

PAKISTAN CAPITAL MARKET FUND

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FUND'S INFORMATION

Management Company

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

Board of Directors of the Management Company

Mr. Nasim Beg	Chief Executive
Mr. Muhammad Shafi Malik	Director
Syed Ajaz Ahmed	Director
Mr. Sirajuddin Cassim	Director
Mr. Muhammad Akmal Jameel	Director
Mr. Muhammad Kashif	Director
Mr. S. Gulrez Yazdani	Director (appointment subject to approval of SECP)

Company Secretary & CFO of the Management Company

Mr. Zeeshan

Audit Committee

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

Trustee

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

Bankers of the Fund

- Arif Habib Bank Limited
- Allied Bank Limited
- Bank AL Habib Limited
- Bank Alfalah Limited
- Habib Metropolitan Bank Limited
- MCB Bank Limited
- Meezan Bank Limited
- Standard Chartered Bank (Pakistan) Limited
- The Bank of Punjab

Auditors

M/s. A.F. Ferguson & Co. - Chartered Accountants
State Life Building No. 1-C,
I.I Chundrigar Road, Karachi - 74000

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.

Rating

- PACRA : 2 - Star (Normal)
- PACRA : AM2 (Management Quality rating assigned to Management Company)

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REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE QUARTER ENDED 30TH SEPTEMBER 2009

The Board of Directors of Arif Habib Investments Limited (*formerly: Arif Habib Investment Management Limited*), the Management Company of Pakistan Capital Market Fund (PCM) submits herewith quarterly report together with the condensed interim financial statements for the quarter ended 30th September 2009.

Fund Objective

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

Fund Profile

PCM is an Open End balanced Fund that which is allowed to invests in a range of asset classes such as equity and debt in Pakistani market.

The asset allocation to equities and debt is made on the basis of relative attractiveness of each asset class. The investment process is driven by fundamental research. For equities investment, fundamental outlook of sectors / companies and DCF (Discounted Cash Flow) valuations are the primary factors in sectors' allocation and stock selection. For debt investment, interest rate outlook is the key determining factor and allocation to this segment is increased when the yields are comparatively higher 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.

Financial Performance during quarter ended 30th September 2009

The net income for the quarter ended 30th September 2009 was Rs 75.41 million comprised mainly from gains on equity investments.

The net assets of the Fund as at 30th September 2009 stood at Rs 617.62 million. The Net Assets Value (NAV) per unit at the start of the period was Rs 8.28 and with an increase of Rs 1.34 in the NAV per unit during the period under review, the NAV per unit as on 30th September 2009 was Rs 9.62. The Fund has delivered a total return of 16.18%.

Earning Per Unit (EPU)

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

Future Outlook

Overall macroeconomic situation has stabilized under the USD 11.3 billion IMF program of 3 years leading to improvement in the country's rating from CCC+ to B-. In addition, USD 1.5 billion annual economic assistance from United States and commitments of over USD 5 billion from "Friends of Democratic Pakistan" (FoDP) consortium, should help the country in overcoming the pressures on its external account. Economic growth is expected to be slow around 3% as aggregate demand remains slow due to continuing double digit interest rates and relatively tight monetary conditions. During the coming months, external

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inflows should help in improving domestic liquidity situation. While economic indicators have started to stabilize, the country has confronted another round of escalation in terrorist attacks. Successful completion of army operation in Waziristan and reduction in security threat will be crucial for retaining investors' confidence.

Acknowledgement

The Board is thankful to the Fund's valued investors, Securities and Exchange Commission 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 appreciate the efforts put in by the team of the Management Company.

For and on behalf of the Board

Karachi
22nd October 2009

Nasim Beg
Chief Executive

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REPORT OF THE FUND MANAGER FOR THE QUARTER ENDED 30TH SEPTEMBER 2009

Objective

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

Fund Profile

PCM is an Open End asset allocation Fund which is allowed to invest in a range of asset classes such as equity and debt in Pakistani market.

The asset allocation to equities and debt is made on the basis of relative attractiveness of each asset class. The investment process is driven by fundamental research. For equities investment, fundamental outlook of sectors / companies and DCF (Discounted Cash Flow) valuations are the primary factors in sectors' allocation and stock selection. For debt investment, interest rate outlook is the key determining factor and allocation to this segment is increased when the yields are comparatively higher 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.

Fund Performance

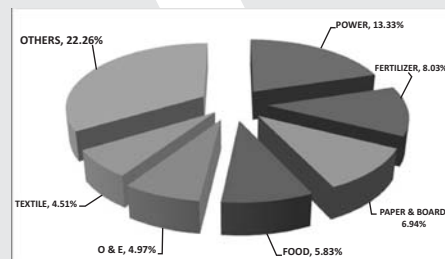
During 1Q FY10, PCM's NAV increased 16.18%, generated mostly from its equity portfolio. The Fund has a diversified allocation across various asset classes, in line with its stated objectives. While almost the entire portfolio earned positive return, most of the return came from the Fund's holding in OGDC, KAPCO, Pak Tobacco, FFC, NML, PSMC, Nestle, Hubco and Lucky.

Asset Allocation and Investment Activities

Equity portfolio

PCM maintains equity allocation between 30-70%. The Fund remained on average 59% invested in equities during Jul-Sep 2009. Overall equity exposure in the Fund was gradually reduced during the quarter, as prices rose above fair values. As at end September, allocation to equities was 56.05% compared to 62.56% at the beginning of the quarter. Major reduction was made in OGDC, which rose above fair value and Lucky Cement, which was offloaded entirely on unfavourable sector dynamics. Excess holding in KAPCO, above the 10% maximum allowed under regulations, was sold. Exposure in Auto sector was increased on relative valuation basis.

Equity allocation as at 30th September 2009



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Fixed income portfolio

PCM's fixed income exposure consists of government bonds, corporate bonds and preference shares. The Fund's TFC portfolio remained unchanged during the quarter. Average credit quality of this portfolio is 'AA-' (Double AA Minus) and most of the portfolio is earning coupon ranging 1.30%-2.75% above KIBOR. As demand for TFCs picked up, the Fund also made valuation gains on the TFC portfolio.

During the quarter in review, the Fund took exposure in 10 year PIBs in anticipation of easing monetary policy. The yield on this paper increased subsequently, resulting in some valuation loss for the portfolio. However, with anticipated reduction in interest rates during the course of the financial year, the PIB valuation is likely to contribute positively towards the Fund's return.

The Fund had 4.05% exposure in preference share, which has dividend linked to 6 month KIBOR + 2%.

Equity Market Review

The market has ended the first quarter with strong gains of 30.54%. The present rally has pushed the market beyond the important 9,000 level. This was the level, where the index remained frozen for over three months (from 27th August – 15th December, 2008) due to imposition of price floor amid the settlement crises. From its low of 4,815 on 26th January, 09, the market has bounced back 94%. Amongst the top ten performing sectors which collectively contributed more than 80% of the index return were Oil & Gas Exploration, Banks, Fertilizer, Investment Comp, OMC, Food, Power, Textile Composite, Technology & Communication and Chemicals.

The recent gains are mostly attributed to foreign investors who have invested USD 235 million during the Q1 of FY 2009/10. These inflows are primarily due to relatively cheap valuations of Pakistani stocks compared to regional and other emerging markets. Equity markets world over have recorded sharp gains during the past few months, with Pakistani market being the second best in July-September 09 quarter.

Overall investors' sentiments turned positive on Pakistani equities as the balance of payment situation was addressed through enhancement in IMF standby arrangement by USD 3.7 billion (to USD 11.3 billion) in August. This also led to improvement in the country's rating from CCC+ to B- with a stable outlook. Average daily volume of 154.55 million shares was traded during the quarter.

Economic Review

As data from the month of July reveals, the slump in manufacturing activity continued into the new financial year; the Quantum Index Numbers of Large Scale Manufacturing (LSM) contracted by 2.87 % in July over June, 2009. These have shown a small increase of 0.47 % on a YoY basis, owing mostly to a lower base. Major concerns particularly from the supply side remain such as power outages and structural issues in the Textile sector, the largest constituent of LSM, and are likely to dampen the pace of growth in the Index going forward. Overall current trends indicate a GDP growth rate of 3.0 – 3.5 % in FY10 with Agriculture likely to grow by 3.3 %, Industry by 3.2 % and Services by 4.0 %.

Interest rates have edged upwards in Q1 FY10 in longer tenures with a 23 basis points and 31 basis points rise in 6-month and 1 year T-bills, while in the 3 month tenure there was a decline of 11 basis points. There was however a more substantial rise in the 10 year PIB yield which rose by 48 basis points to 12.47 % at Q1 end. Liquidity pressures emanating from an aggressive T-bill auction target in Q1 against maturities and deposit withdrawals as a result of the Ramadan-Eid season restrained the KIBOR from slipping down significantly while expectations of the Central Bank maintaining

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policy rate at 13 % against previous anticipations of a cut, were paramount in pushing treasury yields higher. In addition to this SBP announced a cut in the discount rate by 100 basis points in August, which was less than originally anticipated. The State Bank of Pakistan (SBP) is viewing mixed inflationary signals going forward and continued stress on the fiscal accounts.

What particularly concerns the Central Bank is that effectively a rising trend has been witnessed in the CPI since February 2009, which if continued, will push headline CPI higher in the months to come. The CPI increased 10.12 YoY percent in September and an average 10.66 % in Q1 FY10 as against the corresponding period last FY. On the positive side however, Non Food Non Energy or core inflation fell to 11.9 % YoY against 12.6 % a month earlier and in SBP's view, slow economic activity is likely to keep fundamental drivers of core inflation under control. In this regard, SBP may opt for easing the discount rate by 100 basis points to 12 %, expectations of which may allow market interest rates to adjust downward. Moreover, the liquidity situation is likely to improve into Q2 FY10, driven by a buildup of Net Foreign Assets (NFAs) of the banking system. A more favourable, Balance of Payments (BoP) position has allowed the NFAs to increase by PKR 112.7 billion since July FY10, consequently increasing the Monetary base (RM) by 4.52 % against a meager 0.83 % in the corresponding period in FY09. However, risks to lower interest rates also emanate from the fiscal side as lack of clarity with respect to the timing of foreign inflows may increase budgetary financing needs from the domestic economy and decrease the quantum of credit available in an already inactive credit market.

The second quarterly review meeting with the IMF was held in August where additional financing to USD 11.3 billion from the original USD 7.6 billion was approved. The country has received USD 1.2 billion tranche from the IMF including the additional financing, part of which may be used for domestic spending until funds pledged at the FoDP arrive. The disbursements and the supplementary financing to a large extent have lowered sovereign risk, reflected in an upgrade in S&P's rating for Pakistan from CCC+ to B- with a stable outlook and Moody's outlook from negative to stable. As a result, foreign portfolio investment has begun to flow back into Pakistan with a significant inflow of USD 235 million in Q1 FY10, making significant contribution to the buoyant activity seen in the local equity market.

The country's Current Account (CA) experienced a small surplus of USD 82 million in August on the back of a solid improvement in the trade deficit and remittance flows. The trade deficit in Q1 FY10 improved by a staggering 44.74 % against the corresponding quarter in FY09, bringing it to USD 3.09 billion. The improvement was driven mainly by a sharp decline in oil prices compared to the corresponding quarter and thus a 29.85 % decline in imports. Exports on the other hand also suffered a decline of 13.86 % in Q1 FY10; however this is also due to higher base in Q1FY09 as exports had not started to deteriorate back then. Workers' remittances on the other hand surged by 23.99 % bringing the inflows from remittances to USD 2.33 billion in the Jul-Sept FY10 period. The Financial account surplus also observed an improvement by USD 2.1 billion in the Jul – Aug period, owing mostly to disbursements made by donor agencies and friendly countries. Following an improvement in Pakistan's sovereign rating from CCC+ to B-, foreign investors have contributed to the buoyant activity in the local equity market, with an inflow of USD 235 million in 1QFY10. The overall improvement in the BoP has allowed FX-reserves to cross USD 14.8 billion, their highest level in almost 2 years.

The local currency experienced a depreciation of 2.15 % in Q1 FY10, driven to a large extent by expectations of the pass-on of oil payments to the interbank market from the SBP. Furnace Oil payment had already been passed on in February 2009 and Diesel payments have commenced in August 2009. However some strengthening of the currency was also seen in August on the back of significant foreign inflows reflected in the improving BoP position.

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Outlook

Overall macroeconomic situation has stabilized under the USD 11.3 billion 3 years IMF program leading to improvement in the country's rating from CCC+ to B-. In addition, other commitments of over USD 5 billion have been pledged by "Friends of Democratic Pakistan" (FoDP) consortium, which should help the country in overcoming the pressures on its external account. Economic growth is expected to be slow around 3% as aggregate demand remains slow due to continuing double digit interest rates and relatively tight monetary conditions. However, these tightening measures along with fall in international oil prices and improvement in agricultural output have helped in reducing inflation to around 10-11% from over 20% a year earlier. Going forward, external inflows should help in improving domestic liquidity situation. Given the increasingly high participation from foreigners, any pull back in international markets could have material impact on local equities as well. But most importantly, the direction of the market from here hinges to a large extent on further improvement in the macroeconomic environment particularly so with respect to lowering inflation, declining interest rates and clarity with respect to foreign inflows pledged at the FoDP forum. Moreover, the country has confronted with another round of escalation in terrorist attacks and hence, successful completion of army operation in Waziristan and reduction in security threat will be crucial for retaining investors' confidence.

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**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES
AS AT 30TH SEPTEMBER 2009**

	Unaudited Note 30 th September 2009	Audited 30 th June 2009
	----- (Rupees in '000) -----	
Assets		
Bank balances	66,186	52,404
Receivable against sale of investments	2,860	14,467
Investments	6 538,079	483,660
Dividend and profit receivable	9,833	7,458
Advances, deposits, prepayments and other receivables	3,260	3,142
Conversion cost	1,673	2,043
Total Assets	621,891	563,174
Liabilities		
Payable against purchase of investments	-	8,068
Payable on redemption of units	111	865
Payable to Management Company	-	892
Payable to Trustee	102	93
Payable to Securities and Exchange Commission of Pakistan	143	583
Accrued expenses and other liabilities	1,007	823
Dividend payable	2,910	2,913
Total Liabilities	4,273	14,237
Net Assets	617,618	548,937
Unit holders' funds	617,618	548,937
	----- (Number of Units) -----	
Number of units in issue	64,184,082	66,335,795
	----- (Rupees) -----	
Net assets value per unit	9.62	8.28

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

PAKISTAN CAPITAL MARKET FUND

**CONDENSED INTERIM INCOME STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED 30TH SEPTEMBER 2009**

	Note	2009	2008
----- (Rupees in '000) -----			
Income			
Capital gain / (loss) on sale of investments - net		18,463	(2,830)
Income from continuous funding system		-	964
Income from investment in government securities		516	-
Income from term finance certificates		4,516	1,615
Dividend income		5,175	4,001
Unrealised appreciation / (diminution) in the fair value of investments - net	6.4	47,264	(76,724)
Profit on bank deposits		1,975	4,970
Other income		-	15
		<u>77,909</u>	<u>(67,989)</u>
Impairment loss on investments classified as 'available for sale'		(417)	-
Total income / (loss)		<u>77,492</u>	<u>(67,989)</u>
Operating Expenses			
Remuneration of Management Company		3,011	5,354
Remuneration of Trustee		301	357
Securities and Exchange Commission of Pakistan - Annual fee		143	178
Securities transaction cost		244	293
Bank Charges		11	16
Fees and subscriptions		90	65
Legal and professional charges		15	24
Auditors' remuneration		118	162
Amortisation of preliminary expenses and floatation costs		-	731
Amortisation of conversion cost		370	370
Others		103	195
Total Expenses		<u>4,406</u>	<u>7,745</u>
Net income / (loss) from operating activities		<u>73,086</u>	<u>(75,734)</u>
Net element of income and capital gains included in price of units issued less those in units redeemed		2,324	770
Net income / (loss) for the period		<u>75,410</u>	<u>(74,964)</u>

Earnings per unit (EPU) is not disclosed as the management is of the opinion that calculation of weighted average number of units is impracticable.

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

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**CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED 30TH SEPTEMBER 2009**

	2009	2008
	----- (Rupees in '000) -----	
(Accumulated loss) / undistributed income brought forward	(140,514)	26,944
Element of (loss) / income and capital (losses) / gains included in prices of units sold less those in units redeemed - amount representing unrealized capital (losses) / gains	(1,200)	2,010
Net income / (loss) for the period	75,410	(74,964)
Final distribution for the year ended 30 th June 2009: Nil (2008: 3% i.e. Re 0.30 per unit)		
- Cash Distribution	-	(494)
- Issue of bonus units	-	(22,600)
	74,210	(96,048)
Accumulated loss carried forward	<u>(66,304)</u>	<u>(69,104)</u>

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

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**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED 30TH SEPTEMBER 2009**

	2009	2008
	----- (Rupees in '000) -----	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income / (loss) for the period	75,410	(74,964)
Adjustments		
Amortisation of preliminary and floatation costs	-	731
Amortisation of conversion cost	370	370
Impairment loss on investments classified as 'available for sale'	417	-
Dividend income	(5,175)	(4,001)
Unrealised (appreciation) / diminution in fair value of investments 'at fair value through profit or loss'	(47,264)	76,724
Net element of gain and capital gains including in prices of units sold less those in units redeemed	(2,324)	(770)
	<u>21,434</u>	<u>(1,910)</u>
(Increase) / decrease in assets		
Receivable against sale of investments	11,607	269
Receivable against continuous funding system	-	169,789
Investments	8,415	(10,418)
Profit receivable	(1,782)	(1,577)
Advances, deposits, prepayments and other receivables	(118)	(89)
	<u>18,122</u>	<u>157,974</u>
Increase / (decrease) in liabilities		
Payable against purchases of investments	(8,068)	-
Payable on redemption of units	(754)	(9,723)
Payable to Management Company	(892)	(545)
Payable to Trustee	9	(48)
Payable to Securities and Exchange Commission of Pakistan - Annual fee	(440)	(952)
Accrued expenses and other liabilities	184	(164)
	<u>(9,961)</u>	<u>(11,432)</u>
Cash generated from operations	29,595	144,632
Dividend received	4,582	5,755
Net cash inflow from operating activities	<u>34,177</u>	<u>150,387</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Net payments against (redemption) / issuance of units	(20,392)	(62,999)
Dividend paid	(3)	-
Net cashflow from financing activities	<u>(20,395)</u>	<u>(62,999)</u>
Net increase in cash and cash equivalents during the period	<u>13,782</u>	<u>87,388</u>
Cash and cash equivalents at the beginning of the period	52,404	84,748
Cash and cash equivalents as at 30th September	<u><u>66,186</u></u>	<u><u>172,136</u></u>

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

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**CONDENSED INTERIM STATEMENT OF MOVEMENT
IN UNITHOLDERS' FUNDS (UNAUDITED)
FOR THE QUARTER ENDED 30TH SEPTEMBER 2009**

	2009	2008
	----- (Rupees in '000) -----	
Net assets at the beginning of the period	548,937	835,029
Issue of 1,895,686 units (2008: 1,369,607 units)	16,357	13,250
Redemption of 4,047,399 units (2008: 7,829,472 units)	(36,749)	(76,249)
	(20,392)	(62,999)
Element of income and capital gains included in prices of units sold less those in units redeemed		
- amount representing accrued income and realised capital gains - transferred to the Income Statement	(2,324)	(770)
- amount representing unrealised capital losses / (gains) - transferred directly to the Distribution Statement	1,200	(2,010)
	(1,124)	(2,780)
Net unrealised appreciation / (diminution) during the period in fair value of investments classified as 'available for sale'	15,987	(51,247)
Capital gain / (loss) on sale of investments - net	18,463	(2,830)
Net unrealised appreciation / (diminution) in fair value of investments 'at fair value through profit or loss'	47,264	(76,724)
Element of (loss) / income and capital (losses) / gains included in prices of units sold less those in units redeemed - amount representing unrealised capital (losses) / gains	(1,200)	2,010
Other net Income for the period	9,683	4,590
	74,210	(72,954)
Final distribution for the year ended 30 th June 2009: Nil (2008: 3% i.e. Re 0.30 per unit)		
- Cash Distribution	-	(494)
- Issue of bonus units	-	(22,600)
		(23,094)
Issue of bonus units : Nil (2008 : 2,142,194 bonus units)	-	22,600
Net Assets at the end of the period	<u>617,618</u>	<u>644,555</u>
	----- (Rupees) -----	
Net assets value per unit at the beginning of the period	<u>8.28</u>	<u>10.85</u>
Net assets value per unit at the end of the period	<u>9.62</u>	<u>8.87</u>

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE QUARTER ENDED 30TH SEPTEMBER 2009

1. LEGAL STATUS AND NATURE OF BUSINESS

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

The Management Company 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.

The Management Company 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 a management quality rating of 'AM2' to the Management Company and '2 Star Normal' rating to the Fund.

PCM is an Open End balanced Fund that which is allowed to invests in a range of asset classes such as equity and debt in Pakistani market.

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

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2. BASIS OF PRESENTATION

These unaudited condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, The requirements of the Trust Deed, the NBFC Regulations and directives issued by the SECP. Wherever the requirements of the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the NBFC Regulations or the directives issued by the SECP prevail. These financial statements are presented in condensed form in accordance with International Accounting Standard, 34 "Interim Financial Reporting". These do not include all the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Fund as at and for the year ended 30th June 2009.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in preparation of these condensed interim financial statements are the same as those applied in the preparation of the financial statements of the Fund as at and for the year ended 30th June 2009.

4. ESTIMATES AND JUDGMENTS

The preparation of condensed interim financial statements requires the Management Company to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual result may differ from these estimates. The significant judgments made by the Management Company in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to financial statements as at and for the year ended 30th June 2009.

5. RISK MANAGEMENT

The Fund's risk management objectives and policies are consistent with those objectives and policies which are disclosed in the financial statements of the year ended 30th June 2009.

6. INVESTMENTS

At fair value through profit or loss - held for trading

- Listed equity securities	6.1	261,929	274,758
- Fixed income and other debt securities	6.2	118,204	115,224
- Investment in government securities	6.3	48,698	-
		428,831	389,982

Available for sale

- Listed equity securities	6.5	109,248	93,678
		538,079	483,660

Note	Unaudited 30 th September 2009	Audited 30 th June 2009
	----- (Rupees in '000) -----	

PAKISTAN CAPITAL MARKET FUND

6.1 Listed 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 2009	Purchases during the period	Bonus / Rights issue	Sales during the period	As at 30 th September 2009	Balance as at 30 th September 2009		Investment	
						Cost	Market value / (diminution)	Net assets	Total Investments
(Rupees in '000)									
Textile Composite									
Masood Textile Mills Limited - Preference Shares	2,500,000	-	-	-	2,500,000	25,000	25,000	4.05	4.65
Nishat Mills Limited	194,400	-	-	-	194,400	14,165	12,930	2.09	2.40
						39,165	37,930		
Cement									
Lucky Cement Limited	450,300	100,000	-	550,300	-	-	-	-	-
Tobacco									
Pakistan Tobacco Company Limited	186,700	-	-	-	186,700	20,885	19,969	3.23	3.71
						20,885	19,969		
Cable & Electrical Goods									
Pakistan Elctron Limited	700,175	-	-	-	700,175	17,000	15,845	2.57	2.94
						17,000	15,845		
Paper and Board									
Packages Limited	75,124	-	-	500	74,624	8,791	12,133	1.96	2.25
						8,791	12,133		
Food & Personal Care Products									
Nestle Pakistan Limited	100	-	-	-	100	150	120	0.02	0.02
						150	120		
Automobile Assembler									
Pakistan Suzuki Motor Company Limited	-	85,000	-	-	85,000	7,756	7,398	1.20	1.37
						7,756	7,398		
Commercial Banks									
Allied Bank of Pakistan	266,400	-	-	-	266,400	11,493	12,550	2.03	2.33
						11,493	12,550		
Power Generation & Distribution									
Hibb Power Company Limited	631,500	-	-	-	631,500	20,164	19,823	3.21	3.68
Kot Addu Power Company Limited	1,339,900	-	-	171,904	1,167,996	56,064	62,535	10.13	11.62
						76,228	82,338		
Oil & Gas Exploration Companies									
Oil & Gas Development Company Limited	612,700	-	-	389,101	223,599	24,565	24,010	3.89	4.46
Pakistan Oilfields Limited	-	-	-	-	-	24,565	24,010	-	-
						-	-		
Technology and Communication									
Pakistan Telecommunication Company Limited "A"	46,500	-	-	46,500	-	-	-	-	-
						-	-		
Fertilizer									
Bagro Chemical Pakistan Limited	54,400	-	-	-	54,400	6,922	9,839	1.59	1.83
Fauji Fertilizer Company Limited	387,124	-	-	-	387,124	30,387	39,777	6.44	7.39
						37,309	49,616		
Total as at 30th September 2009						243,342	261,929		18,587
Total as at 30th June 2009						315,934	274,758		(41,176)

PAKISTAN CAPITAL MARKET FUND

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 rate	As at 1 st July 2009	Purchases during the period	Bonus / rights issue	Sales during the period	As at 30 th June 2009	Balance as at 30 th June 2009			Investment		
							Cost	Market value	Diminution	Net assets	Total Investments	Investee company issued debt capital
Number of certificates												
Al Zamin Leasing Modamba II	9.50%	1,000	-	-	-	1,000	1,700	1,614	(86)	0.26	0.30	1.82
Worldcall Telecom Limited I	16.19%	3,000	-	-	-	3,000	12,615	12,108	(507)	1.96	2.25	4.29
United Bank Limited III	14.21%	10,020	-	-	-	10,020	49,549	49,185	(364)	7.96	9.14	2.51
Pakistan Mobile Communication Limited I	14.15%	6,850	-	-	-	6,850	33,863	32,234	(1,629)	5.22	5.99	1.37
Pakistan Mobile Communication Limited II	15.01%	5,000	-	-	-	5,000	24,875	23,063	(1,812)	3.73	4.29	2.00
Total as at 30th September 2009		25,870	-	-	-	25,870	122,602	118,204	(4,398)			
Total as at 30th June 2009							122,612	115,224	(7,388)			

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

Name of security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue date	Maturity date
Al Zamin Leasing Modamba II	1,700	9.5%	31-May-05	31-May-10
Worldcall Telecom Limited I	4,163	2.75%+6 Month KIBOR	28-Nov-06	28-Nov-11
United Bank Limited III	4,994	1.70%+6 Month KIBOR	8-Sep-06	8-Sep-14
Pakistan Mobile Communication Limited I	5,000	1.30%+6 Month KIBOR	1-Oct-07	1-Oct-10
Pakistan Mobile Communication Limited II	5,000	1.65%+6 Month KIBOR	28-Oct-08	28-Oct-13

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

Issue Date	Tenor	As at 1 st July 2009	Purchases during the period	Sales during the period	Matured during the period	As at 30 th September 2009	Balance as at 30 th September 2009				
							Cost	Market value	Diminution	Net assets	Total Investment
Pakistan Investment Bond 30 th August 2008	10 Years	-	50,000	-	-	50,000	48,939	48,698	(241)	7.88	9.05
							48,939	48,698	(241)		

PAKISTAN CAPITAL MARKET FUND

6.4 Net unrealised appreciation in market value of securities classified as 'fair value through profit or loss' - held for trading

Fair value of investments	428,832
Less: Cost of investments	(414,883)
	13,949

Unaudited 30th September 2009 389,982
Audited 30th June 2009 438,546
(Rupees in '000)

Impairment upto 30 th June 2009	48,564
Impairment during the period	(26,548)
	22,016

6.5 Listed equity securities - 'available for sale'

Name of the Investee Company	As at 1 st July 2009	Purchases during the period	Bonus / Rights issue	Sales during the period	As at 30 th September 2009	Balance as at 30 th September 2009				Investment Total Investments	Investee company paid up capital		
						Cost	Impairment upto 30 th June 2009	Impairment during the period	Cost less impairment			Market value	Appreciation / (Diminution)
(Number of shares in '000)													
SHARES OF LISTED COMPANIES - Fully paid up ordinary shares of Rs 10 each unless otherwise stated													
Textile Composite													
Cherab Limited	992,500	-	-	-	992,500	17,865	15,096	-	2,769	4,575	1,806	0.74	0.85
Kohinoor Mills Limited	482,790	-	-	-	482,790	15,491	13,145	-	2,346	3,133	787	0.51	0.58
Surej Cotton Mills Limited	387,500	-	-	-	387,500	18,345	13,678	-	4,667	7,258	2,591	1.18	1.35
						51,701	41,919	-	9,782	14,966	5,184		
Cable & Electrical Goods													
Siemens (Pakistan) Engineering Company Limited	5,000	-	-	-	5,000	2,254	-	-	2,254	7,072	4,818	1.15	1.31
						2,254	-	-	2,254	7,072	4,818		
Paper And Board													
Century Paper & Board Mills Limited	707,290	-	-	-	707,290	43,998	34,669	417	8,912	8,912	-	1.44	1.66
Packages Limited	134,307	-	-	-	134,307	18,551	-	-	18,551	21,837	3,486	3.54	4.06
						62,549	34,669	417	27,263	30,749	3,486		
Food And Personal Care Product													
Nestle Pakistan Limited	29,900	-	-	-	29,900	14,258	-	-	14,259	35,879	21,620	5.81	6.67
						14,258	-	-	14,259	35,879	21,620		
Automobile Assembler													
Pak Suzuki Motors Company Limited	159,305	-	-	-	159,305	13,824	5,137	-	8,687	13,866	5,179	2.25	2.58
						13,824	5,137	-	8,687	13,866	5,179		
Oil & Gas Exploration Companies													
Oil & Gas Development Company Limited	62,540	-	-	-	62,540	6,176	1,257	-	4,918	6,716	1,798	1.09	1.25
						6,176	1,257	-	4,918	6,716	1,798		
Total listed equity securities						150,562	82,982	417	67,163	109,248	42,085		
Total as at 30 th June 2009						150,562	82,982	417	67,163	93,678	26,098		

Investments include quoted equity securities with market value as at 30th September 2009 aggregating to Rs.41,238,098 (2009: 55,311,488) 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

	Note	Unaudited 30 th September 2009	Audited 30 th June 2009
----- (Rupees in '000) -----			
6.5 Net unrealised appreciation in fair value of securities classified as 'available for sale'			
Fair value of marketable securities	6.3	109,248	93,678
Less: Cost less impairment of marketable securities		67,163	67,580
		<u>42,085</u>	<u>26,098</u>
Net unrealised appreciation in market value of securities classified as 'available for sale' at the beginning of the period		(26,098)	(38,286)
		<u>15,987</u>	<u>(12,188)</u>

7. TRANSACTIONS WITH CONNECTED PERSONS

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

Remunerations to the management company and trustee are determined in accordance with the provisions of NBFC regulations and Trust Deed of the Fund. All other transactions with the related parties / connected persons are carried on agreed terms.

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

	30 th September 2009		30 th September 2008	
	--- (Number of units) ---		----- (Rupees in '000) -----	
Unit issued to:				
Other related parties				
- Directors and executives of the management company	-	455	-	4
Unit redeemed by:				
Management Company				
Arif Habib Investments Limited (<i>formerly: Arif Habib Investment Management Limited</i>)	1,318,754	-	11,961	-
Other related parties				
- Directors and executives of the management company	3,700	455	33	4
Bonus units distributed to:				
Management Company				
Arif Habib Investments Limited (<i>formerly: Arif Habib Investment Management Limited</i>)	-	36,463	-	385
Other related parties				
- Directors and executives of the management company	-	14,044	-	148
Units held by:				
Management Company				
Arif Habib Investments Limited (<i>formerly: Arif Habib Investment Management Limited</i>)	-	1,318,754	-	11,697
Other related parties				
- Directors and executives of the management company	564,028	507,928	5,426	4,505

PAKISTAN CAPITAL MARKET FUND

	30 th September	
	2009	2008
	----- (Rupees in '000) -----	
Arif Habib Investments Limited <i>(formerly: Arif Habib Investment Management Limited)</i> - Management Company		
Remuneration	<u>3,011</u>	<u>5,354</u>
Arif Habib Limited Brokerage expense*	<u>37</u>	<u>-</u>
Arif Habib Bank Limited Markup income	<u>1,918</u>	<u>4,648</u>
	Unaudited	Audited
	30th September	30th June
	2009	2009
	----- (Rupees in '000) -----	
Amount outstanding as at period end Arif Habib Investments Limited <i>(formerly: Arif Habib Investment Management Limited)</i> - Management Company		
Remuneration payable	<u>-</u>	<u>892</u>
Arif Habib Bank Limited		
Bank balances	<u>60,472</u>	<u>48,586</u>
Markup receivable	<u>601</u>	<u>306</u>
Arif Habib Limited Brokerage payable*	<u>2</u>	<u>-</u>
Payable to Pakistan Income Enhancement Fund		
Amount due on account of conversion of units	<u>228</u>	<u>-</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	<u>102</u>	<u>93</u>
Security deposit	<u>300</u>	<u>300</u>

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

8. DATE OF AUTHORISATION FOR ISSUE

These condensed financial statements were authorised for issue on 22nd October 2009 by the Board of Directors of the Management Company.

9. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purposes of comparison and better presentation. Significant reclassification include:

- Settle ment charges have been merged with securities transaction cost in the Income Statement. Previously, they were shown as part of fees and subscriptions.
- Legal and professional charges have been shown separately on the face of the Income Statement. Previously, they were shown as part of Auditors' remuneration.

10. GENERAL

Figures have been rounded off to the nearest thousand Rupees.

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

Chief Executive

Director