

CONTENTS

	Page No.
Fund's Information	1
Mission Statement	2
Report of the Directors of the Management Company	3
Report of the Fund Manager	7
Trustee Report to the Unit Holders	13
Statement of Compliance with the Code of Corporate Governance	14
Review Report to the Unit Holders on Statement of Compliance with Best Practices of the Code of Corporate Governance	16
Independent Auditors' Report to the Unit Holders	17
Statement of Assets and Liabilities	19
Income Statement	20
Cash Flow Statement	21
Distribution Statement	22
Statement of Movement in Unit Holders' Fund	23
Notes to the Financial Statements	24
Details of Pattern of Holding (Units)	45
Pattern of Unit Holding (By Size)	46
Performance Table	47

FUND'S INFORMATION

Management Company

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. Muhammad Akmal Jameel	Director
Mr. Sirajuddin Cassim	Director
Mr. Muhammad Kashif Habib	Director
Mr. Muhammad Shafi Malik	Director
Mr. Yacoob Memon	Director

Company Secretary & CFO of the Management Company

Syed Ajaz Ahmed

Audit Committee

Mr. Salim Chamdia	Chairman
Mr. Muhammad Shafi Malik	Member
Mr. Yacoob Memon	Member

Trustee

M/s. Central Depository Company of Pakistan Limited
Progressive Plaza, Suit # M-13-16,
Mezzanine Floor, Beaumont Road, Karachi.

Bankers

- Allied Bank Limited
- Arif Habib Bank Limited
- Bank AL Habib Limited
- Bank Al Falah Limited
- Habib Metropolitan Bank Limited
- MCB Bank Limited
- Meezan Bank Limited
- Standard Chartered (Pakistan) Bank 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

- Allied Bank Limited
- Arif Habib Bank Limited
- Bank Al Habib Limited
- Citi Bank
- IGI Investment Bank Limited
- National Bank of Fujairah
- Standard Chartered Bank
- The Bank of Punjab

Rating

- PACRA : 5-Star (Normal)
- PACRA : AM2 (Positive Outlook) - Management Company

MISSION STATEMENT

The Pakistan Capital Market Fund's mission is to provide investors the benefit from an investment portfolio of high quality shares, debt securities and money market transactions, which optimises return with an emphasis on minimising risk.

**REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED 30TH JUNE 2008**

The Board of Directors of Arif Habib Investment Management Limited, the Management Company of the Pakistan Capital Market Fund (PCM), is pleased to present its fifth annual report together with audited Financial Statements for the Financial Year ended 30th June 2008.

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 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) 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 Regulation 2007, 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 2008

The net assets of the Fund as at 30th June 2008 stood at Rs 835 million. The ex-dividend Net Assets Value (NAV) per unit at the start of the period was Rs 11.59, a decrease of Re 0.74 in the NAV per unit during the period under review, the NAV per unit as on 30th June 2008 was Rs 10.85. Further, during the period, PCM recorded a negative return of 6.38% as compared to 10.77% decline in KSE-100 index and 7.12% negative return of Internal Benchmark.

Earnings Per Unit (EPU)

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

Income Distribution

The Board in the meeting held on 3rd July 2008 declared a distribution in the form of bonus units to A-Class units and equivalent cash dividend to B-Class units at the rate of Re 0.30 per unit for the Financial Year ended on 30th June 2008. The bonus of Re 0.30 per unit is 2.59% of the opening NAV for Financial Year 2008.

Comments On Auditor's Qualification

As explained in Note 3.1 to the Financial Statements, till 18th December 2007 the Term Finance Certificates (TFCs) in the Fund's portfolio were not valued at prices quoted on stock exchanges as required by the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 since most of the TFC transactions occur in Over The Counter market through money market brokers and not on the stock exchanges. As a result, the prices quoted on the stock exchanges were not representative of the actual traded prices and therefore TFCs were valued using rates of the last transaction (purchase price) executed by the Fund in the relevant TFC adjusted for the effect of partial redemption, if any, after the date of transaction. Subsequently, the policy for valuation was revised in line with Non-Banking Finance Companies and Notified Entities Regulations, 2007 according to which, investment in TFCs are now being valued on the basis of the rate notified by the Mutual Funds Association of Pakistan.

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 is given in the annual report.

Statement showing attendance of Board meetings is as follows:

Attendance of Board Meetings
From 1st July 2007 to 30th June 2008

S. No.	Name	Designation	Meetings		
			Total	Attended	Leave Granted
1.	Mr. Salim Chamdia	Chairman	12	12	-
2.	Mr. Nasim Beg	Chief Executive	12	12	-
3.	Mr. Sirajuddin Cassim	Director	12	-	12
4.	Mr. Muhammad Akmal Jameel	Director	12	11	1
5.	Mr. Muhammad Kashif	Director	12	6	6
6.	Mr. Muhammad Shafi Malik	Director	12	10	2
7.	Mr. John Kirkham	Director	12	2	10
8.	Mr. Mirza Qamer Beg	Director	12	10	2

On 21st August 2007 Mr. John Kirkham, the Chairman of the Board resigned and Mr. Salim Chamdia was appointed in his place on 6th October 2007. On 15th September 2007, Mr. Mirza Qamar Beg was appointed as director but he resigned from directorship on 3rd July 2008 and Mr. Yacoob Memon was appointed on 25th July 2008.

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	Investment	Redemption
			(No. of Units)	
1	Mr. Nasim Beg	Chief Executive	-	4,484

External Auditors

As recommended by the Audit Committee the Board of Directors of the Management Company has reappointed M/s. KPMG Taseer Hadi and Co., Chartered Accountants as the Fund's auditors for the year ending 30th June 2009.

Future Outlook

The KSE-100 Index finished the Fiscal Year ended 30th June 2008 down 10.77%. It suffered a significant meltdown after touching its peak in April 2008 and benchmark index has come down by 35% by July 2008. Weakening macro fundamentals, local political stalemate and turbulence in the global economy and financial markets have been the major factors.

Pakistan economy has been adversely affected by rising international oil price, double digit growth in inflation and pressure on balance of payments. During 2009, the pressure on balance of payment is likely to be absorbed through external inflows such as Saudi Oil facility. However, pressure on current account deficit will persist if the trade deficit remains high and investment inflows stay low. In addition, interest rates are also expected to stay high or may even rise further in the backdrop of inflationary pressures. High interest rates environment will keep equity valuations subdued in the near future. Overall valuations have become attractive following the recent correction in the market. Moreover, any major decrease in the international oil price, funding commitments from big economies or multi lateral agencies and the much required stability on the local political front can serve as key drivers for the equity values.

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 the growth and the meticulous management of the Fund.

For and on behalf of the Board

Karachi
25th July 2008

Nasim Beg
Chief Executive

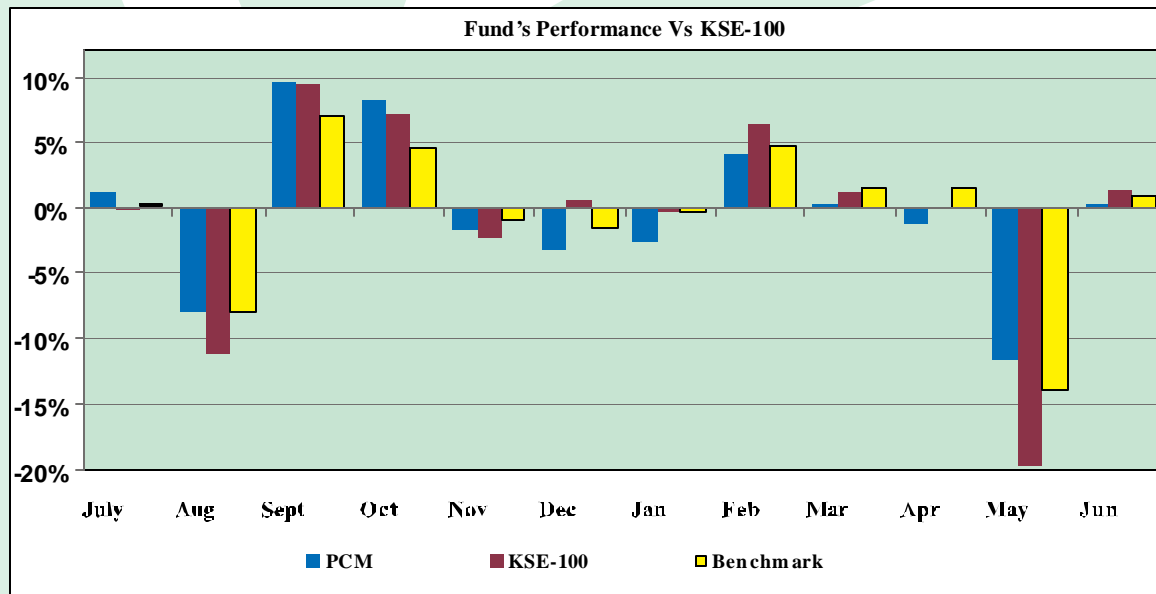
**REPORT OF THE FUND MANAGER
FOR THE YEAR ENDED 30TH JUNE 2008**

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.

Funds Performance

During Financial Year 2008, PCM gave a negative return of 6.38% as compared to 10.77% decline in KSE-100 index and 7.12% negative return of internal Benchmark. The Fund diversified its allocation across various asset classes, in line with its stated objectives. Month wise returns are given below.



There were two major drops that came in PCM NAV during the year. In August 2007, the local equities fell sharply due to the panic sell-off in global equity markets in the aftermath of sub-prime mortgage crisis and also due to the rising political uncertainty within the country. During August, PCM was on average 82.97% invested in equities and its NAV fell 8.01% compared to KSE-100 Index drop of 11.10%. The Fund, nevertheless, gained sharply in September as the local market recovered. In May 2008, the KSE-100 Index came off 19.78%, amid macroeconomic concerns and monetary tightening. PCM's NAV fell 11.52% during this month.

PAKISTAN CAPITAL MARKET FUND

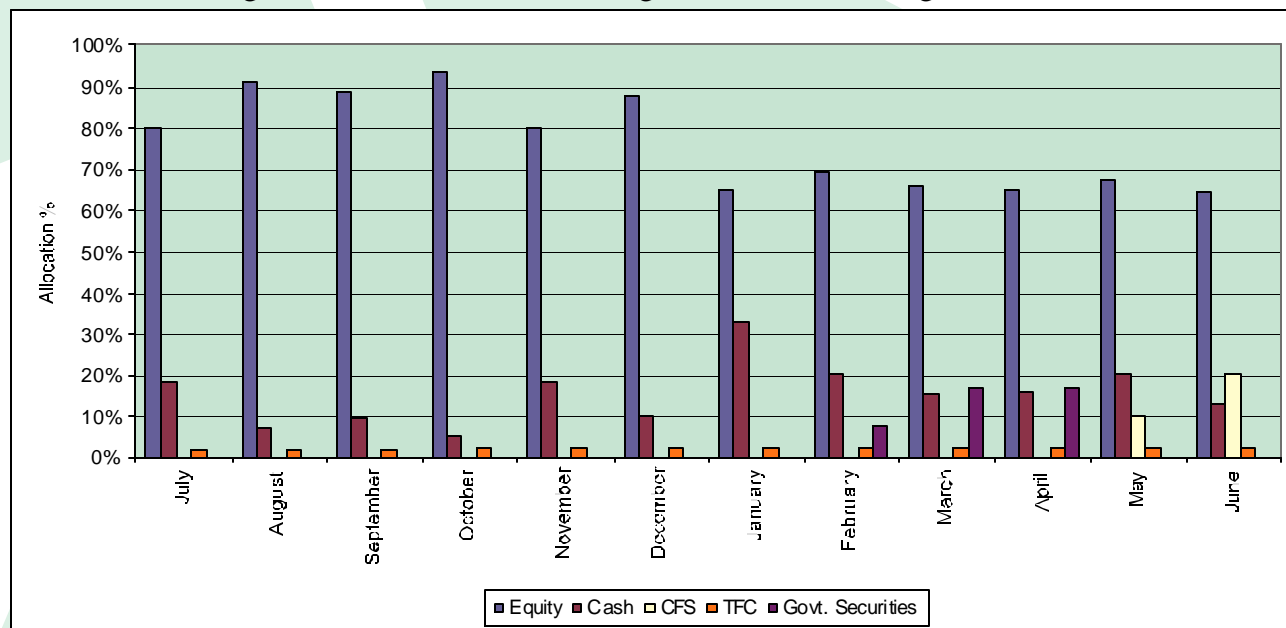
NAV Change Analysis and Total Return

	FY2005-06	FY2006-07	FY2007-08
Beginning net assets (Rs '000)	1,698,167	1,410,797	1,059,343
No. of Units	149,851,767	122,391,684	91,372,789
Beginning NAV (Rs) (Ex Dividend)	11.33	11.53	11.59
Ending Net Assets (Rs '000)	1,435,651	1,084,197	835,029
No. of Units	98,832,091	74,288,196	76,980,158
Ending NAV (Rs)	14.53	14.59	10.85
Bonus Distribution (Rs)	3	3	0.3
Ending NAV (Ex-Dividend) (Rs)	11.53	11.59	10.55
Income Distribution (%)	26.48	26.02	2.59
Capital Growth (%)	1.77	0.52	(8.97)
Total Return (%)	28.24	26.54	(6.38)

	Total Return (%)	Annualised Return (CAGR) (%)
1 year	(6.38)	(6.38)
2 year	18.50	8.84
3 year	50.60	14.63

Asset Allocation and investment activities during 2007-2008

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



Equity portfolio:

Financial Year 2008 started with an equity allocation of 83% which declined to 64.5% at the end of the year. Average equity allocation of the Fund was 77% in 2008 as compared to 75% last year. During the year, the Fund earned a positive return from its exposure in the Oil & Gas, Fertilizer, Power, and Chemicals sectors, while Textiles, Autos, Banking, Cement contributed negative returns.

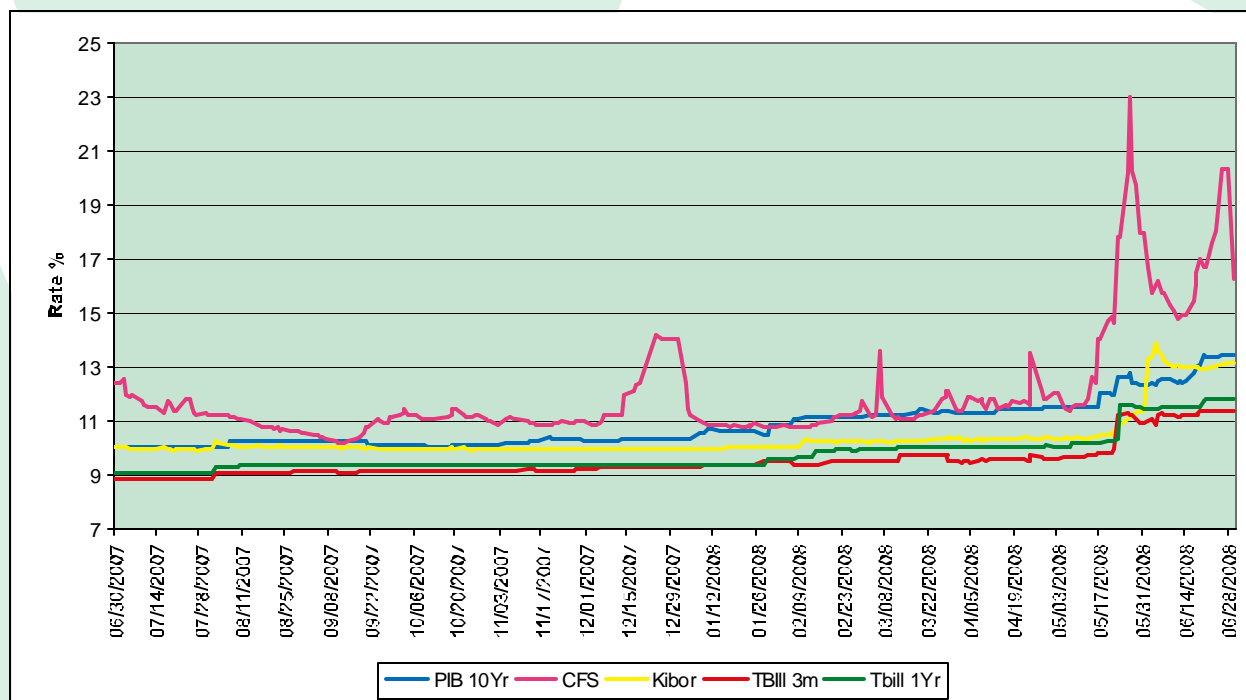
Major changes made in sector / company allocations during the year are:

- Banks: allocation to the banking sector increased during the first half of the year, before being gradually reduced to 3.38% at end June 2008, as the outlook for the sector became negative amid growing concerns over inflation, rising interest rates and slippages on twin deficits.
- Autos: Slow down in economic growth, high interest rates and depreciating Rupee against Yen has impacted Auto sector growth and profitability. Exposure in this sector was reduced gradually from 13.25% at the beginning of the year to 2.29% in end June 2008.
- Fertilizer: The Fund, on average, was 7.84% invested in the Fertilizer sector. Over the year, exposure was reduced in FFBL, where rising DAP prices and input costs depressed the outlook on the company's profitability.
- Oil & Gas Exploration, Marketing and Refinery sector: These contributed positive returns in PCM. Exposure to the Exploration sub-sectors was gradually increased during the year, as rising international oil prices and depreciating Rupee is likely to support core earnings in this sector. The Fund, however, booked profit in the Oil Marketing and Refinery stocks.

Fixed income portfolio:

During the year, PCM's fixed income portfolio increased as the Fund reduced its equity exposure. PCM maintained about 2% TFC allocation through out the year. During February-March, the Fund invested up to 17% of Fund size in PIBs. However, this investment was liquidated before the interest rates moved up higher in May 2008. Meanwhile CFS rates also shot up towards the end of May 2008, after the State Bank tightened its monetary policy, resulting in a reduced liquidity. To capture these excessive returns, PCM (on the average) invested around 15% of its cash in CFS during May-June 2008, which was offering an average gross return of 14% to 23%.

As of 30th June 2008, the risk-free 10-year rate was at 13.42% compared to 10.04% last June, while 3 month T-Bill rate moved up to 11.38% from 8.8% during this time period. Following chart compares rates that prevailed during the year on various representative fixed income investments.



Economic Review

Growth Takes the Toll

GDP growth fell to 5.8% in the Financial Year 2008, significantly lower than the targeted 7.2%. Large scale Manufacturing grew by a dismal 4.8% and Agriculture by a mere 1.5%. However, the services sector, insulated from all the gloom developing in the economy, exceeded its target of 7.2%, registering 8.2% growth rate, an indication that consumer confidence remained largely intact in this area.

The Challenge of the Twin Deficits

Exports increased during the Financial Year 2008 by 13.2% to USD 19.2 billion whereas imports rose by 30.9% to USD 39.9 billion. The result was a significantly large trade deficit of USD 20.7 billion, an increase of 52.9%. This in turn has impacted the current account, which has gone up to 8.4% of GDP in Financial Year 2008. As a result foreign reserves have been put under pressure which in October stood over USD 16 billion, have shrunk to USD 11 billion by June end. Further the Rupee has depreciated by 13% during the year amid the rising trade and current account deficits. The fiscal deficit narrates a similar tale; subsidies amounted to Rs 407 billion against a budgeted Rs 113 billion, had prompted increased borrowing from the Central Bank thus creating inflationary pressures. Increase in the cost of doing business has hurt the investment climate causing a decline in investment as a percentage of GDP from 22.9% to 21.6%. The fiscal deficit at present stands at 8.3% of GDP, significantly surpassing the limit of 4-4.5 % of GDP the GoP has to follow under Fiscal and Debt Responsibility Act 2005.

A New Era of Inflation

In the Financial Year 2008, prices of key commodities had gone up considerably high. Of particular significance was oil which since June 2007 has more than doubled, with highly sensitive developing economies suffering the most. Prices of almost every major input to production have increased with dizzying speed, bringing down equity valuations across the globe. In Pakistan, like the rest of the world, inflation has hit both the individuals and industry with full vigour, Average CPI since June has increased by 12%.

The U.S Housing Crisis Takes the Globe by Surprise

The collapse of the U.S housing market led to the largest financial institutions coming under severe liquidity crunch, dampening investor confidence in the financial system, a plummeting Dollar vacillating under the prospects of a U.S recession with growing signs of inflation and lastly, adversely impacting global financial markets.

Future Outlook

The Year Ahead; a Time for Making Adjustments

There has been a gross realization of the seriousness of the global economic situation and central banks, governments and individuals are making adjustments in order to escape the brunt of inflation. The US Federal Reserve Bank, after an aggressive rate cutting in order to avert an economic crisis, is now poised to increase rates, along with the European Central Bank and other central banks in emerging markets. In this context, Pakistan's aggressive interest rate policy is not unique, but an amalgamation with the growing awareness of most other central banks that a tight monetary stance has become imperative in order to contain monetary overhang and the global commodities boom. In addition to this, emerging economies are currently running higher budget deficits primarily due to heavy spending on subsidies (oil and food). Like other countries, the Pakistan government too has indicated that subsidies are not a solution to the problem and therefore, international price increases of oil and food will be passed on to domestic consumers.

Growth slowdown to persist

The growth slowdown of Financial Year 2008 is likely to continue into the new fiscal year on the back of lower consumer and business confidence, high borrowing costs, political uncertainty and increasing costs of major raw materials. Nonetheless, the growth target of 5.5%, slightly higher than Pakistan's long run average growth rate (5.2%) seems achievable. The services sector which contributes the major share of GDP is expected to slow, though still grow significantly as compared to other sectors (6% targeted) as a result of improvement in Pakistan's fundamentals achieved in the last half decade. The target for the Manufacturing sector of 6%, in our view will be difficult to achieve as fundamentals particularly in Textile go against this projection. On the other hand, Agriculture sector is expected to grow by 4% and may also exceed this target due to favorable price situation and government support.

Twin deficits should improve

The government has put in place arrangements for raising approximately USD 10 billion external inflows in 2009 (compared to USD 3.3 billion similar inflows in 2008). This will include in particular Saudi Oil Facility, U.S Economic/Defense Assistance, World Bank and the Asian Development Bank. In addition, the government is targeting to reduce trade deficit by increasing exports up to 15% without imports accelerating significantly. All these measures should help in reducing current deficit to 6% of GDP in 2009 from 8.2% last year.

In order to control high fiscal deficit (presently 8.3% of GDP), the government has started to pass on the international oil price increase to domestic users and is aiming to reduce overall subsidies to Rs 295 billion from Rs 407 billion of last year. In addition, the deferred oil payment facility (one third of Pakistan import) of USD 5 billion will create the necessary fiscal space for the government, which will lead to less borrowing from the Central Bank.

High Interest Rate Environment to Persist

After a total of 250 basis points rise in rates in Financial Year 2008 and 100 basis points in July 2008 (discount rate is now at 13%), we can see further increase in interest rates if inflationary pressures stay strong in coming months.

Other Disclosures under NBFC Regulations 2007

The Fund Manager hereby makes the following disclosures as required under the NBFC Regulations 2007:

- a. The Management Company or any of its delegates did not receive any soft commission (goods & services) from any of its brokers/dealers 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.
- d. Statement of unit holding by size given in the annual report.

TRUSTEE REPORT TO THE UNIT HOLDERS

Report of the Trustee pursuant to Regulation 58(f) and Clause 9 of Schedule IV of the Non-Banking Finance Companies and Notified Entities Regulations, 2007

The Pakistan Capital Market Fund (Fund), an open-end scheme was established under a trust deed dated 27th October 2003, executed between 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 30th June 2008 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 (NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFC Regulations) and the constitutive documents of the Fund.

For the purpose of information, the attention of the unit holders is drawn towards note 3.1 of the financial statements wherein it is specified that previously the basis of valuation of Term Finance Certificates (TFC's) were not in line with the requirements of the NBFC Rules, however, subsequent to Promulgation of NBFC Regulations TFC's are valued in accordance with the requirements of the NBFC Regulations.

Karachi:
Dated: 12th September 2008

Muhammad Hanif
Chief Executive Officer
Central Depository Company of Pakistan Limited

**STATEMENT OF COMPLIANCE
WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED 30TH JUNE 2008**

This statement is being presented by the Board of Directors of 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 Regulation No. 37, Chapter XIII and Chapter XI of listing regulations of Karachi, Lahore and Islamabad Stock Exchanges respectively 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. Currently there is no representation of minority shareholder on the Board.
2. The directors of Management Company have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurred on the Board on 21st August 2007 due to the resignation of Mr. John Kirkham, the Chairman of the Board. Mr. Mirza Qamar Beg was appointed as director in his place on 15th September 2007. Mr. Salim Chamdia was appointed as Chairman of the Board on 6th October 2007. Subsequent to year end Mr. Mirza Qamar Beg resigned on 3rd July 2008 and Mr. Yacoob Memon was appointed as director in his place on 25th July 2008.
5. The Management Company has prepared a ‘Statement of Ethics and Business Practices’ which has been signed by all the directors, management and employees of the Management Company.
6. The Board has developed mission statement and significant policies of the Fund. 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.
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.
9. The Board arranged an orientation course for its new directors during the year to apprise them of their duties and responsibilities.

10. The Board has approved appointment of the Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CE.
11. The roles and responsibilities of the Chairman and CE have been approved by the Board of Directors.
12. The Directors' Report of the Fund for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Fund were duly endorsed by CE and CFO of the Management Company before approval of the Board.
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 Management Company has complied with all the significant corporate and financial reporting requirements of the Code relevant to the Fund.
16. The Board has formed an audit committee for the Fund. It comprises three members, all of whom are non-executive directors including the Chairman of the Committee.
17. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
18. The Board has set-up an effective internal audit function. 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.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold 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.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The Management Company is committed to good corporate governance, and appropriate steps are taken to comply with the best practices.

Karachi
25th July 2008

Nasim Beg
Chief Executive

**REVIEW REPORT TO THE UNIT HOLDERS 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 Investment Management Limited, the Management Company of the Fund to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange where the Fund is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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 Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended 30th June 2008.

Karachi
Dated: 25th July 2008

KPMG Taseer Hadi & Co.
Chartered Accountants

INDEPENDENT AUDITOR'S 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 30th June 2008, and the income statement, distribution statement, cash flow 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.

Basis of qualified opinion

As more fully explained in note 3.1 to the financial statements, upto 18th December 2007, the investment of the Fund in Term Finance Certificates was not marked to market on the basis of the rates quoted on the stock exchange as per the requirements of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Instead, the investment of the Fund in TFCs was valued using the rates of the last transaction (purchase or sale) executed by the Fund in the relevant Term Finance Certificate, adjusted for the effect of partial redemption, if any,

after the date of transaction or using the quotes available at the stock exchange adjusted for the effect of partial redemption.

The revaluation of Term Finance Certificates using the rate of the last transaction executed by the Fund was not in accordance with the requirement of Rule 2(1)(xxxiv)(a) of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 which required that securities which are quoted on the stock exchange should be valued at its last sale price on such exchange on the date on which it is valued. The Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, was amended on 21st November 2007 and the requirements to compute the net assets of a collective investment scheme are now laid down in Regulation 2(1)(xvi)(b) of the Non-Banking Finance Companies and Notified Entities Regulations, 2007. This regulation requires that investment in Term Finance Certificates should be valued at rates notified by the Mutual Funds Association of Pakistan. Accordingly, with effect from 19th December 2007, the Fund has changed the basis for determination of the fair value of its investments in Term Finance Certificates to comply with the requirements of the new Regulations.

Had all the Term Finance Certificates been valued upto 18th December 2007 on the basis of the quotes available at the stock exchange, the net asset 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.

Qualified Opinion

In our opinion, except for the effect on the financial statements of the matter described in the preceding paragraph, the financial statements give a true and fair view of the state of the Fund's affairs as at 30th June 2008 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, except for the matter stated in the opinion paragraph above, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed , Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2007.

Karachi
Date: 25th July 2008

KPMG Taseer Hadi & Co.
Chartered Accountants

**STATEMENT OF ASSETS AND LIABILITIES
AS AT 30TH JUNE 2008**

	<i>Note</i>	2008	2007
(Rupees in '000)			
Assets			
Bank balances	4	84,748	180,573
Receivable against sale of investments		269	-
Receivable against continuous funding system	5	169,789	-
Investments	6	581,999	917,419
Dividend and profit receivable	7	7,029	3,454
Advances, deposits, prepayments and other receivables	8	4,281	2,133
Preliminary expenses and floatation costs	9	1,692	4,592
Conversion cost	10	3,510	4,981
Total assets		853,317	1,113,152
Liabilities			
Payable on redemption of units		9,925	2,519
Payable to Arif Habib Investment Management Limited			
- Management Company	11	2,143	2,674
Payable to Central Depository Company of Pakistan Limited			
- Trustee	12	155	174
Payable to Securities and Exchange Commission of Pakistan			
- Annual Fee	13	1,130	1,253
Accrued expenses and other liabilities	14	2,002	19,193
Advance against issue of certificates	15	20	200
Dividend payable		2,913	2,942
Total liabilities		18,288	28,955
Commitments	16		
Net assets		835,029	1,084,197
Unit holders' funds (as per statement attached)		835,029	1,084,197
(Number of units)			
Number of units in issue		76,980,158	74,288,196
(Rupees)			
Net asset value per unit		10.85	14.59

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

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

Chief Executive

Director

**INCOME STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2008**

	<i>Note</i>	2008	2007
		(Rupees in '000)	
Income			
Capital gain on sale of investments		144,486	108,394
Income from continuous funding system		1,548	6,399
Income from investment in government securities		4,192	-
Income from term finance certificates		5,418	12,951
Dividend income		41,437	26,207
Unrealised (diminution) / appreciation in fair value of investments - 'at fair value through profit or loss'	6.3	(34,945)	67,254
Unrealised appreciation in derivative financial instruments	6.4	71	-
Profit on bank deposits		12,970	17,621
Other income		1,347	926
Total income		176,524	239,752
Operating expenses			
Remuneration of Arif Habib Investment Management Limited - Management Company	11.1	33,901	37,592
Remuneration of Central Depository Company of Pakistan Limited - Trustee	12.1	2,115	2,253
Annual fee - Securities and Exchange Commission of Pakistan	13	1,130	1,253
Securities transaction cost		3,315	5,301
Bank charges		222	153
Fees and subscriptions		372	358
Legal and professional charges		155	50
Auditors' remuneration	17	653	580
Amortisation of preliminary expenses and floatation costs		2,900	2,900
Amortisation of conversion cost		1,471	1,468
Others		455	-
Total expenses		46,689	51,908
Net income		129,835	187,844
Net element of (loss) and capital (losses) included in prices of units sold less those in units redeemed		(42,892)	(78,915)
Net income carried forward for distribution		86,943	108,929

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

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

Chief Executive

Director

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2008**

	2008 (Rupees in '000)	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	86,943	108,929
Adjustments		
Amortisation of preliminary expenses and floatation costs	2,900	2,900
Amortisation of conversion cost	1,471	1,468
Dividend income	(41,437)	(26,207)
Unrealised diminution / (appreciation) in fair value of investments - 'at fair value through profit or loss'	34,945	(67,254)
Unrealised (gain) on revaluation of derivative financial instrument	(71)	-
Net element of accrued loss and realised capital losses relating to units issued and repurchased during the year	42,892	78,915
	127,643	98,751
(Increase) / decrease in assets		
Receivable against continuous funding system	(169,789)	-
Receivable against sale of investments	(269)	-
Investments	150,717	599,373
Dividend and profit receivable	(1,468)	2,221
Advances, deposits, prepayments and other receivables	(2,148)	6,893
	(22,957)	608,487
Increase / (decrease) in liabilities		
Payable to Arif Habib Investment Management Limited - Management Company	(531)	(497)
Payable to Central Depository Company of Pakistan Limited - Trustee	(19)	(21)
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	(123)	(417)
Accrued expenses and other liabilities	(17,191)	17,356
	(17,864)	16,421
Cash generated from operations	86,822	723,659
Dividend received	39,330	27,203
Taxes paid	-	(36)
Net cash flow from operating activities	126,152	750,826
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment against redemption of units - net	(196,914)	(600,717)
Advance refunded relating to initial subscription in the Fund	(180)	-
Dividend paid	(24,883)	(24,776)
Net cash flow from financing activities	(221,977)	(625,493)
Net (decrease) / increase in cash and cash equivalents during the year	(95,825)	125,333
Cash and cash equivalents at the beginning of the year	180,573	55,240
Cash and cash equivalents at the end of the year	84,748	180,573

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

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

Chief Executive

Director

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2008**

	2008 (Rupees in '000)	2007
Undistributed income brought forward	153,201	346,580
Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units repurchased - amount representing unrealised capital gains / (losses)	9,664	(5,812)
Net income for the year	86,943	108,929
Final Cash distribution @ 30 % i.e. Rs 3 per unit for the year ended 30 th June 2007 (2006: 30% i.e. Rs 3 per unit)	(24,854)	(24,854)
Final bonus units distribution for the year ended 30 th June 2007 @ 30% i.e. 25.88 units for every 100 units held (2006: 30% i.e. 26.02 units for every 100 units held) - transfer to reserve for issue of bonus units	(198,010)	(271,642)
	(126,257)	(193,379)
Undistributed income carried forward	26,944	153,201

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

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

Chief Executive

Director

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED 30TH JUNE 2008**

	<i>Note</i>	2008	2007
		(Rupees in '000)	
Net Assets at the beginning of the year		1,084,197	1,435,651
Issue of 68,119,873 units (2007: 49,148,960 units)		786,218	581,472
Redemption of 82,512,593 units (2007: 97,252,448 units)		(990,538)	(1,183,280)
		(204,320)	(601,808)
		879,877	833,843
Element of income and capital gains included in prices of units sold less those in units repurchased			
- amount representing accrued loss and realised capital losses transferred to Income Statement		42,892	78,915
- amount representing unrealised capital (gains) / losses transferred directly to the Distribution Statement		(9,664)	5,812
		33,228	84,727
Net unrealised (diminution) / appreciation during the year in fair value of investments classified as 'available for sale'	6.7	(149,829)	87,364
Capital gain on sale of investments		144,486	108,394
Net unrealised (diminution) / appreciation in fair value of investments 'at fair value through profit or loss'		(34,945)	67,254
Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units repurchased - amount representing unrealised capital gains / (losses)		9,664	(5,812)
Other net loss for the year		(22,598)	(66,719)
		96,607	103,117
Final cash distribution @ 30 % for the year ended 30 th June 2007 (2006: 30%)		(24,854)	(24,854)
Final bonus units distribution for the year ended 30 th June 2007 @ 30% (2006: 30%) - transfer to reserve for issue of bonus units		(198,010)	(271,642)
		(222,864)	(296,496)
Issue of 17,084,593 bonus units for the year ended 30 th June 2007 (2006: 23,559,593 bonus units)		198,010	271,642
Net assets at end of the year		835,029	1,084,197
		(Rupees)	
Net assets value per unit at the beginning of the year		14.59	14.53
Net assets value per unit at the end of the year		10.85	14.59

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

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

Chief Executive

Director

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2008**

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Capital Market Fund (PCM) was established under a Trust Deed executed between Arif Habib Investment Management Limited (AHIML) as Investment Adviser and Central Depository Company of Pakistan Limited (CDC) as Trustee on 27th October 2003. The Investment Adviser of PCM 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 PCM as a closed-end scheme was authorised by SECP on 5th November 2003. PCM is listed on all three stock exchanges in Pakistan. The certificates of PCM were offered for public subscription from 22nd January 2004 to 24th January 2004. PCM 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.

AHIML 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 '5 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) and directives issued by the Securities and

Exchange Commission of Pakistan (SECP). Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.2 Initial application of a standard or an interpretation

During the year, amendments to International Accounting Standards (IAS) 1, Presentation of Financial Statements relating to capital disclosures became effective and have resulted in an additional disclosure. International Financial Reporting Standard (IFRS) 2 - Share Based Payment, IFRS 3 - Business Combinations, IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, IFRS 6 - Exploration for and Extraction of Mineral Resources, IFRIC 8 - Scope of IFRS 2 - Share Based Payment and IFRIC 10 - Interim Financial Reporting and Impairment became effective during the year. The application of these standards and interpretations did not have any material effect on the Fund's financial statements.

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 2008 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.

IAS 29- Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1st July 2008).

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.

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 7 - Financial Instruments: Disclosures (effective for annual periods beginning on or after 1st July 2008).

IFRIC 12 – Service Concession Arrangements (effective for annual period beginning on or after 1st January 2008).

IFRIC 13- Customer Loyalty Programmes (effective for annual period beginning on or after 1st July 2008).

IFRIC 14 IAS 19- The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual period beginning on or after 1st January 2008).

IFRIC 15- Agreement for the Construction of Real Estate (effective for annual period beginning on or after 1st October 2009).

IFRIC 16- Hedge of Net Investment in a Foreign Operation (effective for annual period beginning on or after 1st October 2008).

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 given in note 20 and 21 to these financial statements.

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 originated by the enterprise

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)

During the period, with effect from 19th December 2007, management changed the basis for the determination of the fair value of investments in TFCs. The investment of the Fund in TFCs is now valued at the rates, notified by the Mutual Funds Association of Pakistan (MUFAP). This change has been made to comply with the requirements of Regulation 2(1)(xvi) of the Non-Banking Finance Companies and Notified Entities Regulations, 2007. Uptil 18th December 2007, investments of the Fund in TFCs had been valued on the following basis:

- a) Using the rates of the last transaction (purchase or sale) executed by the Fund in the relevant TFCs, adjusted for the effect of partial redemption, if any, in the TFCs after the date of transaction; or
- b) Using the quotes available at the stock exchange adjusted for the effect of partial redemption.

The revaluation of TFCs using the rate of the last transaction executed by the Fund in the TFCs was not in accordance with the requirement of Rule 2(1)(xxxiv)(a) of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 which required that securities which are quoted on the stock exchange should be valued at its last sale price on such exchange on the date on which it is valued. The Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 were amended on 21st November 2007 and the requirements to compute the net assets of a collective investment scheme are now laid down in Regulation 2(1)(xvi) of the Non-Banking Finance Companies and Notified Entities Regulations, 2007.

Had all the Term Finance Certificates been valued upto 18th December 2007 on the basis of the quotes available at the stock exchange, the net asset 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.

As per Non-Banking Finance Companies and Notified Entities Regulations, 2007, a debt security listed but not traded regularly on a stock exchange is valued at the average rate, notified by the Mutual Funds Association of Pakistan based on the average rates quoted by top three brokers, in terms of volume traded during last three months in that debt security

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, 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 continuous funding system. The difference between purchase and resale price is treated as income from reverse repurchase transactions / continuous funding system (CFS) and accrued over the life of the agreement.

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

Impairment

Financial assets not 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 exceed 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 derecognition 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.

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 intends to avail 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.

PAKISTAN CAPITAL MARKET FUND

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

Note

2008
2007
(Rupees in '000)

In current accounts

3,812

3,501

In deposit accounts

4.1

80,936

177,072

84,748

180,573

4.1 This represents deposit accounts maintained with various banks carrying mark-up at the rate of 2.25% to 10.50% (2007: 4% to 12.2%).

5. RECEIVABLE AGAINST CONTINUOUS FUNDING SYSTEM

The rate of return on these transactions range between 14.40 to 24.05% (2007: Nil) per annum, with maturities ranging from overnight to 22 (2007: 22) working days. Fair value of the collaterals accepted against the above receivable balance as at 30th June 2008 amounted to Rs 166.003 million (2007:Nil).

6. INVESTMENTS

At fair value through profit or loss - held for trading

- Quoted equity securities

6.1

349,594

436,080

- Fixed income and other debt securities

6.2

18,486

21,211

- Derivatives

6.4

71

-

- Advance against Pre-IPO*

25,000

-

393,151

457,291

Available for sale

- Quoted equity securities

6.5

188,848

460,128

581,999

917,419

*This represents amount invested in private placement of term finance certificates of Pakistan Mobile Communications Limited which have not been issued till 30th June 2008.

PAKISTAN CAPITAL MARKET FUND

6.1 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 1 st July 2007	Purchases during the year	Bonus / rights issue	Sales during the year	As at 30 th June 2008	Balance as at 30 th June 2008			Market value as a percentage of net assets	Market value as a percentage of total investments
						Cost	Market value	Appreciation / (diminution)		
-----Number of shares-----					----- (Rupees in '000) -----					
Commercial Banks										
Allied Bank Limited	486,000	330,700	41,120	857,820	-	-	-	-	-	-
National Bank of Pakistan Limited	107,500	390,000	17,370	323,800	191,070	43,449	28,183	(15,266)	3.38	4.84
The Bank of Punjab Limited	-	400,000	-	400,000	-	-	-	-	-	-
Crescent Commercial Bank Limited	387,500	-	-	387,500	-	-	-	-	-	-
Habib Bank Limited	-	100	-	100	-	-	-	-	-	-
						<u>43,449</u>	<u>28,183</u>	<u>(15,266)</u>		
Textile Composite										
Nishat Mills Limited	-	269,600	-	140,000	129,600	12,545	11,142	(1,403)	1.33	1.91
						<u>12,545</u>	<u>11,142</u>	<u>(1,403)</u>		
Cement										
Lucky Cement Limited	-	200,000	-	-	200,000	25,997	19,586	(6,411)	2.35	3.37
						<u>25,997</u>	<u>19,586</u>	<u>(6,411)</u>		
Oil & Gas Marketing Companies										
Pakistan State Oil Company Limited	-	125,000	-	125,000	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>		
Oil & Gas Exploration Companies										
Oil & Gas Development Company Limited	780,700	100,000	-	266,000	614,700	70,710	76,444	5,734	9.15	13.13
Pakistan Petroleum Limited	-	225,000	10,000	44,300	190,700	44,884	46,910	2,026	5.62	8.06
						<u>115,594</u>	<u>123,354</u>	<u>7,760</u>		
Automobile Assembler										
Honda Atlas Cars (Pakistan) Limited	7,500	-	-	7,500	-	-	-	-	-	-
Indus Motors Company Limited	100,000	-	-	100,000	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>		
Transport										
Pakistan International Container Terminal Limited	179,900	-	26,900	206,800	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>		
Technology & Communication										
Pakistan Telecommunication Company Limited "A"	-	595,000	-	-	595,000	27,607	22,991	(4,616)	2.75	3.95
TRG Pakistan Limited "A"	782,500	373,500	-	282,500	873,500	11,655	5,459	(6,196)	0.65	0.94
						<u>39,262</u>	<u>28,450</u>	<u>(10,812)</u>		
Fertilizer										
Fauji Fertilizer Company Limited	356,545	-	-	75,000	281,545	30,387	37,254	6,867	4.46	6.40
Fauji Fertilizer Bin Qasim Limited	1,709,600	300,000	-	2,009,600	-	-	-	-	-	-
Engro Chemical Pakistan Limited	-	162,400	-	162,400	-	-	-	-	-	-
						<u>30,387</u>	<u>37,254</u>	<u>6,867</u>		
Tobacco										
Pakistan Tobacco Company Limited	-	99,300	-	-	99,300	15,152	11,618	(3,534)	1.39	2.00
						<u>15,152</u>	<u>11,618</u>	<u>(3,534)</u>		
Cable & Electrical Goods										
Pak Elektron Limited	-	60,300	7,575	-	67,875	3,960	3,801	(159)	0.46	0.65
						<u>3,960</u>	<u>3,801</u>	<u>(159)</u>		
Chemicals										
I.C.I. Pakistan Limited	405,000	-	-	405,000	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>		
Food & Personal Care Products										
Nestle Pakistan Limited	100	-	-	-	100	150	164	14	0.02	0.03
						<u>150</u>	<u>164</u>	<u>14</u>		
Power Generation & Distribution										
Kot Addu Power Company Limited	-	2,496,000	-	1,049,600	1,446,400	69,427	67,981	(1,446)	8.14	11.68
Hub Power Company Limited	-	631,500	-	-	631,500	20,164	18,061	(2,103)	2.16	3.10
						<u>89,591</u>	<u>86,042</u>	<u>(3,549)</u>		
Total						376,087	349,594	(26,493)		
Total as at 30 th June 2007						371,975	436,080	64,105		

6.2 Fixed income and other debt securities- held for trading

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

Name of the investee company	Profit / Mark-up Rate %	-----Number of certificates-----				As at 30 th June 2008	As at 30 th June 2008			Market value as a percentage of net assets	Market value as a percentage of total investments
		As at 1 st July 2007	Purchases during the year	Sales during the year	Redemptions during the year		Cost	Market value	Appreciation / (diminution)		
Trust Leasing Corporation	12.00%	379	-	-	379	-	-	-	-	-	-
Al Zamin Leasing Modaraba	9.50%	1,000	-	-	-	1,000	3,400	3,270	(130)	0.39	0.56
Worldcall Telecom Limited	16.19%	3,000	-	-	-	3,000	15,141	15,216	75	1.82	2.61
Total		4,379	-	-	379	4,000	18,541	18,486	(55)		
Total as at 30 th June 2007							21,212	21,211	(1)		

TFCs of Al Zamin Leasing Modaraba carry profit at the rate of 9.5% to be paid semi annually with principal repayment on yearly basis as per redemption schedule.

TFCs of Worldcall Telecom Limited carry profit at the rate of 6 month KIBOR plus 2.75% to be set on the first day of the start of each semi annual period. Principal will be repaid semi annually along with profit.

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

	2008 (Rupees in '000)	2007 (Rupees in '000)
Fair value of investments	368,080	457,291
Less: Cost of investments	394,628	393,187
	<u>(26,548)</u>	<u>64,104</u>
Net unrealised (appreciation) / diminution in fair value of investments at the beginning of the year	(64,104)	4,305
Realised on disposal during the year	55,707	(1,155)
	<u>(8,397)</u>	<u>3,150</u>
	(34,945)	67,254

6.4 This represents the unrealized gain on contract for future sale of 1,06,500 shares against holding of 1,446,400 of Kot Addu Power Company Limited (KAPCO) with settlement date of 29th July 2008.

PAKISTAN CAPITAL MARKET FUND

6.5 Quoted equity securities- available for sale

Name of the Investee company	As at 1 st July 2007	Purchases during the year	Bonus / rights issue	Sales during the year	As at 30 th June 2008	Balance as at 30 th June 2008			Market value as a percentage of net assets	Market value as a percentage of total investments
						Cost	Market value	Appreciation / (diminution)		
----- Number of shares -----						----- (Rupees in '000) -----				
SHARES OF LISTED COMPANIES - Fully paid up ordinary shares of Rs 10 each unless otherwise stated										
Textile Spinning										
Reliance Cotton Spinning Mills Limited	20,000	-	-	20,000	-	-	-	-	-	-
Textile Composite										
Gul Ahmed Textile Mills Limited	64,800	-	-	64,800	-	-	-	-	-	-
Reliance Weaving Mills Limited	300,000	-	-	300,000	-	-	-	-	-	-
Kchinor Mills Limited	344,850	-	137,940	-	482,790	15,491	10,515	(4,976)	1.26	1.81
Suraj Cotton Mills Limited	367,500	-	-	-	367,500	18,345	19,661	1,316	2.35	3.38
Artistic Denim Mills Limited	138,500	-	27,700	166,200	-	-	-	-	-	-
Chenab Limited	1,000,000	-	-	7,500	992,500	17,865	6,551	(11,314)	0.78	1.13
						51,701	36,727	(14,974)		
Cement										
Cherat Cement Company Limited	503,125	-	-	503,125	-	-	-	-	-	-
Refinery										
National Refinery Limited	23,100	-	-	23,100	-	-	-	-	-	-
Attock Refinery Limited	188,020	-	15,755	203,775	-	-	-	-	-	-
Oil & Gas Exploration Companies										
Oil & Gas Development Company Limited	62,540	-	-	-	62,540	6,176	7,778	1,602	0.93	1.34
						6,176	7,778	1,602		
Automobile Assembler										
Honda Atlas Cars (Pakistan) Limited	105,550	-	-	105,550	-	-	-	-	-	-
Pak Suzuki Motors Company Limited	198,705	-	-	39,400	159,305	13,825	19,083	5,258	2.29	3.28
Indus Motor Company Limited	101,200	-	-	101,200	-	-	-	-	-	-
						13,825	19,083	5,258		
Cable & Electrical Goods										
Siemens (Pakistan) Engineering Company Limited	5,000	-	-	-	5,000	2,254	7,029	4,775	0.84	1.21
						2,254	7,029	4,775		
Paper & Board										
Century Paper & Board Mills Limited	669,400	-	66,790	28,900	707,290	43,998	35,365	(8,633)	4.24	6.08
Packages Limited	333,189	-	17,518	216,400	134,307	18,350	33,830	15,480	4.05	5.81
						62,348	69,195	6,847		
Food & Personal Care Product										
Nestle Pakistan Limited	29,900	-	-	-	29,900	14,258	49,036	34,778	5.87	8.43
						14,258	49,036	34,778		
Pharmaceutical										
Searle Pakistan Limited	254,100	-	25,410	279,510	-	-	-	-	-	-
						-	-	-		
Total						150,562	188,848	38,286		
Total as at 30 th June 2007						272,013	460,128	188,115		

6.6 Fixed income and other debt securities-available for sale

Pakistan Investment Bonds (PIBs) with face value of Rs 50 million.

Issue Date	Tenor	As at 1 st July 2007	Purchases during the year	Sales during the year	As at 30 th June 2008	Balance as at 30 th June 2008			Investment as a percentage of net assets	Market value as a percentage of total investments
						Cost	Market value	Appreciation / (diminution)		
----- Quantity -----						----- (Rupees in '000) -----				
22 nd Aug 2007	10 Years	-	200,000	(200,000)	-	-	-	-	-	-
Total			200,000	(200,000)						

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

	2008	2007
	(Rupees in '000)	
Fair value of marketable securities classified as 'available for sale'	188,848	460,128
Cost of marketable securities classified as 'available for sale'	150,562	272,013
	38,286	188,115
Net unrealised diminution / (appreciation) in the value of securities at the beginning of the year	(188,115)	(100,751)
	(149,829)	87,364

6.8 Investments include quoted equity securities with market value as at 30th June 2008 aggregating to Rs 41,499,516 (2007: Nil) 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.

PAKISTAN CAPITAL MARKET FUND

7. DIVIDEND AND PROFIT RECEIVABLE	2008	2007
	(Rupees in '000)	
Income accrued on Continuous Funding System	657	-
Income accrued on Term Finance Certificates	555	230
Dividend Receivable	4,685	2,578
Profit receivable on bank deposits	1,132	646
	<u>7,029</u>	<u>3,454</u>
8. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Receivable from Arif Habib Investment Management Limited	124	420
Receivable from Pakistan Stock Market Fund	-	8
Advance tax	343	343
Prepayments	14	62
Deposit with National Clearing Company of Pakistan Limited	3500	1000
Deposit with Central Depository Company of Pakistan Limited	300	300
	<u>4,281</u>	<u>2,133</u>
9. PRELIMINARY EXPENSES AND FLOATATION COSTS		
Opening balance	4,592	7,492
Less: Amortisation during the year	2,900	2,900
	<u>1,692</u>	<u>4,592</u>
10. CONVERSION COST		
Conversion Cost at the beginning of the year	4,981	6,449
Less: Amortisation during the year	1,471	1,468
	<u>3,510</u>	<u>4,981</u>
11. PAYABLE TO ARIF HABIB INVESTMENT MANAGEMENT LIMITED – MANAGEMENT COMPANY		
Management fee	2,118	2,646
Front - end load payable	25	28
	<u>2,143</u>	<u>2,674</u>

PAKISTAN CAPITAL MARKET FUND

- 11.1** Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2007, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of three percent per annum.

The Management Company has entered into Investment Facilitation Agreements with Standard Chartered Bank of Pakistan Limited, Arif Habib Bank Limited and Allied Bank Limited for share of management fees for sale of units generated by the respective banks. The fee is calculated on daily basis and paid monthly.

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

2008 **2007**
(Rupees in '000)

Trustee fee	141	170
CDS charges	14	4
	155	174

- 12.1** 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. 1000 million

Rs 0.7 million or 2.0 % p.a of NAV whichever is higher.

On amount exceeding Rs. 1000 Million

Rs 2 million plus 0.1% p.a of NAV exceeding Rs 1000 million

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

Under the regulation of Non-Banking Finance Companies and Notified Entities Regulations, 2007, an open end scheme is required to pay as annual fee to the SECP, an amount equal to one-tenth of one percent of the average annual net assets of the scheme.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

2008 **2007**
(Rupees in '000)

Brokerage	177	-
Auditor's remuneration	400	265
Payable to Management Company	-	40
Payable to Pakistan Income Fund	1,031	18,732
Professional fee	50	100
Others	344	56
	2,002	19,193

PAKISTAN CAPITAL MARKET FUND

15. ADVANCE AGAINST ISSUE OF CERTIFICATES

This amount represents subscription money against cases which were rejected in post ballot scrutiny. The cases had been forwarded to SECP for their consideration for approval / rejection of such applications. During the year, the SECP accorded its approval for refund of certain cases.

16. COMMITMENTS

2008
2007
(Rupees in '000)

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

1,175

-

17. AUDITOR'S REMUNERATION

Annual audit fee

180

150

Half yearly review

80

50

Other certifications and services

335

340

Out of pocket expenses

58

40

653

580

18. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include 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 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, Non-Banking Finance Companies and Notified Entities Regulations, 2007 and the Trust Deed respectively.

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

	2008 (Units)	2007	2008 (Rupees in '000)	2007
<u>Units sold to:</u>				
<i>Management Company</i>				
Arif Habib Investment Management Limited	-	11,447,327	-	132,155
<i>Other related parties</i>				
- Directors and executives of the management company	26,844	93,016	316	1,060

PAKISTAN CAPITAL MARKET FUND

Units redeemed by:

	2008 (Units)	2007	2008 (Rupees in '000)	2007
--	-----------------	------	--------------------------	------

Management Company

Arif Habib Investment Management Limited	-	27,893,052	-	340,332
--	---	------------	---	---------

Associated Companies

Arif Habib Securities Limited- Brokerage house	-	-	-	-
--	---	---	---	---

Other related parties

- Directors and executives of the management company	39,262	147,899	485	1,750
--	--------	---------	-----	-------

Bonus units distributed to:

Management Company

Arif Habib Investment Management Limited	263,665	3,605,853	3,056	41,575
--	---------	-----------	-------	--------

Other related parties

- Directors and executives of the management company	104,106	12,831	1,207	148
--	---------	--------	-------	-----

Units held by:

Management Company

Arif Habib Investment Management Limited	1,282,291	1,018,626	13,913	14,862
--	-----------	-----------	--------	--------

Other related parties

- Directors and executives of the management company	493,884	7,260	5,359	106
--	---------	-------	-------	-----

Transactions and balances with connected persons - unsecured

Arif Habib Investment Management Limited - Management Company

Balance at the beginning of the year			2,674	3,171
--------------------------------------	--	--	-------	-------

Remuneration for the year			33,901	37,592
---------------------------	--	--	--------	--------

Sales load for the year			2,124	861
-------------------------	--	--	-------	-----

			36,025	38,453
--	--	--	--------	--------

Amounts paid during the year			(36,556)	(38,950)
------------------------------	--	--	----------	----------

Balance at the end of the year			2,143	2,674
--------------------------------	--	--	-------	-------

Transaction cost for the year			330	124
-------------------------------	--	--	-----	-----

PAKISTAN CAPITAL MARKET FUND

	2008 (Rupees in '000)	2007
<i>Arif Habib Limited - Brokerage house</i>		
Brokerage expense for the year	343	512
Payments made during the year	343	512
Balance at the end of the year	-	-
<i>Arif Habib Bank Limited</i>		
Mark-up for the year	6,967	357
Accrued mark-up as at 30 th June	1,119	3
Commission paid on the sale of units	57	-
<i>Central Depository Company of Pakistan Limited - Trustee</i>		
Balance at the beginning of the year	174	195
Remuneration for the year	2,115	2,253
CDS charges for the year	57	68
	2,172	2,321
Amounts paid during the year	(2,191)	(2,342)
Balance at the end of the year	155	174
Security deposit	300	300
<i>Amounts due on account of Conversion / Trading / Switching / Transfer of units</i>		
Receivable from Pakistan Stock Market Fund	-	8
Payable to Pakistan Income Fund	(1,031)	(18,732)

- 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.

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).

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. 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.

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. Financial assets subject to credit risk amount to Rs 847.758 million (2007: Rs 1,103.174 million). The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse creditworthy counterparties thereby mitigating any significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Management Company manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

Market Rate of Return (MROR) Risk

MROR risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund manages its investments portfolio in order to reduce the risk of loss in market value of investments as a result of changes in market interest rates. In case the Management Company expects economic uncertainty the portfolio will be restructured so as to comprise of short-term debt securities, money market instruments, short maturity repurchase transactions, Continuous Funding System and reverse repurchase transactions.

MARKET RATE OF RETURN (MROR) SENSITIVITY POSITION

The Fund's MROR sensitivity related to financial assets and financial liabilities as at 30th June 2008 can be determined from the following:

On-balance sheet financial instruments	Effective rate of mark-up/return (%)	30 th June 2008			Not exposed to MROR risk	Total
		Exposed to MROR risk				
		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
		319,211	-	-	528,547	847,758
Financial liabilities						
Payable on redemption of units		-	-	-	9,925	9,925
Payable to Arif Habib Investment Management Limited - Management Company		-	-	-	2,143	2,143
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	155	155
Payable to Securities and Exchange Commission of Pakistan		-	-	-	1,130	1,130
Accrued expenses and other liabilities		-	-	-	2,002	2,002
Advance against issue of certificates		-	-	-	20	20
Dividend payable		-	-	-	2,913	2,913
		-	-	-	18,288	18,288
On-balance sheet gap - 2008		319,211	-	-	510,259	829,470

PAKISTAN CAPITAL MARKET FUND

30th June 2007

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	4.00 - 12.20	177,072	-	-	3,501	180,573
Investments	9.50 - 13.34	21,211	-	-	896,208	917,419
Dividend and profit receivable		-	-	-	3,454	3,454
Deposits and other receivable		-	-	-	1,728	1,728
		198,283	-	-	904,891	1,103,174
Financial Liabilities						
Payable on redemption of units		-	-	-	2,519	2,519
Payable to Arif Habib Investment Management Limited - Management Company		-	-	-	2,674	2,674
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	174	174
Payable to Securities and Exchange Commission of Pakistan - annual fee		-	-	-	1,253	1,253
Accrued expenses and other liabilities		-	-	-	19,193	19,193
Dividend payable		-	-	-	2,942	2,942
		-	-	-	28,755	28,755
On-balance sheet gap - 2007		198,283	-	-	876,136	1,074,419

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. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Management Company makes estimates and assumptions that effect the reported amount of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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.

PAKISTAN CAPITAL MARKET FUND

22. PATTERN OF UNITHOLDING

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

Unit holding pattern of the fund as at 30th June 2007 was as follows:

Category	Number of Unit Holders	Investment amount (Rupees in '000)	Percentage of total investment
Individuals	6,354	638,402	58.88
Associated companies	1	14,867	1.37
Directors	1	94	0.01
Bank / financial institutions	18	2,853	0.26
Insurance companies	5	183,809	16.95
Non-Banking Finance Companies	6	9,932	0.92
Retirement funds	32	51,883	4.79
Public limited companies	17	124,453	11.48
Others	96	57,904	5.34
	6,530	1,084,197	100.00

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

Broker name	2008 (Percentage)	Broker name	2007 (Percentage)
Invisor Securities (Private) Limited	12.41	Arif Habib Limited	9.97
Arif Habib Limited	11.67	BMA Capital Management Limited	7.71
BMA Capital Management Limited	9.54	H H Misbah Securities (Private) Limited	7.18
DJM Securities (Private) Limited	6.31	Alfalah Securities (Private) Limited	6.95
Cassim Investment (Private) Limited	5.59	Ample Securities (Private) Limited	6.86
Foundation Securities (Private) Limited	5.39	Invisor Securities (Private) Limited	6.39
AKD Securities	4.80	DJM Securities (Private) Limited	6.30
KASB Securities Limited	4.77	KASB Securities Limited	5.72
H H Misbah Securities (Private) Limited	4.15	Invest Capital and Securities (Private) Limited	4.81
Live Securities (Private) Limited	3.45	AKD Securities	4.65

24. INVESTMENT COMMITTEE

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

Name	Designation	Qualification	Experience in years
Mr Basharat Ullah	Chief Investment Officer and Fund Manager	MBA	15
Syed Ajaz Ahmed	Chief Financial Officer	LLB / ACMA	36
Ms Nazia Nauman	Head of Research	MBA / CFA	8
Mr Zafar Rehman	Head of Debt and Money Market Funds	B.COM	16

24.1 Other Funds managed by the Fund Manager

Pakistan Stock Market Fund
 Pakistan International Element Islamic Fund
 Equity portion of the Discretionary Managed Portfolios

25. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

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 Jameel	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	12	2	10	42nd and 51st meeting
Mr. Mirza Qamer Beg	12	10	2	40th and 41st meeting

26. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company have approved a bonus of 3% i.e. 2.84 units for every 100 units held (2007: 30% i.e. 25.88 units for every 100 units held) for the year ended 30th June 2008, amounting to Rs 23.094 million (2007: 222.864 million) in total in their meeting held on 3rd July 2008. The financial statements for the year ended 30th June 2008 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending 30th June 2009.

27. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 25th July 2008 by the Board of Directors of the Management Company.

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

Chief Executive

Director

**DETAILS OF PATTERN OF HOLDING (UNITS)
AS AT 30TH JUNE 2008**

PARTICULARS	UNITS HELD
<u>Associated Companies</u>	
Arif Habib Investment Management Limited	1,282,291
<u>Directors and CEO</u>	
Chief Executive Nasim Beg	3,639
Public Limited Companies	793,192
Banks and Financial Institutions	17,800,487
Individuals	46,818,763
Retirement Funds	7,363,141
Other Corporate Sector Entities	2,918,645
TOTAL	<u><u>76,980,158</u></u>

**PATTERN OF UNITHOLDING (BY SIZE)
AS AT 30TH JUNE 2008**

NO. OF UNIT HOLDERS	FROM	TO	UNITS HELD	PERCENTAGE
14	1	100	558	0.0007
119	101	500	44,522	0.0578
1824	501	1,000	1,431,781	1.8599
1324	1,001	5,000	3,896,133	5.0612
563	5,001	10,000	4,276,209	5.5549
133	10,001	15,000	1,607,393	2.0881
305	15,001	20,000	4,997,224	6.4916
69	20,001	25,000	1,552,718	2.0170
31	25,001	30,000	838,559	1.0893
67	30,001	35,000	2,157,179	2.8023
53	35,001	40,000	2,047,795	2.6602
15	40,001	45,000	631,118	0.8198
22	45,001	50,000	1,049,956	1.3639
15	50,001	55,000	788,385	1.0241
20	55,001	60,000	1,142,979	1.4848
11	60,001	65,000	689,953	0.8963
3	65,001	70,000	201,082	0.2612
13	70,001	75,000	941,678	1.2233
19	75,001	80,000	1,504,381	1.9542
9	80,001	85,000	741,159	0.9628
5	85,001	90,000	434,777	0.5648
2	90,001	95,000	184,799	0.2401
11	95,001	100,000	1,057,411	1.3736
5	100,001	105,000	508,450	0.6605
4	105,001	110,000	432,445	0.5618
7	110,001	115,000	778,624	1.0115
5	115,001	120,000	587,505	0.7632
1	120,001	125,000	122,293	0.1589
7	125,001	130,000	887,586	1.1530
2	130,001	135,000	265,121	0.3444
2	135,001	140,000	274,211	0.3562
3	140,001	145,000	428,471	0.5566
2	150,001	155,000	304,307	0.3953
8	155,001	160,000	1,266,866	1.6457
1	160,001	165,000	164,874	0.2142
2	165,001	170,000	333,680	0.4335
4	170,001	175,000	690,052	0.8964
3	180,001	185,000	543,920	0.7066
1	185,001	190,000	189,447	0.2461
2	190,001	195,000	387,445	0.5033
2	195,001	200,000	396,294	0.5148
1	205,001	210,000	206,230	0.2679
1	215,001	220,000	217,335	0.2823
1	231,001	235,000	233,198	0.3029
3	245,001	250,000	744,655	0.9673
1	250,001	255,000	253,821	0.3297
1	255,001	260,000	257,286	0.3342
1	260,001	265,000	264,926	0.3441
1	270,001	275,000	274,444	0.3565
2	275,001	280,000	553,318	0.7188
1	300,001	305,000	304,500	0.3956
2	315,001	320,000	632,452	0.8216
1	340,001	345,000	344,245	0.4472
2	370,001	375,000	744,730	0.9674
5	385,001	390,000	1,942,650	2.5236
1	400,001	405,000	404,528	0.5255
2	420,001	425,000	843,956	1.0963
1	425,001	430,000	425,990	0.5534
2	440,001	445,000	881,386	1.1450
1	450,001	455,000	453,082	0.5886
1	475,001	480,000	476,708	0.6193
2	490,001	495,000	990,435	1.2866
1	505,001	510,000	505,303	0.6564
1	530,001	535,000	532,219	0.6914
1	555,001	560,000	559,924	0.7274
1	585,001	590,000	586,169	0.7615
1	610,001	615,000	612,453	0.7956
1	620,001	625,000	625,000	0.8119
1	725,001	730,000	727,869	0.9455
1	790,001	795,000	793,192	1.0304
1	800,001	805,000	802,419	1.0424
1	1,075,001	1,080,000	1,077,948	1.4003
1	1,080,001	1,085,000	1,081,080	1.4044
1	1,280,001	1,285,000	1,282,291	1.6657
1	1,645,001	1,650,000	1,646,343	2.1387
1	6,660,001	6,665,000	6,660,235	8.6519
1	7,255,001	7,260,000	7,258,497	9.4290
4,756			76,980,158	100.0000

PERFORMANCE TABLE

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