



FCMF

V I S I O N

To be a leader among Mutual Funds of the country through prudent investments in diversified portfolio for sustained best financial results and continuing achieving maximum yield for the shareholders of First Capital Mutual Fund Limited.

M I S S I O N

At First Capital Mutual Fund Limited we would focus on creating wealth for shareholders, to conduct ourselves with dignity and the highest ethical standards, to contribute as a good corporate citizen to the society and also to provide a good working environment that will surely stimulate talent and reward hard work.

CONTENTS

Company Information	05
Notice of Annual General Meeting	07
Financial Highlights	09
Directors' Report	10
Statement of Compliance with Code of Corporate Governance	15
Auditors' Review Report on Statement of Compliance with Code of Corporate Governance	17
Auditors' Report to the Members	18
Balance Sheet	19
Profit and Loss Account	20
Cash Flow Statement	21
Statement of Changes in Equity	22
Statement of Movement in Equity & Reserves	23
Distribution Statement	24
Notes to the Accounts	25
Performance Table	37
Statement of Income & Expenditure in Relation to the Investment Company	38
Pattern of Shareholding	39
Form of Proxy	43

COMPANY INFORMATION

Board of Directors	Salmaan Taseer (Chairman) Muhammad Faisal Potrik (CEO) Sardar Ali Wattoo Khawaja Khalil Shah Muhammad Naveed Tariq Mahmood Ali Athar Ahmad Bilal
Chief Financial Officer	Syed Kashan Kazmi
Audit Committee	Salmaan Taseer Muhammad Naveed Tariq Ahmad Bilal
Company Secretary	Muhammad Musharaf Khan
Investment Committee	Muhammad Faisal Potrik Syed Kashan Kazmi Muhammad Asim
Auditors	Ford Rhodes Sidat Hyder & Co. Chartered Accountants
Legal Adviser	Rehman Saleem & Tarar Advocates
Custodian	Crescent Commercial Bank Limited
Investment Advisers	First Capital Investments Limited 103-C/II, Gulberg-III, Lahore
Registered Office / Head Office	103-C/II, Gulberg-III Lahore, Pakistan ☎ (042) 5757591-4 Fax: (042) 5757590, 5877920
Registrar and Shares Transfer Office	THK Associates (Pvt.) Limited Ground Floor, State Life Building No.3, Dr. Ziauddin Ahmed Road, Karachi ☎ (021) 5689021, 111-000-322

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 12th Annual General Meeting of the Shareholders of First Capital Mutual Fund Limited (“the Company”) will be held on Monday, 30 October 2006 at 02:30p.m. at the Registered Office of the Company, 103-C/II, Gulberg-III, Lahore, to transact the following business:

1. To confirm the minutes of last Annual General Meeting held on 29 October 2005;
2. To receive, consider and adopt the financial statements of the Company for the year ended 30 June 2006 together with the Directors' and Auditors' reports thereon;
3. To approve the final cash dividend @ 10% as recommended by the Board of Directors; and
4. To appoint the Auditors of the Company for the year ending 30 June 2007 and to fix their remuneration.

By order of the Board

Lahore
October 07, 2006

Muhammad Musharaf Khan
Company Secretary

Notes:

- 1) The Members Register will remain closed from 23 October 2006 to 30 October 2006 (both days inclusive). Transfers received at THK Associates (Pvt.) Limited, Ground Floor, State Life Building No. 3, Dr. Ziauddin Ahmad Road, Karachi the Registrar and Shares Transfer Office of the Company, by the close of business on 22 October 2006 will be treated in time for Annual General Meeting and entitlement of dividend.
- 2) A member eligible to attend and vote at the meeting may appoint another member as proxy to attend and vote in the meeting. Proxies in order to be effective must be received by the company at the Registered Office not later than 48 hours before the time for holding the meeting.
- 3) In order to be valid, an instrument of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney, must be deposited at the registered office of the company, 103-C/II, Gulberg-III, Lahore, not less than 48 hours before the time of the meeting.

- 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.

FINANCIAL HIGHLIGHTS

	Rupees in Thousands									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Capital gain/(loss)	35,997	25,734	9,674	34,472	2,939	(4,964)	15,135	(37,942)	1,859	(12,157)
Dividend income	6,557	4,749	4,699	7,596	7,163	2,328	4,830	2,369	3,916	5,403
Unrealized gain/(loss) on listed securities	13,476	(0,566)	11,925	11,241	(8,189)	(273)	288	(45,472)	30,000	12,770
Operating expenses	7,196	6,018	5,019	4,166	3,564	2,423	4,006	4,519	5,284	5,125
Net gain/(loss) before taxation	48,872	24,094	21,377	49,186	(1,544)	(4,614)	16,230	6,263	(27,447)	1,497
Taxation	603	-	234	-	430	169	182	132	196	270
Net gain/(loss) after taxation	48,269	24,094	21,142	49,186	(1,974)	(4,783)	16,048	6,131	(27,643)	1,227
Net assets	176,043	142,611	118,517	97,375	85,689	87,663	92,446	83,898	77,767	105,410
Net assets per share	11.74	9.51	7.91	6.49	5.71	5.85	6.16	5.59	5.18	7.03
Earning per share	3.22	1.61	1.41	3.28	(0.13)	0.32	1.07	0.41	(1.84)	0.08
Dividend distribution	10%	10%	Nil	25%	Nil	Nil	5%	Nil	Nil	Nil
KSE 100 Index	9989	7450	5279	3402	1770	1366	1520	1054	879	1565

DIRECTORS' REPORT

The Directors of First Capital Mutual Fund Limited ("FCMF") are pleased to present the annual report together with the audited financial statements of the Company for the financial year ended June 30, 2006.

Financial Results

Financial results for FY06 are summarized as follows:

	30 June 2006 Rupees	30 June 2005 Rupees	Variance %
Capital Gain on sale of Listed securities	35,997,091	25,734,064	40%
Dividend Income	6,555,670	4,749,168	38%
Other Income	39,309	196,034	(80%)
Unrealized gain/(loss) due to change in fair value of listed securities	13,476,246	(566,520)	100%
Operating Expenses	7,196,421	6,018,109	19.5%
Profit After Taxation	48,269,365	24,094,637	100%
Basic Earnings Per Share	3.22	1.61	100%
Net Asset Value	11.74	8.52*	38%

* Adjusted for cash dividend

Profit Distribution

The Directors in their meeting held on October 07, 2006 have approved the dividend @ 10% i.e. Re. 1 per share to its shareholders for the year ended June 30, 2006.

Earning Per Share

Earnings per share for the year ended June 30, 2006 was Rs.3.22 as compared to Rs.1.61 for the last year.

Right Shares

The Company announced 100% right shares at par value with half yearly results of FY06. The total amount of the rights has been received in full by the company subsequent to the year end. Furthermore, deployment of the additional amount is in process in accordance with the approved investment procedures and market conditions.

Year under Review

The Board is pleased to inform that the Net Asset Value per share of your Company for the year ended June 30, 2006 stands at Rs.11.74 (a 38% growth over the NAV of the last year (adjusted for dividends). The Company managed to outperform the KSE-100 index by 4% in FY06 with the NAV appreciating by 38% while the KSE-100 index showed a rise of 34%. The Company is now among the top 5 performing mutual funds within the industry.

The Company registered a growth of 100% in Profit after Tax as it increased from Rs.24 million in FY05 to

Rs.48.2million for FY06. Earning Per share was recorded at Rs.3.22 in FY06 as compared to Rs.1.61 for FY05. FY06 also witnessed a significant rise in the Capital Gains and Dividend Income. Capital Gains scaled up to Rs.35.9million (FY05: Rs.25.7million), recording a growth of 40%. Dividend Income also rose to Rs.6.5 million (FY05: Rs.4.7 million) with a growth of 38%.

Economic Environment 2006

Financial year 2006 has been a roller coaster year for the Karachi Stock Exchange. The KSE-100 began the year below the 7000 point level but rebounded later in its characteristic volatile mode to register a record index level of 12,273 points in April 2006. The index saw volatility at the peak with volumes as high as 737 million shares and volumes as low as 63 million during the downturn.

During the fourth quarter of FY06, a mix of external elements such as volatile regional markets, budget uncertainty, CVT enhancement and annulled privatization of Pakistan Steel Mills contributed to the plunge in the KSE-100 index. Market fundamentals appear intact and the recent correction in the market has set the stage for another bull year at the KSE.

Increased surveillance by regulators to guard manipulation, introduction of CFS MK-II and the launch of KSE-30 index shall improve the market efficiency and investors confidence. Improved image of the country abroad as well as planned GDRs of some of the top liquid companies shall result in foreign interest and greater liquidity in the stock market.

Portfolio Performance

The asset allocation strategy of the fund management team has paid rich dividends. The strategic over weight stance in the oil and gas exploration sector due to the continuously rising international oil prices as well as greater production locally has contributed substantially to the NAV. While investing in traditional liquid shares in the market, the fund management team did not ignore the relatively illiquid shares that offer value. Investments have been made in the auto sector as well as in the cable and electrical goods sector that have helped in diversification as well as provided substantial value to the fund.

Based on Value Investing Strategy, Company shall adapt its exposure while gradually realizing capital gains, where attractiveness appears vanishing.

Performance Rating

The performance ranking of the Company is intact at MFR 4-Star by JCR-VIS Credit Rating Company on the basis of performance assessed up to December 31, 2005.

Investment Objective

FCMF aims to provide consistent long-term return through pro-active investment in equity market. The investment will envisage capital appreciation & reduce opportunity cost through active risk management.

Investment Policy

First Capital Mutual Fund (FCMF) will invest in listed securities or companies, which are proposed to be listed. The proportion of investment in stock of different companies & across different sectors will be based upon expected return & inherent risks while proportion of investment in stocks or fixed income securities would be according to the guidelines contained in the NBFC Rules.

FCMF will seek to augment wealth of investors through investments geared towards securing long term return viz capital gains & dividend income while simultaneously off-setting resultant risks through efficient diversification across sectors with low correlation amongst them. Stock selections will be conducted by fundamental and technical analysis.

FCMF shall not invest in any security more than ten percent (10%) of the total Net Asset of FCMF or ten percent (10%) of the issued capital of such company. FCMF shall adhere to the guidelines set forth in NBFC Rules, 2003 (as amended from time to time) in relation to investment policy.

Changes in the Board of Directors

Mr. Mahmood Ali Athar has been appointed in place of Mr. Muhammad Shuaib Yousaf as a Director in the Board of Directors of the Company.

Trading by Directors/CFO & Company Secretary

Directors	Opening Balance	Purchase	Bonus	Sale	Closing Balance
Salmaan Taseer	500	55,000	-	-	55,500
Muhammad Faisal Potrik	500	-	-	-	500
Sardar Ali Wattoo	500	-	-	-	500
Khawaja Khalil Shah	500	-	-	-	500
Muhammad Shuaib Yousaf (Resigned)	500	-	-	-	-
Muhammad Naveed Tariq	500	-	-	-	500
Ahmad Bilal	500	-	-	-	500
Mahmood Ali Athar*	-	500	-	-	500
Spouses	-	-	-	-	-
Minor Children	-	-	-	-	-
Chief Financial Officer					
Syed Kashan Kazmi	-	-	-	-	-
Company Secretary					
Muhammad Musharaf Khan	-	-	-	-	-

* Mr. Mahmood Ali Athar was appointed as a director in place of Mr. Muhammad Shuaib Yousaf subsequent to year-end

Board Meetings Attendance

Four meetings of the Board of Directors were held during the financial year 2006. The attendance of each Director at the meetings of the Board of Directors is as under:

Directors	Number of Board Meetings Attended
Salmaan Taseer (Chairman)	3
Muhammad Faisal Potrik (Chief Executive Officer)	4
Sardar Ali Wattoo	2
Khawaja Khalil Shah	4
Muhammad Shuaib Yousaf*	1
Muhammad Naveed Tariq	4
Ahmad Bilal	4

* Mr. Mahmood Ali Athar has been appointed in place of Mr. Muhammad Shuaib Yousaf, who resigned in August 2006, after the approval of the SECP.

Audit Committee

The Company has an Audit Committee composed on entirely non-executive directors, which meets at least once in each quarter. Its Term of Reference covers the areas recommended by the Code of Corporate Governance issued by the

Securities and Exchange Commission of Pakistan.

The Audit Committee comprises of three members:

Salmaan Taseer	Chairman
Muhammad Naveed Tariq	Member
Ahmad Bilal	Member

Auditors

The present Auditors, M/s Ford Rhodes Sidat Hyder & Co. (Chartered Accountants) are no more eligible to become the Auditors of the Company, according to rule-59 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Therefore, the Audit Committee has recommended M/s KPMG Taseer Hadi & Co. (Chartered Accountants) as the Auditors for the year ending 30 June 2007.

Good Governance & Best Business Practices

Practicing Governance means bringing and ensuring that we have a comprehensive set of ethical principles plus a team that is committed to ensure that all our business activities are conducted according to those principles.

The Board of Directors of the Company is responsible to its shareholders for managing the business of the Company in strict compliance with the regulatory requirements and sound internal controls. In other words we have to live up to high standards that are independently verifiable. It acknowledges the responsibility for the sound internal controls and is committed to upholding the highest standards of Code of Corporate Governance.

Statement of Compliance in accordance with the Code of Corporate Governance

The Company for the year ended June 30, 2006 has duly complied with the provisions of the relevant code for good corporate governance. The Board of Directors has reviewed the Codes and hereby confirms that:

- a) The financial statement of the Company fairly presents 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.
- b) Proper books of accounts of the Company have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements except for those, which are changed due to adoption of new IAS by the Securities and Exchange Commission of Pakistan.
- d) The accounting estimates are based on reasonable and prudent judgment and are in accordance with the criteria available in the respective International Accounting Standards.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no doubts upon the Company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance applicable in detailed in the listing regulations.
- h) The key financial data of last ten years are attached to this report.
- i) There are no outstanding statutory payments on account of taxes, duties, levies and charges.
- j) The statement as to the value of investments of provident fund, gratuity and pension funds is not applicable as the Investment Advisor is managing the Fund.

Pattern of Shareholding

The pattern of shareholding as required under section 236 of the Companies Ordinance, 1984 and listing regulations are enclosed.

Acknowledgement

The Board of Directors acknowledge the profound association demonstrated by our shareholders, steady backing and guidance from the SECP as well as setting up of an effective and efficient system of Corporate Governance by the regulators and the commitment shown by our most priceless assets, the employees, since nothing is realizable without their active effort and support.

For and on behalf of the Board

Lahore:
October 07, 2006

Muhammad Faisal Potrik
Chief Executive Officer

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2006

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 practice 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 three 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 DFI or NBFIs. No one is a member of the Stock Exchange.
4. All casual vacancies occurring in the Board were filled 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 transaction, 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 meeting of the Board were presided over by the Chairman who is a non-executive director 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. Orientation course for directors has been conducted to appraise them of their duties and responsibilities.
10. The Board has approved appointment of Company Secretary, Chief Financial Officer and Head of Internal Auditor including their 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.
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 comprises three members; all of them are 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 the 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 for the Company 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 any 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.
20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Lahore:
October 07, 2006

Muhammad Faisal Potrik
Chief Executive Officer

**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 applicable to the fund for the year ended June 30, 2006 prepared by the Board of Directors of First Capital Mutual Fund Limited (the Fund) to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange and Chapter XIII of the Lahore Stock Exchange, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors 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 Fund personnel and review of various documents prepared by the Fund 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 June 30, 2006.

LAHORE
October 07, 2006

FORD RHODES SIDAT HYDER & Co.
CHARTERED ACCOUNTANTS

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **First Capital Mutual Fund Limited** (the fund) as at June 30, 2006 and the related profit and loss account, cash flow statement, statement of changes in equity, statement of movement in equity and reserves per share 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 fund'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 the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards 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 above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said 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 fund 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, except for change as stated in note 4.1 to the financial statements with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the fund's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the fund;
- 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 equity and reserves per share 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 fund's affairs as at June 30, 2006 and of the profit, its cash flows, changes in equity, movement in equity and reserves per share 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 fund and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

LAHORE
October 07, 2006

FORD RHODES SIDAT HYDER & Co.
CHARTERED ACCOUNTANTS

BALANCE SHEET

AS AT JUNE 30, 2006

	NOTE	<u>2006</u> Rupees	<u>2005</u> Rupees
ASSETS			
NON CURRENT ASSET			
Long Term Deposit		37,500	37,500
Current Assets			
Investments - held for trading	5	173,922,693	119,071,285
Dividend and other receivables	6	896,658	15,088,499
Bank balances	7	6,573,863	25,609,014
TOTAL ASSETS		<u>181,430,714</u>	<u>159,806,298</u>
Current Liabilities			
Due to Investment Adviser - an associated company	8	3,474,750	2,624,117
Trade and other payables	9	1,913,186	14,119,232
Provision for taxation		-	451,536
TOTAL LIABILITIES		<u>5,387,936</u>	<u>17,194,885</u>
NET ASSETS		<u><u>176,042,778</u></u>	<u><u>142,611,413</u></u>
SHARE CAPITAL AND RESERVES			
Authorized capital 35,000,000 (2005: 35,000,000) ordinary shares of Rs. 10 each			
		<u>350,000,000</u>	<u>350,000,000</u>
Issued, subscribed and paid up capital	10	150,000,000	150,000,000
Share Deposit Money - Right issue	11	162,000	-
Unappropriated profit / Accumulated (loss)		25,880,778	(7,388,587)
		<u>176,042,778</u>	<u>142,611,413</u>
CONTINGENCIES AND COMMITMENTS	12		

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

LAHORE

CHIEF EXECUTIVE

DIRECTOR

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2006

	NOTE	2006 Rupees	2005 Rupees
INVESTMENT INCOME			
Net gain on listed securities		35,997,091	25,734,064
Dividend income		6,555,670	4,749,168
Other income	13	39,309	196,034
		42,592,070	30,679,266
Unrealized gain / (loss) on listed securities	5	13,476,246	(566,520)
		56,068,316	30,112,746
OPERATING EXPENSES			
Administrative expenses	14	1,298,286	1,256,250
Remuneration to the investment adviser	8	3,474,750	2,624,117
Underwriting commission	15	1,500,000	-
Brokerage commission and capital value tax		923,385	2,137,742
		7,196,421	6,018,109
PROFIT BEFORE TAXATION		48,871,895	24,094,637
PROVISION FOR TAXATION			
- Taxation	16	602,530	-
PROFIT FOR THE YEAR		48,269,365	24,094,637
	17		
EARNINGS PER SHARE- BASIC		3.22	1.61

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

LAHORE

CHIEF EXECUTIVE

DIRECTOR

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2006

	2006 Rupees	2005 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	48,871,895	24,094,637
Adjustment for:		
Dividend Income	(6,555,670)	(4,749,168)
Unrealized (Gain) / Loss due to change in fair value of listed securities	(13,476,246)	566,520
	(20,031,916)	(4,182,648)
Operating profit before working capital changes	28,839,979	19,911,989
Decrease in Security Deposit	-	37,500
(Increase)/decrease in current assets		
Investments in listed securities	(41,375,162)	(4,776,085)
Other receivables	13,624,662	(13,624,662)
	(27,750,500)	(18,400,747)
Increase/(decrease) in current liabilities		
Due to investment adviser	850,633	475,481
Trade and other payables	(12,560,193)	12,726,520
	(11,709,560)	13,202,001
Cash generated from operations	(10,620,081)	14,750,743
Tax Paid	(15,230)	(249,555)
Dividend Received	6,084,013	4,905,284
Net cash (used in) / generated from operating activities	(4,551,298)	19,406,472
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	(14,645,853)	(44,048)
Proceeds from share deposit money - Right issue	162,000	-
Net cash used in financing activities	(14,483,853)	(44,048)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(19,035,151)	19,362,424
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	25,609,014	6,246,590
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6,573,863	25,609,014

7

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

LAHORE

CHIEF EXECUTIVE

DIRECTOR

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2006

	Issued, subscribed and fully paid up share capital	Share deposit money (Right issue)	Accumulated (loss) / Unappropriated profit	Total
Rupees				
Balance as at July 01, 2004	150,000,000	-	(31,483,224)	118,516,776
Profit for the year ended June 30, 2005	-	-	24,094,637	24,094,637
Balance as at June 30, 2005	150,000,000	-	(7,388,587)	142,611,413
Final Dividend @ Rs 1/- per share for the year 2005	-	-	(15,000,000)	(15,000,000)
Profit for the year ended June 30, 2006	-	-	48,269,365	48,269,365
Share Deposit Money	-	162,000	-	162,000
Balance as at June 30, 2006	150,000,000	162,000	25,880,778	176,042,778

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

LAHORE

CHIEF EXECUTIVE

DIRECTOR

**STATEMENT OF MOVEMENT IN EQUITY
AND RESERVES-PER SHARE**

FOR THE YEAR ENDED JUNE 30, 2006

	<u>2006</u> Rupees	<u>2005</u> Rupees
Net assets per share as at July 01	9.52	7.91
Net gain from transactions in listed securities	2.40	1.72
Unrealized gain / (loss) on listed securities	0.90	(0.04)
Net profit for the year excluding net gain from sale of listed and unrealized gain / (loss) on listed securities	(0.08)	(0.07)
Profit for the year - per share	3.22	1.61
Dividend for the year 2005 - per share	(1.00)	-
Net assets per share as at June 30	<u>11.74</u>	<u>9.52</u>

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

LAHORE

CHIEF EXECUTIVE

DIRECTOR

DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2006

	<u>2006</u> Rupees	<u>2005</u> Rupees
Accumulated loss brought forward	(7,388,587)	(31,483,224)
Profit for the year	48,269,365	24,094,637
Final Dividend @ Rs 1/- per share for the year 2005	(15,000,000)	-
Unappropriated profit / Accumulated (loss) carried forward	<u>25,880,778</u>	<u>(7,388,587)</u>

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

LAHORE

CHIEF EXECUTIVE

DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

1. STATUS AND NATURE OF BUSINESS

First Capital Mutual Fund Limited (the fund) 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 fund commenced its operations on March 14, 1995. The fund 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. Subsequently, the fund has been registered with the Commission as an investment company under the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003. The object of the fund 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 fund has an agreement with First Capital Investments Limited, an associated company, to provide investment advisory services. The custodian of the fund is Crescent Commercial Bank Limited.

2. 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.

3. 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.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1. Changes in accounting policies

Consequent upon revisions in IAS 39 "Financial Instruments: Recognition and Measurement", the company has changed its accounting policies in respect of the following:

The transactions costs incurred in relation to acquisition of investments, classified as 'held-for-trading' are now charged to profit and loss account when incurred. Previously such costs incurred on acquisition of all

class of investments were included in the cost of related investments. This change in the accounting policy has been accounted for retrospectively in accordance with the treatment specified in IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. Had this policy not been changed, the brokerage commission and capital value tax as included in the profit and loss account would have been Nil for the current and prior period and the net gain on sale of listed securities would have been lower by Rs. 720,049/- (2005: Rs. 1,987,805 -) and unrealised gain on said securities would have been lower by Rs. 203,336/- (2005: unrealised loss would have been higher by Rs. 149,937/-). However, there is no impact of the above change in accounting policy on the net profit and the assets and liabilities of the company for the current and prior period.

4.2. Investments Listed Securities

Investment in listed Securities including in associated companies are classified as held for trading. These are securities that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin.

All investments are initially recognised at cost, being the fair value of the consideration given excluding acquisition charges associated with the investment. After initial recognition, investments are measured at their fair values. Unrealised gains and losses on investments are recognised in income statement of the period.

Fair values of these securities representing listed equity and debt securities are determined by reference to stock exchange quoted market prices at the close of business on balance sheet date.

4.3. 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 recognised on an accrual basis considering settlement dates.

4.4. Taxation

4.4.1 Current 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 financial statements if the fund 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.

4.4.2 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 recognised 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.

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 recognised in these financial statements, as the fund 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.

4.5 Revenue Recognition

4.5.1 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 income statement for the period. Carrying value of the security for this purpose is calculated on an individual portfolio basis using the moving average method.

4.5.2 Dividend

Dividend income is recognised at the time of closure of share transfer book of the company declaring the dividend.

4.5.3 Markup on Bank Deposits

Return on bank deposits is recognised on accrual basis.

4.6 Trade date accounting

All regular way purchases / sales of investments are recognised on the trade date i.e. the date the fund commits to purchase / sale the investments. Regular way purchase / sale of investments require delivery of securities within three days after the transaction date as required by the stock exchanges regulations.

4.7 Financial Instrument

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

The fund de-recognizes a financial asset or portion of financial asset when, and only when, the fund 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-recognised 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.

4.8 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 fund has a legally enforceable right to set off the recognised amounts and intends either to settle on net basis or to realize the assets and settle the liabilities simultaneously.

4.9 Provisions

A provision is recognised when the fund 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.

4.10 Related party transactions

All transactions with related parties are entered into at an arm's length determined in accordance with "Comparable uncontrolled price method".

4.11 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.

5. INVESTMENTS - held for trading

Name of company	NUMBER OF SHARES/ CERTIFICATES				BALANCE AS AT JUNE 30, 2006			PERCENTAGE IN RELATION TO						
	Holdings at the beginning of the period	Purchased during the year	Bonus/Rights received during the year	Sales during the year	Cost	Carrying Amount	Market Value	Unrealized gain/(loss)	Own net Assets At Cost	Market Value	No. of Shares of Investee Company	Total Investment at Cost	Market Value	
	of the beginning of the period	year	the year	at the year end		Amount		Value		Value			Value	
Ordinary fully paid shares / certificates have a face value of Rs. 10/- each unless stated otherwise.														
Investment Companies / Banks														
First Capital Equities Limited	215,000	-	-	-	215,000	2,988,500	12,685,000	14,480,250	1,795,250	1.70	8.23	0.90	2.06	8.33
Commercial Banks														
National Bank of Pakistan	91,960	108,040	11,000	151,000	60,000	6,253,143	8,701,518	12,930,000	4,228,482	3.55	7.34	0.01	4.30	7.43
Askari Commercial Bank Limited	-	20,000	-	20,000	-	-	-	-	-	-	-	-	-	-
The Bank of Punjab	-	175,000	24,400	89,000	110,400	9,651,985	9,651,985	9,130,080	(521,905)	5.48	5.19	0.04	6.64	5.25
Muslim Commercial Bank Limited	-	170,500	-	170,500	-	-	-	-	-	-	-	-	-	-
Union Bank Limited	196,394	52,006	45,552	153,500	140,452	5,582,461	5,083,688	10,393,448	5,309,760	3.17	5.90	0.04	3.84	5.98
Bank Al Falah Limited	-	155,500	-	115,500	40,000	2,331,700	2,331,700	1,600,000	(731,700)	1.32	0.91	0.01	1.60	0.92
Faysal Bank Limited	-	45,000	-	45,000	-	-	-	-	-	-	-	-	-	-
United Bank Limited	-	5,000	-	5,000	5,000	723,800	723,800	688,750	(35,050)	0.41	0.39	0.00	0.50	0.40
Insurance														
Adamjee Insurance Company Limited	-	45,000	-	45,000	-	-	-	-	-	-	-	-	-	-
Textile Composite														
Nishat Mills Limited	25,000	125,000	-	45,000	105,000	10,448,164	10,276,056	11,004,000	727,944	5.94	6.25	0.07	7.19	6.33
Nishat (Chunian) Limited	110,250	2,800	11,000	124,050	-	-	-	-	-	-	-	-	-	-
Kohinoor Textile Mills Limited	-	10,000	-	10,000	-	-	-	-	-	-	-	-	-	-
Suraj Cotton Mills Limited	60,000	-	-	60,000	-	-	-	-	-	-	-	-	-	-
Textile Spinning														
Gadoon Textile Mills Limited	30,000	-	-	30,000	-	-	-	-	-	-	-	-	-	-
Synthetic & Rayon														
Dewan Salman Fibre Limited	-	10,000	-	10,000	-	-	-	-	-	-	-	-	-	-
June														
Thal Limited	-	30,000	-	-	30,000	7,217,487	7,217,487	5,071,500	(2,145,987)	4.10	2.88	0.22	4.97	2.92
Cement														
Maple Leaf Cement Factory Limited	-	50,000	-	50,000	-	-	-	-	-	-	-	-	-	-
Dewan Cement Limited (R)	-	41,500	-	41,500	-	-	-	-	-	-	-	-	-	-
Dewan Cement Limited	41,512	25,000	-	25,000	41,512	599,932	938,519	655,890	(282,629)	0.34	0.37	0.03	0.41	0.38
Pioneer Cement Limited	-	10,000	-	10,000	-	-	-	-	-	-	-	-	-	-
D.G.Khan Cement Company Limited	60,000	159,500	-	154,500	65,000	6,160,911	7,407,913	5,850,000	(1,557,913)	3.50	3.32	0.04	4.24	3.36
D.G.Khan Cement Company Limited (R)	-	-	11,250	-	11,250	393,750	393,750	585,000	191,250	0.22	0.33	0.02	0.27	0.34
Lucky Cement Limited	-	273,000	-	148,000	125,000	13,483,812	13,483,812	12,943,750	(540,062)	7.66	7.35	0.05	9.28	7.44
Fauji Cement Company Limited	-	345,000	-	345,000	-	-	-	-	-	-	-	-	-	-
Refinery														
National Refinery Limited	3,500	3,500	-	7,000	-	-	-	-	-	-	-	-	-	-
Attock Refinery Limited	-	16,000	3,000	19,000	-	-	-	-	-	-	-	-	-	-
Power Generation and Distribution														
Hub Power Company Limited	-	75,000	-	75,000	-	-	-	-	-	-	-	-	-	-
Kot Addu Power Company Limited	121,000	29,000	-	-	150,000	5,699,975	5,682,840	6,315,000	632,160	3.24	3.59	0.02	3.92	3.63
Oil & Gas Marketing Companies														
Pakistan State Oil Company Limited	25,000	25,000	-	42,500	7,500	3,251,250	3,251,250	2,317,500	(933,750)	1.85	1.32	0.00	2.24	1.33
Shell Pakistan Limited	10,000	4,000	500	14,500	-	-	-	-	-	-	-	-	-	-
Sui Northern Gas Pipelines Limited	50,000	20,000	-	70,000	-	-	-	-	-	-	-	-	-	-

	Note	<u>2006</u> Rupees	<u>2005</u> Rupees
6 DIVIDEND AND OTHER RECEIVABLES			
Dividend receivable		839,634	367,977
On account of sale of shares - unsecured considered good		-	13,624,662
Advance tax		57,024	1,095,860
		<u>896,658</u>	<u>15,088,499</u>
7 BANK BALANCES			
Cash at bank:			
Current accounts		5,716,749	25,098,214
Deposit accounts		857,114	510,800
		<u>6,573,863</u>	<u>25,609,014</u>
8 DUE TO INVESTMENT ADVISER - AN ASSOCIATED COMPANY			
Balance as at July 01,		2,624,117	2,148,636
Remuneration for the year @ 2% of average annual net assets	8.1	<u>3,474,750</u>	<u>2,624,117</u>
		6,098,867	4,772,753
Less: Payments made during the year		<u>(2,624,117)</u>	<u>(2,148,636)</u>
		<u>3,474,750</u>	<u>2,624,117</u>

8.1 The remuneration of the Investment Adviser First Capital Investments Limited, an associated company, has been calculated as required under Rule 53 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 which requires that Investment Adviser is entitled to a remuneration @ 2% of the average annual net assets of the company. The remuneration of the Investment Adviser has been determined as follows:

	Note	<u>2006</u> Rupees	<u>2005</u> Rupees
Average annual net assets after charging remuneration of Investment Adviser and annual fee to SECP.		<u>173,737,492</u>	<u>131,205,849</u>
2% of annual average net assets		<u>3,474,750</u>	<u>2,624,117</u>

	Note	<u>2006</u> Rupees	<u>2005</u> Rupees
9 TRADE AND OTHER PAYABLES			
Accrued Custodian Fee		102,203	88,856
Payable on account of purchase of listed equity securities		28,445	12,789,366
Audit fee		299,850	155,000
Annual fee-SECP		173,737	131,206
Unclaimed dividend		1,308,951	954,804
		<u>1,913,186</u>	<u>14,119,232</u>

10 ISSUED, SUBSCRIBED AND PAID UP CAPITAL

15,000,000 (2005: 15,000,000) Ordinary shares of
Rs. 10/- each fully paid in cash

	<u>150,000,000</u>	<u>150,000,000</u>
--	--------------------	--------------------

10.1 First Capital Investment Limited, an associated company, holds 1,954,500 (2005: 1,500,000) ordinary shares of Rs. 10/- each representing 13.03% (2005: 10%) of the issued and paid up capital of the company.

11 SHARE DEPOSIT MONEY - RIGHT ISSUE

This represents the amount received from shareholders against the right issue of 100% at par value till the subscription date of June 24, 2006.

12 CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

Nil (2005: Nil)

12.2 Commitments

Nil (2005: Nil)

13 OTHER INCOME

	Note	<u>2006</u> Rupees	<u>2005</u> Rupees
Markup on bank accounts		35,980	115,451
Other income		3,329	80,583
		<u>39,309</u>	<u>196,034</u>

	Note	<u>2006</u> Rupees	<u>2005</u> Rupees
14 ADMINISTRATIVE EXPENSES			
Custodian fee and CDC charges		169,009	671,122
Auditor's remuneration	14.1	318,645	237,250
Annual fee to SECP		173,737	131,206
Fee and subscription		332,525	131,905
Professional Tax		300,000	-
Other expenses		4,370	84,767
		<u>1,298,286</u>	<u>1,256,250</u>

14.1 Auditor's remuneration includes the following:

Annual audit fee	150,000	125,000
Fee for review of half-yearly financial statements	60,000	45,000
Special certifications	80,000	60,000
Out of pocket expenses	28,645	7,250
	<u>318,645</u>	<u>237,250</u>

15 This amount represents the underwriting commission of Rs 825,000/- and Rs 150,000/- paid to the related parties Al-Hoqani Securities & Investment Limited and First Capital Investment Limited respectively for the right issue made during the year.

	Note	<u>2006</u> Rupees	<u>2005</u> Rupees
16 TAXATION			
Current year		-	-
Prior year		602,530	-
		<u>602,530</u>	<u>-</u>

16.1 The Company's tax assessments have been finalized up to Tax year 2005. Annual income tax return for Tax Year 2003, 2004 & Tax Year 2005 were filed under Self Assessment Scheme, which were not selected for total audit and consequently deemed to be assessed.

	Note	<u>2006</u> Rupees	<u>2005</u> Rupees
17 EARNINGS PER SHARE - Basic			
There is no dilutive effect on the basic earnings per share of the company, which is based on:			
Profit attributable to ordinary shareholders - (Rupees)		48,269,365	24,094,637
Weighted average number of ordinary shares (Number)		15,000,000	15,000,000
Earnings per share - Rupees		<u>3.22</u>	<u>1.61</u>

18 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise directors and key management personnel and associated companies. The nature of transactions with associated companies is as follows:

	Note	2006 Rupees	2005 Rupees
<i>Associates</i>			
Brokerage commission paid		-	34,612
Underwriting commission		975,000	-
Fee to investment adviser	8	3,474,750	2,624,117
Sale proceeds of shares		90,172	-

18.1 Amount due from/ to related parties at the year end is disclosed in note 8 of these financial statements.

18.2 Investment held in related parties is disclosed in note 5 of these financial statements.

18.3 The amounts disclosed represent the amount of brokerage paid to the connected parties 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.

19. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

19.1 The company's exposure to interest rate risk and the effective rates of its financial assets and liabilities are summarized as follows:

	Interest bearing				Non interest bearing				Total
	Rupees				Rupees				
	One month to three months	Three months to one year	One Year to five years	More than five year	One month to three months	Three months to one year	One year to five years	More than five years	
2006									
Financial Assets									
Investments - held for trading	-	-	-	-	173,922,693	-	-	-	173,922,693
Dividend and other receivables	-	-	-	-	839,634	-	-	-	839,634
Long term deposit	-	-	-	-	-	-	-	37,500	37,500
Bank balances	-	857,114	-	-	5,716,749	-	-	-	6,573,863
	-	857,114	-	-	180,479,076	-	-	37,500	181,373,690
Effective interest rates	0.1% to 2%								
Financial Liabilities									
Due to Investment Adviser	-	-	-	-	3,474,750	-	-	-	3,474,750
Trade and Other Payables	-	-	-	-	1,913,186	-	-	-	1,913,186
	-	-	-	-	5,387,936	-	-	-	5,387,936
On Balance Sheet Gap	-	857,114	-	-	175,091,140	-	-	37,500	175,985,754
2005									
Financial assets									
Investments - held for trading	-	-	-	-	119,071,285	-	-	-	119,071,285
Dividend and other receivables	-	-	-	-	13,992,639	-	-	-	13,992,639
Long term deposits	-	-	-	-	-	-	-	37,500	37,500
Bank balances	-	510,800	-	-	25,098,214	-	-	-	25,609,014
	-	510,800	-	-	158,162,138	-	-	37,500	158,710,438
Effective interest rates	2% to 3%								
Financial Liabilities									
Due to Investment Adviser	-	-	-	-	2,624,117	-	-	-	2,624,117
Trade and Other Payables	-	-	-	-	14,119,232	-	-	-	14,119,232
	-	-	-	-	16,743,349	-	-	-	16,743,349
On Balance Sheet Gap	-	510,800	-	-	141,418,789	-	-	37,500	141,967,089

19.2 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 listed 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.

19.3 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 adviser manages the market risk by monitoring exposure on listed securities by following the investment guidelines approved by the investment committee and regulations laid down by the Securities and Exchange Commission of Pakistan.

19.4 Liquidity risk

Liquidity risk is the risk that the company may encounter difficulty in raising funds to meet its obligations and commitments. The investment adviser 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.

19.5 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.

19.6 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.

20 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue on October 07, 2006 by the board of directors.

The Board of directors have proposed a final dividend for the year ended June 30, 2006, of Rs. 1/- per share (10% per share) at their meeting held on October 07, 2006 for approval of the members at the Annual General Meeting to be held on October 30, 2006. These financial statements do not reflect this dividend payable.

21 RECENT ACCOUNTING DEVELOPMENTS

A new series of standards called "International Financial Reporting Standards (IFRSs)" have been introduced and seven IFRSs have been issued by IASB. Out of these following four IFRS have been adopted by Institute of Chartered Accountant of Pakistan (ICAP) however since these have not been adopted by SECP therefore, do not form part of the approved local financial reporting framework:

IFRS-2 (Share based Payments);
IFRS-3 (Business Combinations);
IFRS-5 (Non-current Assets held for Sale and Discontinued Operations); and
IFRS-6 (Exploration for and Evaluation of Mineral Resources).

The fund expects that the adoption of these pronouncements mentioned above will have no significant impact on the fund's financial statements in the period of initial application.

22 GENERAL

- Figures have been rounded off to the nearest rupee.

LAHORE

CHIEF EXECUTIVE

DIRECTOR

PERFORMANCE TABLE

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Net assets (Rupees)	176,042,778	142,611,413	118,516,776	97,374,821	85,688,772	87,662,772	92,445,566	83,897,790	77,767,270	105,410,446
Profit/(loss) after tax (Rupees)	48,269,365	24,094,637	21,141,955	49,185,918	(1,973,869)	(4,782,794)	16,047,776	6,130,521	(27,643,177)	1,226,578
Net assets value per share (Rupees)	11.74	9.51	7.91	6.49	5.71	5.84	6.16	5.59	5.18	7.03
Earnings/(loss) per share (Rupees)	3.22	1.61	1.41	3.28	(0.13)	(0.32)	1.07	0.41	(1.84)	0.08
Rate of dividend (%)	10%	10%	Nil	25%	Nil	Ni	5%	Nil	Nil	Nil

**STATEMENT OF INCOME & EXPENDITURE IN RELATION
TO THE INVESTMENT COMPANY**
For the Year Ended June 30, 2006

	2006	2005
	Rupees	Rupees
REVENUE		
Investment advisory fee	9,150,690	2,624,117
Dividend income	1,500,000	-
Capital gain	1,350,279	134,400
Underwriting commission	150,000	-
Unrealized loss on remeasurement of investments	(727,200)	-
Mark-up on investments	-	1,470,867
	11,423,769	4,229,384
 OPERATING EXPENSES	 6,461,723	 5,744,743
 OPERATING PROFIT/(LOSS)	 4,962,046	 (1,515,359)
 OTHER INCOME	 689,713	 15,879
	5,651,759	(1,499,480)
 Finance cost	 2,935	 4,063
	5,648,824	(1,503,543)
 TAXATION	 898,498	 20,475
 PROFIT/(LOSS) AFTER TAXATION	 4,750,326	 (1,524,018)
 Earnings/(loss) per share - Basic	 1.25	 (0.40)

LAHORE

CHIEF EXECUTIVE

DIRECTOR

**PATTERN OF SHAREHOLDING
AS AT JUNE 30, 2006**

INCORPORATION NUMBER: L-07616 of 1994-95

No. of Shareholders	Shareholdings			Shares Held
	From		To	
1718	1	-	100	164,606
217	101	-	500	80,417
101	501	-	1000	96,740
182	1001	-	5000	549,139
77	5001	-	10000	633,200
20	10001	-	15000	270,100
17	15001	-	20000	316,100
10	20001	-	25000	237,000
6	25001	-	30000	167,500
5	30001	-	35000	170,500
2	35001	-	40000	80,000
2	40001	-	45000	89,500
1	45001	-	50000	50,000
2	50001	-	55000	109,958
1	55001	-	60000	59,000
3	60001	-	65000	190,500
1	65001	-	70000	70,000
1	80001	-	85000	85,000
1	85001	-	90000	90,000
2	95001	-	100000	198,000
1	105001	-	110000	107,600
1	165001	-	170000	167,500
1	200001	-	205000	204,000
1	205001	-	210000	209,000
1	290001	-	295000	290,500
1	305001	-	310000	309,500
1	450001	-	455000	454,500
1	1495001	-	1500000	1,500,000
1	2235001	-	2240000	2,239,040
1	2755001	-	2760000	2,757,500
1	3050001	-	3055000	3,053,600
2380				15,000,000

**PATTERN OF SHAREHOLDING
AS AT JUNE 30, 2006**

Categories of shareholders	Shares held	Percentage
Directors, Chief Executive Officer, and their spouse and minor children	58,500	0.390
Associated Companies, undertakings and related parties.	1,954,500	13.030
NIT and ICP	290,600	1.937
Banks, Development Financial Institutions, Non Banking financial Institutions	800	0.005
Modarabas and Mutual Funds	59,600	0.397
Insurance Companies	32,000	0.213
Shareholders holding 10% or more	10,004,640	66.698
General Public		
a) Local	3,888,620	25.924
b) Foreign	8,050,140	53.668
Others		
- Joint Stock Companies	665,240	4.435

Note: Some of the shareholders are reflected in more than one category

**PATTERN OF SHAREHOLDING AS PER LISTING REGULATIONS
AS AT JUNE 30, 2006**

<u>Shareholders' Category</u>	<u>Number of Shares held</u>
Associated Companies, undertaking and related parties	
First Capital Investments Limited	1,954,500
NIT and ICP	
Investment Corporation of Pakistan	100
National Bank of Pakistan	290,500
Directors, CEO and their Spouse and Minor Children	
Salmaan Taseer (Director)	55,500
Muhammad Faisal Potrik (CEO/Director)	500
Sardar Ali Wattoo (Director)	500
Muhammad Naveed Tariq (Director)	500
Ahmed Bilal (Director)	500
Khawaja Khalil Shah (Nominee Director of Faysal Bank Limited)	500
Muhammad Shuaib Yousaf (Director) *	500
Executives	-
Public Sector Companies and Corporations	665,240
Banks Development Financial Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds etc.	92,400
Shareholders holding 10% or more voting interest in the Company	
First Capital Investments Limited	1,954,500
Sulieman Ahmed Said Al-Hoqani	8,050,140

* Mr. Muhammad Shuaib Yousaf resigned from the Directorship of the Company and in his place the Board appointed Mr. Mahmood Ali Athar as Director after approval from the Securities and Exchange Commission of Pakistan.

FORM OF PROXY

The Company Secretary
First Capital Mutual Fund Limited
103-C/II, Gulberg-III
Lahore

Folio No./CDC A/c No. _____
Shares Held: _____

I / We _____ of _____
(Name) (Address)

being the member (s) of **First Capital Mutual Fund Limited** hereby appoint Mr. / Mrs./

Miss _____ of _____
(Name) (Address)

or failing him / her / Mr. / Mrs. / Miss. _____ of _____
(Name) (Address)

[who is also member of the Company vide Registered Folio No. _____ (being the member of the Company)] as my / our proxy to attend at and vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held at the Registered Office of the Company, 103-C/II, Gulberg-III, Lahore, on October 30, 2006 at 02:30 p.m. and at any adjournment thereof.

Signature this _____ Day of _____ 2006

(Witnesses)

1. _____

2. _____

**Affix Revenue Stamp
of Rupees Five**

Signature _____
(Signature appended should agree with the specimen signature registered with the Company.)

Notes:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company not later than 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he himself is a member of the Company, except that a corporation may appoint a person who is not a member.
3. CDC account holders will further have to follow the guidelines as laid down in Circular No. 1 dated 26 January 2000 issued by the Securities and Exchange Commission of Pakistan.

