did not have any impact on the Fund's condensed interim financial information.

IFRS 7 (amendment) 'Financial instruments: Disclosures'. This amendment was a part of the IASB's annual improvement project published in May 2010. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The management is in the process of assessing the impact of this amendment on the Fund's condensed interim financial information.

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the period and are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or did not have any significant effect on the Fund's operations and are, therefore, not disclosed in this condensed interim financial information.

3.3 Standards, interpretations and amendments to published approved accounting standards, as adopted in Pakistan, that are not yet effective:

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 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 this condensed interim financial information.

3.4 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 issue at the period / year end.

3.5 Earnings / (loss) per unit

Earnings / (loss) per unit has not been disclosed as, in the opinion of the management, determination of cumulative weighted average number of outstanding units for calculating earnings / (loss) per unit is not practicable.

4 INVESTMENTS

Financial assets 'at fair value through profit or loss'

- Listed equity securities
- Listed preference shares
- Term Finance Certificates and Sukuk bonds - listed
- Government securities

Available for sale

- Listed equity securities

Note	Un-Audited December 31, 2011	Audited June 30, 2011
	----- Rupees in '000 -----	
4.1	219,116	191,444
4.2	8,333	16,667
4.3	40,585	44,308
4.4	40,400	97,041
	<u>308,434</u>	<u>349,460</u>
4.5	-	28,161
	<u>308,434</u>	<u>377,621</u>

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

Name of the Investee company	As at July 1, 2011	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at December 31, 2011	Balance as at December 31, 2011			Market value as percentage of 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
						Carrying Value	Market value	Appreciation / (Diminution)			
-----Number of shares-----						-----Rupees in '000-----					
SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs 10 each unless stated otherwise											
OIL AND GAS											
Attock Petroleum Limited	-	28,549		3,750	24,799	9,665	10,230	565	3.32	3.08	0.03
Attock Refinery Limited	-	25,000		25,000	-	-	-	-	0.00	0.00	0.00
Pakistan Oilfields Limited	78,569	5,000		30,000	53,569	19,206	18,559	(647)	6.02	5.59	0.02
Pakistan Petroleum Limited	103,200	20,000	8,320	20,000	111,520	20,625	18,771	(1,854)	6.09	5.65	0.01
Pakistan State Oil Company Limited	113,000	-		25,000	88,000	23,283	19,994	(3,289)	6.48	6.02	0.05
						72,779	67,554	(5,225)			
CHEMICALS											
Engro Corporation Limited	165,600	250,500		295,000	121,100	13,752	11,226	(2,526)	3.64	3.38	0.03
Fauji Fertilizer Company Limited	-	491,247	-	273,467	217,780	34,956	32,567	(2,389)	10.56	9.81	0.03
Fatima Fertilizer Company Limited	800,000	550,000	-	1,150,000	200,000	4,577	4,584	7	1.49	1.38	0.01
						53,285	48,377	(4,908)			
CONSTRUCTION AND MATERIALS											
Lucky Cement Limited	205,000	25,000	-	100,000	130,000	9,252	9,755	503	3.16	2.94	0.04
						9,252	9,755	503			
GENERAL INDUSTRIALS											
Packages Limited	74,624	-	-	74,624	-	-	-	-	0.00	0.00	0.00
						-	-	-			
FOOD PRODUCERS											
Engro Foods Limited	-	25,000	-	15,000	10,000	250	226	(24)	0.07	0.07	0.00
						250	226	(24)			
HOUSEHOLD GOODS											
Pak Elektron Limited	591,478	-	-	108,702	482,776	3,201	1,685	(1,516)	0.55	0.51	0.40
						3,201	1,685	(1,516)			
PERSONAL GOODS											
Nishat Mills Limited	-	100,000	-	-	100,000	3,903	4,045	142	1.31	1.22	0.03
						3,903	4,045	142			
FIXED LINE TELECOMMUNICATION											
Pakistan Telecommunication Company Limited "A"	-	963,226	-	-	963,226	11,379	10,008	(1,371)	3.24	3.01	0.03
						11,379	10,008	(1,371)			
ELECTRICITY											
The Hub Power Company Limited	-	1,071,825	-	96,164	975,661	39,401	33,368	(6,033)	10.82	10.05	0.08
Kot Addu Power Company Limited	541,470	200,000	-	275,000	466,470	21,030	19,274	(1,756)	6.25	5.81	0.05
Nishat Chunian Power Limited	-	13,000	-	-	13,000	181	166	(15)	0.05	0.05	0.00
Nishat Power Limited	-	176,967	-	-	176,967	2,638	2,292	(346)	0.74	0.69	0.05
Pakgen Power Limited	-	50,000	-	50,000	-	-	-	-	0.00	0.00	0.00
						63,250	55,100	(8,150)			
BANKS											
Allied Bank Limited	341,422	-	-	150,000	191,422	12,278	10,312	(1,966)	3.34	3.11	0.02
MCB Bank Limited	-	37,532	-	12,000	25,532	3,739	3,437	(302)	1.11	1.04	0.00
Meezan Bank Limited	-	384,593	-	-	384,593	6,751	6,684	(67)	2.17	2.01	0.05
National Bank of Pakistan Limited	-	395,000	-	369,871	25,129	1,143	1,031	(112)	0.33	0.31	0.00
United Bank Limited	-	16,783	-	-	16,783	956	879	(77)	0.28	0.26	0.00
						24,867	22,343	(2,524)			
NON LIFE INSURANCE											
Adamjee Insurance Company Limite	-	500	-	-	500	26	23	(3)	0.01	0.01	0.00
						26	23	(3)			
Total as at December 31, 2011						242,192	219,116	(23,076)			
Total as at June 30, 2011						181,099	191,444	10,345			

4.1.1 Investments include listed equity securities with market value of Rs 22,500,315 (June 30, 2011: Rs 29,051,327) 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 SECP.

4.2 Listed preference shares - 'at fair value through profit or loss'

Name of the investee company	As at July 1, 2011	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at December 31, 2011	Balance as at December 31, 2011			Market value as percentage of 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
						Carrying Value	Market value	Appreciation / (diminution)			
-----Number of shares-----						-----Rupees in '000-----					

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

PERSONAL GOODS

Masood Textile Mills Limited	1,666,667	-	-	833,333	833,334	8,333	8,333	-	2.70	2.51	1.39
Total as at December 31, 2011						<u>8,333</u>	<u>8,333</u>	<u>-</u>			
Total as at June 30, 2011						<u>16,667</u>	<u>16,667</u>	<u>-</u>			

4.3 Term Finance Certificates - 'at fair value through profit or loss'

Name of the investee company	Issue date	As at July 1, 2011	Purchases during the period	Sales / matured during the period	As at December 31, 2011	Balance as at December 31, 2011			---- Market Value ----		Percentage in relation to the size of issue
						Carrying Value	Market value	Appreciation / (diminution)	As a percentage of total investments	As a percentage of net assets	
-----Number of certificates-----						-----Rupees in '000-----					
Worldcall Telecom Limited I	28-Nov-06	3,000	-	3,000	-	-	-	-	0.00	0.00	0.00
United Bank Limited III	8-Sep-06	7,020	-	-	7,020	35,466	34,916	(550)	11.32	10.52	1.75
Maple Leaf Cement Factory Limited (refer Note 4.3.1)	3-Dec-07	2,000	-	-	2,000	6,104	6,110	6	1.98	1.84	0.12
Maple Leaf Cement Factory Limited	31-Mar-10	75	-	-	75	263	263	-	0.09	0.08	0.22
						41,833	41,289	(544)			
Provision against non - performing exposure (note 4.3.1)						(704)	(704)	-			
Total as at December 31, 2011						41,129	40,585	(544)			
Total as at June 30, 2011						44,582	44,308	(274)			

4.3.1 During the period, Maple Leaf Cement Factory Limited has been classified as a non - performing debt security in accordance with Circular no. 1 of 2009 and Circular no. 3 of 2010 issued by the Securities and Exchange Commission of Pakistan. Accordingly a provision amounting to Rs 0.704 million has been made during the period.

4.4 Government securities - 'at fair value through profit or loss'

Particulars	Face value					Balance as at December 31, 2011			Market value as a percentage of total investments	Market value as a percentage of net assets
	As at July 1, 2011	Purchases during the period	Sales during the period	Matured during the period	Balance as at December 31, 2011	Carrying Value	Market value	Appreciation / (Diminution)		
-----Rupees in '000-----										
Market Treasury Bills										
Treasury Bill - 3 Months	75,000	20,000	75,000	20,000	-	-	-	-	-	-
Treasury Bill - 6 Months	25,000	35,000	60,000		-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>		
Government of Pakistan Ijara Sukuk										
GOP Ijara Sukuk - 3 years	-	50,000	10,000	-	40,000	40,400	40,400	-	13	12
						<u>40,400</u>	<u>40,400</u>	<u>-</u>		
Total as at December 31, 2011						<u>40,400</u>	<u>40,400</u>	<u>-</u>		
Total as at June 30, 2011						<u>97,057</u>	<u>97,041</u>	<u>(16)</u>		

4.4.1 The above sukuk have been carried at cost by the Fund as in the opinion of the management, there is no external source available for their accurate valuation. Financial Markets Association of Pakistan (FMAP) is currently developing a mechanism for revaluation of these sukuk. Once developed, this mechanism will be forwarded to the Securities and Exchange Commission of Pakistan (SECP) and State Bank of Pakistan (SBP) for their consideration. Mutual Funds Association of Pakistan (MUFAP) has also informed the SECP that the mechanism of pricing of these sukuk is currently being studied by MUFAP and has requested SECP to allow status quo to the Funds in valuation of these securities.

4.5 Listed equity securities - 'available for sale'

Name of the Investee company	As at July 1, 2011	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at December 31, 2011	Balance as at December 31, 2011			Market value as percentage of 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
						Cost less impairment	Market value	Appreciation / (Diminution)			
-----Number of shares-----						----- Rupees in '000 -----					

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

GENERAL INDUSTRIALS

Packages Limited	134,307	-	-	134,307	-	-	-	-	-	-	-
						-	-	-			

AUTOMOBILE AND PARTS

Pak Suzuki Motors Company Limi	83,047	-	-	83,047	-	-	-	-	-	-	-
						-	-	-			

PERSONAL GOODS

Kohinoor Mills Limited	361,484	-	-	361,484	-	-	-	-	-	-	-
Suraj Cotton Mills Limited	211,446	-	-	211,466	-	-	-	-	-	-	-
						-	-	-			

Total as at December 31, 2011

Total as at June 30, 2011

26,708 28,161 1,453

	Un-Audited December 31, 2011	Audited June 30, 2011
	-----Rupees in '000-----	
4.6 Net unrealised (diminution) / appreciation on remeasurement of investments classified as financial assets 'at fair value through profit or loss'		
Market value of investments	308,434	349,460
Carrying value of investments	(332,054)	(339,185)
	(23,620)	10,275
Reversal of unrealised loss on redemption of Worldcall Telecom Limited I	58	-
	(23,562)	10,275
4.7 Net unrealised appreciation / (diminution) in value of investments classified as 'available-for-sale'		
Market value of investments	-	28,161
Cost less impairment	-	(26,708)
	-	1,453
4.8 Movement in provision against non - performing debt securities		
Opening balance	-	-
Charge for the year	704	-
Closing balance	704	-

5 SINDH SALES TAX ON REMUNERATION OF THE MANAGEMENT COMPANY

During the current period, the provincial government has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company through Sindh Sales Tax on Services Act 2011 effective from July 1, 2011.

6 CONTINGENCIES AND COMMITMENTS

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

Subsequent to the year ended June 30, 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on December 14, 2010 the Ministry filed its response against the constitutional petition requesting the court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

Subsequent to the year ended June 30, 2011, the Honourable Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company believes that the Pakistan Capital Market 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 December 31, 2011 amounted to Rs 3.671 million (including Rs. Nil for the half year and quarter ended December 31, 2011).

6.2 There were no other contingencies and commitments outstanding as at December 31, 2011 (June 30, 2011: Nil).

7 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 90 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 is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

8 DETAILS OF NON-COMPLIANCE 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 a "Balanced Scheme".

In accordance with clause (iv) of the investment criteria laid down for 'Balanced Scheme', the Fund is not allowed to invest in any debt security having a rating lower than A- (A minus). However, as at December 31, 2011, the Fund is non-compliant with the above-mentioned requirement in respect of the following:

Name of non-compliant investment	Type of investment	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
-----Rupees '000-----						
Investment in debt securities*	Maple Leaf Cement Factory Limited - Term Finance Certificate (03-Dec-2007)	6,110	(704)	5,406	1.63	1.56
Investment in debt securities**	Maple Leaf Cement Factory Limited - Term Finance Certificate (31-Mar-2010)	263	-	263	0.08	0.08

* At the time of purchase, the said Sukuk was in compliance with the provisions contained in the said circular (i.e. not below A-) and was, subsequently, downgraded to D. The downgrading has been made due to default in payments of due principal and markup.

** This was issued against outstanding markup receivable from Maple Leaf Cement Factory Limited against a restructuring agreement and is rated as non-investment grade.

9 TRANSACTIONS WITH CONNECTED PERSONS

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

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

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

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

9.1 Transactions during the period

	Half year ended December 31,		Quarter ended December 31,	
	2011	2010	2011	2010
	-----Rupees in '000-----		-----Rupees in '000-----	
Arif Habib Investments Limited - Management Company				
- Remuneration of the Management Company	3,654	4,458	1,775	2,221
- Sindh sales tax on remuneration of the Management Company	585	-	284	-
Arif Habib Limited - Brokerage house				
- Brokerage expense	35	99	11	-
Summit Bank (Formerly: Arif Habib Bank Limited)				
- Profit on bank deposit	1	18	1	7
MCB Bank Limited				
- Bank Charges	7	4	7	-
- Profit on bank deposit	132	9	132	-
- Dividend income	17	-	17	-
Nishat Mills Limited.				
- Dividend income	330	-	330	-
Nishat Chunian Power Limited				
- Dividend income	13	-	13	-
Central Depository Company of Pakistan Limited - Trustee				
- Remuneration for the period	585	-	585	-
- CDS charges	3	7	(1)	3
- CDS eligibility charges	-	34	-	17
Directors and executives of the Management Company				
- Issue of Nil (2010: 17,397) units and Nil (2010: 11,904) for the half year and quarter respectively	-	128	-	88
- Redemption of Nil units (2010: 17,294 units) and Nil units (2010: 10,805) for the half year and quarter respectively	-	128	-	81
- Bonus units issued: 180 (2010: 164,969) and Nil bonus units (2010: Nil) for the half year and quarter respectively	1	1,166	-	-

	Un-Audited December 31, 2011 -----Rupees '000-----	Audited June 30, 2011
9.2 Amounts outstanding as at period / year end		
Arif Habib Limited - Brokerage house		
- Brokerage payable	10	-
Summit Bank (Formerly: Arif Habib Bank Limited)		
- Bank Balance	35	40
MCB Bank Limited		
- Accrued mark-up Receivable	103	-
- Bank Balance	15,823	-
- 25,532 shares held (June 30, 2011: Nil shares)	3,437	-
Arif Habib Investments Limited - Management Company		
- Payable to the Management Company	669	652
Fatima Fertilizer Company Limited		
- 200,000 shares held (June 30, 2011: 800,000 shares)	4,584	13,312
Nishat Mills Limited		
- 100,000 shares held (June 30, 2011: Nil shares)	4,045	-
Nishat Chunian Power Limited		
- 13,000 shares held (June 30, 2011: Nil shares)	166	-
Nishat Power Limited		
- 176,967 shares held (June 30, 2011: Nil shares)	2,292	-
Adamjee Insurance Company Limited		
- 500 shares held (June 30, 2011: Nil shares)	23	-
Directors and executives of the Management Company		
- Units held 2,429 (June 30, 2011: 4,662 units)	17	38
Central Depository Company of Pakistan Limited - Trustee		
- Security deposit	300	300
- Trustee fee payable	58	65

10 DATE OF AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

This condensed interim financial information was authorised for issue on January 27, 2012 by the Board of Directors of the Management Company.

11 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified wherever necessary, for the purpose of comparison and better presentation. No significant changes to corresponding figures have been made during the current period.

12 GENERAL

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

For Arif Habib Investments Limited
(Management Company)

Yasir Qadri
Chief Executive Officer

Nasim Beg
Director