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FUND'S INFORMATION

Management Company
Arif Habib Investments Limited
(Formerly: Arif Habib Investment Management Limited)
2 / 1, R. Y. 16, Old Queens Road, Karachi-74000.

Board of Directors of the Management Company

Mr. Salim Chamdia	Chairman
Mr. Nasim Beg	Chief Executive
Mr. Sirajuddin Cassim	Director
Mr. Muhammad Akmal Jameel	Director
Mr. Muhammad Kashif Habib	Director
Mr. Muhammad Shafi Malik	Director
Syed Ajaz Ahmed	Director

Company Secretary & CFO of the Management Company
Mr. Zeeshan

Audit Committee

Mr. Salim Chamdia	Chairman
Mr. Muhammad Shafi Malik	Member
Mr. Muhammad Akmal Jameel	Member
Mr. Muhammad Kashif Habib	Member
Syed Ajaz Ahmed	Member

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

Bankers of the Fund
• Arif Habib Bank Limited
• Allied Bank Limited
• Bank AL Habib Limited
• Bank Alfalah Limited
• Habib Metropolitan Bank Limited
• MCB Bank Limited
• Meezan Bank Limited
• Standard Chartered Bank (Pakistan) Limited
• The Bank of Punjab

Auditors
M/s. KPMG Taseer Hadi & Co.
Chartered Accountants
First Floor, Sheikh Sultan Trust Building No. 2
Beaumont Road, Karachi-75530

Legal Adviser
M/s. Bawaney & Partners
404, 4th Floor, Beaumont Plaza,
6-CL-10, Beaumont Road,
Civil Lines, Karachi.

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

Distributors
• Arif Habib Bank Limited
• Allied Bank Limited
• Bank Al Habib Limited
• CitiBank N.A
• IGI Investment Bank Limited
• National Bank of Fujairah, Dubai, UAE
• Standard Chartered Bank (Pakistan) Limited
• The Bank of Punjab

Rating
• PACRA : 2 - Star (Normal)
• PACRA : AM2 - Management Company

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED 30TH JUNE 2009

The Board of Directors of Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)*, the Management Company of the Pakistan Capital Market Fund (PCM), submits herewith its sixth annual report together with audited Financial Statements for the Financial Year ended 30th June 2009.

Fund Objective

The objective of the Fund is to provide investors a mix of income and capital growth over medium to long term from equity and debt investments.

Fund Profile

PCM is an open end asset allocation Fund that invests in a range of asset classes such as equity and debt in Pakistani market.

The Fund is actively managed and can invest up to 100% of its net assets in equity securities or debt / money market securities. At all times, at least 60% of net assets shall remain invested in listed securities consisting of both equities and corporate debt. Investment in Government securities is capped at 30% of net assets.

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) based 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 as 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. Under the Non-Banking Finance Companies and Notified Entities Regulations, 2008 it is only allowed to borrow up to 15% of net assets for up to 90 days to meet redemption needs.

Fund Performance During Financial Year Ended 30th June 2009

The net assets of the Fund as at 30th June 2009 stood at Rs 548.94 million. The ex-dividend Net Assets Value (NAV) per unit at the start of the period was Rs 10.55, the NAV per unit as on 30th June 2009 was Rs 8.28. a decrease of Rs 2.27 in the NAV per unit during the year under review, Further, during the year, PCM recorded a negative return of 21.52% as compared to 41.72% decline in KSE-100 index and 31.08% negative return of Internal Benchmark.

Reasons for Loss

During the year, the Fund incurred a net loss of Rs 153.43 million as equity prices fell sharply during the first half of FY 09 amid deterioration in Pakistan's economic situation, prolonged period of price floor on stock prices and global market meltdown. During the year, the Fund incurred capital loss on sale of investments of Rs 57.50 million, while unrealised diminution in the value of investments was Rs 51.67 million and impairment loss of Rs 82.98 million. Due to this fact, the Board has not proposed any distribution for the year ended 30th June 2009.

Impairment in Investments Classified as "Available For Sale"

As fully explained in note 5.7 of the financial statement, as at 31st December 2008, the management has decided to charge the impairment loss into the income statement on quarterly basis in accordance with SRO 150(1)/2009 dated 13th February 2009 issued by Securities and Exchange Commission of Pakistan (SECP).

At 30th June 2009, the management has decided to charge the entire impairment loss in respect of all impaired equity securities classified as Available for sale into the income statement. Accordingly, an amount of Rs 82.982 million has been transferred as an impairment loss to the income statement.

Loss Per Unit (LPU)

LPU has not been disclosed as we feel determination of weighted average units for calculating LPU is not practicable.

Corporate Governance

The Fund is listed on all the three Stock Exchanges of Pakistan; hence the Management Company is required to comply with the requirements of the Code of Corporate Governance for listed companies. The Financial Statements prepared by the Management Company present fairly the state of affairs of the Fund and results of its operations, Cash Flows and Movement in Unit Holders' Fund. Proper books of account of the Fund have been maintained and appropriate accounting policies have been consistently applied in preparation of Financial Statements and accounting estimates are based on reasonable and prudent judgment. International Financial Reporting Standards as applicable in Pakistan have been followed in the preparation of Financial Statements. The system of internal control is sound in design and has been effectively implemented and monitored. There are no events or conditions which create a doubt about the Fund's ability to continue as going concern. There has been no material departure from the best practices of Corporate Governance, as detailed in listing regulations. Key financial data is summarized in the Financial Statements. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company. The detailed pattern of unit holding, as required by the NBFC Regulation and Code of Corporate Governance are enclosed.

Statement showing attendance of Board meetings is as follows:

Attendance of Board Meetings

From 1st July 2008 to 30th June 2009

S. No.	Name	Designation	Meetings		
			Total	Attended	Leave Granted
1.	Mr. Salim Chamdia	Chairman	11	9	2
2.	Mr. Nasim Beg	Chief Executive	11	10	1
3.	Mr. Muhammad Akmal Jameel	Director	11	9	2
4.	Mr. Shafi Malik	Director	11	10	1
5.	Mr. Sirajuddin Cassim	Director	11	3	8
6.	Mr. Muhammad Kashif Habib	Director	11	7	4
7.	Syed Ajaz Ahmed	Director	4	4	-
8.	Mr. Mirza Qamar Beg	Former Director	1	1	-
9.	Mr. Yacoob Memon	Former Director	2	2	-

During the year Mr. Yacoob Memon was appointed as a Director in place of Mr. Mirza Qamar Beg, whose appointment was not cleared by the SECP. Syed Ajaz Ahmed was then appointed to fill the casual vacancy after the gap of 3 months.

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

S. No.	Trades By	Designation	(No. of Units) Investment	Redemption	Bonus
1	Mr. Nasim Beg	Chief Executive	-	-	103.49

External Auditors
In compliance with the clause 24.2 of the Trust deed of PCM regarding rotation of auditors, The Board of Directors of the Management Company, has appointed A. F. Fergusons & Co., Chartered Accountants as the Fund's auditors for the year 2009-2010 in place of retiring auditors KPMG Taseer Hadi & Co., Chartered Accountants on recommendation of Audit committee.

Future Outlook
On the basis of relative valuations, KSE is at a substantial discount to regional and international markets. From its lows of 4,810 in January 2009, the KSE-100 has rebounded by almost 50%. Global equity markets, particularly emerging markets have shown strong performance since March 2009 amid early signs of global economic recovery (or end of recession). While relative valuations signal Pakistani equities to deliver positive performance in 2010, for the market to show sustainable recovery, the economy needs to come out of its somber state and critically GDP growth should pickup pace in coming months. On the stimulus front, there appears to be little the Government can provide for in the short term, however, continuing fall in domestic interest rates and global economic recovery should help in improving the prospects of relatively better GDP growth in the second half of the current fiscal year. Most importantly, the government needs to bring the domestic security situation under control as prolonged conflict and war like situation in the tribal belt will make it extremely difficult to attract any sizeable investment inflows in the country.

In view of a lowering headline inflation rate and stable foreign exchange reserves, interest rates are expected to ease between 200 to 300 bps during the course of the year. Lowering of interest rates amid improving liquidity in the system bode well for the equity and fixed income market during the current year.

Acknowledgement
The Board is thankful to the Fund's valued investors, the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, the Trustees to the Fund, Central Depository Company of Pakistan Limited and the managements of Karachi, Lahore and Islamabad Stock Exchanges for their continued cooperation and support. The Directors of the Management Company also acknowledge the efforts put in by the team of the Management Company.

For and on behalf of the Board

Karachi
28th July 2009

Nasim Beg
Chief Executive

REPORT OF THE FUND MANAGER
FOR THE YEAR ENDED 30TH JUNE 2009

Objective

The objective of the fund is to provide investors a mix of income and capital growth over medium to long term from equity and debt investments.

Fund Profile

Pakistan Capital Market Fund (PCM) is an open end asset allocation fund that invests in a range of asset classes such as equity and debt in Pakistani market.

The asset allocation in 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) based 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 compare 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. Under the Non-Banking Finance Companies and Notified Entities Regulations, 2008 it is only allowed to borrow up to 15% of Net Assets for up to 90 days to meet redemption needs.

Fund Performance

With the drop in equities during FY2009, PCM's NAV fell 21.52%, as compared to 31.08% decline in the Fund's internal benchmark and 41.72% decline in KSE-100 Index.

NAV Change Analysis and Total Return

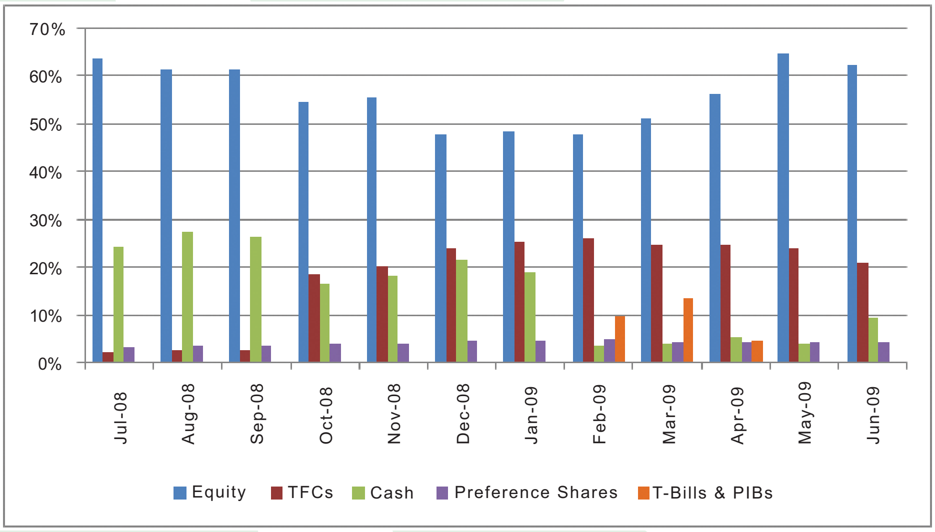
	FY2008-2009	FY2007-2008
Beginning net assets (Rs'000)	834,535	1,059,343
No. of Units	79,122,352	91,372,789
Beginning NAV (Rs) (Ex-Dividend)	10.55	11.59
Ending Net Assets (Rs '000)	548,937	835,029
No. of Units	66,335,795	76,980,158
Ending NAV (Rs)	8.28	10.85
Bonus Distribution (Rs)	-	0.30
Ending NAV (Ex-Dividend)	8.28	10.55
Income Distribution	-	2.59%
Capital Growth	(21.52%)	(8.97%)
Total Return	(21.52%)	(6.38%)

	Total Return	Annualised Return (CAGR)
1 year	(21.52%)	(21.52%)
2 year	(26.53%)	(14.28%)
3 year	(7.03%)	(2.40%)

Asset Allocation and investment activities during 2008-2009

The Fund diversified its allocation across various asset classes, in line with its stated objectives. On average, the Fund was 56% invested in equities and 25% in fixed income securities (excluding cash).

Month end holding of various asset classes are given in the following chart.



Equity portfolio:

PCM started the year with an equity allocation of 63.88% and closed the year at 62.46% of net assets. With the broad based fall in equities during the financial year, all major sectors' share prices ended the year in the negative zone.

Major changes made in sectors / company allocations during the year are:

- Commercial Banks: Allocation to this sector was reduced to 1.82% at the end of June 2009, as compared to 3.38% at the beginning of the year. PCM's allocation to NBP was offloaded, while that in ABL was added on a relative valuation basis. Low allocation to this sector was due to possible negative impact on banking sector profitability on account of deceleration in economic growth.

- Fertilizer: FFC remained the major sector holding. The Fund also added exposure in Engro towards the end of the financial year, when the stock price had fallen substantially, while fundamental outlook on the company remained positive.

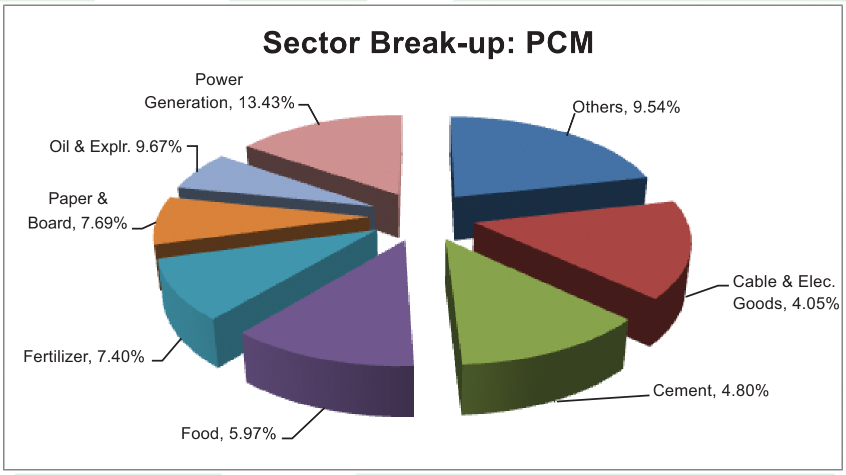
- Oil & Gas Exploration: Overall allocation in the sector was reduced from 15.70% at the beginning, by offloading the Fund's exposure to PPL completely. OGDC at 9.67% of net assets is the only holding in this sector at the year end.

- Cement: Lucky Cement has been the only holding in the Cement sector. The stock was sold earlier in the year and accumulated again towards the end, when the stock price had fallen substantially to fundamentally attractive levels. Lucky Cement is best positioned to take advantage of a turnaround in sector fundamentals, i.e. reducing input costs, higher retention prices and continued strength in export sales.

- Paper & Board: The Fund's holding in Packages was further enhanced during the year from 4.05% in June 2008 to 5.99% in June 2009 on the basis of strong long term fundamentals.

- Cable & Electric Goods: PEL was further accumulated in the portfolio to around 3% of net assets by the year end, considering that it is a major beneficiary of the growth in power sector.

- Tobacco: Pakistan Tobacco's allocation was increased to 2.48% as the share price fell to attractive levels (high discount to fair value).



Fixed income portfolio:

The Fund enhanced its fixed income portfolio substantially during the financial year to 25.54%, as compared to 2.21% at the beginning of the year. About 21% of the portfolio comprises of TFCs. During the period, UBL and Pakistan Mobile Communication Limited's TFCs were added to the portfolio. Almost the entire TFC portfolio carries floating rate linked to 6-month KIBOR, with premiums ranging from 1.30 – 2.75% above KIBOR.

The Fund has 4.55% exposure in cumulative preference shares, which carries dividend rate of 6-month KIBOR + 2%.

Stock market review

The KSE-100 index recorded a fall of 42% by the close of FY 2009 (June). The year was marked with the ugly episode of a price floor imposition on stock prices from 27th August till 15th December 2008. This drastic measure was taken to give some breathing space to the clearing system; however, the situation got worst and the price floor mechanism got prolonged as equity prices kept on retreating in the off-market as global markets tumbled due to crises in the financial markets. Amid global economic recession, Pakistani economy too was severely impacted and the country had to enter into a $7.6 billion two year stabilization programme with the IMF in November 2008. GDP growth decelerated sharply to just 2% in 2009 (as against 6.5% average during the previous 5 years), with inflation accelerating to above 20%, hence forcing the Central Bank to increase the policy rate to 15% by January 2009.

The index plummeted by almost 50% straight after the removal of the floor (around 9,000) before consolidating and commencing a new upturn and eventually closing at 7,162.18 as against 12,289.03 at the end of FY08. Since February 09, the market has shown steady recovery, with the index reaching as high as 8,000 in April 09 and thereafter consolidating around 7,000 levels during May and June. The last quarter saw significant drop in both inflation and interest rates (10 year PIB yield fell below 12%), which helped in the rerating of equity valuations.

Average daily volumes plunged to a ten year low of 106 million, down 56% compared to 242 million registered in FY08. At the same time, while market capitalization in rupee terms deteriorated by 44% reaching PKR 2,121 billion, in dollar terms it fell 53% to USD 26 billion.

The performance of KSE-100 index was by far the worst vis-à-vis regional markets that witnessed an average decline of 13%. Consequently the index reached a P/E of 6.7x, a significant discount of 57% to the regional earnings multiple of 15.7x, whereas the dividend yield touched 8.6% as compared to the regional average of 3.4%.

Foreign investment during the fiscal year witnessed an outflow USD 445 million. This trend, however, did see a modest u-turn during the last month as during June 2009 there was an inflow to the tune of USD 16 million. This has primarily been due to the fact that KSE-100 was included in the MSCI Frontier Index in late May 2009 with a weight of 3% after being removed from the MSCI Emerging Markets Index in December 2008.

Economic Review

The economy suffered from severe deterioration at the onset of Financial Year 09, brought upon by record commodity prices and capital flight. The government, aiming for fiscal consolidation initiated elimination of subsidies, resulting in record inflation at 25.3% YoY at its peak in August. SBPs FX reserves fell to a mere USD 3 billion amidst a massive import bill, with the currency depreciating almost 15% in Q1 FY09. Entry into the IMF program and the commodity price meltdown commencing in Q2 FY09 allowed the economy to regain stability. In order to reverse capital flight and suppress inflation, SBP opted for monetary tightening, increasing the policy rate by a total of 300 basis points. However, severe liquidity pressures compelled the Central Bank to relax the SLR and CRR rates.

2HFY09 saw the Current Account Deficit (CAD) narrow significantly amid stable currency and build up in reserves. Higher interest rates have ignited interest in Treasuries, allowing the Government to retire some of its debt with the SBP and move towards the less inflationary bank debt for financing its deficit. In anticipation of lower inflationary expectations and subsequent policy rate cuts, market yields began to decline substantially. Liquidity also improved and the benchmark KIBOR came down from the 15% range at the start of 2009 to the 12% range at FY09 end. Fiscal spending has remained restricted with PSDP expenditure greatly underutilized.

The country witnessed major deterioration in security situation as Taliban militants took control of Swat and Malakand region in the province of NWFP, which eventually forced the Government to undertake large scale military offensive in Swat and the tribal belt. This war like situation has put a severe strain on the economy in form of huge increase in outlays for internally displaced people and higher military spending.

Real economic activity has been adversely affected with an initial estimate of only 2 % GDP growth. Large scale manufacturing declined by 8.24% during Jul' 08-Apr' 09 as production fell across all major industries due to fall in domestic demand and exports. Agriculture sector showed strong performance with growth of 4.7% on the back of bumper wheat crop, while service sector recorded growth of 3.6%.

The Year Ahead

Inflation is likely to continue to fall in Q1 till the base effect starts to reverse in October, after which there may be some upward trend due to expectations of increasing electricity tariffs and fuel prices. Market yields are likely to settle at around 10-11% and a total of 300 basis points cut in the policy rate can be expected for FY10. Decreasing interest rates combined with the gradual pick-up of domestic demand are likely to increase the off-take of credit and subsequently an increase can be seen in manufacturing activity by 2HFY10. Overall a money supply (M2) growth of 11% seems likely for FY10.

The federal budget envisions a significant increase in development expenditure of PKR 646 billion which is likely to provide stimulus to the economy, however shortfalls with respect to the ambitious tax revenue target of PKR 1,531 billion is likely to induce cuts in the PSDP. In addition to this, inability to achieve the revenue target may also induce the government to borrow more extensively from scheduled banks which may reduce the quantum of credit available for the private sector. Overall we expect spending on PSDP should be lower than what has been estimated as growth in tax revenues amid slowing economy will be difficult to materialize.

The Current Account Deficit, after experiencing a significant improvement by over USD 5 billion in FY09 will likely worsen slightly in FY10 mainly as imports starts to pick-up and exports continue to remain depressed. International oil prices will be the key factor as higher oil prices (which has recently rebounded above USD 60 a barrel) will have a negative impact on Pakistan's balance of payments. Remittances are likely to remain strong, although growth similar to FY09 (20%) is unlikely due to a higher base. Commitments made in the FoDP amounting to USD 5.2 billion over three years and USD 1.5 billion a year from the Kerry-Lugar bill approved by congress will provide much needed support to the Financial Account as FDI and FPI are not expected to pickup significantly in FY10. Existing reserves and disbursement of IMF tranches will continue to keep FX-Reserves in a comfortable position. There is still room for further depreciation of the local currency based on inflation and interest rate differentials with trading partners although it is probably not going to be more than 4 -5%.

The Government is targeting 3.3% overall GDP growths for FY10, with 3.8% in agriculture, 1.8% in Manufacturing and 3.6% in services. Despite the fact that sluggish growth is expected in FY10 as compared to previous years, growth targets can be outperformed if the current macroeconomic adjustment process continues going forward and improvement in the security situation as a result of military action yields positive results.

Outlook

On the basis of relative valuations, KSE is at a substantial discount to regional and international markets. From its lows of 4,810 in January 2009, the KSE-100 has rebounded by almost 50%. Global equity markets, particularly emerging markets have shown strong performance since March 09 amid early signs of global economic recovery (or end of recession). While relative valuations signal Pakistani equities to deliver positive performance in 2010, for the market to show sustainable recovery, the economy needs to come out of its somber state and critically GDP growth should pick up pace in coming months. On the stimulus front, there appears to be little the Government can provide for in the short term, however, continuing fall in domestic interest rates and global economic recovery should help in improving the prospects of relatively better GDP growth in the second half of the current fiscal year. Most importantly, the Government needs to bring the domestic security situation under control as prolonged conflict and war like situation in the tribal belt will make it extremely difficult to attract any sizeable investment inflows in the country.

In view of a lowering headline inflation rate and stable foreign exchange reserves, interest rates are expected to ease between 200-300 basis points during the course of the year. Lowering of interest rates amid improving liquidity in the system bode well for the equity and fixed income market during the current year.

Other Disclosures under Non-Banking Finance Companies and Notified Entities (NBFC & NE) Regulations, 2008

The Fund manager hereby makes the following disclosures as required under the NBFC & NE Regulations, 2008:

a. The Management Company or any of its delegates did not receive any soft commission (goods & services) from any of its broker/dealer by virtue of transactions conducted by the Fund.
b. There was no unit split undertaken during the year.
c. The Fund Manager is not aware of any circumstances that can materially affect any interests of the unit holders other than those already disclosed in this report.

CENTRAL DEPOSITORY COMPANY

TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN CAPITAL MARKET FUND

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 (Formerly Arif Habib Investment Management 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, 2009 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
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: September 04, 2009

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED
Head Office: CDC House, 99-B, Block 'B', S.M.C.H.S., Main Shahra-e-Faisal, Karachi-74400, Pakistan. Ph : (92-21) 111-111-500, Fax : (92-21) 34326020-23
URL: www.cdcpakistan.com E-mail: info@cdcpak.com

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30TH JUNE 2009

This statement is being presented by the Board of Directors of Arif Habib Investments Limited *(formerly: Arif Habib Investment Management 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, Lahore and Islamabad Stock Exchanges 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 and directors representing minority interests on its Board of Directors. At present the Board includes six non-executive directors however, none of the directors on the Board represent minority shareholders.

2. The directors of Management Company 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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. During the year Mr. Mirza Qamar Beg had resigned and was replaced by Mr. Yacoob Memon. Subsequently, Syed Ajaz Ahmad replaced Mr. Yacoob Memon, due to the reasons disclosed in the Directors' Report.

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 director and employees of the Management Company.

6. The Board has approved 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 30th June 2009, there is no other executive director of the Management Company besides the CE.

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. 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 Board arranged an orientation course for the directors of the Management Company during the year to apprise them of their duties and responsibilities.

11. The Board has approved appointment, remuneration and term and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by Chief Executive. During the year Chief Financial Officer and Company Secretary was replaced by the Board.

12. The roles and responsibilities of the Chairman and CE have been approved by the Board of Directors.

13. 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.

14. 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.

15. The financial statements of the Fund were duly endorsed by CE and CFO of the Management Company before approval of the Board.

16. The Management Company has complied with all the corporate and financial reporting requirements of the Code.

17. The Board has formed an audit committee for the Fund. It comprises five members, all of whom are non-executive directors including the Chairman of the committee.

18. 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.

19. The Board has set-up an effective internal audit function headed by the Head of Internal Audit and Compliance. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund and is involved in the internal audit function on a full time basis.

20. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

21. 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.

22. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board

Karachi:
28th July 2009

Nasim Beg
Chief Executive

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi 75530 Pakistan

Telephone +92 (21) 568 5847
Fax +92 (21) 568 5095
Internet www.kpmg.com.pk

Review report to the Unit holders of Pakistan Capital Market Fund "the Fund" on Statement of compliance with best practices of code of corporate governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Arif Habib Investments Limited (formerly Arif Habib Investment Management Limited), "the Management Company" of the Fund to comply with the Listing Regulation no 35 (previously Regulation no 37) of the Karachi Stock Exchange, Chapter XI of the Islamabad Stock Exchange and Chapter XI of the Lahore 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. 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 Management Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii) of Listing Regulation no 35 (previously Regulation no 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 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 transaction which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2009.

KPMG Taseer Hadi & Co.

Date: 28 JUL 2009

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi

KPMG Taseer Hadi & Co., a partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative

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Independent Auditors' Report to the Unit Holders

We have audited the accompanying financial statements of **Pakistan Capital Market Fund ("the Fund"),** which comprise the statement of assets and liabilities as at 30 June 2009, and the income statement, cash flow statement, distribution statement and statement of movement in unit holders' funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards 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 misstatement.

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 Fund's affairs as at 30 June 2009 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2007 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

KPMG Taseer Hadi & Co.

Date: 28 JUL 2009

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

STATEMENT OF ASSETS AND LIABILITIES
AS AT 30TH JUNE 2009

	Note	2009	2008
		(Rupees in '000)	
Assets			
Bank balances	4	**52,404**	84,748
Receivable against sale of investments		**14,467**	269
Receivable against continuous funding system		**-**	169,789
Investments	5	**483,660**	581,999
Dividend and profit receivable	6	**7,458**	7,029
Advances, deposits, prepayments and other receivables	7	**3,142**	4,281
Preliminary expenses and floatation costs	8	**-**	1,692
Conversion cost	9	**2,043**	3,510
Total assets		**563,174**	853,317
Liabilities			
Payable against purchase of investments		**8,068**	-
Payable on redemption of units		**865**	9,925
Payable to Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)* - Management Company	10	**892**	2,143
Payable to Central Depository Company of Pakistan Limited - Trustee	11	**93**	155
Payable to Securities and Exchange Commission of Pakistan	12	**583**	1,130
Accrued expenses and other liabilities	13	**823**	2,002
Advance against issue of certificates		**-**	20
Dividend payable		**2,913**	2,913
Total liabilities		**14,237**	18,288
Net assets		**548,937**	835,029
Commitments	14		
Unit holders' funds (as per statement attached)		**548,937**	835,029
		(Number of units)	
Number of units in issue		**66,335,795**	76,980,158
		(Rupees)	
Net asset value per unit		**8.28**	10.85

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
(Management Company)

Chief Executive | **Director**

INCOME STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2009

	Note	2009	2008
		(Rupees in '000)	
Income			
Capital (loss) / gain on sale of investments		**(57,496)**	144,486
Income from continuous funding system		**964**	1,548
Income from investment in government securities		**1,907**	4,192
Income from term finance certificates		**17,411**	5,418
Dividend income		**21,080**	41,437
Unrealised diminution in fair value of investments - 'at fair value through profit or loss'	5.4	**(51,666)**	(34,945)
Unrealised appreciation in derivative financial instruments		**-**	71
Profit on bank deposits		**12,015**	12,970
Other income		**15**	1,347
		(55,770)	176,524
Impairment loss on investments classified as 'available for sale'		**(82,982)**	-
Total (loss) / income		**(138,752)**	176,524
Expenses			
Remuneration of Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)* - Management Company	10.1	**15,754**	33,901
Remuneration of Central Depository Company of Pakistan Limited - Trustee	11.1	**1,199**	2,115
Annual fee - Securities and Exchange Commission of Pakistan	12	**583**	1,130
Securities transaction cost		**984**	3,315
Bank charges		**61**	222
Fees and subscriptions		**258**	372
Legal and professional charges		**135**	155
Auditors' remuneration	15	**532**	653
Amortisation of preliminary expenses and floatation costs		**1,692**	2,900
Amortisation of conversion cost		**1,467**	1,471
Others		**438**	455
Total expenses		**23,103**	46,689
Net (loss) / income		**(161,855)**	129,835
Net element of gain / (loss) and capital gain / (losses) included in prices of units sold less those in units redeemed		**8,428**	(42,892)
Net (loss) / income carried forward		**(153,427)**	86,943
(Loss) / earning per unit	16		

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
(Management Company)

Chief Executive **Director**

DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2009

	Note	2009	2008
		(Rupees in '000)	
Undistributed income brought forward	17	**26,944**	153,201
Element of income and capital gains / (losses) included in prices of units sold less those in units redeemed - amount representing unrealised capital gains / (losses)		**9,063**	9,664
Net (loss) / income for the year		**(153,427)**	86,943
Final Cash distribution @ 3% i.e. Re 0.3 per unit for the year ended 30th June 2008 (2007: 30% i.e. Rs 3 per unit)		**(494)**	(24,854)
Final bonus units distribution @ 3% (i.e. 2.84 units for every 100 units held) for the year ended 30th June 2008 (2007: 30% i.e. 25.88 units for every 100 units held)		**(22,600)**	(198,010)
		(167,458)	(126,257)
Accumulated (loss) / undistributed income carried forward		**(140,514)**	26,944

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
(Management Company)

Chief Executive | **Director**

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2009

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES	**(Rupees in '000)**	
Net (loss) / income for the year	**(153,427)**	86,943
Adjustments		
Amortisation of preliminary expenses and floatation costs	**1,692**	2,900
Amortisation of conversion cost	**1,467**	1,471
Impairment loss on investments classified as 'available for sale'	**82,982**	-
Dividend income	**(21,080)**	(41,437)
Unrealised diminution in fair value of investments - 'at fair value through profit or loss'	**51,666**	34,945
Unrealised appreciation in derivative financial instruments	**-**	(71)
Net element of (gain) / loss and capital (gains) / losses included in prices of units sold less those in units redeemed	**(8,428)**	42,892
	(45,128)	127,643
(Increase) / decrease in assets		
Receivable against continuous funding system	**169,789**	(169,789)
Receivable against sale of investments	**(14,198)**	(269)
Investments	**(48,497)**	150,717
Profit receivable	**(2,250)**	(1,468)
Advances, deposits, prepayments and other receivables	**1,139**	(2,148)
	105,983	(22,957)
Increase / (decrease) in liabilities		
Payable against purchase of investments	**8,068**	-
Payable on redemption of units	**(9,060)**	-
Payable to Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)* - Management Company	**(1,251)**	(531)
Payable to Central Depository Company of Pakistan Limited - Trustee	**(62)**	(19)
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	**(547)**	(123)
Accrued expenses and other liabilities	**(1,179)**	(17,191)
	(4,031)	(17,864)
Cash generated from operations	**56,824**	86,822
Dividend received	**22,901**	39,330
Net cash flow from operating activities	**79,725**	126,152
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment against redemption of units- net	**(111,555)**	(196,914)
Advance refunded relating to initial subscription in the Fund	**(20)**	(180)
Dividend paid	**(494)**	(24,883)
Net cash flow from financing activities	**(112,069)**	(221,977)
Net (decrease) in cash and cash equivalents during the year	**(32,344)**	(95,825)
Cash and cash equivalents at the beginning of the year	**84,748**	180,573
Cash and cash equivalents at the end of the year	**52,404**	84,748

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
(Management Company)

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED 30TH JUNE 2009

	Note	2009	2008
		(Rupees in '000)	
Net assets at the beginning of the year		**835,029**	1,084,197
Issue of 1,586,645 units (2008: 68,119,873 units)		**14,984**	786,218
Redemption of 14,373,202 units (2008: 82,512,593 units)		**(126,539)**	(990,538)
		(111,555)	(204,320)
		723,474	879,877
Element of income and capital gains included in prices of units sold less those in units redeemed			
- amount representing accrued (income) / loss and realised capital (gains) / losses - transferred to Income Statement		**(8,428)**	42,892
- amount representing unrealised capital (gains) transferred directly to the Distribution Statement		**(9,063)**	(9,664)
		(17,491)	33,228
Net unrealised (diminution) during the year in fair value of investments classified as 'available for sale'	5.6	**(12,188)**	(149,829)
Capital (loss) / gain on sale of investments		**(57,496)**	144,486
Net unrealised (diminution) / appreciation in fair value of investments 'at fair value through profit or loss'		**(51,666)**	(34,945)
Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units redeemed- amount representing unrealised capital gains / (losses)		**9,063**	9,664
Other net loss for the year		**(44,265)**	(22,598)
		(144,364)	96,607
Final cash distribution @ 30% for the year ended 30th June 2008 (2007: 30%)		**(494)**	(24,854)
Final bonus units distribution for the year ended 30th June 2008 @ 30% (2007: 30%) - transfer to reserve for issue of bonus units		**(22,600)**	(198,010)
		(23,094)	(222,864)
Final bonus distribution @ 3% i.e. 2,142,194 units (2007: 30% i.e. 17,084,593 units) for the year ended 30th June 2008		**22,600**	198,010
Net assets at end of the year		**548,937**	835,029
		(Rupees)	
Net assets value per unit at beginning of the year		**10.85**	14.59
Net assets value per unit at end of the year		**8.28**	10.85

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
(Management Company)

Chief Executive **Director**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2009

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Capital Market Fund (PCMF) was established under a Trust Deed executed between Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)* (AHI) as an Investment Adviser and Central Depository Company of Pakistan Limited (CDC) as Trustee on 27th October 2003. The Investment Adviser of PCMF has 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 authorised by SECP on 5th November 2003. PCMF is listed on all three stock exchanges in Pakistan. The certificates of PCMF were offered for public subscription from 22nd January 2004 to 24th January 2004. PCMF started investing activities from 26th January 2004.

AHIML entered into a Supplemental Trust Deed with the CDC (Trustee) on 5th October 2005 in order to initiate the conversion of the Fund from a closed-end scheme to an open-end scheme pursuant to the resolution passed at a meeting of the Certificate Holders' held on 21st May 2005, approving the same. The conversion of the Fund from a closed-end scheme to an open-end scheme was authorised by SECP vide its letter no. NBFC-II/JD(R)/AHIM/481 dated 24th June 2005. The post conversion Trust Deed and post conversion Offering Document were approved by SECP vide letter no. NBFC/MF-AD-II(R)/683/2005 dated 20th September 2005 and letter no. NBFC-II/JD(R)AHIM-PCMF/744 dated 17th October 2005 respectively. The Fund was converted into an open-end scheme with effect from 21st November 2005. Each certificate holder was allotted units according to their respective holdings as at that date on the basis of a ratio of 1 certificate : 1 unit. Accordingly, 149,859,000 units were issued at the rate of 14.61 per unit, thus constituting Rs 2.189 billion i.e. the Net Asset Value of the Fund on the date of conversion.

Arif Habib Investments Limited *(formerly: Arif Habib Investments Management Limited)* also holds the requisite licence from the SECP to undertake asset management service under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. The registered office of the management company is situated at 2/1, R.Y.16, Old Queens Road, Karachi, Pakistan.

Pakistan Credit Rating Agency (PACRA) has assigned asset management rating of 'AM2' and '2 Star Normal' to the Management Company and the Fund respectively.

The policy of the Fund is to invest in a mix of listed equity and debt securities, unlisted government securities and secured debt securities, money market transactions and reverse repurchase transactions.

Title to the assets of the Fund are held in the name of Central Depository Company Limited as a trustee of the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the 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, 2007 (the NBFC Regulations 2007), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) 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 2007, the NBFC Regulations 2008 or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2007, the NBFC Regulations 2008 or the directives issued by the SECP prevail.

2.2 Initial application of a standard or an interpretation

During the year, amendments to International Accounting Standards (IAS) 39- Financial instruments: Recognition and Measurement and IFRS 7-Financial Instruments: Disclosures- regarding reclassification of financial assets became effective from 1st July 2008. Further IAS 29 -Financial Reporting in Hyperinflationary Economies, International Financial Reporting Standard (IFRS) 7- Financial Instruments: Disclosures, IFRIC 13-Customer Loyalty Programme and IFRIC 14 -The Limit on Defined Benefit Asset, Minimum Funding Requirements and thier interaction became effective during the year. The application of these standards and interpretations did not have any material effect on the Fund's financial statements except for certain increased disclosures.

2.3 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after 1st July 2009 are either not relevant to Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures:

Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1st January 2009). The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics.

Revised IAS 23-Borrowing costs (effective from 1st January 2009). Amendments relating to mandatory capitalisation of borrowing costs relating to qualifying assets.

IAS 32 (amendment)-Financial instruments: Presentation and consequential amendment to IAS 1- Presentation of Financial Statements(effective for annual period beginning on or after 1st January 2009). IAS 32 amended classification of Puttable Financial Instruments.

Amendment to IAS 39- Financial Instruments: Recognition and Measurement -Eligible Hedged Items (effective for annual period beginning on or after 1st July 2009). Amendment clarifies the application of existing principles that determines whether specific risk or portion of cash flows are eligible for designation in hedging relationship.

IFRS 2 (amendment) - Share-based payments and withdrawal of IFRIC 8- Scope of IFRS 2 and IFRIC 11- Group and Treasury Share Transactions (effective for annual periods beginning on or after 1st January 2010). Amendment provides guidance on the accounting for share - based payment transactions among group entities.

IFRS 2 (amendment) - Share-based payments (effective for annual periods beginning on or after 1st January 2009). IFRS 2 clarifies the vesting conditions and cancellations in the share-based payment arrangement.

IFRS 3 (amendment)-Business Combinations and consequential amendments to IAS 27-Consolidated and separate financial statements, IAS 28-Investment in associates and IAS 31-Interest in Joint Ventures. (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009).

IFRS 4 -Insurance Contracts (effective for annual period beginning on or after 1st January 2009). The IFRS makes limited improvements to accounting for insurance contracts and contain disclosures requirements.

Amendment to IFRS 7- Improving Disclosures about Financial Instruments (effective for annual period beginning on or after 1st January 2009). The amendment contain additional disclosures for fair value measurement of financial instruments.

IFRS 8- Operating Segments (effective for annual period beginning on or after 1st January 2009) The standard introduced 'management approach' to segment reporting.

Amendment to IFRIC 9 -Reassessment of Embedded Derivatives and consequential amendment to IAS 39 - Financial Instruments: Recognition and Measurement (effective for annual period beginning on or after 30th June 2009. Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value.

IFRIC 15- Agreement for the Construction of Real Estate (effective for annual period beginning on or after 1st October 2009).The interpretation clarifies the recognition of revenue by real estate developers.

IFRIC 16- Hedge of Net Investment in a Foreign Operation (effective for annual period beginning on or after 1st October 2008). The interpretation contain clarification on investment hedging of foreign operations.

IFRIC 17- Distribution of Non-cash Assets to the Owner and related amendments to IFRS 5- Non-current Assets Held for Sale and Discontinued Operations and IAS 10- Event after the Balance Sheet Date (effective for annual period beginning on or after 1st July 2009).The interpretation contain recognition and measurement requirements regarding non-cash assets distributions by the entity to the owner.

IFRIC 18- Transfer of Assets from Customers (effective for annual period beginning on or after 1st July 2009).The interpretation contain guidance from the perspective of the recipient regarding recognition and measurement principles on transferred assets by customer to the entity.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standards.

The International Accounting Standards Board made certain amendments to existing standards as part of its second annual improvements project. The effective dates for these amendments vary by standards.

2.4 Basis of measurement

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

2.5 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

2.6 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amount recognised in the financial statements are as follows:

Investments stated at fair value and derivative financial instruments

The Management Company has determined fair value of certain investments by using quotations from active market. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgements (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

Other assets

Judgement is also involved in assessing the realisability of the assets balances.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) *Financial instruments at fair value through profit or loss*

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

b) *Available-for-sale*

Available for sale financial assets are non-derivative that are either designated in this category or not classified in any other category.

c) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as fair value through profit or loss or available for sale. This includes receivable against sale of investments, receivable against continuous funding system (CFS) and other receivables and are carried at amortised cost using effective yield method, less impairment losses, if any

d) *Financial liabilities*

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective yield method.

Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial instrument not at 'fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Transaction costs on financial instrument at fair value through profit or loss are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as at 'fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Fund until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Fund are included in the Income Statement. Unquoted securities are carried at investment price or break-up value which ever is lower, except for government and debt securities which are stated at fair value.

Fair value measurement principles

The fair value of a security listed on a stock exchange, local or foreign as the case may be, and derivatives is valued at its last sale price on such exchange on the date on which it is valued or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date the security is valued at an amount neither higher than the closing asked price nor lower than the closing bid price.

Basis of valuation of Term Finance Certificates (TFCs)

The SECP vide its circular no. 1/2009 dated 6th January 2009 has changed the methodology for valuation of debt securities. Under the said directive, investment in term finance certificates are valued on the basis of traded, thinly traded and non traded securities. The circular also specifies a criteria for application of discretionary discount to yield of any debt security calculated by Mutual Fund Association of Pakistan (MUFAP) and contain criteria for the provisioning of non-performing debt 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. Prior to the issuance of the said directive investment in term finance certificates were valued as follows:

(i) With effect from 5th November 2008 to 9th January 2009, at the lower of discounted redeemable face value of term finance certificates and the market value as determined using rates notified by the MUFAP in accordance with the SECP circular no. 26/2008 dated 5th November 2008.

(ii) Prior to 5th November 2008, at the rates notified by MUFAP in accordance with the requirements of Regulation 2(1)(xvi) of the Non-Banking Finance Companies and Notified Entities Regulation, 2007.

Had all the Term Finance Certificates been valued on the basis of rates notified by MUFAP, the net assets value of the Fund calculated during the period would have been different and consequently the number of units issued / redeemed during the period as well as element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed recorded by the Fund would also have been different. These effects have not been quantified as it was impracticable to do so.

Basis of valuation of Government Securities

A government security not listed on a stock exchange and traded in the interbank market is valued at the average rate quoted on a widely used electronic quotation system and such average rate is based on the remaining tenor of the security.

Securities under repurchase / resale agreements

Transactions of purchase under resale (reverse-repo) of marketable and government securities, including the securities purchased under continuous funding system (CFS), 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. Amounts paid under these agreements are recognised as receivable in respect of reverse repurchase transactions / against CFS. The difference between purchase and resale price is treated as income from reverse repurchase transactions / CFS and accrued over the life of the agreement.

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

Impairment

Financial assets other than those carried at fair value through profit or loss are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

If in subsequent period the amount of impairment loss decreases, the reduction in impairment loss on financial assets other than the securities classified as available-for-sale are recognised in the income statement. However, the decrease in impairment loss on securities classified as available-for-sale is recognised in unit holders' fund.

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecgonition in accordance with International Accounting Standard 39: Financial Instruments: Recognition and Measurement.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting of financial instruments

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

3.2 Unit holders' fund

Unit holders' fund representing the units issued by the Fund, is carried at the redemption amount representing the investors' right to a residual interest in the Fund assets.

3.3 Issue and redemption of units

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

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption 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.

3.4 Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units repurchased

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

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

3.5 Provisions

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

3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and include underwriting commission, commission to the bankers to the issue, brokerage paid to the members of the stock exchanges and other expenses. These costs are being amortised over a period of five years commencing from 31st January 2004.

3.7 Conversion cost

Conversion cost represent expenditure incurred in connection with the conversion of the Fund into an open end scheme and include fees paid to the Securities and Exchange Commission of Pakistan (SECP) and other expenses. These costs are being amortised over a period of five years commencing from 28th March 2006 as per clause 7.4 of the Post Conversion Offering Document of the scheme which has been approved by the Securities and Exchange Commission of Pakistan.

3.8 Net asset value per unit

The net asset value per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in issue.

3.9 Taxation

Current

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 of the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst its unit holders. Accordingly no tax liability has been recorded in the current year.

Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits.

However, the Fund has previously availed the tax exemption 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. Accordingly, no deferred tax asset or liability has been recognised in these financial statements.

3.10 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.

- Unrealised gains / (losses) arising on revaluation of 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.

- Unrealised gains / losses arising on the revaluation of derivatives to fair value are taken to the Income Statement in the period in which they arise.

- Income on reverse repurchase transactions, continuous funding system, term finance certificates and government securities is recognised on an accrual basis using the effective interest rate method.

- Profit on bank deposit is recognised on time proportion basis taking in to account effective yield.

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

- Transaction costs are recognised as income as and when the units are issued / converted.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.11 Expenses

All expenses including management fee and trustee fee are recognised in the Income Statement on an accrual basis.

3.12 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

3.13 Other assets

Other assets are stated at cost less impairment losses, if any

3.14 Proposed dividend and transfer between reserves

Dividends declared and transfers between reserves made 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 dividends are declared / transfers are made.

4. BANK BALANCES

		2009	2008
		(Rupees in '000)	
In current accounts		**3,000**	3,812
In deposit accounts	4.1	**49,404**	80,936
		52,404	84,748

4.1 This represents deposit accounts maintained with various banks carrying mark-up at the rate of 5% to 12% (2008: 2.25% to 10.5%).

5. INVESTMENTS

		2009	2008
At fair value through profit or loss - held for trading			
- Quoted equity securities	5.1	**274,758**	349,594
- Fixed income and other debt securities	5.2	**115,224**	18,486
- Derivatives		**-**	71
- Advance against Pre-IPO		**-**	25,000
		389,982	393,151
Available for sale			
- Quoted equity securities	5.5	**93,678**	188,848
		483,660	581,999

5.1 Quoted equity securities - held for trading

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

Name of the investee company	As at 1st July 2008	Purchases during the year	Bonus / rights issue	Sales during the year	As at 30th June 2009	Balance as at 30th June 2009 Cost	Market value	Appreciation / (diminution)	Market value as a percentage of net assets	Market value as a percentage of total investments	Par value as a percentage of issued capital of investee company
	---------- (Number of shares) ----------					---------- (Rupees in '000) ----------					
Textile Composite											
Masood Textile Mills Limited - Preference Shares	-	2,500,000	-	-	2,500,000	25,000	25,000	-	4.55	5.17	8.33
Nishat Mills Limited	129,600	-	64,800	-	194,400	14,165	7,352	(6,813)	1.34	1.52	0.08
						39,165	32,352	(6,813)			
Cement											
Lucky Cement Limited	200,000	850,000	-	599,700	450,300	27,134	26,356	(778)	4.80	5.45	0.14
						27,134	26,356	(778)			
Tobacco											
Pakistan Tobacco Company Limited	99,300	87,400	-	-	186,700	20,885	13,601	(7,284)	2.48	2.81	0.07
						20,885	13,601	(7,284)			
Cable and Electric Goods											
Pakistan Elektron Limited	67,875	832,500	-	200,200	700,175	17,000	17,161	161	3.13	3.55	0.72
						17,000	17,161	161			
Paper and Board											
Packages	-	75,200	-	76	75,124	8,850	11,798	2,948	2.15	2.44	0.09
						8,850	11,798	2,948			
Food and Personal Care Products											
Nestle Pakistan Limited	100	-	-	-	100	150	109	(41)	0.02	0.02	-
						150	109	(41)			
Commercial Banks											
National Bank of Pakistan	191,070	-	-	191,070	-	-	-	-	-	-	-
Allied Bank of Pakistan	-	291,400	-	25,000	266,400	11,493	10,017	(1,476)	1.82	2.07	0.04
United Bank Limited	-	925,000	-	925,000	-	-	-	-	-	-	-
						11,493	10,017	(1,476)			
Chemicals											
I.C.I. Pakistan Limited	-	51,800	-	51,800	-	-	-	-	-	-	-
						-	-	-			
Oil and Gas Marketing Companies											
Pakistan State Oil Company Limited	-	39,500	-	39,500	-	-	-	-	-	-	-
						-	-	-			
Power Generation and Distribution											
Hub Power Company Limited	631,500	-	-	-	631,500	20,164	17,107	(3,057)	3.12	3.54	0.05
Kot Addu Power Company Limited	1,446,400	-	-	106,500	1,339,900	64,315	56,625	(7,690)	10.32	11.71	0.15
						84,479	73,732	(10,747)			
Oil and Gas Exploration Companies											
Oil & Gas Development Company Limited	614,700	75,000	-	77,000	612,700	67,313	48,183	(19,130)	8.78	9.96	0.01
Pakistan Petroleum Limited	190,700	-	19,070	209,770	-	-	-	-	-	-	-
						67,313	48,183	(19,130)			
Technology and Communication											
Pakistan Telecommunication Company Limited "A"	595,000	-	-	548,500	46,500	2,157	802	(1,355)	0.15	0.17	-
TRG Pakistan Limited "A"	873,500	-	-	873,500	-	-	-	-	-	-	-
						2,157	802	(1,355)			
Fertilizer											
Engro Chemical Pakistan Limited	-	54,400	-	-	54,400	6,922	6,987	65	1.27	1.44	0.02
Fauji Fertilizer Company Limited	281,545	-	105,579	-	387,124	30,386	33,660	3,274	6.13	6.96	0.06
						37,308	40,647	3,339			
Total as at 30th June 2009						**315,934**	**274,758**	**(41,176)**			
Total as at 30th June 2008						376,087	349,594	(26,493)			

5.2 Fixed income and other debt securities - held for trading

Term Finance Certificates (TFCs) of Rs 5,000 each.

Name of the investee company		As at 1st July 2008	Purchases during the year	Bonus / rights issue	Sales during the year	As at 30th June 2009	Balance as at 30th June 2009 Cost	Market value	Appreciation / (diminution)	Market value as a percentage of net assets	Market value as a percentage of total investments	Par value as a percentage of issued debt capital of investee company
		----------Number of certificates----------					---------- (Rupees in '000) ----------					
Al Zamin Leasing Modaraba II	9.50%	1,000	-	-	-	1,000	1,700	1,594	(106)	0.29	0.33	1.82
Worldcall Telecom Limited I	16.19%	3,000	-	-	-	3,000	12,615	12,139	(476)	2.21	2.51	4.29
United Bank Limited III	14.21%	-	10,020	-	-	10,020	49,559	48,355	(1,204)	8.81	10.00	2.51
Pakistan Mobile Communication Limited I	14.15%	-	10,050	-	3,200	6,850	33,863	29,859	(4,004)	5.44	6.17	1.37
Pakistan Mobile Communication Limited II	15.01%	-	5,000	-	-	5,000	24,875	23,277	(1,598)	4.24	4.81	2.00
Total as at 30th June 2009		**4,000**	**25,070**	**-**	**3,200**	**25,870**	**122,612**	**115,224**	**(7,388)**			
Total as at 30th June 2008							18,541	18,486	(55)			

5.2.1 Significant terms and conditions of Term Finance Certificates outstanding as at 30th June 2009 are as follows.

Name of security	Remaining principal (per TFC) (Rupees in '000)	Mark-up rate (per annum)	Issue date	Maturity date
Al Zamin Leasing Modaraba II	1,700	9.5%	31-May-05	31-May-10
Worldcall Telecom Limited I	4,163	2.75%+6 Month KIBOR	28-Nov-06	28-Nov-11
United Bank Limited III	4,995	1.70%+6 Month KIBOR	8-Sep-06	8-Sep-14
Pakistan Mobile Communication Limited I	5,000	1.30%+6 Month KIBOR	1-Oct-07	1-Oct-10
Pakistan Mobile Communication Limited II	5,000	1.65%+6 Month KIBOR	28-Oct-08	28-Oct-13

5.3 Investment in government securities - 'at fair value through profit or loss'

Issue Date	Tenor	As at 1st July 2008	Purchases during the year	Sales during the year	Matured during the year	As at 30th June 2009	Balance as at 30th June 2009: Cost	Market value	Appreciation / (diminution)	Market value as a percentage of net assets	Market value as a percentage of total investments
Pakistan Investment Bond											
30 Aug. 2008	10 Years	-	50,000	50,000	-	-	-	-	-	-	-
Treasury Bills											
12 Feb. 2009	3 Months	-	25,000	25,000	-	-	-	-	-	-	-
12 Feb. 2009	3 Months	-	25,000	25,000	-	-	-	-	-	-	-
							-	-	-		

5.4 Net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'

	2009	2008
	(Rupees in '000)	
Fair value of investments	**389,982**	368,080
Less: Cost of investments	**438,546**	394,628
	(48,564)	(26,548)
Net unrealised diminution / (appreciation) in fair value of investments at the beginning of the year	**26,548**	(64,104)
Realised on disposal during the year	**(29,650)**	55,707
	(3,102)	(8,397)
	(51,666)	(34,945)

5.5 Quoted equity securities - available for sale

Name of the Investee Company	As at 1st July 2008	Purchases during the year	Bonus / rights issue	Sales during the year	As at 30th June 2009	Balance as at 30th June 2009: Cost	Market value	Appreciation / (diminution)	Market value as a percentage of net assets	Market value as a percentage of total investments	Par value as a percentage of issued capital of investee company
	---------- (Number of shares)	----------				---------- (Rupees in '000)	----------				
SHARES OF LISTED COMPANIES - Fully paid up ordinary shares of Rs 10 each unless otherwise stated											
Textile Composite											
Kohinoor Mills Limited (see note 5.7)	482,790	-	-	-	482,790	15,491	2,346	(13,145)	0.43	0.49	0.95
Suraj Cotton Mills Limited (see note 5.7)	367,500	-	-	-	367,500	18,345	4,667	(13,678)	0.85	0.96	2.04
Chenab Limited (see note 5.7)	992,500	-	-	-	992,500	17,865	2,769	(15,096)	0.50	0.57	0.86
						51,701	9,782	(41,919)			
Oil and Gas Exploration Companies											
Oil & Gas Development Company Limited (see note 5.7)	62,540	-	-	-	62,540	6,176	4,918	(1,258)	0.90	1.02	0.00
						6,176	4,918	(1,258)			
Automobile Assembler											
Pak Suzuki Motors Company Limited (see note 5.7)	159,305	-	-	-	159,305	13,825	10,817	(3,008)	1.97	2.24	0.19
						13,825	10,817	(3,008)			
Cable and Electrical Goods											
Siemens (Pakistan) Engineering Company Limited	5,000	-	-	-	5,000	2,254	5,090	2,836	0.93	1.05	0.06
						2,254	5,090	2,836			
Paper and Board											
Century Paper & Board Mills Limited (see note 5.7)	707,290	-	-	-	707,290	43,998	9,329	(34,669)	1.70	1.93	1.00
Packages Limited	134,307	-	-	-	134,307	18,350	21,092	2,742	3.84	4.36	0.16
						62,348	30,421	(31,927)			
Food and Personal Care Product											
Nestle Pakistan Limited	29,900	-	-	-	29,900	14,258	32,650	18,392	5.95	6.75	0.07
						14,258	32,650	18,392			
Total as at 30th June 2009						**150,562**	**93,678**	**(56,884)**			
Total as at 30th June 2008						150,562	188,848	38,286			

5.6 Net unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale'

	2009	2008
	(Rupees in '000)	
Fair value of marketable securities	**93,678**	188,848
Cost of marketable securities	**150,562**	150,562
	(56,884)	38,286
Impairment loss on investments	**82,982**	-
Net unrealised (appreciation) in the value of securities at beginning of the year	**(38,286)**	(188,115)
	(12,188)	(149,829)

5.7 International Accounting Standard (IAS) 39-Financial Instruments: Recognition and Measurement requires an entity to assess at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A significant or prolonged decline in the fair value of an investment in an equity security below its cost is objective evidence of such impairment. When a decline in the fair value of an investment in equity securities classified as available for sale has been recognized directly in unit holders' fund and there is objective evidence that the investment is impaired, the cumulative loss that had been recognized in unit holders' fund is removed from there and recognized in the income statement even though the investment has not been derecognized. Impairment losses recognized in the income statement for an investment in an equity securities classified as available for sale are not reversed through the income statement but are recognized in the available for sale reserve in unit holders' fund. During the year SECP vide its SRO 150(I) / 2009 dated 13th February 2009 has given an option to companies and mutual funds to either follow the requirements of IAS 39 and charge the impairment loss to the income statement or show impairment loss under unit holders' fund and shall be transferred from there after considering any adjustment / effect for price movements, to the income statement on quarterly basis during the calendar year ending on 31st December 2009. As at 31st December 2008, the Fund has opted for the treatment specified in the said SRO and decided to charge impairment into income statement on quarterly basis during the calendar year.

At 30th June 2009, the management has decided to charge the entire impairment loss in respect of all impaired equity securities classified as available for sale into the income statement. Accordingly, the Fund has transferred loss of Rs 82.982 million on its impaired available for sale equity investments from unit holders' fund into the income statement.

5.8 Investments include quoted equity securities with market value as at 30th June 2009 aggregating to Rs 55,381,488 (2008: 41,499,516) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of Circular No. 11 dated 23rd October 2007 issued by the Securities & Exchange Commission of Pakistan.

6. DIVIDEND AND PROFIT RECEIVABLE

	2009	2008
	(Rupees in '000)	
Dividend receivable	**2,864**	4,685
Profit receivable on bank deposits	**307**	1,132
Income accrued on Term Finance Certificates	**4,287**	555
Income accrued on Continuous Funding System	**-**	657
	7,458	7,029

7. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2009	2008
		(Rupees in '000)	
Receivable from Management Company		-	124
Advance tax		**342**	343
Prepayments		-	14
Deposit with National Clearing Company of Pakistan Limited		**2,500**	3,500
Deposit with Central Depository Company of Pakistan Limited		**300**	300
		3,142	4,281

8. PRELIMINARY EXPENSES AND FLOATATION COSTS

		2009	2008
Opening balance		**1,692**	4,592
Less: Amortisation during the year		**1,692**	2,900
		-	1,692

9. CONVERSION COST

		2009	2008
Opening balance		**3,510**	4,981
Less: Amortisation during the year		**1,467**	1,471
		2,043	3,510

10. PAYABLE TO ARIF HABIB INVESTMENTS LIMITED *(FORMERLY: ARIF HABIB INVESTMENT MANAGEMENT LIMITED)* - MANAGEMENT COMPANY

	Note	2009	2008
Management fee	10.1	**892**	2,118
Front-end load payable		-	25
		892	2,143

10.1 Under the provisions of the NBFC 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. In compliance with the requirement of the said regulation, the Management Company has charged remuneration at two percent per annum with effect from 31st January 2009 as Fund has completed its five years on 30th January 2009.

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

	Note	2009	2008
Trustee fee	11.1	**89**	141
CDS charges		**4**	14
		93	155

11.1 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 NAV of the Fund. The remuneration of the trustee is calculated on the basis mentioned in the clause 10.2.1 of the Trust Deed of the Fund.

Average Net Asset Value	Tariff per annum
Upto Rs 1,000 million	Rs 0.7 million or 2.0% p.a of NAV whichever is higher.
On amount exceeding Rs 1,000 million	Rs 2 million plus 0.1% p.a of NAV exceeding Rs 1,000 million

12. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE

Under the provisions of the NBFC Regulations 2008, a Unit Trust is required to pay as annual fee to the SECP, an amount equal to 0.095% of the average annual net assets of the Fund. Uptill 20th November 2008 annual fee is accrued at the rate of one tenth of one percent under the provisions NBFC Regulations 2007.

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	2009	2008
	(Rupees in '000)	
Brokerage	**146**	177
CVT Payable	**5**	-
Auditor's remuneration	**260**	400
Payable to Pakistan Income Fund	**-**	1,031
Professional fee	**60**	50
Others	**352**	344
	823	2,002

14. COMMITMENTS

Continuous Funding System entered into by the Fund in respect of which purchase transactions have not been settled as at 30th June	**-**	1,175

15. AUDITOR'S REMUNERATION

Annual audit fee	**225**	180
Half yearly review	**100**	80
Other certifications and services	**140**	335
Out of pocket expenses	**67**	58
	532	653

16. (LOSS) / EARNINGS PER UNIT

(Loss) / 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

17. UNDISTRIBUTED INCOME BROUGHT FORWARD / CARRIED FORWARD

As per schedule V to the NBFC Regulations 2008, undistributed income brought forward / carried forward needs to be bifurcated in to realized and unrealized gains. However, it is not practicably possible to bifurcate such amount as it is not traceable into realized and urealized portion.

18. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons / related parties include Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)* being the Management Company, Arif Habib Securities Limited, Arif Habib Bank Limited *(formerly: Arif Habib Rupali Bank Limited)* and Arif Habib Limited being companies under common management and Central Depository Company Limited being the trustee of the Fund.

The transactions with connected persons / related parties are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

Remuneration payable to Management Company and Trustee is determined in accordance with the provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, the NBFC Regulations 2007, the NBFC Regulations 2008 and the Trust Deed respectively.

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

	2009	2008	**2009**	2008
	(Units)		**(Rupees in '000)**	
Units sold to:				
Other related parties				
- Directors and executives of the management company	**2,681**	26,844	**22**	316
Units redeemed by:				
Other related parties				
- Directors / officers and employees of the management company	**45,333**	39,262	**371**	485
Bonus units distributed to:				
Management Company				
Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)*	**36,463**	263,665	**385**	3,056

	2009	2008	2009	2008
	(Units)		(Rupees in '000)	
Other related parties				
- Directors / officers and employees of the management company	**14,069**	104,106	**148**	1,207
Units held by:				
Management Company				
Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)*	**1,318,754**	1,282,291	**10,919**	13,913
Other related parties				
- Directors / officers and employees of the management company	**466,183**	493,884	**3,860**	5,359

Transactions and balances with connected persons - unsecured

			2009	2008
Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)* - Management Company				
Balance at the beginning of the year			**2,143**	2,674
Remuneration for the year			**15,754**	33,901
Sales load for the year			**15**	2,124
			15,769	36,025
Amounts paid during the year			**(17,020)**	(36,556)
Balance at the end of the year			**892**	2,143
Transaction cost for the year			**15**	330
Arif Habib Limited - Brokerage house		18.1		
Brokerage expense for the year			**166**	343
Payments made during the year			**138**	343
Balance at the end of the year			**28**	-
Arif Habib Bank Limited				
Mark-up for the year			**9,810**	6,967
Accrued mark-up as at 30 June			**306**	1,119

	Note	2009	2008
		(Rupees in '000)	
Central Depository Company of Pakistan Limited - Trustee			
Balance at beginning of the year		**155**	174
Remuneration for the year		**1,199**	2,115
CDS charges for the year		**36**	57
		1,235	2,172
Amounts paid during the year		**(1,297)**	(2,191)
Balance at end of the year		**93**	155
Security deposit		**300**	300
Pakistan Income Fund			
Purchase of Term Finance Certificate			
- Pakistan Mobile Communication Limited	18.2	**50,031**	-
- United Bank Limited	18.2	**50,407**	-
Pakistan Strategic Allocation Fund			
Sale of Term Finance Certificates			
- Pakistan Mobile Communication Limited	18.2	**14,467**	-
Amounts due on account of Conversion / Trading / Switching / Transfer of units			
Payable to Pakistan Income Fund		**-**	(1,031)

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

18.2 During the year the fund has purchased 10,050 certificates of Pakistan Mobile Communication Limited and 10,020 certificates of United Bank Limited from Pakistan Income Fund (another fund managed by the Management Company) and has notified to SECP vide letter number OPS/9534/984/08 dated 18th October 2008.

Further the Fund has sold 3,200 certificates of Pakistan Mobile Communication Limited to Pakistan Strategic Allocation Fund (another fund manged by the Management Company) and has notified to SECP vide letter number NBFC-II/DD/PCMF/669/2009 dated 26th June 2009.

19. RISK MANAGEMENT

The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund primarily invests in shares of listed companies and debt securities, unlisted government securities, reverse repurchase transactions in government securities, secured debt securities and enters into Continuous Funding System transactions in listed securities. Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to:

Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

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

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

Currency risk

Currency risk is the risk that the fair value or future cashflows 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.

Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and future cash flows. The Fund holds floating rate term finance certificates, that expose the Fund to cash flow interest rate risk and also holds limited amount of fixed interest term finance certificates that expose the Fund to fair value interest rate risk.

The Fund manages fair value risk by investing primarily in floating rate term finance certificate, preferably with no cap and floor to insulate Fund from fair value interest rate risk.

As at 30th June 2009, the investment in term finance certificates exposed to interest rate risk is detailed in Note 5.2.

a) *Sensitivity analysis for variable rate instruments*

Presently, majority of the Fund investment in Term Finance Certificates carry floating interest rate that expose the Fund to cashflow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on 30th June 2009, the net assets of the Fund would have been higher / lower by Rs 1.218 million (2008: 0.150 million) with consequential effect on net loss / income for the year.

b) *Sensitivity analysis for fixed rate instruments*

As at 30th June 2009, only one investment in term finance certificate carries fixed interest rate that expose the Fund to fair value interest rate risk. In case of 100 basis points increase in yield matrix calculated by MUFAP on 30th June 2009, the net loss / income for the year and net assets would be higher by Rs 0.012 million (2008: Rs 0.033 million). In case of 100 basis points decrease in yield matrix calculated rate approved by MUFAP on 30th June 2009, the net loss / income for the year and net assets would be lower by Rs 0.015 million (2008: Rs 0.033 million).

The composition of the Fund's investment portfolio, KIBOR rates and yield matrix calculated by MUFAP is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30th June 2009 is not necessarily indicative of the effect 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 settlement date.

The Fund's market rate of return sensitivity related to financial assets and financial liabilities as at 30th June 2009 can be determined from the following:

30th June 2009

On-balance sheet financial instruments	Effective rate of mark-up/ return (%)	Exposed to MROR risk			Not exposed to MROR risk	Total
		Upto three months	More than three months and upto one year	More than one year		
		(Rupees in '000)				
Financial assets						
Bank balances	5 -12	49,404	-	-	3,000	52,404
Receivable against sale of investments		-	-	-	14,467	14,467
Investments	9.50 - 18.42	-	-	115,224	368,436	483,660
Dividend and Profit receivable		-	-	-	7,458	7,458
Deposits and other receivable		-	-	-	3,924	3,924
		49,404	-	115,224	397,285	561,913
Financial liabilities						
Payable on purchase of shares		-	-	-	8,068	8,068
Payable on redemption of units		-	-	-	865	865
Payable to Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)* - Management Company		-	-	-	892	892
Payable to Central Depository Company of Pakistan Limited -Trustee		-	-	-	93	93
Accrued expenses and other liabilities		-	-	-	823	823
		-	-	-	10,741	10,741
On-balance sheet gap 2009		**49,404**	**-**	**115,224**	**386,544**	**551,172**

30th June 2008

On-balance sheet financial instruments	Effective rate of mark-up/ return (%)	Exposed to MROR risk			Not exposed to MROR risk	Total
		Upto three months	More than three months and upto one year	More than one year		
		(Rupees in '000)				
Financial assets						
Bank balances	2.25 -10.50	80,936	-	-	3,812	84,748
Receivable against sale of investments		-	-	-	269	269
Receivable against Continuous Funding System	14.40 - 24.05	169,789	-	-	-	169,789
Investments	9.50 - 16.19	-	-	68,486	513,513	581,999
Dividend and profit receivable		-	-	-	7,029	7,029
Deposits and other receivable		-	-	-	3,924	3,924
		250,725	-	68,486	528,547	847,758
Financial liabilities						
Payable on redemption of units		-	-	-	9,925	9,925
Payable to Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)* - Management Company		-	-	-	2,143	2,143
Payable to Central Depository Company of Pakistan Limited -Trustee		-	-	-	155	155
Accrued expenses and other liabilities		-	-	-	2,002	2,002
Advance against issue of certificates		-	-	-	20	20
		-	-	-	14,245	14,245
On-balance sheet gap 2008		250,725	-	68,486	514,302	833,513

Other price risk

Other price risk includes equity price risks which is the risk of changes in the fair value of equity securities as a result of changes in the levels of KSE Index and the value of individual shares. The equity price risk exposure arises from investments in equity securities held by the Fund for which prices in the future are uncertain. The Fund policy is to manage price risk through diversification and selection of securities within specified limits set by internal risk management guidelines.

The Fund manages the risk by limiting exposure to any single investee company to the extent of 10% of issued capital of that investee company with overall limit of 25% to a single industry sector.

A summary analysis of investments by industry sector, the percentage in relation to Fund's own net assets and the issued capital of the investee company as at 30th June 2009 is presented in Note 5.1 and 5.5.

The table below summarises the sensitivity of the Fund's net assets attributable to unit holders to equity price movements as at 30th June. The analysis is based on the assumption that KSE-100 indexs increased by 5% (2008 : 5%) and decreased by 5% (2008 : 5%), with all other variables held constant and that the fair value of the Fund's portfolio of equity securities moved according to their 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 index of past three years (2008: two years).

The impact below arises from the reasonable possible change in the fair value of listed equity securities:

	2009	2008
	(Rupees in '000)	
Effect on net assets attributable to unit holders of an increase in the KSE-100 index		
Effect on investments	**13,107**	20,553
Effect on income statement	**10,824**	16,053
Effect on unit holders' funds	**2,283**	4,500
Effect on net assets attributable to unit holders of a decrease in the KSE-100 index		
Effect on investments	**13,107**	20,553
Effect on income statement	**10,824**	16,053
Effect on unit holders' funds	**2,283**	4,500

The sensitivity 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 the time. Accordingly, the sensitivity analysis prepared as of 30th June 2009 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE-100 index.

Credit risk

Credit risk management

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse re-purchase transactions or other arrangements to fulfil their obligations. There is a possibility of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the clearing system etc.

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Board of Directors. In addition, credit risk is also minimised due to the fact that the fund invests only in high quality financial assets, majority of which have been rated by a reputable rating agency. All transactions in listed securities are settled / paid for upon delivery using central clearing system. The risk of default in such transactions is considered minimal, as delivery of securities is guaranteed by the stock exchange. The Fund does not expect to incur material credit losses on its financial assets.

The Fund's credit risk is primarily attributable to its investment in term finance certificates, receivable against sale of investment, deposits, other receivables and balances with banks.

The maximum exposure to credit risk before any credit enhancements at 30th June is the carrying amount of the financial assets as set out below.

	2009	2008
	(Rupees in '000)	
Bank Balances	**52,404**	84,748
Investments in fixed income and other debt securities	**115,224**	18,486
Receivable against sale of investments	**14,467**	269
Dividend and profit receivable	**7,458**	7,029
Deposits and other receivables	**2,800**	3,924
	192,353	114,456

None of the above financial assets were considered to be past due or impaired in 2009 and 2008.

The analysis below summarises the credit quality of the Fund's investment in term finance certificates as at 30th June:

	2009	2008
Debt Securities by rating category		
AA	**37.70%**	-
AA-	**51.82%**	82.31%
A	**10.48%**	17.69%

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.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by Securities & Exchange Commission of Pakistan.

The Fund's policy is to manage this risk by investing majority of its assets in investments that are traded in an active market and can be readily disposed. The Fund invests primarily in marketable securities and other financial instruments, which under normal market conditions are readily convertable to cash. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirement.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of total assets at the time of borrowing with repayment with in 90 days of such borrowings. No such borrowings have arisen during the year.

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 redemptions during the year except for the period from 6th October 2008 till 4th January 2009 due to the introduction of a 'Floor' on the equity prices at the stock exchanges and to protect the interest of the unit holders. SECP issued circular No. 23 of 2008 dated 7th October 2008 directing all Asset Management Companies managing open end schemes with direct exposure to equity securities to suspend pricing, issuance and redemption of units till third business day after the floor is removed at the stock exchanges. The Management Company, in compliance with the said circular, suspended the pricing, issuance and redemption of units of the Fund with effect from 7th October 2008.

The Board of Directors of the Management Company, in exercise of the powers conferred by the NBFC Regulations, 2008 and the Trust Deed, decided to continue the suspension due to persistent inadequate trading volumes and lack of price discovery in the equity markets.

The Management Company withdraw the suspension effective from 5th January 2009 as a result of restoration of price discovery and adequate volumes in the stock market and has settled the request of issuance, redemption and conversion at the net asset value of the Fund prevailing on the date of withdrawal of suspension.

The liquidity position of the Fund is monitored by Fund Manager and Investment Committee on daily basis and Board of Directors review it on quarterly basis.

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.

The maturity profile of the Fund's liabilities based on contractual maturities is given below:

	30th June 2009			
	Upto three months	**More than three months and upto one year**	**More than one year**	**Total**
	-------------------(Rupees in '000)	-------------------		
Payable on redemption of units	**865**	**-**	**-**	**865**
Payable against purchase of investments	**8,068**	**-**	**-**	**8,068**
Payable to Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)* - Management Company	**892**	**-**	**-**	**892**
Payable to Central Depository Company of Pakistan Limited - Trustee	**93**	**-**	**-**	**93**
Accrued expenses and other liabilities	**823**	**-**	**-**	**823**

	30th June 2008			
	Upto three months	More than three months and upto one year	More than one year	Total
	-------------------(Rupees in '000)	-------------------		
Payable on redemption of units	9,925	-	-	9,925
Payable to Arif Habib Investments Limited *(formerly: Arif Habib Investment Management Limited)* - Management Company	2,143	-	-	2,143
Payable to Central Depository Company of Pakistan Limited -Trustee	155	-	-	155
Accrued expenses and other liabilities	2,002	-	-	2,002
Advance against issue of certificates	20	-	-	20

Units of the Fund are redeemable on demand at the holder's option. However, holders of these instruments typically retain them for the medium to long term.

Unit Holders' Fund risk management

Management's objective when managing unit holders’ funds is to safe guard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders' and to ensure reasonable safety of unit holders' funds.

The Management Company manages fund's investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in markets’ conditions. The unit holders' funds structure depends on the issuance and redemption of units.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments on the Statement of Assets and Liabilities are carried at fair value. The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

21. PATTERN OF UNITHOLDING

Unit holding pattern of the fund as at 30th June 2009 is as follows:

Category	Number of Unit Holders	Investment amount (Rupees in '000)	Percentage of total investment
Individuals	**4,286**	**311,632**	**56.77**
Directors	**2**	**38**	**0.01**
Bank / financial institutions	**11**	**132,744**	**24.18**
Insurance companies	**5**	**2,094**	**0.38**
Non Banking Finance Companies	**6**	**25,778**	**4.70**
Retirement funds	**20**	**54,280**	**9.89**
Others	**45**	**22,371**	**4.08**
	4,375	**548,937**	**100.00**

Unit holding pattern of the fund as at 30th June 2008 is as follows:

Category	Number of Unit Holders	Investment amount (Rupees in '000)	Percentage of total investment
Individuals	4,656	507,858	60.82
Associated companies	1	13,910	1.67
Directors	1	39	0.00
Bank / financial institutions	14	2,669	0.32
Insurance companies	5	189,336	22.68
Non Banking Finance Companies	4	79,870	9.56
Retirement funds	25	1,082	0.13
Public limited companies	1	8,604	1.03
Others	49	31,661	3.79
	4,756	835,029	100.00

22. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Broker name	**2009 (Percentage)**	Broker name	2008 (Percentage)
KASB Securities Limited	**21.02**	Invisor Securities (Private) Limited	12.41
Arif Habib Limited	**15.01**	Arif Habib Limited	11.67
H H Misbah Securities (Private) Limited	**12.07**	BMA Capital Management Limited	9.54
Atlas Investment Bank Limited	**10.87**	DJM Securities (Private) Limited	6.31
Pearl Securities (Private) Limited	**8.23**	Cassim Investment (Private) Limited	5.59
J. S. Global Capital Limited	**7.82**	Foundation Securities (Private) Limited	5.39
Invest Capital Investment Bank	**6.34**	AKD Securities	4.80
DJM Securities (Private) Limited	**4.88**	KASB Securities Limited	4.77
Ample Securities (Private) Limited	**3.23**	H H Misbah Securities (Private) Limited	4.15
AKD Securities Limited	**2.71**	Live Securities (Private) Limited	3.45

23. INVESTMENT COMMITTEE

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

Name	Designation	Qulification	Experience in years
Mr. Adnan Siddiqui	Deputy Chief Executive	MBA	19
Mr. Basharat Ullah	Chief Investment Officer	MBA	16
Mr. Zeeshan	Chief Financial Officer	ACA	6
Ms. Nazia Nauman	Head of Equity & Fund Manager	MBA/CFA	9
Mr. Jawad Zafar Haleem	Head of Research	M.Sc, Economics	5
Mr. Zafar Rehman	Head of Debt and Money Market Funds	B.Com	17

23.1 Other Funds managed by the Fund Manager

Pakistan Stock Market Fund
Pakistan Capital Protected Fund-I

24. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS 2008 - 2009

The 52nd, 53rd, 54th, 55th, 56th, 57th, 58th, 59th, 60th, 61st & 62nd Board meetings were held on 3rd July 2008, 25th July 2008, 25th August 2008,16th September 2008, 30th September 2008, 17th October 2008, 24th October 2008, 23rd February 2009, 23rd April 2009, 24th April 2009, 29th May 2009, respectively.

Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave Granted	
Mr. Salim Chamdia	11	9	2	52nd and 58th meeting
Mr. Nasim Beg	11	10	1	58th meeting
Mr. Muhammad Akmal Jameel	11	9	2	54th and 61st meeting
Mr. Shafi Malik	11	10	1	56th meeting
Mr. Mirza Qamar Baig	1	1	-	-
Mr. Muhammad Kashif Habib	11	7	4	55th, 60th ,61st and 62nd meeting
Syed Ajaz Ahmed	4	4	-	-
Mr. Sirajuddin Cassim	11	3	8	52nd to 55th and 59th to 62nd meeting
Mr. Yacoob Memon	2	2	-	-

ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS 2007-2008

The 40th, 41st, 42nd, 43rd, 44th, 45th, 46th, 47th, 48th, 49th, 50th and 51st Board meetings were held on 4th July 2007, 21st July 2007, 6th October 2007, 24th October 2007, 28th November 2007, 26th January 2008, 29th March 2008, 4th April 2008, 23rd April 2008, 10th May 2008, 23rd May 2008 and 24th June 2008 respectively.

Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave Granted	
Mr. Salim Chamdia	12	12	-	-
Mr. Nasim Beg	12	12	-	-
Mr. Sirajuddin Cassim	12	-	12	All meetings
Mr. Muhammad Akmal Jamee1	12	11	1	47th meeting
Mr. Muhammad Kashif	12	6	6	40th, 44nd, 46th, 47th, 48th and 50th meeting
Mr. Muhammad Shafi Malik	12	10	2	44th and 49th meeting
Mr. John Kirkham	2	2	-	-
Mr. Mirza Qamar Beg	10	10	-	-

25. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 28th July 2009 by the Board of Directors of the Management Company.

For Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
(Management Company)

Chief Executive | **Director**

DETAIL OF PATTERN OF HOLDING (UNITS)
FOR THE YEAR ENDED 30TH JUNE 2009

	UNITS HELD
Directors and CEO	
Nasim Beg	3,743
Syed Ajaz Ahmed	816
Public Limited Companies	1,318,754
Banks and Financial Institution	16,090,267
Insurance Companies	253,058
Indiviiduals	37,658,903
Retirement Funds	6,559,428
Modarabas & Mutual Funds	1,786,803
Othes Corporate Sector Entities	875,134
Non Profit Organizations	1,788,888
TOTAL	**66,335,795**

PATTERN OF UNIT HOLDING (BY SIZE)
AS AT 30TH JUNE 2009

No. of Unit Holders	FROM	TO	UNITS HELD	Percentage	No. of Unit Holders	FROM	TO	UNITS HELD	Percentage
23	1	100	563	0.0008	2	175,001	180,000	354,825	0.5349
98	101	500	35,246	0.0531	3	185,001	190,000	559,387	0.8433
1760	501	1,000	1,415,204	2.1334	1	195,001	200,000	199,441	0.3007
1228	1,001	5,000	3,678,939	5.5459	2	200,001	205,000	404,761	0.6102
505	5,001	10,000	3,887,881	5.8609	1	210,001	215,000	212,094	0.3197
112	10,001	15,000	1,360,871	2.0515	1	235,001	240,000	239,830	0.3615
262	15,001	20,000	4,344,085	6.5486	1	255,001	260,000	256,960	0.3874
73	20,001	25,000	1,642,548	2.4761	1	260,001	265,000	261,039	0.3935
26	25,001	30,000	715,369	1.0784	1	270,001	275,000	272,459	0.4107
46	30,001	35,000	1,498,955	2.2596	2	280,001	285,000	565,789	0.8529
24	35,001	40,000	888,221	1.3390	1	285,001	290,000	285,511	0.4304
33	40,001	45,000	1,367,161	2.0610	1	310,001	315,000	311,413	0.4694
15	45,001	50,000	726,080	1.0946	1	320,001	325,000	324,138	0.4886
9	50,001	55,000	474,125	0.7147	1	325,001	330,000	326,299	0.4919
13	55,001	60,000	746,316	1.1251	1	350,001	355,000	354,034	0.5337
12	60,001	65,000	748,333	1.1281	2	380,001	385,000	765,907	1.1546
7	65,001	70,000	463,942	0.6994	1	385,001	390,000	388,990	0.5864
10	70,001	75,000	732,583	1.1044	2	395,001	400,000	797,103	1.2016
4	75,001	80,000	306,368	0.4618	2	400,001	405,000	800,798	1.2072
17	80,001	85,000	1,396,956	2.1059	1	415,001	420,000	416,031	0.6272
3	85,001	90,000	258,939	0.3903	1	430,001	435,000	432,346	0.6518
1	90,001	95,000	93,193	0.1405	1	440,001	445,000	440,424	0.6639
7	95,001	100,000	685,242	1.0330	1	465,001	470,000	465,966	0.7024
4	100,001	105,000	408,443	0.6157	1	490,001	495,000	490,264	0.7391
3	105,001	110,000	323,957	0.4884	1	505,001	510,000	507,395	0.7649
6	110,001	115,000	683,297	1.0301	1	510,001	515,000	511,205	0.7706
1	115,001	120,000	115,836	0.1746	1	570,001	575,000	574,661	0.8663
3	120,001	125,000	363,866	0.5485	1	600,001	605,000	602,837	0.9088
4	125,001	130,000	514,206	0.7752	1	610,001	615,000	612,453	0.9233
6	130,001	135,000	792,808	1.1951	1	745,001	750,000	748,566	1.1285
1	135,001	140,000	137,861	0.2078	1	825,001	830,000	825,237	1.2440
2	140,001	145,000	282,009	0.4251	1	1,315,001	1,320,000	1,318,754	1.9880
4	145,001	150,000	585,823	0.8831	1	1,545,001	1,550,000	1,548,108	2.3337
1	155,001	160,000	158,099	0.2383	1	1,690,001	1,695,000	1,693,159	2.5524
6	160,001	165,000	976,592	1.4722	1	6,845,001	6,850,000	6,849,626	10.3257
2	170,001	175,000	343,168	0.5173	1	7,460,001	7,465,000	7,464,900	11.2532
Total :					**4,375**			**66,335,795**	**100.0000**

PERFORMANCE TABLE

	2009	2008	2007	2006	2005	2004
	(Rupees in '000)					
Net assets	**548,937**	835,029	1,084,197	1,435,651	1,698,167	1,618,903
Net income for the year	**(153,427)**	86,943	108,929	392,053	525,758	126,354
	(Rupees)					
Net assets value per unit	**8.28**	10.85	14.59	14.53	13.08	9.97
	(Percentage)					
Dividend distribution - Interim (%)	-	-	-	-	12.50	-
Dividend distribution - Final (%)	-	3.00	30.00	30.00	17.50	8.25
	(Rupees)					
Closing selling price per unit	**8.45**	11.30	14.96	14.90		
Highest selling price per unit	**10.81**	13.35	14.98	16.92		
Lowest selling price per unit	**7.14**	10.78	11.31	12.44		
Closing repurchase price per unit	**8.28**	10.85	14.59	14.53		
Highest repurchase price per unit	**10.38**	13.02	14.61	16.50		
Lowest repurchase price per unit	**7.00**	10.35	11.03	12.13		
Dividend distribution - Final	-	0.30	3.00	3.00		
Distribution dates	-	3 July 2008	4 July 2007	4 July 2006		
	(Percentage)					
Total return	**(21.52)**	(6.38)	26.54	28.24		
Income distribution	-	2.59	26.02	26.48		
Capital growth	**(21.52)**	(8.97)	0.52	1.77		
Average annualized return of the Fund (CAGR)						
One year	**(21.52)**	(6.38)	26.54	28.24		
Two year	**(14.27)**	8.84	26.84	34.64		
Three year	**(2.40)**	14.63	31.88	-		

Disclaimer

Past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.