

FIRST CAPITAL MUTUAL FUND LIMITED ANNUAL REPORT 2004

Board of Directors

M. Jaffar Khan* (Chief Executive Officer)

Lt. Gen. (R) Humayun Khan Bangash

Muhammad Ashraf Ali

Muhammad Shuaib Yousaf

Muhammad Naveed Tariq

Syed Kashan Kazmi

Salmaan Taseer

(Chairman)

Chief Financial Officer

Syed Kashan Kazmi

Audit Committee

Muhammad Shuaib Yousaf

Lt. Gen. (R) Humayun Khan Bangash

Muhammad Naveed Tariq

(Chairman)

(Member)

(Member)

Company Secretary

Ahmad Bilal

Investment Committee

Salmaan Taseer

M. Jaffar Khan

IqbalLatif

Syed Kashan Kazmi

(Chairman)

(Member)

(Member)

(Member)

Auditors

Ford Rhodes Sidat Hyder & Co.

Chartered Accountants

Legal Adviser

Rehman Saleem & Tarar

Advocates

Custodian

Crescent Commercial Bank Limited

(formerly MashreqBank Pakistan Ltd.)

Registered Office / Head Office

103-C/II, Gulberg-III

Lahore, Pakistan

(042) 5757591-4

Fax: (042) 5757590, 5877920

Investment Advisers

First Capital Investments Limited

103-C/II, Gulberg-III,

Lahore

Registrar and Shares Transfer Office

THK Associates (Pvt.) Limited

Ground Floor, Modern Motors House,

Beaumont Road

Karachi

(021)5689021

4. a) Individual beneficial owners of CDC entitled to attend and vote at the meeting must bring his/her participant

ID and account/sub-account number along with original NIC or passport to authenticate his/her identity. In case of Corporate entity, resolution of the Board of Directors/Power of attorney with specimen signatures of nominees shall be produced (unless provided earlier) at the time of meeting.

b) For appointing of proxies, the individual beneficial owners of CDC shall submit the proxy form as per above requirement along with participant ID and account/sub-account number together with attested copy of their NIC or Passport. The proxy form shall be witnessed by two witnesses with their names, addresses and NIC numbers. The proxy shall produce his/her original NIC or Passport at the time of meeting. In case of Corporate entity, resolution of the Board of Director/Power of attorney along with specimen signatures shall be submitted (unless submitted earlier) along with the proxy form.

5. Members are requested to notify any change in their registered address immediately.
STATEMENT UNDER SECTION 160(l)(b) OF THE COMPANIES ORDINANCE, 1984

The statement sets out the material facts pertaining to the special business to be transacted at the Annual General Meeting of the Company to be held on 30 October 2004.

PLACEMENT OF QUARTERLY ACCOUNTS OF THE COMPANY'S WEBSITE

Under section 245 of the Companies Ordinance, 1984 (read with various circulars and notifications issued from time to time) the listed companies are required to prepare and either transmit their quarterly accounts by post to the shareholders or publish the same in the leading daily newspapers.

The Securities and Exchange Commission of Pakistan ("SECP") vide its Circular No. 19 of 2004 issued vide letter No. CLD/D-II/51/2003 dated 14 April 2004 has now decided that the requirements of section 245 of the Companies Ordinance, 1984 would be treated as complied with (subject to the fulfilment of certain conditions including seeking the consent of its shareholders in general meeting as mentioned in the above referred circular) if the quarterly accounts are placed on the company's website.

In order to ensure timely availability of the information to the stakeholders and save the cost of printing and dispatching of quarterly accounts, the Board of Directors has recommended (subject to the approval of SECP and relevant Stock Exchanges) to place quarterly accounts on Company's website instead of circulating the same by post to the shareholders.

The Directors are not interested in this business except as shareholders of the Company.

INSPECTION OF DOCUMENTS

Copies of Memorandum and Articles of Association, Statement under section 160(l)(b) of the Companies Ordinance, 1984, SECP's Circular No. 19 of 2004 dated 14 April 2004, financial statements of all prior periods of the Company and other related information of the Company may be inspected during the business hours on any working day at the Registered Office of the Company from the date of publication of this notice till the conclusion of the Annual General Meeting.

DIRECTORS' REPORT

The directors of First Capital Mutual Fund Limited ("the Company") are pleased to present the annual report of the Company together with the audited accounts for the year ended 30 June 2004.

Economic overview and stock market conditions

During the period under review the stock markets of the country performed exceedingly well on account of improving fundamentals of the economy. The GDP witnessed a growth of 6.4% during the year as the economy benefited from low interest rates and growing consumer demand. Continuation of government policies of the last few years also bore fruit in terms of improving business sentiment that encouraged private sector investment. This improvement in economic conditions and expectations of further progress ahead propelled the stock market to new highs. During the year the benchmark KSE-100 Index increased 53.8% and in the process created an all time high of 5621 on April 19, 2004. Improving stock market conditions attracted both, the public and private sectors to the IPO market with the Government taking the lead through listing of Oil and Gas Development Co. (OGDC) and secondary offerings of NBP, SSGC and PIA. However, with SBP's restriction on banks with regards to their exposure to the stock market, the retail public took the lead amongst the investing community. Asset management companies also became more active through floatation of new funds. Consequently, the overall liquidity in the market remained sufficient enough to sustain the bull run. Towards the close of the year, the imposition of capital

value tax (C VT) on investment in the stock market, announced in the latest budget, dampened the sentiment of the market. Consequently, some of the gains were lost in the last few trading days of the year. The market ended the year 2003-04 at the 5279 level as against 3433 level the previous year.

Operational performance

Your fund also benefited from the increasing trend in the stock market as the net asset value (NAV) of the fund witnessed a growth of 21.7% to close the year at Rs 7.91 per share. However, the profitability of the fund witnessed a decline from Rs 49.19 million in 2002-03 to Rs 21.14 million 2003-04 primarily due to lower capital gains booked by the fund during 2003-04 as compared to the previous year.

Future outlook

Recently the announcement of a phased withdrawal of the Carry Over Transactions (COT) by June 2005 has resulted in a dampening of investor sentiment especially at the retail level. However, given the continued underlying strength in the Pakistani economy, strong corporate earnings, lack of investment alternatives and expected launch of several new mutual funds, the Directors expect fresh inflows into the local bourses. Furthermore, additional IPOs by the government of public sector entities will result in increased investment opportunities. The Directors are of the view that Pakistani market continues to offer attractive prospects and the Fund will more proactively probe the same to achieve better returns for the shareholders.

Payout for Shareholders

In order to strengthen the company's financial base, the directors do not recommend any payout this year.

Earnings pershare

Earnings per share for the year ended June 30,2004 was Rs. 1.41 compared to Rs. 3.28 of last year.

Changes in Board of Directors

Since the last report, there have been changes in the composition of the Board. During the period, Mr. Sardar Ali Wattoo and Mr. Usman Haider have resigned from the Board of Directors of the Company. Mr. Muhammad Naveed Tariq and Syed Kashan Kazmi have been appointed as Directors in place of Mr. Sardar Ali Wattoo and Mr. Usman Haider respectively subject to the approval of Securities and Exchange Commission of Pakistan ("SECP"). The Company has already filed an application for seeking the approval from SECP. Subsequent to the year-end Mr. Khurram Hanif has tendered his resignation from Directorship as well as from the office of Chief Executive of the Company and Mr. M. Jaffar Khan has been appointed as Director/Chief Executive in his place subject to the approval from SECP. Currently the Company has seven directors on its Board.

FINANCIAL HIGHLIGHTS

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Capital gain/(loss)	96,747	34,472	2,939	-4,964	15,135	-37,942	1,859	-12,157	-10,584	414
Dividend income	4,699	7,596	7,163	2,328	4,830	2,369	3,916	5,403	1,039	18
Gain/(loss) on remeasurement	11,925	11,241	-8,189	-273	288	-45,472	30,000	12,770	16,332	16,824
Operating expenses	5,019	4,166	3,564	2,423	4,006	4,519	5,284	5,125	5,875	656
Net gain/(loss) before taxation	21,377	49,186	-1,544	-4,614	16,230	6,263	-27,447	1,497	-29,447	-16,314
Taxation	234	-	430	169	182	132	196	270	52	3
Net gain/ (loss) after taxation	21,142	49,185	-1,974	-4,783	16,048	6,131	-27,643	1,227	-29,499	-16,317
Dividend	-	37,500	-	-	7,500	-	-	-	-	-
Net assets	118,517	97,375	85,689	87,663	92,446	83,898	77,767	105,410	104,184	133,683
Net assets per share	7.91	6.49	5.71	5.85	6.16	5.59	5.18	7.03	6.95	8.84
Earning per share	1.41	3.28	-0.13	32	1.07	0.41	-1.84	0.08	-1.96	-1.08
Dividend distribution	Nil	25%	Nil	Nil	5%	Nil	Nil	Nil	Nil	Nil
KSE 100 Index	5279.18	3402.48	1770.12	1366.44	1520.74	1054.67	879.62	1565.73	1703.28	1912

The Directors who could not attend the Board Meeting were duly granted leave by the Board.

13. During the year under review no trading in the Company's shares were carried out by the directors, CEO, CFO, Company Secretary and their spouses including minor children.

Statement of Compliance with the best practices on Transfer Pricing

The Company has fully complied with the best practices on transfer pricing as contained in the listing regulations of stock exchanges where the Company is listed.

Audit Committee

The Board of Directors in compliance with the Code of Corporate Governance has established an Audit Committee consisting of following directors:

Muhammad Shuaib Yousaf	Chairman
Lt. Gen. (R) Humayun Khan Bangash	Member
Muhammad Naveed Tariq	Member

Auditors

The present auditors M/s. Ford Rhodes Sidat Hyder & Co., Chartered Accountants, shall retire and being eligible to offer themselves for reappointment.

Acknowledgment

The Directors wish to thank all the shareholders and members stock exchanges for the commitment and trust reposed in them. Furthermore, the Directors place on record their appreciation for Securities and Exchange Commission of Pakistan's valuable support and guidance.

Code of Corporate Governance (CCG)

The Company for the year ended June 30,2004 has duly complied with the provisions of the relevant code for good corporate governance. The directors hereby confirm following as required by Clause (XiX) of the Code:

1. The preparation of financial statements is the responsibility of the management of the Company. The enclosed financial statements fairly present its state of affairs, the result of operations, cash flow and changes in equity, statement of movement in reserves and distribution statement of the Company.
2. Proper books of account have been maintained as required by the Companies Ordinance, 1984 and Non-Banking Finance Companies (Establishment and Regulation) Rules 2003. The Company has followed the International Accounting Standards (IAS) as applicable in Pakistan.
3. The management has applied appropriate accounting policies during the year, which are also consistent with the last year, except those, which are changed due to adoption of new IAS by the Securities & Exchange Commission of Pakistan.
4. The accounting estimates are based on reasonable and prudent judgement and are in accordance with the criteria available in the respective IAS.
5. There exist sound internal controls, which were effectively implemented and monitored during the year under review.
6. There are no doubts upon the Company's ability to continue as a going concern.
7. There has been no material departure from the best practices of CCG.
8. The key financial data of last ten years are summarized in note 19 to the accounts.
9. There are no outstanding statutory payments on account of taxes, duties, levies and charges.
10. The statement as to the value of investments of provident fund, gratuity and pension funds is not applicable as the Investment Adviser is managing the Fund.
11. The pattern of shareholding as required under section 236 of the Companies Ordinance, 1984 and listing

regulations are enclosed.

- 12) During the year under review five Board meetings were held. The attendance of each director at the meetings of the Board of Directors is as follows:
- 12) The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
- 13) The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding
- 14) The Company has complied with all the corporate and financial reporting requirements of the Code.
- 15) The Board has formed an audit committee. At present the committee includes three non-executive directors including the chairman of the committee.
- 16) The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
- 17) The Board has set-up an effective internal audit function having suitable qualified and experienced personnel who are conversant with the policies and procedures of the Company.
- 18) The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
- 19) 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.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2004

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited 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 Company has applied the principles contained in the Code in the following manner:

- 1) The board of directors comprise of seven directors. The Company encourages representation of independent non-executive directors on its board. At present the board includes at least 2 independent non-executive directors.
- 2) The directors 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 Company are registered as taxpayers and none of them has convicted by a Court of competent jurisdiction as a defaulter in payment of any loan to a banking company, a DPI or an NBF1. No one is a member of Stock Exchange.
- 4) All casual vacancies occurring in the Board were filed up by the directors within 30 days thereof.
- 5) The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
- 6) The board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- 7) All the powers of the board have been duly exercised and decisions on material transactions, including

appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have 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 orientation courses for its directors during the year to apprise them of their duties and responsibilities.

10) The Board has approved appointment of Company Secretary including remuneration and terms and conditions of employment, as determined by the CEO.

11) The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of First Capital Mutual Fund Limited as at June 30,2004 and the related profit and loss account, cash flow statement, statement of changes in equity, statement of movement in reserves and distribution statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984 and Rule 57 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Our responsibility is to express an opinion on these statements based on our audit. The financial statements of the company as of June 30,2003, were audited by another firm of Chartered Accountants whose report dated October 07,2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984 and Rule 57 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

b) In our opinion;

i) the balance sheet and profit and loss account together with the notes thereon have been

drawn up in conformity with the Companies Ordinance, 1984 and in accordance with the provisions of the Schedule-I to the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and are in agreement with the books of account and are further in accordance with the accounting policies consistently applied;

ii) the expenditure incurred during the year was for the purpose of the company's business; and

iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement, statement of changes in equity, statement of movement in reserves and distribution statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 and the Non-Banking Finance Companies

(Establishment and Regulation) Rules, 2003 in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30,2004 and of the profit, its cash flows, changes in equity, movement in reserves and distribution for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

REVIEW REPORT TO THE MEMBERS 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 First Capital Mutual Fund Limited to comply with the Listing Regulation No. 37 (Chapter XI) and No. 43 (Chapter XIII) of the Karachi and Lahore Stock Exchanges respectively, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the 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 Company's compliance, in all material respect, with the best practices contained in the Code of Corporate Governance for the year ended June 30,2004.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2004

	NOTE	2004 Rupees	2003 Rupees
INVESTMENT INCOME			
Capital Gain on sale of listed securities	12	9,674,710	34,471,650
Dividend income	13	4,699,542	7,596,064
Other income	14	96,694	43,180
Unrealized gain due to change in fair value of Marketable Securities	5	14,470,946	42,110,894
		11,924,952	11,240,934
OPERATING EXPENSES			
Administrative expenses	15	26,395,898	53,351,828
Remuneration of investment adviser	8	2,868,940	2,137,012
Financial charges		2,148,636	1,905,571
		1,390	123,327
		5,018,966	4,165,910
PROFIT BEFORE TAXATION		21,376,932	49,185,918
PROVISION FOR TAXATION			
- Current year		234,977	—
PROFIT FOR THE YEAR			
EARNINGS PER SHARE- BASIC		21,141,955	49,185,918
DIVIDEND PER SHARE	16	1.41	3.28
		.	2.5

BALANCE SHEET

AS AT 30 JUNE 2004

	NOTE	2004 Rupees	2003 Rupees
ASSETS			
NON CURRENT ASSET			
Long Term Deposit		75,000	150,000
CURRENT ASSETS			
Investments	5	114,861,720	102,098,987
OTHER ASSETS			
Dividends and other receivables	6	1,528,889	16,015,722
Bank balances	7	6,246,590	19,752,436
		7,775,479	35,768,158
TOTAL ASSETS		122,712,199	138,017,145
CURRENT LIABILITIES			
Due to Investment Adviser - an associated company	8	2,148,636	2,038,386
Creditors, accrued and other liabilities	9	1,436,760	728,888
Provision for taxation		610,027	375,050
Proposed dividend		-	37,500,000
TOTAL LIABILITIES		4,195,423	40,642,324
NET ASSETS		118,516,776	97,374,821
SHARE CAPITAL AND RESERVES			
Share capital			
Authorized		350,000,000	200,000,000
ordinary shares of Rs. 10 each		150,000,000	150,000,000
Issued, subscribed and paid up capital	10	-31,483,224	-52,625,179
Accumulated loss		118,516,776	97,374,821

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2004**

	Share Capital Rupees	Accumulated loss Rupees	Total Rupees
Balance as on June 30, 2002	150,000,000	-66,381,518	83,618,482
Gain on remeasurement of listed securities taken to income on change of accounting policy-Adoption of International Accounting Standard 39	-	2,070,421	2,070,421
Balance as on June 30, 2002 (Restated)	150,000,000	-64,311,097	85,688,903
Profit for the year ended June 30, 2003	-	49,185,918	49,185,918
Interim dividend (Rs. 2.50 per share)	-	-37,500,000	-37,500,000
Balance as on June 30, 2003	150,000,000	-52,625,179	97,374,821
Profit for the year ended June 30, 2004	-	21,141,955	21,141,955
Proposed Dividend	-	-	-
Balance as on June 30, 2004	150,000,000	-31,483,224	118,516,776

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2004**

	2004 Rupees	2003 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	21,376,932	49,185,918
Adjustment for'		
Unrealized (gain) due to change in fair value of listed securities	-11,924,952	-11,240,934
	-11,924,952	-11,240,934
Operating profit before working capital changes	9,451,980	37,944,984
Decrease in Security Deposit	75,000	150,000

(Increase)/decrease in current assets:		
Listed securities	-837,781	1,968,299
Dividends and other receivables	14,554,477	-14,978,918
	13,716,696	-13,010,619
Increase/(decrease) in current liabilities		
Due to investment adviser	110,250	288,953
Creditors, accrued and other liabilities	98,930	-9,109,356
	209,180	-8,820,403
Net cash generated from operating activities	23,452,856	16,263,962
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	-36,891,058	-78
Tax paid	-67,644	-424,060
Net cash used in financing activities	-36,958,702	-424,138
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	-13,505,846	15,839,824
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	19,752,436	3,912,612
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6,246,590	19,752,436

DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	Rupees	Rupees
ACCUMULATED LOSS BROUGHT FORWARD	-52,625,179	-64,311,097
PROFIT FOR THE YEAR	21,141,955	49,185,918
	-31,483,224	-15,125,179
INTERIM DIVIDEND- Nil (2003: Rs. 2.50/- PER SHARE)	-	-37,500,000
ACCUMULATED LOSS CARRIED FORWARD	-31,483,224	-52,625,179

STATEMENT OF MOVEMENT IN EQUITY AND RESERVES
FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	Rupees	Rupees
NET ASSETS PER SHARE AS AT JULY 01	6.49	5.71
INCOME/GAIN FROM TRANSACTIONS IN LISTED SECURITIES - PER SHARE	0.64	2.3
GAIN DUE TO CHANGE IN FAIR VALUE OF LISTED SECURITIES - PER SHARE	0.79	0.75
OTHER NET INCOME EXCLUDING CAPITAL GAIN FOR THE YEAR	-0.01	0.23
PROFIT FOR THE YEAR - PER SHARE	1.42	3.28
DIVIDEND FOR THE YEAR - PER SHARE	-	-2.5
NET ASSETS PER SHARE AS AT JUNE 30	7.91	6.49

The securities are recognized/ de recognized at the trade date. The trade date is the date at which the company commits to purchase or sell securities.

The securities are measured initially at cost, which is the fair value of the consideration given to acquire a security, including transaction cost.

Subsequent to initial measurement, securities are measured at their fair values, without any deduction for transaction cost that the company may incur on sale or other disposal. Fair values of these securities representing listed equity and debt securities are determined on the basis of closing market prices obtained from Stock Exchange quotations and quotes from brokers. Any unrealized gains or unrealized losses are reported in profit and loss for the period in accordance with the requirements of International Accounting Standard 39 'Financial Instruments: Recognition and Measurement'.

Securities under Repurchase/ resale agreements -Carry over Transactions

The listed equity securities purchased and sold with simultaneous commitment to resale / repurchase are presented as receivable / payable under reverse repurchase / repurchase transaction and the difference between the purchase and resale consideration is recognized on an accrual basis considering settlement dates.

Pre IPO's

These are companies for which application has been made but which have not been listed at the balance sheet date. These pre-initial public offerings are stated at the lower of average cost and break-up value determined on the basis of latest available financial statements.

Cur rent Taxation

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax credits and rebates available, if any.

No charge for current taxation is made in the accounts if the company intends to distribute 90 percent or more of its accounting profit as reduced by capital gains whether realized or unrealized amongst its shareholders in accordance with the exemption available under clause 99 of part I of the Second Schedule to the Income Tax Ordinance, 2001.

Deferred Taxation

Deferred tax is provided in full using the liability method on all temporary differences arising at the balance sheet date, between the tax bases of the assets and liabilities and their carrying amounts. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

STATUS AND NATURE OF BUSINESS

First Capital Mutual Fund Limited (the company) was incorporated in Pakistan on January 08, 1995 as a public limited company under the Companies Ordinance, 1984, having registered office at 103-C/II Gulberg III, Lahore. The company commenced its operations on March 14, 1995. The company is listed on Karachi and Lahore Stock Exchanges. It was registered with the Securities and Exchange Commission of Pakistan ('Commission') as an Investment Company under the Investment Companies and Investment Advisor's Rules, 1971. The Investment Companies and Investment Advisor's Rules, 1971, have been repealed by the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. However, the said repeal does not affect the existing incorporation or registration or license of an NBFC registered or licensed under any rules of notifications now repealed. The object of the company is to carry on the business of a close-ended mutual fund and to invest its assets in securities, which are listed or proposed to be listed on the stock exchange.

The company has an agreement with First Capital Investments Limited, an associated company, to provide investment advisory services. The custodian of the company is Crescent Commercial Bank Limited (formerly Mashreq Bank Pakistan Limited).

STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984, Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and directives issued by the Commission. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 or directives issued by Commission differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 or the requirements of the said directives take

precedence.

BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for listed securities, which are stated at their fair values.

SIGNIFICANT ACCOUNTING POLICIES

4.1 Investments

4.1.1 Listed Securities

Investment in listed Securities including in associated companies are classified as held for trading. These are securities that are acquired for the purpose of generating profit from short-term fluctuations in prices.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if the company has a legally enforceable right to set off the recognized amounts and intends either to settle on net basis or to realize the assets and settle the liabilities simultaneously.

Provisions

A provision is recognized when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Related Party Transactions

All transactions with related parties are entered into at an Arm's Length determined in accordance with "Comparable Uncontrolled Price Method".

Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalent comprise cash in hand, cheques in hand and bank balances.

Carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled based on tax rates that have been enacted at the balance sheet date.

The deferred tax asset on unused tax losses has not been recognized in these financial statements, as the company intends to continue availing the tax exemption in future years and management believes that tax benefit relating to carried forward tax losses would not be utilized.

4.3 Revenue Recognition

4.3.1 Capital Gains

Sales and purchase of securities are recorded on the date of execution of contract. Capital gains or losses, calculated as the difference between the sales proceeds excluding transaction cost, and the carrying amount of a security is included in profit and loss for the period. Carrying value of the security for this purpose is calculated on an individual portfolio basis using the moving average method.

4.3.2 Dividend

Dividend income is recognized at the time of closure of share transfer books of the company

declaring the dividend.

4.3.3 Markup on Bank Deposits

Return on Bank deposits is recognized on accrual basis.

4.4 Financial Instrument

All the financial assets and liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument.

The company de-recognizes a financial asset or portion of financial asset when, and only when, the company loses control of the contractual rights that comprise the financial asset or portion of financial asset. While a financial liability or part of financial liability is de-recognized from the balance sheet when, and only when, it is extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on recognition, de-recognition of financial assets and financial liabilities are stated in their respective notes.

	Note	2004 Rupees	2003 Rupees
DIVIDENDS AND OTHER RECEIVABLES			
On account of sale of shares- unsecured considered good	6.1	-	14,364,811
Dividend receivable		524,093	713,759
Advance tax		1,004,796	937,152
		1,528,889	16,015,722
BANK BALANCES			
		2004 Rupees	2003 Rupees
Cash at bank:			
current accounts		5,328	2,171
deposit accounts		6,241,262	19,750,265
		6,246,590	19,752,436
	Note	2004 Rupees	2003 Rupees
DUE TO INVESTMENT ADVISER - AN ASSOCIATED COMPANY			
Balance as at 01 July,		2,038,386	1,749,433
Remuneration for the year @ 2% of net assets	8.1	2,148,636	1,905,571
		4,187,022	3,655,004
Less: Payments made during the year		-2,038,386	-1,616,618
		2,148,636	2,038,386
	Note	2004 Rupees	2003 Rupees
CAPITAL GAIN			
Sales		796,914,919	511,008,566
Less: Cost of sales	12.1	787,240,209	478,429,112
		9,674,710	32,579,454
Income from repurchase of listed equity securities		-	1,892,196
		9,674,710	34,471,650
Cost of sales		102,098,987	92,826,352
Opening Investments		788,077,990	476,460,813
Add: Purchases		890,176,977	569,287,165
		102,936,768	90,858,053
Less: Closing stock		787,240,209	478,429,112
	Note	2004 Rupees	2003 Rupees
OTHER INCOME			
Markup on bank accounts		96,694	43,180
		96,694	43,180

ADMINISTRATIVE EXPENSES

Custodian fee and CDC charges		2,061,151	1,774,880
Auditors' remuneration	15.1	171,950	168,500
Annual fee to SECP		107,432	97,490
Zakat deducted		124,613	40,000
Annual subscription fee- MUFAP		375,000	39,049
Fee for increase in authorized capital		25,000-	
Professional Fee		3,794	17,093
Other expenses		2,868,940	2,137,012

	2004	2003
	Rupees	Rupees

Average annual net assets after charging remuneration of Investment Advisor and annual fee to SECP (2003: net assets after charging remuneration of Investment Advisor and annual fee of SECP)		107,431,792	95,278,544
2% of annual average net assets		2,148,636	1,905,571

CREDITORS, ACCRUED AND OTHER LIABILITIES

Accrued custodian fee		121,738	117,466
Payable on account of repurchase of listed equity securities		33,647	-
Audit fee		105,000	105,000
Tax deducted at source		-	1,848
Fees and subscription		-	17,174
Annual fee- SECP		177,523	97,490
Unpaid dividend		998,852	389,910
		1,436,760	728,888

ISSUED, SUBSCRIBED AND PAID UP CAPITAL

15,000,000(2003: 15,000,000) Ordinary shares of Rs. 10/-each fully paid in cash		150,000,000	150,000,000
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CONTINGENCIES AND COMMITMENTS

Contingencies

The company's tax assessments have been finalized up to the DCIT level till assessment year 2002-2003. The DCIT has raised tax demands aggregating Rs.820,7257- for the assessment years from 1998-1999 to 2002-2003, which are being contested at the appellate level. Provision for additional tax liability has not been made in these financial statements, as the Company is hopeful of a favorable outcome of the appeals.

	2004	2003
	Rupees	Rupees

Auditors' remuneration includes the following:

Annual audit fee		90,000	75,000
Fee for review of half-yearly accounts		40,000	30,000
Special certifications	-		35,000
Out of pocket expenses		41,950	28,500
		171,950	168,500

EARNINGS PER SHARE - Basic

Profit attributable to ordinary shareholders		21,141,955	49,185,918
Weighted Average Number of ordinary shares		15,000,000	15,000,000
Earnings per ordinary share (Rupees)		1.41	3.28

	2004	2003
	Rupees	Rupees

Purchase of shares through associated companies		58,005,670	24,007,700
Sale of shares through associated companies		88,647,205	41,378,865
Commission paid		290,203	164,250
Dividend income		1,178,981	759,984

Fee paid to investment advisor - First Capital Investments Limited	2,148,636	1,905,571
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STATEMENT OF INCOME & EXPENDITURE IN RELATION
TO THE INVESTMENT COMPANY
For the Year Ended 30 June 2004

	2004 Rupees	2003 Rupees
REVENUE		
Investment advisory fee from FCMF	2,148,637	1,905,571
Dividend income	3,750,000	-
	5,898,637	1,905,571
ADMINISTRATIVE EXPENSES	2,816,300	2,155,260
OPERATING PROFIT / (LOSS)	3,082,337	-249,689
OTHER INCOME		594,848
	3,082,337	345,159
Financial Expenses	58,813	17,376
NET OPERATING PROFIT	3,023,524	327,783
TAXATION	349,194	-1,654,539
PROFIT AFTER TAXATION	2,674,330	1,982,322
Accumulated loss brought forward	-2,138,550	-4,120,872
	535,780	-2,138,550
Earnings per share- Basic	1.41	1.04

Concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company believes that it is not exposed to major concentration of credit risk as the company's portfolio of marketable securities is broadly diversified and transactions are entered into with diverse credit worthy counter parties thereby mitigating any significant concentration of credit risk and other receivables of the company are not material.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The investment advisor manages the market risk by monitoring exposure on marketable securities by following the investment guidelines approved by the investment committee and regulations laid down by the Securities and Exchange Commission of Pakistan.

Liquidity risk

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

Cash Flow Risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The company does not have any significant financial assets or financial liabilities which carry variable interest rates, hence is not subject to any cash flow risk.

Fair value of financial assets and financial liabilities

The carrying value of all the financial instruments reflected in the financial statements approximate their fair values.

Categories of shareholders	Shares held	Percentage
Directors and Chief Executive Officer.	3,500	0.023
Associated Companies, undertakings and related parties.	1,500,000	10
NIT and ICP	296,450	1.976
Banks, Development Financial Institutions,	220,800	1.472

Non Banking Financial Institutions		
Modarabas and Mutual Funds	105,000	0.7
Share holders holding 1 0% or more	6,841,140	45.608
General Public		
a) Local	5,934,645	39.564
b) Foreign	5,341,140	35.608
Others		
- Joint Stock Companies	1,601,965	10.68

PATTERN OF SHAREHOLDING
AS AT JUNE 30, 2004

No. of Shareholders	Shareholdings From	To	Shares Held
1902	1	100	183,230
221	101	500	83,505
110	501	1000	105,560
304	1001	5000	980,400
118	5001	10000	997,790
41	10001	15000	553,200
34	15001	20000	641,620
16	20001	25000	369,100
15	25001	30000	424,900
9	30001	35000	292,500
4	35001	40000	155,500
3	40001	45000	130,000
6	45001	50000	298,500
3	50001	55000	159,000
1	55001	60000	60,000
2	60001	65000	122,000
2	75001	80000	154,395
1	80001	85000	84,000
1	85001	90000	87,000
2	95001	100000	198,000
2	105001	110000	217,600
1	115001	120000	116,000
1	120001	125000	120,500
1	165001	170000	168,800
1	175001	1 80000	180,000
1	190001	195000	193,500
1	290001	295000	290,500
1	295001	300000	299,000
1	490001	495000	492,800
1	1495001	1500000	1,500,000
1	1630001	1635000	1,631,600
1	1705001	1710000	1,707,500
1	2000001	2005000	2,002,000
2809			15,000,000

PATTERN OF SHAREHOLDING AS PER LISTING REGULATIONS
AS AT 30 JUNE 2004

Shareholders' Category	Number of Shares held
Associated Companies, undertaking and related parties	
First Capital Investments Limited	1,500,000
NIT and ICP	
Investment Corporation of Pakistan	5,950
National Bank of Pakistan	290,500
Directors, CEO and their Spouse and Minor Children	

Salmaan Taseer (Director)	500
Lt. Gen (R) Humayun Khan Bangash (Director)	500
Khurram Hanif (CEO/Director)	500
Muhammad Ashraf Ali (Nominee Director of Faysal Bank Limited)	500
Muhammad Shuaib Yousaf (Director)	500
Muhammad Naveed Tariq (Director)	500
Syed Kashan Kazmi (Director)	500
Executives	-
Public Sector Companies and Corporations	1,601,965
Banks, Development Financial Institutions, Non-Banking Finance Institutions etc	325,800
Shareholders holding 10% or more voting interest in the Company	
First Capital Investments Limited	1,500,000
Sulieman Ahmed Said Al-Hoqani	5,341,140