

ARIF HABIB SECURITIES LIMITED. Annual Reports 2003

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Board Of Directors

Mr. Arif Habib Chairman and Chief Executive

Mr. Sirajuddin A. Cassim

Mr. Muhammad yousuf Ahmed.

Mr. Abdul Majid M. Siddique

Mr. Muhammad Rafiq Jangda

Mr. Samad A. Habib

Mr. Kashif A. Habib

Audit Committee

Mr. Sirajuddin A. Cassim

Chairman

Mr. Abdul Majid. Siddiq

Mr. Kashif Habib

Company Secretary

Mr. Haroon Usman

Chief Financial Officer

Mr. Muhammad Rafiq Jangda

Auditors

M/s. Khalid Majid Rahman Sarfaraz

Rahim Iqbal Rafiq

Chartered Accountants

Legal Advisors

M/s, Bawaney & Partners

Bankers

BankAl Habib Ltd.

BankAl Falah Ltd.

Faysal Bank Ltd.

Habib Bank A.G. Zurich

Habib Bank Ltd.

Metropolitan Bank Ltd.

Muslim Commercial Bank Ltd.

United Bank Ltd.

Registered Office

60-63, Karachi Stock Exchange Building
Stock Exchange Road, Karachi - 74000
Phones: 2415213-15
Fax No: 2416072-2429653
E-mail: ahsi@arifhabib.com.pk
Web: www.arifhabib.com.pk

Corporate Finance & Equities
Research Division

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Vision

To be a leading
Financial Services Company
excelling in every aspect of its
business and in delivering its
obligations as a good corporate
citizen to all the stakeholders.

Mission

To be a significant participant
in developing Pakistan's
capital markets for it to
become the engine of
industrial and economic
growth and in integrating it
into the world markets.
Notice of Annual General Meeting

Notice is hereby given that the Ninth Annual General Meeting of Arif Habib Securities Limited will be held at Regent Plaza Hotel Karachi on 27th September, 2003 at 11:30 a.m. to transact the following business:

A. Ordinary Business

1. To confirm the minutes of the Eighth Annual General Meeting held on 28th September 2002.
2. To receive, consider and adopt audited accounts of the Company for the year ended 30th June 2003 together with the Directors' and Auditors' Reports thereon.
3. To approve the following entitlement for the year ended 30th June, 2003 as recommended by the Board of Directors:
 - a) Cash dividend at Rs. 1.00 per share i.e. 1.00% payable to shareholders on the Company's books as on 27th September, 2003.
 - b) One Bonus share for every three shares held i.e. 33.33% distributable to shareholders on the Company's books as on 27th September, 2003.
4. To appoint Auditors for the year ending 30th June 2004 and to fix their remuneration. M/s. Khalid Majid Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants retire and being eligible, offer themselves for reappointment.

B. Special Business

5. As recommended by the Board of Directors:

5.1 To approve the following resolution for the addition of the following object clause in the Memorandum of Association:

"Resolved that an additional object clause be incorporated in the Memorandum of Association

to read "To carry out any or all activities of a Non-banking finance company including but not restricted to investment finance services, leasing, venture capital investment, discounting services, investment advisory and asset management services and housing finance services."

5.2 To approve the following resolution with regard to investment in associated undertakings: "That the Company be and is hereby authorised to, subject to its Directors approval on case-by-case basis, invest upto an additional one billion rupees in associated undertakings comprising of Arif Habib Investment Management Limited (AHIM) or any of the funds or schemes the Company itself or AHIM sets up. Further that the investment may be in the form of equity investment in AHIM, loans to AHIM or guarantees in its favour for seeking loans from other entities. Additionally, the Company may invest in any of the funds/schemes set up or sponsored by the Company itself or by AHIM as the investment advisor or asset manager or the Company may underwrite such issues. Further that the terms and conditions and maximum limits are approved as hereunder:

Entity to which the investment/exposure relates	Nature of investment	Terms and conditions	Additional Maximum amount of investment/exposure
Arif Habib Investment Management Limited (AHIM)	Shares of AHIM	Full shareholder rights	Rs. 100,000,000
Arif Habib Investment Management Limited	Loan to AHIM or guarantee in favour of an entity lending to AHIM.	Loan- Repayable within five years at mark-up rate not less than the Company's borrowing cost. Guarantee - For a period not exceeding five years at a guarantee commission of 0.5% per annum on the outstanding amount.	Rs. 1 00,000,000
Mutual Funds/Unit Trusts of which the Company itself or AHIM is the investment advisor or asset manager	Investment in certificates or units and/or the Underwriting thereof	Investment- Full Certificateholder or Unitholder rights but subject to any limitations on sponsors and/or core investors. Underwriting - At terms approved by the Securities & Exchange Commission of Pakistan or the stock exchange/s in which such mutual fund or unit trust is listed.	Rs. 1 ,000,000,000

Provided that the aggregate additional investment/exposure may not exceed one billion rupees.

Further that all investments shall be subject to the overall conditions set out in section 208 of the Companies Ordinance 1984."

5.3 To approve the following resolution with regard to sponsoring a Modaraba Management Company: "Resolved that the Company be and is hereby authorised to sponsor a Modaraba Management Company and invest upto Rs. 1 00,000,000 in ordinary and/or preference shares of such company".

6. To consider any other business with the permission of the Chair.

BY order of the Board

Karachi
21 August, 2003

Haroon Usman
Company Secretary

Arif Habib Securities Ltd. Annual Report 2003"

Notes:

1 . A member entitled to attend and vote at the meeting shall be entitled to appoint other persons as his / her proxy who shall have such rights, as respects attending, speaking and voting at the meeting as are available to a member. Proxies in order to be effective must be received by the Company at the Registered Office located at 60-63 Karachi Stock Exchange Building, Stock Exchange Road, Karachi duly stamped and signed not later than 48 hours before the meeting. A proxy need to be a member of the Company.

2. The share transfer books of the company will remain closed from 20th September, 2003 to 27th September, 2003 (both days inclusive). Transfers received in order at the company's registered office by the close of business on 1 9th September, 2003 will be treated in time for the purpose of Dividend / Bonus.

3. CDC Account Holders will further have to follow the under mentioned guidelines as laid down in Circular No 1 -Reference No 3(5-A) Misc/ARO/LES/96 dated 26 January 2000

issued by Securities & Exchange Commission of Pakistan.

A. For attending the meeting:

(i) In case of individuals, the account holders or sub account holder and or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his / her identity by showing his / her original National Identity Card (NIC) or original passport at the time of attending the meeting.

(ii) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

B. For Appointing proxies:-

(i) In case of individuals, the account holders or sub-account holders and or the person whose securities are in group account and their registration detail are uploaded as per the regulations, shall submit the proxy form as per the above requirement.

(ii) The proxy form shall be witnessed by two persons whose names, addresses and NIC Numbers shall be mentioned on the form.

(iii) Attested copies of NIC or Passport of the beneficial owners and the proxy shall be furnished with the proxy form.

(iv) The proxy shall produce his / her original NIC or original passport at the time of the meeting.

(v) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form of the Company.

4. Members who desire to stop deduction of Zakat from their dividends may submit a declaration on non-judicial stamp paper duly signed as required under the law.

5. Members are requested to promptly notify any change in address at the Registered office.

STATEMENT IN RESPECT OF SPECIAL BUSINESS

Material facts concerning the Special business to be transacted at the Annual General Meeting and the proposed Resolution related thereto under Item: 5 of the Agenda are being given below:

5.1 Addition to the object clause of the Memorandum of Association

The Company had obtained a license to carry out Investment Advisory business under the Investment Companies and Investment Advisors Rules-1971, which allowed it to provide a range of investment and financial services. The new Non-Banking Finance Company (NBFC) Rules- 2003, which have superseded the Investment Companies and Investment Advisors Rules-1971, have broadly classified the non-banking finance activities under several separate heads as follows:

- Investment finance services
- Leasing
- Venture capital investment
- Discounting services
- Investment advisory and asset management
- Housing finance services

The NBFC Rules also specify certain minimum capital requirements for each activity and require a company intending to carry out any of these activities to obtain separate licenses for each.

The Company has the requisite equity to carry out the entire range of NBFC activities. It is intended that the Company should provide any or all of the non-banking finance services as and when its Directors deem the business conditions conducive for these activities. The proposed inclusion of the additional object clause in the Company's Memorandum of Association shall allow the Directors to take action as and when necessary.

Investment in associated undertakings
under section 208 of the Companies Ordinance 1 984

5.2 Asset Management / Investment Advisory and Mutual Fund / Unit Trust Business

The Company's associated undertaking Arif Habib Investment Management Limited (AHIM) has been able to break-even and has become profitable earlier than expected due to an impressive increase in

the funds under its management reaching over Rs. 4 billion, assisted by the timely acquisition of the advisory role of the Pakistan Premier Fund Limited (Formerly KASB Premier Fund). The book value of AHIM on the basis of its unaudited accounts as of 30th June 2003 has recovered and gone beyond the par value to Rs.1 1.1 3 per share as compared with Rs. 3.31 last year. After its success with launching three open-end unit trust schemes and acting as adviser to a closed-end mutual fund, the Company's associated undertaking Arif Habib Investment Management Limited (AHIM) proposes launching some additional closed—end mutual funds and some open-end unit trust schemes.

The Company, as an investor in AHIM will benefit from AHIM's increased activity and wishes to support its efforts in this regard. The Company also needs to seek alternative investment avenues for its funds so as to get continuing returns thereon. It is proposed that the Company may, subject to its Directors approval on a case-by-case basis, invest upto an additional one billion rupees in associated undertakings comprising of AHIM or any of the funds or schemes the Company itself or AHIM sets up. The investment shall be in the form of equity investment in AHIM, loans to AHIM or guarantees in its favour for seeking loans from other entities. Additionally, the Company may invest in any of the funds/schemes set up or sponsored by itself or by AHIM as the investment advisor or asset manager. All investments shall be subject to the overall conditions set out in section 208 of the Companies Ordinance 1 984. The proposed investments shall be at the terms given below and of upto amounts indicated against each investment:

• Entity to which the investment/exposure relates	Nature of investment	Terms and conditions	Additional Maximum amount of investment/exposure
Arif Habib Investment Management Limited (AHIM)	Shares of AHIM	Full shareholder rights	Rs. 100,000,000
Arif Habib Investment Management Limited	Loan to AHIM or guarantee in favour of an entity lending to AHIM	Loan- Repayable within five years at mark-up rate not less than the Company's borrowing cost. Guarantee - For a period not exceeding five years at a guarantee commission of 0.5% per annum on the outstanding amount.	Rs. 100,000,000
Mutual Funds/Unit Trusts of which the Company itself or AHIM is investment advisor or asset manager	Investment in certificates or unit thereof	Investment- Full Certificateholder or Unitholder rights but subject to any limitations on sponsors and/or core investors. Underwriting - At terms approved by the Commission of Pakistan or the stock exchange/s in which such mutual fund or unit trust is listed.	Rs. 1,000,000,000

Provided that the aggregate additional investment/exposure may not exceed one billion rupees.

The following Directors have an interest in Arif Habib Investment Management Limited:

- Mr. Arif Habib as Director and shareholder
- Mr. Samad A. Habib as Director and shareholder
- Mr. Muhammad Yousuf Ahmed as Director and shareholder

5.3 Modoroba Management Business

With the economy moving towards documentation and the overall improvement in the investment climate in Pakistan, new opportunities are emerging in the real estate business. The Directors of the Company are of the view that the Company should widen its scope of activities towards this investment avenue. The Company proposes sponsoring a Modaraba Management Company, which would in turn float modarabas for investing in and financing of real estate. The Modaraba Management Company shall be set up by entering a strategic alliance with an experienced real estate business house so as to benefit from their expertise.

The proposed investment shall be in the form of common shares and/or preferred shares in the Modaraba Management Company aggregating upto Rs. 100,000,000. Such shares shall be entitled to full rights applicable to the respective shareholders but subject to any regulatory restrictions applicable to sponsors or any restrictions applicable to the management company as a result of the listing of any modarabas sponsored by it.

None of the Directors have any interest in the proposed Modaraba Management Company.

Directors' Report

Dear Shareholders,

It gives me immense pleasure to present, on behalf of the Board of Directors, the 9th annual

report of the Company for the year ended on 30th June 2003 together with audited accounts of the Company and auditors' report thereon. Consistent with the standard set two years ago following its listing, the Company has announced its audited financial results within one month of the close of its financial year and has scheduled the annual general meeting of its shareholders within three months of the close of the year.

Market review

The Stock Market remained very bullish during the year under review, recording an appreciation of 92 % in the KSE-1 00 Index, which reached a level of 3402 as against 1 770 at the beginning of the financial year. The average daily turnover of shares was higher by 76 % at 209.46 million shares. The dividend payout by the listed companies was Rs.49.706 billion as against Rs. 43.002 billion last year. However brokerage rates and COT charges declined further during the year under review.

The above noted improvement in the market and corporate results is attributable to the macro-economic and political stability in the country. On the economic front, we have a record level of foreign currency reserves, a stable rupee, low interest rates, and the achievement of budgetary targets such as reduced inflation and higher exports and revenue collection. The improved economic environment has been strongly complimented by improved political conditions, including the return of Pakistan to the international fold after a period of isolation, the reduction in tensions with India and the emergence of a pragmatic and mature tendency within the domestic political forces - away from political extremism.

Financial Results

By the grace of Allah, your Company was well positioned to fully capitalise on its abilities and was able to benefit from the favourable market conditions and opportunities in all its areas of activity during the period under review. The Company has earned an after-tax profit of Rs. 751,91 8,789 as compared with Rs. 253,591,1 83 last year, resulting an earning per share of Rs. 1 25.32 as compared with" Rs.50.72 last year.

Our associated undertaking Arif Habib Investment Management Limited (AHIM) has been able to break-even and has become profitable earlier than expected due to an impressive increase in the funds under its management reaching over Rs. 4 billion, assisted by the timely acquisition of the advisory role of the Pakistan Premier Fund Limited (Formerly KASB Premier Fund). The book value of AHIM on the basis of its unaudited accounts as of 30th June 2003 has recovered and gone beyond the par value to Rs.1 1.1 3 per share as compared with Rs. 3.31 last year.

Appropriation

The Board of Directors is pleased to recommend a cash dividend of 100%, i.e., Rs.10 per share and also an issue of bonus shares out of the Share Premium Reserve at the rate of 33.33%, i.e., one share for every three shares held by the shareholders of the Company as of the book closure date.

The summary of financial results and appropriation is as follows:

	2003	2002
Profit before taxation	767,320,465	265,395,582
Provision for taxation	-15,401,676	-11,804,399
Profit after taxation	751,918,789	253,591,183
Un-appropriated profit brought forward	43,242,671	14,651,488
Profit available for appropriation	795,161,460	268,242,671
Appropriations		
Transferred to general reserve	650,000,000	200,000,000
Cash dividend @ 1 00% i.e. Rs. 1 0 Per Share (2002 50% i.e., Rs.5 Per Share)	60,000,000	25,000,000
Unappropriated profit carried forward	85,161,460	43,242,671
Earning Per Share - Basic & diluted	125.32	50.72

Future outlook

The current financial year has taken a very robust start with a hefty appreciation of 22% in the KSE-1 00 index to date at 4,1 42 and the average daily turnover of shares has been recorded at 507 million shares as against an average of 209 million shares last year. The Interest rate environment continues to be low making equity investments an attractive choice.

The government has increased its budgetary allocation for development expenditure and has embarked on some infrastructure development projects; additionally, it has also offered incentives for encouraging housing finance so as to create a demand for new construction. As new housing generates orders for a number of industries producing construction materials and construction

is labour intensive, we expect these measures to provide a fillip for the overall economic activity.

Similarly, due to easy availability of consumer finance at soft terms, the demand for automobile and consumer durables continues to be high. The government continues to maintain pressure on certain segments of industry to reduce prices but is also cognizant of the need to encourage and protect investment.

On the privatisation front, the government has announced its plans for the disinvestment of some of its holdings in four different entities through the stock exchanges during the first quarter of the current financial year. In addition, it remains committed to its programme for the strategic sale of management rights and in some cases the outright sale of entities scheduled for privatisation.

In view of the above noted factors and the improved regulatory environment, the market is likely to remain conducive for active business in the areas of brokerage and corporate finance and for it to provide challenging opportunities for portfolio investments.

Corporate Governance

Arif Habib Securities Limited is listed on Karachi, Lahore and Islamabad stock exchanges and the management is committed to observe the code of corporate governance prescribed for listed companies. Appropriate accounting policies adopted and have been consistently applied except depreciation policy as disclosed in note 2.5 to the financial statement in preparation of accounts and accounting estimates are based on reasonable and prudent judgment. International Accounting Standards are followed. The system of internal controls is sound in design and has been effectively implemented. In compliance with the corporate governance code, we hereby reaffirm that there is no doubt about the Company's ability to continue as a going concern and that there has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

We further report that no material payment has remained outstanding on account of any taxes, duties, levies and charges. The Company has no obligations under gratuity, provident or pension funds.

A statement showing the Company's shares bought and sold by its Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and minor family members is annexed as Annexure-I; (Page 8) a statement showing attendance of Board meetings is annexed as Annexure-II; (Page 9) and the pattern of Shareholding as required by the Companies Ordinance, 1984 is annexed as Annexure-III. (Page 9) The key operating and financial data has been given in a summarized form under the caption "Eight years at a glance" (Page 05).

Auditors

The retiring auditors M/s. Khalid Majid Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, have offered themselves for reappointment. The Board recommends their reappointment. A resolution proposing the re-appointment of M/s. Khalid Majid Rahman Sarfaraz Rahim Iqbal Rafiq as auditors of the Company will be submitted at the forthcoming Annual General Meeting.

Acknowledgement

We thank our clients for their continuing confidence and patronage. We record our gratitude to the Ministry of Finance, the Securities & Exchange Commission of Pakistan and the managements of Karachi, Lahore, and Islamabad stock exchanges for their support and guidance. We acknowledge and appreciate the hard work put in by the employees of the Company during the year.

On behalf of Board of Directors

Karachi. Arif Habib
1 5th August, 2003 Chairman & Chief Executive.

(Annexure I)
Statement showing shares bought and sold by directors, CEO, CFO,

Company Secretary and the minor family members

from 1 st July, 2002 to 30th June, 2003.

S.No	Name	Designation	Shares bought	Shares Sold
1.	Mr. Arif Habib	Chairman & Chief Executive		
2.	Mr. Sirajuddin A. Cassim	Director	-	-

3.	Mr. Muhammad Yousuf Ahmed	Director	-	-
4.	Mr. Abdul Majid M. Siddique	Director	-	-
5.	Mr. Muhammad Rafiq Jangda	Director & Chief Financial Officer	-	-
6.	Mr. Samad A. Habib	Director	-	-
7.	Mr. Kashif A. Habib	Director	-	-
8.	Mr. Haroon Usman	Company Secretary	-	-
9.	Minor Family members	-	-	-

(Annexure II)

Statement showing attendance of Board meetings

Meeting of the Board of Directors from
1st July, 2002 to 30th June, 2003

S.No	Name	Designation	Attended	Leave Granted
1	Mr. Arif Habib	Chairman & Chief Executive	5	-
2	Mr. Sirajuddin A. Cassim	Director	4	1
3	Mr. Muhammad Yousuf Ahmed	Director	5	-
4	Mr. Abdul Majid M. Siddique	Director	5	-
5	Mr. Muhammad Rafiq Jangda	Director & Chief Financial Officer	-	-
6	Mr. Samad A. Habib	Director	5	-
7	Mr. Kashif A. Habib	Director	3	2

(Annexure

Pattern of shareholding as at 30th June 2003

No of shareholders	Shareholding		Total shares held
	From	To	
531	1	5,000	23,700
5	5,001	10,000	30,000
6	10,001	100,000	276,000
2	100,001	1,000,000	1,110,000
2	1,000,001	3,535,000	4,560,300
546			6,000,000

Categories of shareholders as at 30th June, 2003

Categories of shareholders	No.	Shares held	Percentage (%)
Associate Companies, Undertakings and Related parties	-	-	-
NIT and ICP	-	-	-
Directors, Chief Executive & their Spouse and minor Children	8	4,506,000	75.1
Mr. Arif Habib, Chief Executive	-	3,534,000	58.9
Mrs. Zetun Arif W/o Mr. Arif Habib	-	960,000	16
Mr. Sirajuddin A. Cassim, Director	-	1,200	0.02
Mr. Abdul Majid M. Siddique, Director	-	1,200	0.02
Mr. Muhammad Yousuf Ahmed, Director	-	1,200	0.02
Mr. Muhammad Rafiq Jangda, Director	-	1,200	0.02
Mr. Kashif A. Habib, Director	-	6,000	0.1
Mr. Samad A. Habib, Director	-	1,200	0.02
Executives	1	100	.
Public Sector Companies and Corporations			
Banks, Development Financial Institutions & Non-Banking Financial Institutions	3	300,000	5
Leasing Companies	1	52,000	0.87
Insurance Companies	-	-	-
Modarabas and Mutual Funds	1	30,000	0.5
Other Joint Stock Companies	8	26,000	0.43
Individuals	523	1,053,900	17.57
Others	1	32,000	0.53
Total	546	6,000,000	100
Shareholders holding 10% or more	2	4,494,000	-

Statement of Compliance with the
Code of Corporate GovernanceThis statement is being presented to comply with the Code of Corporate Governance contained
in Regulation No. 37 of listing regulations of Karachi Stock Exchange for the purpose of
establishing 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 Company encourages representation of independent non executive directors and directors representing minority interests on its Board of Directors. At present the Board includes 3 independent non-executive directors and no directors representing minority shareholders.
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 defaulted in payment of any loan to a banking company, a DPI or an NBF1 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year.
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 or remuneration and terms and conditions or 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 one orientation course for its directors during the year to apprise them of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, 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. It comprises 3 members, all of whom 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 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 with employees who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.
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.

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

ARIF HABIB

Chairman & Chief Executive

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 Arif Habib Securities Limited, to comply with the Listing Regulation No. 37, 40, and 36 of the Karachi Stock Exchange (Guarantee) Limited, Lahore Stock Exchange (Guarantee) Limited and Islamabad Stock Exchange (Guarantee) Limited 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 the Code of Corporate Governance and report if it does not. A review is limited primarily to inquire of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of the 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 respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2003

Khalid Majid Rahman Sarfaraz

Karachi

Rahim Iqbal Rafiq

Dated 30th July, 2003

Chartered Accountants

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Arif Habib Securities Limited as at June 30, 2003, and the related profit & loss account, cash flow statement and statement of changes in equity 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 above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. 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 above said statements are free of any material misstatement. An audit 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 the 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 accounts have been kept by the company as required by the

Companies Ordinance, 1984;

(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 are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied, except for the change referred to in note 2.5 to the financial statements, with which we concur; the expenditure incurred during the year was for the purpose of the company's business; and 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 & loss account, cash flow statement and statement of changes in equity 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, 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, 2003, and of the Profit, its cash flows and changes in equity for the year then ended;

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

(e) without qualifying our opinion, we draw attention to note 7 to the financial statements in respect of contingencies. The company has not made any provision in the financial statements due to the reasons stated in the said note.

Khalid Majid Rahman Sarfaraz

Karachi

Rahim Iqbal Rafiq

Dated 30th July, 2003

Chartered Accountants.

Balance Sheet

	Note	2003 Rupees	2002 Rupees
Share Capital and Reserves			
Authorized Capital			
25,000,000 Ordinary shares of Rs. 1 0/- each		250,000,000	250,000,000
Issued, subscribed and paid-up capital			
6,000,000 (2002: 5,000,000) Ordinary shares of Rs. 1 0/- each	3	60,000,000	50,000,000
Share premium reserve		-	20,000,000
Reserve for issue of bonus shares		20,000,000	10,000,000
General reserve		1,250,000,000	600,000,000
Unappropriated profit		85,161,460	43,242,671
		1,415,161,460	723,242,671
Current Liabilities			
Short term running finance - secured	4	644,968,482	20,216,632
Creditors, accrued & other liabilities	5	43,367,173	23,236,042
Staff provident fund		451,243	-
Taxation	6	15,000,000	11,500,000
Proposed dividend		60,000,000	25,000,000
		763,786,898	79,952,674
Contingencies & Commitments	7	-	-
		2,178,948,358	803,195,345
	Note	2003 Rupees	2002 Rupees
Operating fixed assets	8	3,760,528	3,951,247
Stock Exchange memberships & licenses	9	41,600,000	40,000,000
Investment in associated undertaking	10	16,000,000	16,000,000
Long Term Loan	12	48,600,000	
Long Term Deposits		1,344,000	1,290,000
Current Assets			
Marketable securities	13	780,022,202	513,383,532
Trade debts	14	22,677,920	9,765,048

Receivables against sale of securities-net	15	1,239,829,916	193,829,213
Advances, deposits, prepayments & other receivables	16	22,543,787	21,349,381
Cash & bank balances	17	2,570,005	3,626,924
		2,067,643,830	741,954,098
		2,178,948,358	803,195,345

The annexed notes from 1 to 28 form an integral part of these financial statements.

Arif Habib Muhammad Rafiq Jangda

Chief Executive

Director

	Note	2003 Rupees	2002 Rupees
Operating revenue	18	187,890,114	178,008,657
Capital gain on investments - net		401,604,770	115,690,806
		589,494,884	293,699,463
Operating expenses	19	44,893,474	21,224,564
Operating profit		544,601,410	272,474,899
Financial charges	20	-31,807,732	-14,530,673
Other charges	8.1	-32,989	-32,029
Other income	21	3,167,374	296,132
Net gain due to change in fair value of marketable securities	13	251,392,402	5,187,253
Gain on sale of other assets		-	2,000,000
		222,719,055	-7,079,317
Profit before taxation		767,320,465	265,395,582
Provision for taxation			
- Current		1 5,000,000	11,500,000
- Prior		401,676	304,399
		-15,401,676	-11,804,399
Profit after taxation		751,918,789	253,591,183
Un-appropriated profit brought forward		43,242,671	14,651,488
Profit available for appropriations		795,161,460	268,242,671
Appropriations			
Transferred to general reserve		-650,000,000	-200,000,000
Final cash dividend @ 1 00% /Rs.1 0/- per share (2002: @ 50% / Rs.5 per share)		-60,000,000	-25,000,000
		-710,000,000	-225,000,000
Un-appropriated profit carried forward		85,161,460	43,242,671
Earnings per share-basic and diluted	23	125.32	50.72

The annexed notes from 1 to 28 form an integral part of these financial statements.

Cash Flow Statement

For the Year Ended June 30, 2003

	Note	2003 Rupees	2002 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		767,320,465	265,395,582
Adjustment for :			
Depreciation		803,156	1,023,440
Loss on sale of fixed assets	8.1	32,989	32,029
Gain on sale of other assets		-	-2,000,000
Fixed assets written off		175,368	-
Financial charges		31,807,732	14,530,673
Provision for staff provident fund		451,243	-
		33,270,488	13,586,142
Operating Profit before working capital changes		800,590,953	278,981,724
Changes in working capital			
(Increase)/Decrease in current assets			
Advances, deposits and other receivables		870,814	-9,851,582
Trade debts		-12,912,872	-363,532
Increase/(Decrease) in current liabilities			
Creditors, accrued and other liabilities		20,131,131	16,555,999
		8,089,073	6,340,885
Cash generated from operating activities		808,680,026	285,322,609
Income tax paid		-13,966,896	-12,948,954
Financial Charges paid		-31,807,732	-14,305,673

Net cash generated from operating activities	762,905,398	258,067,982
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditure	-2,657,248	-1,858,432
Proceeds from sale affixed assets	236,454	65,000
Proceeds from sale of other assets	-	10,000,000
Long term loan to associated undertaking	-48,600,000	-
Long term deposits	-54,000	-550,000
Net cash from investing activities	-51,074,794	7,656,568
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-25,000,000	-25,000,000
Net cash used in financing activities	-25,000,000	-25,000,000
Increase in cash and cash equivalents	686,830,604	240,724,550
Cash and cash equivalents at beginning of the period	690,623,037	449,898,487
Cash and cash equivalents at end of period	24 1,377,453,641	690,623,037

The annexed notes from 1 to 28 form an integral part of these financial statements.

	Share Capital (Rupees)	Share Premium Reserve (Rupees)	Reserve for issue of Bonus Share (Rupees)	General Reserve (Rupees)	Accumulated Profit (Rupees)	Total (Rupees)
Balance as at July 01, 2001	50,000,000	30,000,000	-	400,000,000	14,651,488	494,651,488
Profit for the year	-	-	-	-	253,591,183	253,591,183
Appropriations :						
Issue of bonus shares	-	-10,000,000	10,000,000	-	-	-
Transferred to general reserves	-	-	-	200,000,000	-200,000,000	-
Final dividend	-	-	-	-	-25,000,000	-25,000,000
Balance as at June 30, 2002	50,000,000	20,000,000	10,000,000	600,000,000	43,242,671	723,242,671
Profit for the year	-	-	-	-	751,918,789	751,918,789
Appropriations :						
Issue of bonus shares	10,000,000	-	-10,000,000	-	-	-
Issue of bonus shares	-	-20,000,000	20,000,000	-	-	-
Transferred to general reserves	-	-	-	650,000,000	-650,000,000	-
Final dividend	-	-	-	-	-60,000,000	-60,000,000
Balance as at June 30, 2003	60,000,000	-	20,000,000	1,250,000,000	85,161,460	,415,161,460

The annexed notes from 1 to 28 form an integral part of these financial statements.

Arif Habib Muhammad Rafiq Jangda

Chief Executive Director

Notes to the Accounts

For the Year Ended June 30. 2003

1. Status and nature of business

1.1 The Company was incorporated on November 14, 1994 as a Public Limited Company under the Companies Ordinance, 1984 and acquired Corporate membership of Stock Exchanges on February 08, 1999 and then was listed on Karachi, Lahore and Islamabad Stock Exchanges in June 2001. The Company is principally engaged in the business of investment advisory, financial consultancy, brokerage, underwriting, portfolio management and securities research. During the year, the Company has acquired the membership of the National Commodity Exchange Limited on October 15, 2002.

1.2 The Company was given a certificate of commencement of business on April 23, 1995 and started its commercial operations from July 01, 1995.

2. Significant accounting policies

2.1 Basis of Measurement

These financial statements have been prepared under the "historical cost convention", except investment in marketable securities, which are stated at fair value.

2.2 Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984.

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 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.3 Staff retirement benefits

During the year the company has introduced an unrecognized provident fund for all of its employees with effect from January 01, 2003. The company is in the process of obtaining approval from the income tax authorities for recognition of the same. Equal monthly contributions at the rate of 12.50% of basic salary are made respectively by the company and the employees.

2.4 Taxation

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax rebates and tax credit available, if any. The company provides for deferred taxation on liability method for all major temporary differences, if any. Net deferred tax debits, if any, on account of temporary differences have not been recognized.

2.5 Operating fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation on fixed assets is charged to income by applying reducing balance method at the rates specified in fixed assets note. Gains and losses on disposal of fixed assets, are taken to profit and loss account currently. Normal repairs and maintenance are charged to income as and when incurred.

Change in accounting policy

The company during the year has changed its accounting policy in relation to additions and disposals of fixed assets to comply with the requirements of the Circular No. 10/2002 dated November 11, 2002, issued by the Institute of Chartered Accountants of Pakistan and has started to charge depreciation on fixed assets on quarterly basis. Previously the company was charging full year's depreciation in the year of purchase and no depreciation in the year of disposal. Had the above policy not been revised the depreciation charge for the year would have been higher by Rs. 109,515/ and its profit after tax would have been lower by the same amount.

2.6 Membership cards and license

These are stated at acquisition cost. Provision is made for decline, in value of these assets, if required.

2.7 Investment in Associated Undertaking

The company considers its associated company to be such enterprise in which the company has significant influence, but not control, over the financial and other policies and which neither is a subsidiary nor a joint venture of the company. The company accounts for investment in associated company using the cost method or net of provision to the extent that a permanent diminution in value is deemed to have occurred.

2.8 Marketable Securities

These investments are being measured at fair value, being their market value at balance sheet date. The resulting gain or loss is included in profit or loss for the period. Whereas, cost is calculated on moving average basis.

Classification of investments is made based on the intended purpose of holding such investments, which is as follows:

- Held for trading securities

These are investments securities, which are acquired principally for the purpose of generating profit, from short-term fluctuations in price.

- Held to maturity securities

These are investments securities with fixed or determinable payments and fixed maturity and the company has the positive intent and ability to hold to maturity.

- Available for sale securities

These are investments, which do not fall under the category of held for trading or held to maturity.

Investment in un-quoted securities are valued at cost and provision is made for decline, other than temporary, in value of investment.

2.9 Trade date accounting

All "regular way" purchases and sales of listed shares are recognized on the trade date, that is the date that the company commits to purchase / sell the asset. Regular way purchases or sales of listed shares require delivery on T + 3 basis as per stock exchange regulations.

2.10 Trade debts

These are stated net of provision for doubtful debts. Full provision is made against the debt considered doubtful.

2.11 Provisions

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

2.12 Financial instruments

Financial instruments carried on the balance sheet include investments, receivables, cash and bank balances, finances under mark-up arrangements, other payables, deposits, creditors, accrued and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

2.13 Foreign Currencies

Foreign currency transactions are translated into Pak rupees at the rate of exchange prevailing on the date of each transaction. Assets and liabilities denominated in foreign currencies are translated into Pak rupee at the rate of exchange ruling on the balance sheet date. Exchange differences are included in income currently.

2.14 Borrowing Costs

Borrowing cost is charged to profit and loss account as incurred.

2.15 Research and development costs

Research and development costs are charged to income as and when incurred.

2.16 Cash and cash equivalents

Cash in hand and at banks and short-term bank deposits are carried at cost.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash in hand, bank balances, marketable securities, receivable against sale of securities and short term running finance.

2.17 Revenue Recognition

(i) Realized gain/losses on investments

Sales and purchases of marketable securities are recognized on the date of contract. Capital gains and losses on sale of marketable securities are recognized in the year in which these arise.

(ii) Dividend / Return

Dividend income is recognized at the time of closure of share transfer books of the company declaring dividend. Whereas, return on securities other than shares is recognized on accrual basis.

(iii) Brokerage

Brokerage income is recognized as and when such services are provided.

(iv) Underwriting Commission

Underwriting commission is recognized when the agreement is executed.

(v) Mark-up / Interest

Mark-up income is recognized on a time proportion basis that takes into account the effective yield.

Note	2003 Rupees	2002 Rupees
3. Issued, subscribed and paid up capital		
4,000,000 Ordinary shares of Rs.10/- each issued at par fully paid in cash (June 2002: 4,000,000 shares)	40,000,000	40,000,000
1,000,000 Ordinary shares of Rs. 10/- each issued at a premium of Rs.30/- per share fully paid in cash. (June 2002: 1,000,000 shares)	1,000,000	10,000,000
1,000,000 Ordinary shares of Rs.10/- each issued as fully paid up bonus shares (June 2002: Nil).	1,000,000	-
	60,000,000	50,000,000
4. Short term running finance - secured	644,968,482	20,216,632

The company has obtained short term running finance facilities under mark-up arrangements in aggregate of Rs. 1,450 million (2002: Rs.650 million) from various commercial banks having mark-up ranging from 4.00% to 10.00% (2002: 10.50% to 15.00%) per annum calculated on a daily product basis payable quarterly. The arrangements are secured against pledge of marketable securities.

Note	2003 Rupees	2002 Rupees
5. Creditors, accrued expenses and other liabilities		
Creditors	33,048,583	14,718,763
Accrued expenses	3,381,374	766,058
Due to KSE members	316,530	6,559,246
Other liabilities	6,620,686	1,191,975
	43,367,173	23,236,042
6. Taxation		
Opening balance	11,500,000	7,220,529
Provided during the year :		
Current	1,500,000	1,500,000
Prior	401,676	304,399
	15,401,676	11,804,399
Adjusted during the year	-11,901,676	-7,524,928
Closing balance	15,000,000	1,500,000

6.1 The income tax assessments of the company have been finalized upto and including the assessment year 2002 - 2003.

7. Contingencies and commitments
Contingency

During the year M/s. Diamond Industries Limited and Mr. Iftikhar Shafi (The Plaintiffs) filed two suits for damages jointly against Mr. Saleem Chamdia, Mr. Arif Habib, Mr. Aqil Karim Dedhi, Mr. A. Ghaffar Usman Moosani, Mr. Shahid Ghaffar, The Karachi Stock Exchange (Guarantee) Limited (KSE), The Securities and Exchange Commission of Pakistan, The Central Depository Company of Pakistan, M/s. Saleem Chamdia Securities (Private) Limited, M/s. Arif Habib Securities Limited, M/s. Moosani Securities Limited and Aqil Karim Dedhi Securities Limited. The suits are for recovery of damages amounting to Rs.1,098,948,1997- and Rs.5,606,611,7607- respectively against the decision of the Karachi Stock Exchange in respect of Risk Management System of its Clearing House during the year 2000. As the Chairman and Chief Executive of the Company was the Chairman of the Board of Directors of the KSE for the year 2000, the Company has been made party to the suits by the plaintiff. The Company is contesting these suits with others. Both the suits at present are pending before the Sindh High Court. While individual liability of respective individuals and bodies is not quantifiable, in the opinion of the legal advisor of the Company the suits are likely to be dismissed as these are not based on factual or legal basis. The Company has hence not made any provision in this respect.

Commitment		
Commitment in respect of trading in s	339,488,728	180,457,145

8. OPERATING FIXED ASSETS

COST

DEPRECIATION

Written down

Particulars	As at July 12, 2002	Additions/ (Deletions)	As at June 30, 2003	Rate %	As at July 12, 2002	(Adjustment) /For the year	As at June 30, 2003	vn IIP fK nt June 30, 2003
Computer & allied	3,247,880	618,398	2,299,831	33	2,354,359	344,808	1,333,203	966,628
		-1,566,447				-1,365,964		
Office equipment	956,697	438,850	1,005,983	10	291,621	71,489	217,874	788,109
		-389,564				-145,236		
Furniture and fixtures	1,055,423	-	1,055,423	10	416,697	61,517	478,214	577,209
Vehicles	2,906,000	-	2,906,000	20	1,152,076	325,342	1,477,418	1,428,582
Total Rupees 2003	8,166,000	1,057,248	7,267,237		4,214,753	803,156	3,506,709	3,760,528
		-1,956,011				-1,511,200		
Total Rupees 2002	6,571,568	1,858,432	8,166,000		3,358,284	1,023,440	4,214,753	3,951,247
		-264,000				-166,971		

8.1 DETAILS OF DISPOSAL OF FIXED ASSETS

Particulars	Acquisition cost	Accumulated depreciation	Written down value	Sale proceeds	Gain/(Loss) on disposal	Particulars of buyer	Mode of disposal
Office Equipment							
Split air conditioner	114,000	54,998	59,002	60,000		998 Arif Habib Investment Management Limited, 7th Floor, Al-Sehat Center	Negotiation
Window airconditioner	55,100	11,553	43,547	25,500	-18,047	-Do-	-Do-
Refrigerator	17,000	8,201	8,799	9,000	201	-Do-	-Do-
Telephone line	51,444	24,818	26,626	27,000	374	-Do-	-Do-
Vacuum cleaner	5,200	2,508	2,692	2,700	8	-Do-	-Do-
Calculators	3,600	1,569	2,031	1,800	-231	-Do-	-Do-
Photo copier	55,000	9,120	45,880	34,000	-11,880	-Do-	-Do-
Trolly Photocopier	3,500	1,689	1,811	1,954	143		
Electric fittings	70,220	26,136	44,084	-	-		Written off
Mobile accessories	14,500	4,644	9,856	-	-		Written off
	389,564	145,236	244,328	161,954	-28,434		
Computer and allied							
Megatech PABX with computer and accessories	1					-1,744 Arif Habib Investment Management Limited, 7th Floor, Al-Sehat Center	Negotiation
	332,850	301,106	31,744	30,000			
Megatech PABX with computer and accessories	318,601	285,948	32,653	34,000		1,347 Megatech Communication Banglore Town Karachi	-DO--
Computers FUJI and accessories	102,250	91,774	10,476	7,000		-3,476 PC Professionals Karachi	-Do-
UPS Pana 500 VA	18,000	13,818	4,182	3,500		-682 United Business Machines Karachi	-Do-
Old computers	794,746	673,318	121,428	-			Written off
	1,566,447	1,365,964	200,483	74,500	-4,555		
Total 2003	1,956,011	1,511,200	444,811	236,454	-32,989		
Total 2002	264,000	166,971	97,029	65,000	-320,291		

	2003 Rupees	2002 Rupees
9. Stock Exchange - membership and License		
Membership		
-- Karachi Stock Exchange	15,000,000	15,000,000
-- Lahore Stock Exchange	7,000,000	7,000,000
-- Islamabad Stock Exchange	4,000,000	4,000,000
-- National Commodity Exchange	1,000,000	-
	9.1	27,000,000
Offices		
- 05 at Karachi (2002:05 offices)	10,500,000	10,500,000
-- 01 at Lahore (2002: 01 office)	2,000,000	2,000,000
	12,500,000	12,500,000
Booths		
- 03 at Karachi (2002: 02 booths)	2,100,000	1,500,000
	41,600,000	40,000,000

9.1 Represents the cost of membership cards.

10. Investment In Associated Undertakings

These shares are of Rs.10/- each unless stated otherwise.

No. of Shares 2003:	Name of Company 1,600,000 Arif Habib Investment Management Ltd. (Unquoted)	Activity Asset Management	Auditors Taseer Hadi Khalid & Company	Holding		RUPEES		Break up		value per share	
				2003	2002	2003	2002	2003	2002	2003	2002
2002:	1,600,000 Chief Executive: Mr. Nasim Baig			40	40	16,000,000	16,000,000	11.13	3.31		
				2003 Rupees	2002 Rupees						

11. Related party transactions

Brokerage earned from

-- Arif Habib Investment Management Limited (AHIML)

-- Pakistan Income Fund (PIF)

- Pakistan Stock Market Fund (PSMF)

-- Pakistan Premier Fund Limited (formerly KASB Premier Fund)

Disposal of fixed assets to AHIML

Maximum balance due at the end of any month

Total mark-up income on loan earned from associated undertaking

11.1 PIP and PSMF are open end mutual funds managed by Arif Habib Investment Management Limited.

	2003 Rupees	2002 Rupees
Brokerage earned from		
-- Arif Habib Investment Management Limited (AHIML)	-	436,186
-- Pakistan Income Fund (PIF)	1,997,791	1,575,835
- Pakistan Stock Market Fund (PSMF)	1,811,783	1,047,591
-- Pakistan Premier Fund Limited (formerly KASB Premier Fund)	566,028	-
Disposal of fixed assets to AHIML	156,000	-
Maximum balance due at the end of any month	49,760,067	
Total mark-up income on loan earned from associated undertaking	2,311,154	

12. Long term loan - unsecured-considered good

Loan to Arif Habib Investment Management Limited
(Associated Undertaking)

12.1 The loan carries a rate of return of 9.5% (2002: Nil) percent per annum and receivable after three years .

12.2 Maximum balance due from associated undertaking with reference to month end balance was

Rs.49,760,0677- (2002: Rs.Nil).

13. Marketable Securities

The nominal value of these ordinary shares/certificates are Rs.10/- each unless stated otherwise.

Number of shares June -03	Name of Script June -02/ Company	Cost Rate June -03	Average Value June -02	Market Rate June -03	Market Value		Profit / Loss				
					June -02	June -03	June -03	June -02			
MUTUAL FUND											
	60,500 irjMtt-	14.10	853,050		20.4	1,234,200		381,150			
	229,500 ICP 6th	11	2,524,500		14.5	3,327.75		803,250			
	104,000 ICPIOth	9.02	938,418		13	1,352,000		413,582			
	82,500 ICPIIth	6.5	536,250		12.9	1,064,250		528,000			
	76,500 O13th	14	1,071,000		17.25	1,319,625		248,625			
4,060,000	1,000,000 Pakistan Stock M	51.74	50	210,061,611	50,000,000	89.02	50.31	361,421,200	50,310,000	151,359,589	310,000
1,100,000	1,000,000 Pakistan Income F	48.49	50	53,342,684	50,000,000	56.7	51.94	62,370,000	51,940,000	9,027,316	1,940,000
5,160,000	2,553,000			263,404,295	105,923,218			423,791,200	110,547,825	160,386,905	4,624,607
MODARABA											
	2,052,016 B.R.RInt, Modaroba	6.4	13,130,618		7.75	15,903,124		2,772,506			
LEASING COMPANIES											
1,495,500	426,000 Dawood Leasing	5.17	5.26	7,734,950	2,241,154	11.95	4.65	17,871,225	1,980,900	10,136,275	(260,2541
	6,047,500 N.D.LC	5.59	33,805,825		4.25	25,701,875		8,103,950			
1,495,500	6,473,500		7,734,950	36,046,979		17,871,225		27,682,775	10,136,275	(8,364,2041	
INVEST. GO'S & BANKS											
	2,185,000 National Bank of Pak	19.47	42,550,839		20.55	44,901,750		2,350,911			
352	Askari Commercia	16.29	5,733		28.4	9,997		4,264			
	2,550,000 Faysal Bank	10.30	26,265,000		11.25	28,687,500		2,422,500			
352	4,735,000		5,733	68,815,839		9,997		73,589,250	4,264	4,773,411	
TEXTILE SPINNING											
524,900	371,000 deal Spinning	5.95	5.53	3,122,290	2,050,365	10.8	6.55	5,668,920	2,430,050	2,546,630	379,685
90,500	Din Text e	29.42	2,662,125		31	2,805,500		143,375			
135,500	5,000 Gadoon Textile	36.3	28	4,918,066	140,000	43.7	29.5	5,921,350	147,500	1,003,284	7,500
750,900	376,000		10,702,481	2,190,365		14,395,770		2,577,550	3,693,289	387,185	

Number of shores June -03	Name of Script /Company	Cost Rate June -03	Average Value June -02	Market Rate June -03	Market Value		Profit / Loss	
					June -02	June -03	June -03	June -02

TEXTILE COMPOSITE											
	345,124 Kohinoor Textile		4.87		1,680,351		6		2,070,744		390,393
	33,104 Crescent Textile		20.6		681,932		23.2		768,013		86,081
584,000	222,580 Ishaq Textile	11.64	9.95	6,795,658	2,214,300	17,50	10	10,220,000	2,225,800	3,424,342	11,500
1,000	5,000 Nishat (Chunian)	27.55	25.5	27,545	127,500	40,75	28.35	40,750	141,750	13,205	14,250
7,000	Sapphire Textile	53.87		377,070		54,35		380,450		3,380	
378,500	288,650 Sapphire Fibres	44.89	42.32	16,992,118	12,215,358		70	26,495,000	15,731,425	9,502,882	3,516,067
970,500	894,458			24,192,391	16,919,441			37,136,200	20,937,732	12,943,809	4,018,291
SYNTHETIC & RAYON											
	6,016,921 Dewan Salman Fibres		15.09		90,808,213		13.85		83,334,356		-7,473,857
	1,978,500 brohim Fibres		13.58		26,873,322		13.95		27,600,075		726,753
	7,995,421				117,681,535				110,934,431		-6,747,104
CEMENT											
	189,000 Cherat Cement		24.98		4,720,825		22.8		4,309,200		-411,625
FUEL & ENERGY											
	2,600,500 Sui Northern Gas		12.93		33,620,371		13.8		35,886,900		2,266,529
250,000	Pakistan Oil Fields	197.48		49,370,802		225.2		56,300,000		6,929,198	
182,500	Kohinoor Genertek	6.02		1,098,075		12,70		2,317,750		1,219,675	
135,000	Sitara Energy	26.86		3,625,525		33,25		4,488,750		863,225	
	635,500 Southern Electric Power		10.72		6,811,766		10.4		6,609,200		-202,566
567,500	3,236,000			54,094,402	40,432,137			63,106,500	42,496,100	9,012,098	2,063,963
ENGINEERING											
	185,500 Crescent Steel & Allied AUTO & ALLIED		33.10		6,140,050		33		6,121,500		-18,550
975,000	59,000 Pak Suzuki Motor	67	24.61	65,325,000	1,452,138	99,00	24.85	96,525,000	1,466,150	31,200,000	14,012
175,000	505,000 Indus Motor	18.08	16.85	3,164,523	8,509,250	72.25	18	12,643,750	9,090,000	9,479,227	580,750
300,000	557,500 Hondo Atlas Cars	28.34	25.5	8,502,399	14,216,250	67.5	27.55	20,250,000	15,359,125	11,747,601	1,142,875
1,450,000	1,121,500			76,991,922	24,177,638			129,418,750	25,915,275	52,426,828	1,737,637
COMMUNICATION											
	1,207,000 PTCL-A		17.34		20,923,934		17.15		20,700,050		-223,884
551,500	PN.S.C	13.01		7,176,394		22		12,133,000		4,956,606	
551,500	1,207,000			7,176,394	20,923,934			12,133,000	20,700,050	4,956,606	-223,884
CHEMICALS/ PHARMA											
863,200	333,300 Fauji Fertilizer	84.07	45.02	72,566,464	15,004,670	87.05	45.4	75,141,560	15,131,820	2,575,096	127,150
	784,500 IC Pakistan Ltd.		40.17		31,515,515		40.2		31,536,900		21,385
863,200	1,117,800			72,566,464	46,520,185			75,141,560	46,668,720	2,575,096	148,535
BONDS											
1,000	1,000 Orix Leasing TEC	5,000	5,000	5,000,000	5,000,000	5,010	5,000	5,010,000	5,000,000	10,000	
400	Maple Leaf TFC	5,000		2,000,000		5,020		2,008,000		8,000	
1,400	1,000			7,000,000	5,000,000			7,018,000	5,000,000	18,000	
11,810,852	32,137,195 Grand total			523,869,032	508,622,764			780,022,202	513,383,532	256,153,170	4,760,768
Changes due to fair Market Value											
	Opening			4,760,768	(426,485)						
	During the year			251,392,402	5,187,253						
				256,153,170	4,760,768						
				780,022,202	513,383,532						
			Note								
				2003	2002						
				Rupees	Rupees						
14. Trade debts											
	Due from KSE members- unsecured- considered good			743,750	593,750						
	Due from Customers - considered good										
	- secured			18,553,210	3,530,382						
	- unsecured			3,380,960	5,640,916						
				21,934,170	9,171,298						
				22,677,920	9,765,048						
15. Receivable against sale of securities - net				1,239,829,916	193,829,213						
	Due from Karachi Stock Exchange and its members in respect of sale of securities.										
16. Advances, deposits, prepayments and other receivables											
	Advances - considered good										
	Income tax			10,845,857	8,780,637						
	- to staff			779,280	642,500						
	Prepayments			35,106	105,558						
	Other receivable										
	Dividend receivable			3,791,071	8,593,500						
	Clearing deposit			5,977,065	3,227,186						
	- Others			1,115,408	-						
				22,543,787	21,349,381						
16.1	Maximum balance due from executives calculated with reference to the month end balance										

was Rs. 900,000/- (2002: Rs. 785,000/-)

17. Cash and bank balances

Cash in hand	64,174	9,236
Cash at bank		
Current account	2,033,317	1,480,888
PLS account	472,514	2,136,800
	2,505,831	3,617,688
	2,570,005	3,626,924

	Note	2003 Rupees	2002 Rupees
18. Operating revenue			
Brokerage income		93,713,896	42,757,715
Underwriting commission, placement, consultancy		3,393,928	1,040,000
Dividend income		90,311,260	131,367,427
Return on term finance certificates		471,030	2,843,515
		187,890,114	178,008,657
19. Operating expenses			
Salaries and benefits	19.1	9,421,752	4,571,312
Printing and stationery		468,870	363,500
Communication		816,511	690,231
Rent rates and taxes		371,008	285,952
Power		353,763	239,609
Legal and professional charges		395,900	314,900
C.D.C & Clearing house charges		16,768,626	7,158,222
Entertainment		98,472	88,889
Traveling and conveyance		831,715	552,953
Depreciation	8	803,156	1,023,440
Repair and maintenance		384,635	112,441
Office renovation		1,602,172	-
Audit fee		130,000	75,000
Share transfer expenses		85,250	155,474
Insurance		109,293	79,347
Membership and other subscription		329,076	220,600
Advertisement, business promotion, research and development		2,096,984	1,917,260
Meeting expenses		109,293	20,000
Commission		7,070,533	2,088,889
Consultancy and advisory		1,010,000	-
Donation	19.2	1,275,000	1,000,000
E.G. B.I. Contribution		61,200	67,080
Others		300,265	199,465
		44,893,474	21,224,564

19.1 This includes company's contribution to provident fund of Rs. 451,242/- (2002: Rs.Nil).

19.2 None of the directors or their spouses had any interest in donees' fund.

	Note	2003 Rupees	2002 Rupees
20. Financial charges			
Mark-up on short term running finance		30,969,198	14,443,040
Bank charges		838,534	87,633
		31,807,732	14,530,673

	Note	2003 Rupees	2002 Rupees
21. Other income			
Profit on bank deposits		856,220	296,132
Markup on loan to associated undertaking		2,311,154	-
		3,167,374	296,132

22. Remuneration of Chief Executive And Directors

The Chief Executive of the company is not drawing any remuneration for holding the office.

Note	Directors		Executives	
	2003	2002	2003	2002
Managerial remuneration	896,604	548,516	2,417,980	1,205,612
Sub brokerage, commission and performance bonus	22.1	3,051,907	1,391,458	4,255,590
House rent allowance		285,132	246,832	788,479
Conveyance		10,800	10,800	45,600
Utilities		63,366	54,851	170,380
				120,562

Contribution to provident fund	13,982	-	39,744	-
Medical allowance	16,779	-	47,693	-
	4,338,570	2,252,457	7,765,466	2,952,863
Number of persons	3	3	13	11

22.1 This represents the entitlement of Directors' commission at 1 0% on account of brokerage earned for the company through them.

	Note	2003 Rupees	2002 Rupees
23. Earnings per share - basic and diluted			
Profit for the year		751,918,789	253,591,183
		(Number of Shares)	
Weighted average number of ordinary shares		6,000,000	5,000,000
		(Rupees)	
Earnings per share-basic and diluted		125.32	50.72
24. Cash and cash equivalents			
Cash and bank balances		2,570,005	3,626,924
Marketable securities		780,022,202	513,383,532
Receivable against sale of securities net		1,239,829,916	193,829,213
Short term running finance		-644,968,482	-20,216,632
		1,377,453,641	690,623,037

25. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

25.1 Interest/mark-up rate risk exposure

The company's exposure to interest/mark-up rate risk based on contractual repricing or maturity dates whichever earlier is as follows.

Financial assets	Interest/mark-up bearing One month to one year (Rupees)	Over one year (Rupees)	Non Interest/ mark-up bearing (Rupees)	2003 Total (Rupees)	2002 Total (Rupees)
Investment in associated undertaking			16,000,000	16,000,000	16,000,000
Long term loan		48,600,000		48,600,000	
Long term deposits			1,344,000	1,344,000	1,290,000
Marketable securities - net			780,022,202	780,022,202	513,383,532
Receivables against sale of securities-net			1,239,829,916	1,239,829,916	193,829,213
Advances, deposits, prepayments and other receivables			11,662,824	11,662,824	12,463,186
Cash and bank	472,514		2,097,491	2,570,005	3,626,924
	472,514	48,600,000	2,050,956,433	2,100,028,947	740,592,855
The average interest/mark-up rates are	4%	9.50%			
Financial liabilities					
Short term running finance	644,968,482			644,968,482	20,216,632
Creditors, accrued and other liabilities			10,318,590	10,318,590	8,517,279
	644,968,482		10,318,590	655,287,072	28,733,911

The interest/mark-up rates are 4.5% to 9.5% (2002 : 1 0.50% to 1 5%);

25.2 Concentration of credit risk and credit exposure of the financial instruments.

The company believes it is not exposed to major concentration of credit risk as its debt securities are traded on the stock exchange, substantial portion of trade debts and whole of receivable against trading of securities has been recovered subsequent to the balance sheet date.

25.3 Fair value of financial instruments

The fair value of all the financial assets and financial liabilities, except for investments referred in note '1 4, is estimated to approximate their carrying values.

25.4 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Company treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

26. Staff strength

Total number of employees of the company as at June 30, 2003 was 34 (2002: 25)

27. Date of authorization for issue

These financial statements have been authorized for issue on July 30, 2003 by the Board of Directors of the company.

28. Figures

have been rounded off to the nearest rupee

of previous period have been reclassified and rearranged wherever necessary to facilitate

comparison.

Arif Habib

Muhammad Rafiq Jangda

Chief Executive

Director