

# First Habib Income Fund



## Annual Report

For the year ended June 30, 2008



**Habib Asset Management Limited**

(An Associate Company of Bank AL Habib Ltd.)

## Vision

We at Habib Asset Management Limited make it possible for everyone to invest in Mutual Funds by providing innovative products.

## Mission

We aim to excel in Fund Management business by:

- ◆ Understanding the customer needs through close interaction.
- ◆ Focusing on offering our investors the best possible returns on a diverse range of products.
- ◆ Attaining sustained growth in an ethical manner.
- ◆ Providing a conducive working environment that stimulates talent.

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**First Habib Income Fund**

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## **First Habib Income Fund**

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### **FUND'S INFORMATION**

#### **Management Company**

Habib Asset Management Limited

#### **Board of Directors of the Management Company**

Mr. Ali Raza D. Habib	Chairman
Mr. Imran Azim	Chief Executive
Mr. Mohammad Ali Jameel	Director
Mr. Shariq Abdullah	Director
Mr. Mansoor Ali	Director

#### **CFO and Company Secretary**

Mr. Shakeel Musani	Chief Financial Officer / Company Secretary
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#### **Audit Committee**

Mr. Mohammad Ali Jameel	Chairman
Mr. Shariq Abdullah	Member
Mr. Mansoor Ali	Member

#### **Auditors**

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Shiekh Sultan Trust Building No.2,  
Beaumont Road, Karachi.

#### **Internal Auditors**

A.F Ferguson & Co.  
Chartered Accountants  
State Life Building, 1-C,  
I.I. Chundrigar Road, Karachi.

#### **Trustee**

Central Depository Company  
of Pakistan Limited  
CDC House, 99-B, Block 'B', S.M.C.H.S,  
Main Shahr-e-Faisal, Karachi.

#### **Registrar**

Gangjees Registrar Services  
(Pvt.) Limited  
516, Clifton Centre, Block-5,  
Khayaban-e-Roomi, Clifton, Karachi.

#### **Bankers to the Fund**

Bank AL Habib Limited  
Bank Alfalah Limited  
My Bank Limited  
JS Bank Limited

#### **Legal Advisor**

Mohsin Tayebaly & Co.  
Barristers & Advocates,  
2nd Floor, DIME Centre, BC-4, Block 9,  
Kehkashan, Clifton, Karachi.

**Registered Office:** 1st Floor, Imperial Court, Dr. Ziauddin Ahmed Road, Karachi-75530

**REPORT OF THE DIRECTORS' OF THE MANAGEMENT COMPANY**

The Board of Directors' of Habib Asset Management Limited (HAML), the management company of First Habib Income Fund (FHIF), is pleased to present the Second Annual Report on the operations of the Fund along with the audited accounts, Reports of the Trustee and Auditors to the Unit Holders for the financial year ended June 30, 2008. This is the first full year of operations of FHIF. Last year's Accounts were only for one month i.e. from June 2, 2007 to June 30, 2007.

**Fund's Performance**

By the grace of Almighty Allah, FHIF performed well under difficult circumstances and posted an annualized yield of 9.14%. During the period under review the Fund earned a total income of Rs. 270.23 million and after deducting total expenses of Rs. 51.26 million, net profit of Rs. 218.97 million was available for distribution.

The size of the Fund which at the start of the year was Rs. 1.05 billion grew rapidly to reach a promising level of Rs. 2.99 billion when the liquidity crisis struck the market and huge withdrawals took place all over. Owing to the extra ordinary circumstances resulting in the severe credit crunch, FHIF also came under heavy redemption and finally closed with net assets of Rs. 1.91 billion registering an increase of 82% over the preceding year's closing.

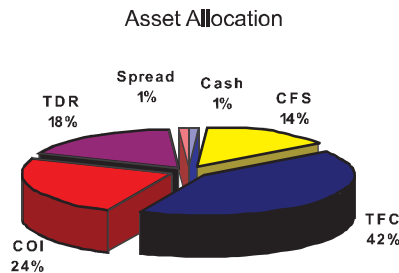
**Income Distribution**

The Board has approved a total distribution of Rs. 9.25 per Unit. Out of total distribution Rs. 7.00 was paid as interim dividend whereas Rs. 2.25 was declared as final dividend.

**Investments**

Being an Income Fund, the focus of management is always on achieving optimum results of attractive but safe returns and keeping a short to medium-term investment portfolio. The emphasis is on credit quality of the financial instruments in the asset allocation to provide stable long-term returns while minimizing risk. As at June 30, 2008, 64% of portfolio was invested in AAA to AA-, 32% in A+ to A- rated instruments/institutions and 4% in high quality blue chip companies (only CFS and Spread transactions).

The investments position as at June 30, 2008, is given as under:



**Sale and Redemption of Units**

During the year, 57,122,435 units worth Rupees 5.9 billion were sold and 49,603,978 units of the value of Rupees 5.1 billion were redeemed. Although the management succeeded to bring in fresh sales of Rs. 5.9 billion, the volatility on the money market front resulted in heavy redemptions. The net sales were therefore only Rs.0.80 billion.

## **First Habib Income Fund**

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### **Unit Prices**

Unit prices are being announced daily on the basis of the Net Asset Value of the underlying portfolio. The highest and lowest offer/redemption prices during the year as well as the prices prevailing as of June 30, 2008 are disclosed in the performance table.

### **Unit Holders**

As of June 30, 2008, 18, 632,666 units with a value of Rs. 1.906 billion were outstanding (June 30, 2007: 10,293,012 units with a value of Rs. 1.046 billion) with a total number of 336 Unit holders.

### **Pattern of Unit Holding**

Unit-holders' classification as on June 30, 2008 is disclosed in note 25 to the accounts.

### **Outlook**

The year 2008-2009 began with more than its share of uncertainties. The KSE 100 Index, despite gaining support from selected institutions breached the 9500 level and is currently hovering around the floor fixed at 9,144 level with low turnover as foreign and local investors continue to off load their positions. However, with the completion of the entire election process and State Bank of Pakistan's measures to control inflation, the situation may hopefully improve. We also remain positive that Inshallah the return to our investors will be higher than that of the previous year.

### **Management Company's Rating**

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an Asset Manager Rating of AM3- (AM 3 Minus) to Habib Asset Management Limited. The AM3- Asset Manager Rating of HAML demonstrates that the Company meets high investment management industry standards and benchmarks.

### **Mutual Fund Ranking**

The management company is in the process of obtaining the ranking of the Fund as it has just completed its first full year of operations.

### **Auditors**

The Fund's external auditors Messrs KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the Fund's auditors for the year ending 30 June 2009. The Board of Directors of the Management Company has re-appointed Messrs KPMG Taseer Hadi & Co., Chartered Accountants as the Fund's auditors for the year ending June 30, 2009 as recommended by the Audit Committee.

### **Corporate Governance**

1. The management company has implemented the requirements of the Code of Corporate Governance last year. A prescribed statement by the management along with the auditors' report thereon for the year ended June 30, 2008 forms part of this annual report.

**2. Statements under clause xix of the Code:**

- The financial statements, prepared by the Management Company of FHIF, present fairly the state of affairs of the Fund, the result of its operations, cash flows and movement in Unit-holders' funds.
- Proper books of account of FHIF have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There is no doubt upon FHIF's ability to continue as a going concern.
- There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- Outstanding statutory payments on account of taxes, if any, have fully disclosed in the accounts.
- The details of Board Meetings held and attended by the directors is disclosed in note 28 to the accounts.
- Particulars of all investments and redemptions by the Directors, Chief Executive, Chief Financial Officer, Company Secretary and their spouses and minor children during the period ended June 30, 2008 is provided in note 21 to the accounts.

**Commitment**

The Management Company is committed towards devoting its entire efforts and resources to improve returns for the investors, while remaining prudent in making investment decisions.

**Acknowledgement**

The Board takes this opportunity to thank its valued Unit-holders for their confidence. It would like to place on record its appreciation for the help and guidance provided by the Central Depository Company of Pakistan Limited as Trustee, the Securities and Exchange Commission of Pakistan and the management of Lahore Stock Exchange.

The Board also wishes to place on record its appreciation for the hard work and dedication of all staff members of the Management Company.

On behalf of the Board of  
Habib Asset Management Limited

**Ali Raza D. Habib**  
Chairman

23 September, 2008  
Karachi

## **First Habib Income Fund**

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### **TRUSTEE REPORT TO THE UNIT HOLDERS**

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

The First Habib Income Fund (Fund), an open-end Mutual Fund was established under a trust deed dated September 6, 2006, executed between Habib Asset Management Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2008 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non Banking Finance Companies and Notified Entities Regulations, 2007 and the constitutive documents of the Fund.

**Muhammad Hanif**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

23 September, 2008  
Karachi



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

This statement is being presented by the Board of Directors of Habib Asset Management Limited, the management company of First Habib Income Fund to comply with the Code of Corporate Governance in Chapter XIII of Listing Regulations of the Lahore Stock Exchange 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.

Habib Asset Management Limited (HAML), the Management Company, is not listed and hence, the Code is not applicable to it. However, First Habib Income Fund (FHIF) managed by HAML, is listed on the Lahore Stock Exchange, therefore it comes under the ambit of the Code. The Fund, being a unit trust scheme, does not have its own Board. The Board of Directors of the Management Company manages the affairs of the Fund and has appointed the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the Company Secretary and other necessary personnel to manage the affairs of the Fund.

The Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors. At present the Board consists of five directors including three non-executive directors and one independent non executive director.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancy occurred once during the year in the Board due to the demise of Mr. Mahmood S Allarakhia. The said vacancy was filled by the appointment of Mr. Mansoor Ali by the Board with the approval of Securities and Exchange Commission of Pakistan.
5. The Management Company has adopted a "Code of Business Ethics and Business Practices", which has been acknowledged by all the Directors and employees of the Management Company.
6. The Board has developed a vision / mission statement and significant policies for the Fund. A complete record of the particulars along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of the remuneration and terms and conditions of employment of the CEO, have been taken by the Board. There is no other executive director of the company besides the CEO.
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 during the period. 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. All the members of the Board are professionally qualified persons with rich experience in financial sector and are well aware of their duties and responsibilities under Memorandum and Articles of HAML and NBFC Rules, 2003 and NBFC Regulations. Therefore, no orientation courses were arranged during the year.
10. The Board has approved the appointment of CFO and Company Secretary including their remuneration and terms and conditions of employment as determined by the CEO.

## **First Habib Income Fund**

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11. The Directors' Report for the 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 Fund were duly endorsed by CEO and CFO before the approval of the Board.
13. The Directors, CEO and Executives do not hold units other than those disclosed in note 21 to the financial statements "Transactions with Connected Persons".
14. The Management Company has complied with the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three 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 the financial statements of the Fund as required by the Code.
17. The Management Company has outsourced the internal audit function of the Fund to M/s A. F. Ferguson & Co., Chartered Accountants, Karachi who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
18. The Statutory Auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouse and minor children do not hold units of the Fund and that the Firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on the Code of Ethics as adopted by the Institute of Chartered Accountant 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.

**Imran Azim**  
Chief Executive Officer

23 September 2008  
Karachi

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS**

We have audited the accompanying financial statements of **First Habib Income Fund** ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2008 and the income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the year ended 30 June 2008 and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the financial statements**

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2008, and of its financial performance, cash flows and transactions for the year ended 30 June 2008 in accordance with approved accounting standards as applicable in Pakistan.

**Other matters**

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed, Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2007.

Date: 23 September 2008  
Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants

## **First Habib Income Fund**

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### **REVIEW REPORT TO THE UNIT HOLDERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of the Management Company of **First Habib Income Fund** ("the Fund") to comply with the chapter XIII of the listing regulation of the Lahore Stock Exchange, where the Fund is listed.

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

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended 30 June 2008.

Date: 23 September 2008  
Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants

**First Habib Income Fund**

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

	Note	2008 (Rupees in '000)	2007
<b>Assets</b>			
Bank balances	4	351,412	355,975
Receivable against continuous funding system transactions	5	275,422	511,553
Investments	6	817,111	177,574
Certificate of investments and deposits	7	450,000	-
Income receivable	8	51,996	8,807
Advances, deposits, prepayments and other receivables	9	6,495	1,159
Receivable against sale of investments		1,315	-
Preliminary expenses and floatation costs	10	2,053	2,578
<b>Total assets</b>		<b>1,955,804</b>	<b>1,057,646</b>
<b>Liabilities</b>			
Payable against purchase of investments		-	5,275
Short term running finance	11	42,513	-
Payable to Habib Asset Management Limited - Management Company	12	2,443	5,006
Payable to Central Depository Company of Pakistan Limited - Trustee	13	268	200
Payable to Securities and Exchange Commission of Pakistan	14	2,239	82
Accrued expenses and other liabilities	15	1,630	639
<b>Total liabilities</b>		<b>49,093</b>	<b>11,202</b>
<b>Commitments</b>	16	-	-
<b>Net assets</b>		<b>1,906,711</b>	<b>1,046,444</b>
<b>Unit holders' funds (as per statement attached)</b>		<b>1,906,711</b>	<b>1,046,444</b>
		(Number of Units)	
<b>Number of units in issue</b>	17	<b>18,632,666</b>	<b>10,293,012</b>
		(Rupees)	
<b>Net asset value per unit</b>		<b>102.33</b>	<b>101.67</b>

The annexed notes 1 to 30 form an integral part of these financial statements.

**For Habib Asset Management Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## First Habib Income Fund

### INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

		For the period from 6 September 2006 to 30 June 2007 (Rupees in '000)	
	Note	2008	2007
<b>Income</b>			
Profit on bank deposits	18	69,201	14,128
Income on Continuous Funding System Transactions		59,505	3,224
Income from Term Finance Certificates		65,399	420
Income from Certificate of Investments and Deposits		41,725	-
Gain on sale of investments		17,739	-
Unrealised (diminution) / appreciation on investments at fair value through profit or loss	6.1	(4,025)	931
Unrealised diminution on derivative financial instruments	6.3.2	(507)	-
<b>Total income</b>		<b>249,037</b>	<b>18,703</b>
<b>Expenses</b>			
Remuneration of Habib Asset Management Limited - Management Company	12.1	33,576	1,224
Remuneration of Central Depository Company of Pakistan Limited - Trustee	13.1	3,239	161
Annual fee - Securities and Exchange Commission of Pakistan	14	2,239	82
Brokerage		8,616	491
Settlement and bank charges		2,529	102
Annual listing fee		15	30
Auditors' remuneration	19	240	90
Amortisation of preliminary expenses and floatation costs		525	42
NCSS annual fee		129	-
Financial charges		147	-
<b>Total expenses</b>		<b>51,255</b>	<b>2,222</b>
<b>Net income from operating activities</b>		<b>197,782</b>	<b>16,481</b>
Element of income and capital gains included in prices of units issued less those in units redeemed		21,189	662
<b>Net income for the year / period</b>		<b>218,971</b>	<b>17,143</b>
<b>Earnings per unit</b>	20	-	-

The annexed notes 1 to 30 form an integral part of these financial statements.

**For Habib Asset Management Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

**First Habib Income Fund**

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

	2008	For the period from 6 September 2006 to 30 June 2007
	(Rupees in '000)	
<b>Undistributed income brought forward</b>	17,143	-
Net income for the year / period	218,971	17,143
Distribution during the year (1 July 2007)	(15,466)	-
Distribution during the year (4 April 2008)	(177,204)	-
<b>Undistributed income carried forward</b>	<u>43,444</u>	<u>17,143</u>

The annexed notes 1 to 30 form an integral part of these financial statements.

**For Habib Asset Management Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## First Habib Income Fund

### STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS FOR THE YEAR ENDED 30 JUNE 2008

	2008		For the period from 6 September 2006 to 30 June 2007	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Net assets at the beginning of the year / period	10,293,012	1,046,444	-	-
Amount received on issue of units	57,122,435	5,900,978	11,373,051	1,139,146
Amount paid on redemption of units	(49,603,978)	(5,128,062)	(1,080,039)	(109,183)
	7,518,457	772,916	10,293,012	1,029,963
Element of income and capital gains included in prices of units issued less those in units redeemed	-	(21,189)	-	(662)
Issue of bonus units on 1 July 2007 @ 1.5% for Class 'A' and 'B'	154,395	-	-	-
Issue of bonus units on 4 April 2008 @ 7% for Class 'A' and 'B'	666,802	-	-	-
Interim dividend distribution on 4 April 2008 @ 7% for Class 'C'	-	(110,431)	-	-
Net income for the year / period	-	218,971	-	17,143
Net assets at the end of the year / period	18,632,666	1,906,711	10,293,012	1,046,444

The annexed notes 1 to 30 form an integral part of these financial statements.

For Habib Asset Management Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director



**First Habib Income Fund**

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

For the period from  
6 September 2006  
to 30 June 2007  
**2008**  
**(Rupees in '000)**

**CASH FLOW FROM OPERATING ACTIVITIES**

Net income for the year / period	218,971	17,143
<b>Adjustments</b>		
Unrealised diminution / (appreciation) on investments at fair value through profit or loss	4,025	(931)
Unrealised diminution on derivative financial instruments	507	-
Element of income and capital gains included in prices of units issued less those in units redeemed	(21,189)	(662)
Amortisation of preliminary expenses and floatation costs	525	42
	<b>202,839</b>	<b>15,592</b>
<b>(Increase) / decrease in assets</b>		
Preliminary expenses and floatation cost	-	(2,620)
Short term investment in Term Deposit Receipt	(350,000)	-
Receivable against Continuous Funding System transactions	236,131	(511,553)
Investments	(644,069)	(176,643)
Certificate of Investments and Deposits	(450,000)	-
Income receivable	(43,189)	(8,807)
Security deposits and other receivables	(5,336)	(1,159)
Receivable against sale of investments	(1,315)	-
	<b>(1,257,778)</b>	<b>(700,782)</b>
<b>Increase / (decrease) in liabilities</b>		
Payable against purchase of investments	(5,275)	5,275
Payable to Habib Asset Management Limited - Management Company	(2,563)	5,006
Payable to Central Depository Company of Pakistan Limited - Trustee	68	200
Payable to Securities and Exchange Commission of Pakistan	2,157	82
Accrued expenses and other liabilities	991	639
	<b>(4,622)</b>	<b>11,202</b>
<b>Net cash outflow from operating activities</b>	<b>(1,059,561)</b>	<b>(673,988)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Net receipts from sale and redemption of units	772,916	1,029,963
Dividend paid	(110,431)	-
Net increase in cash and cash equivalents during the year / period	<b>(397,076)</b>	<b>355,975</b>
Cash and cash equivalents at beginning of the year	<b>355,975</b>	<b>-</b>
Cash and cash equivalents at the end of the year / period	<b>(41,101)</b>	<b>355,975</b>
<b>Cash and cash equivalents at the end of the year / period comprise of :</b>		
Bank balances	351,412	355,975
Less: Term deposit receipt having maturity of more than 3 months	(350,000)	-
Short term running finance	(42,513)	-
	<b>(41,101)</b>	<b>355,975</b>

The annexed notes 1 to 30 form an integral part of these financial statements.

**For Habib Asset Management Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## **First Habib Income Fund**

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

#### **1. LEGAL STATUS AND NATURE OF BUSINESS**

First Habib Income Fund (the "Fund") was established under a Trust Deed executed between Habib Asset Management Limited (HAML) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 6 September 2006 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 3 August 2006 under Rule 67 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to undertake Asset Management Services as Non Banking Finance Company under the NBFC Rules by the SECP. The registered office of the management company is situated at Imperial Court Building, Dr. Ziauddin Ahmed Road Karachi, Pakistan.

The Fund is an open-ended mutual fund and is listed on the Lahore Stock Exchange. Units are offered for public subscription on a continuous basis. Units are transferable and can be redeemed by surrendering them to the Fund at the option of the unit holder, except for the units issued to core investors which are not redeemable for a period of two years from the date of issue.

The Fund has been formed to provide reasonable rate of return consistent with reasonable concern for safety of principal amount to the unit holders, along with facility to join or leave the fund at their convenience. The management team would seek to enhance returns through active portfolio management using efficiency tools.

#### **2. BASIS OF PREPARATION**

##### **2.1 Statement of compliance**

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

##### **2.2 Initial application of a standard or an interpretation**

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

### 2.3 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after 1 July 2008 are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures:

Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009). The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics.

- IAS 29 - Financial Reporting in Hyperinflationary Economies
- IAS 41- Agriculture
- IFRS 6 - Exploration for and Evaluation of Mineral Assets
- IFRIC 11 - Group and Treasury Share Transactions
- Revised IAS 23- Borrowing costs (effective from 1 January 2009). Amendments relating to mandatory capitalisation of borrowing costs relating to qualifying assets.
- IAS 32 (amendment)- Financial instruments: Presentation and consequential amendment to IAS 1- Presentation of Financial Statements( effective for annual period beginning on or after 1 January 2009). IAS 32 amended classification of Puttable Financial Instruments.
- IFRS 2 (amendment)- Share-based payments (effective for annual periods beginning on or after 1 January 2009). IFRS 2 clarifies the vesting conditions and cancellations in the share-based payment arrangement.
- IFRS 3 (amendment)- Business Combinations and consequential amendments to IAS 27- Consolidated and separate financial statements, IAS 28- Investment in associates and IAS 31- Interest in Joint Ventures. (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).
- IFRS 7 - Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 July 2008).
- IFRIC 12 – Service Concession Arrangements (effective for annual period beginning on or after 1 January 2008).
- IFRIC 13- Customer Loyalty Programmes (effective for annual period beginning on or after 1 July 2008).
- IFRIC 14 IAS 19- The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual period beginning on or after 1 January 2008).
- IFRIC 15- Agreement for the Construction of Real Estate (effective for annual period beginning on or after 1 October 2009).
- IFRIC 16- Hedge of Net Investment in a Foreign Operation (effective for annual period beginning on or after 1 October 2008).

## **First Habib Income Fund**

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### **2.4 Basis of measurement**

These financial statements have been prepared under the historical cost convention, except that financial assets classified as 'at fair value through profit or loss' and 'available for sale' which are included at fair value.

### **2.5 Functional and presentation currency**

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

### **2.6 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised in the financial statements are given in note 24 to these financial statements.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### **3.1 Financial instruments**

The Fund classifies its financial instruments in the following categories:

#### **a) Financial instruments at fair value through profit or loss**

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy.

Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

## **First Habib Income Fund**

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b) *Available-for-sale*

Available for sale financial assets are non-derivative that are either designated in this category or not classified in any other category.

c) *Loans and receivables originated by the enterprise*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as fair value through profit or loss or available for sale.

d) *Financial liabilities*

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective yield method.

### ***Recognition***

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

### ***Measurement***

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial instrument not at 'fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Transaction costs on financial instrument at fair value through profit or loss are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as at 'fair value through profit or loss' and available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement.

Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Fund until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Fund are included in the Income Statement.

### ***Fair value measurement principles***

The fair value of a security listed on a stock exchange, local or foreign as the case may be, and derivatives is valued at its last sale price on such exchange on the date on which it is valued or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date the security is valued at an amount neither higher than the closing asked price nor lower than the closing bid price.

## **First Habib Income Fund**

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### ***Basis of valuation of Term Finance Certificates (TFC's) / Debt Securities***

The investment of the Fund in TFCs and other debt securities is valued at the rates, notified by the Mutual Funds Association of Pakistan (MUFAP) .

### ***Impairment***

Financial assets not carried at fair value through profit or loss are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

If in subsequent period the amount of impairment loss decreases, the reduction in impairment loss on financial assets other than the securities classified as 'available-for-sale' are recognised in the income statement. For equity instruments classified as 'available for sale' any reversal in impairment loss is recognised in unit holders fund. For debt instruments classified as 'available for sale', any reversal in impairment loss is recognised in income statement where the increase in fair value of debt instruments can be objectively related to an event occurring after the impairment loss was recognised in income statement.

### ***Derecognition***

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments; Recognition and Measurement.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

### ***Offsetting of financial instruments***

Financial assets and liabilities are offset and the net amount reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## **3.2 Securities under resale agreements**

Transactions of purchase under resale (reverse-repo) of the securities purchased under continuous funding system, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the statement of assets and liabilities. Amount paid under these agreements are recognised as receivable against continuous funding system. The difference between purchase and resale price is treated as income from continuous funding system and accrued over the life of the agreement. All Continuous Funding System transactions are accounted for on the settlement date.

## **3.3 Unit holders' fund**

Unit holders' fund representing the units issued by the Fund, is carried at the net assets value representing the investors' right to a residual interest in the Funds' assets.

### **3.4 Issue and redemption of units**

Units issued are recorded at the net assets value, determined by the Management Company for the applications received by the company during business hours on that day. Allotment of units is recorded on acceptance of application and units are issued upon realization of the proceeds in the Fund's bank account.

Units redeemed are recorded at the net assets value redemption price, applicable on units for which the Company receives redemption applications during business hours on that day. Redemption of units is recorded on acceptance of application for redemption.

### **3.5 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed**

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption.

The Fund records the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period in the income statement.

### **3.6 Net asset value - per unit**

The net asset value per unit disclosed in the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in issue at the year end.

### **3.7 Taxation**

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income of that year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the Fund's unit holders.

The Fund provides for deferred taxation using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits.

However, the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year. Accordingly, no tax liability or deferred tax has been recognised in these financial statements.

### **3.8 Revenue recognition**

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets at fair value through profit or loss are included in the Income Statement in the period in which they arise.

## **First Habib Income Fund**

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- Unrealised gains / (losses) arising on the revaluation of derivatives to fair value are taken to the Income Statement in the period in which they arise.
- Income on reverse repurchase transactions, continuous funding system, term finance certificates and government securities is recognised on an accrual basis using the effective interest rate method.
- Profit on bank deposit is recognised on time proportion basis taking in to account effective yield.
- Dividend income is recognised when the right to receive the dividend is established.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

### **3.9 Expenses**

All expenses including management fee, trustee fee and annual fee of SECP are recognised in the Income Statement on an accrual basis.

### **3.10 Provisions**

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, 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. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

### **3.11 Preliminary expenses and floatation costs**

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortised over a period of five years commencing from 2 June 2007 as per the Trust Deed of the Fund.

### **3.12 Cash and cash equivalents**

Cash and cash equivalents comprise of bank balances. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

### **3.13 Other assets**

Other assets are stated at cost less impairment losses, if any.

### **3.14 Dividend distributions and appropriations**

Dividends declared (including distribution in the form of bonus units) subsequent to the balance sheet date are considered as a non-adjusting event and are recognised in the period in which they are paid.



## First Habib Income Fund

4. BANK BALANCES	2008	2007	
	(Rupees in '000)		
In saving accounts	4.1	1,412	255,975
Term deposit receipts (TDRs)	4.2	350,000	100,000
		351,412	355,975

4.1 Saving accounts carry profit rates ranging from 4.5% to 11% (30 June 2007: 9% to 10%) per annum.

4.2 Term deposit receipts have tenor of three months to one year (2007: three months) and carry profit rates ranging from 10.40% to 12.50% (30 June 2007: 10.5%) per annum.

### 5. RECEIVABLE AGAINST CONTINUOUS FUNDING SYSTEM TRANSACTIONS

The rates of return on these transactions range between 10.11% to 50.00% per annum (30 June 2007 : 11.29% to 19.71 per annum), with maturities ranging from overnight to 22 working days (30 June 2007 : 22 working days). Fair value of the collaterals accepted against the above receivable balance as at 30 June 2008 amounted to Rs. 274.088 million ( 30 June 2007: 523.061 million).

### 6. INVESTMENTS - at fair value through profit or loss - held for trading

Term Finance Certificates	6.2	802,120	157,574
Investment in Shares and Mutual Funds	6.3	15,498	-
Derivatives	6.3.2	(507)	-
Pre IPO Investment in TFC (Engro Chemical Pakistan Limited)		-	20,000
		817,111	177,574

### 6.1 Unrealised (diminution) / appreciation on investments at fair value through profit or loss

	2008	For the period from 6 September 2006 to 30 June 2007	
	(Rupees in '000)		
Term Finance Certificates	6.2.2	(4,597)	931
Shares and mutual funds	6.3.1	572	-
		(4,025)	931

## First Habib Income Fund

### 6.2 TERM FINANCE CERTIFICATES

Name of the investee company	Status	Number of certificates				Market value as at 30 June 2008	Market value as a percentage of net assets	Market value as a percentage of total investments
		As at 1 July 2007	Acquired during the year	Sold during the year	As at 30 June 2008			
(Rupees in '000)								
ABN Amro (Pakistan) Limited	Listed	-	7,090	4,000	3,090	16,184	0.85	1.98
Allied Bank Limited	Listed	1,000	22,400	13,000	10,400	55,119	2.92	6.75
Askari Commercial Bank Limited - I issue	Listed	-	3,400	400	3,000	15,485	0.82	1.90
Askari Commercial Bank Limited - II issue	Listed	-	9,200	9,000	200	1,034	0.05	0.13
Bank AL Habib Limited-II issue	Listed	3,000	12,200	6,000	9,200	48,892	2.60	5.98
Bank Alfalah Limited - II issue	Listed	3,117	10,000	3,117	10,000	51,745	2.72	6.33
Bank Alfalah Limited - III issue	Listed	-	2,000	-	2,000	10,344	0.54	1.27
Engro Chemical Pakistan Limited	Listed	-	23,281	14,000	9,281	46,897	2.48	5.74
Faysal Bank Limited	Listed	-	14,515	-	14,515	74,527	3.93	9.12
First International Investment Bank Limited	Listed	-	5,379	-	5,379	24,272	1.28	2.97
Naimat Basal Oil and Gas Securitization Company Limited	Listed	14,000	2,000	16,000	-	-	-	-
NIB Bank Limited	Listed	-	15,600	3,000	12,600	63,781	3.32	7.81
Orix Leasing Pakistan Limited	Listed	15,000	5,000	10,000	10,000	50,795	2.67	6.22
Pakistan Mobile Communication Limited	Listed	-	14,240	-	14,240	76,486	4.07	9.36
Pak Arab Fertilizers Limited	Listed	-	9,000	2,000	7,000	34,941	1.85	4.28
Soneri Bank Limited	Listed	-	2,299	2,299	-	-	-	-
Standard Chartered Bank Pakistan Limited	Listed	-	5,948	5,000	948	4,995	0.26	0.61
Saudi Pak Leasing Company Limited TFC III	Listed	-	5,999	-	5,999	30,256	1.59	3.70
United Bank Limited-III issue	Listed	-	8,400	4,000	4,400	23,068	1.23	2.82
United Bank Limited-IV issue	Listed	-	3,000	-	3,000	14,917	0.79	1.83
First Dawood Investment Bank Limited	Unlisted	-	2,900	-	2,900	14,657	0.77	1.79
Jahangir Siddiqui & Company Limited	Unlisted	-	9,400	-	9,400	47,498	2.54	5.81
Engro Chemical Pakistan Limited PP TFC I	Unlisted	-	14,600	6,600	8,000	40,700	2.11	4.98
Engro Chemical Pakistan Limited PP TFC II	Unlisted	-	4,000	-	4,000	20,126	1.05	2.46
Pak American Fertilizers Limited PP TFC I	Unlisted	-	2,000	2,000	-	-	-	-
Pak American Fertilizers Limited PP TFC II	Unlisted	-	2,000	-	2,000	10,016	0.52	1.23
KASB Securities Limited	Unlisted	-	9,000	4,000	5,000	25,385	1.35	3.11
		<b>36,117</b>	<b>224,851</b>	<b>104,416</b>	<b>156,552</b>	<b>802,120</b>		

6.2.1 All Term Finance Certificates have a face value of Rs 5,000 each.

6.2.2 Cost of Term Finance Certificates as at 30 June 2008 is Rs. 806.72 million (30 June 2007 : 156.64 million) with an unrealised revaluation loss of Rs. 4.60 million (Unrealised gain at 30 June 2007 : 0.93 million).

6.2.3 Significant terms and conditions of Term Finance Certificates outstanding as at year end.

Name of the investee company	Remaining principal (per TFC) as at 30 June 2008	Mark-up rate (per annum)	Start date	Maturity	Secured /unsecured	TFC rating
ABN Amro (Pakistan) Limited	4,994.00	1.90%+6 Month KIBOR	10-Feb-05	10-Feb-13	UnSecured	AA-
Allied Bank Limited	4,997.00	1.90%+6 Month KIBOR	6-Dec-06	6-Dec-14	UnSecured	A+
Askari Commercial Bank Limited - I issue	4,994.00	1.50%+6 Month KIBOR	4-Feb-05	4-Feb-13	UnSecured	AA-
Askari Commercial Bank Limited - II issue	4,995.00	1.50%+6 Month KIBOR	31-Oct-05	31-Oct-13	UnSecured	AA-
Bank AL Habib Limited-II issue	4,998.00	1.95%+6 Month KIBOR	7-Feb-07	7-Feb-15	UnSecured	AA-
Bank Alfalah Limited - II issue	4,993.27	1.50%+6 Month KIBOR	23-Nov-04	23-Nov-12	UnSecured	AA-
Bank Alfalah Limited - III issue	4,995.19	1.50%+6 Month KIBOR	25-Nov-05	25-Nov-13	UnSecured	AA-
Engro Chemical Pakistan Limited	4,999.00	1.55%+6 Month KIBOR	30-Nov-07	30-Nov-15	Secured	AA-
Faysal Bank Limited	4,999.00	1.40%+6 Month KIBOR	12-Nov-07	12-Nov-14	UnSecured	AA-
First International Investment Bank Limited	4,373.25	2.25%+6 Month KIBOR	11-Jul-06	11-Jul-11	Secured	A+
NIB Bank Limited	5,000.00	1.15%+6 Month KIBOR	5-Mar-08	5-Mar-16	UnSecured	A
Orix Leasing Pakistan Limited	4,998.00	1.50%+6 Month KIBOR	25-May-07	25-May-12	Secured	AA+
Pakistan Mobile Communication Limited	4,996.00	2.85%+6 Month KIBOR	31-May-06	31-May-13	Secured	AA-
Pak Arab Fertilizers Limited	5,000.00	1.50%+6 Month KIBOR	28-Feb-08	28-Feb-13	Secured	AA
Standard Chartered Bank Pakistan Limited	4,996.00	2.00%+6 Month KIBOR	1-Feb-06	1-Feb-13	UnSecured	AAA
Saudi Pak Leasing Company Limited TFC III	5,000.00	1.50%+6 Month KIBOR	13-Mar-08	13-Mar-13	Secured	A
United Bank Limited-III issue	4,997.00	1.70%+6 Month KIBOR	8-Sep-06	8-Sep-14	UnSecured	AA
United Bank Limited-IV issue	5,000.00	0.85%+6 Month KIBOR	14-Feb-18	14-Feb-18	UnSecured	AA
First Dawood Investment Bank Limited	5,000.00	1.60%+6 Month KIBOR	11-Sep-07	11-Sep-12	Secured	AA-
Jahangir Siddiqui & Company Limited	4,999.00	1.70%+6 Month KIBOR	4-Jul-07	4-Jul-13	Secured	AA+
Engro Chemical Pakistan Limited PP TFC I	5,000.00	1.70%+6 Month KIBOR	18-Mar-08	18-Mar-18	Secured	AA
Engro Chemical Pakistan Limited PP TFC II	5,000.00	1.25%+6 Month KIBOR	18-Mar-08	18-Mar-18	Secured	AA
Pak American Fertilizers Limited PP TFC II	5,000.00	1.75%+6 Month KIBOR	14-Jan-08	14-Jan-15	Secured	AA-
KASB Securities Limited	4,998.00	1.90%+6 Month KIBOR	27-Jun-06	27-Jun-12	Secured	AA-

## First Habib Income Fund

### 6.3 Investment in Shares and Mutual Funds

Name of the investee	As at 1 July 2007	Number of Shares			As at 30 June 2008	Market value as at 30 June 2008	Market value as a percentage of net assets	Market value as a percentage of total investments
		Acquired during the year	Bonus / right issue	Sold during the year				
(Rupees in '000)								
<b>MUTUAL FUNDS</b>								
CDC Trustee- KASB Liquid Fund	-	244,810	-	244,810	-	-	-	-
CDC Trustee- POBOP Advantage Plus Fund	-	400,000	-	400,000	-	-	-	-
<b>COMMERCIAL BANKS</b>								
Askari Bank Limited	-	10,000	-	10,000	-	-	-	-
The Bank Of Punjab	-	1,316,000	-	1,316,000	-	-	-	-
National Bank of Pakistan	-	1,973,500	-	1,973,500	-	-	-	-
Faysal Bank Limited	-	12,000	-	12,000	-	-	-	-
Bank Al Falah Limited	-	91,500	-	91,500	-	-	-	-
MCB Bank Limited	-	890,500	-	890,500	-	-	-	-
United Bank Limited	-	147,500	-	147,500	-	-	-	-
<b>INVESTMENT BANK/SECURITIES</b>								
Arif Habib Securities Limited	-	659,500	-	659,500	-	-	-	-
Jahangir Siddiqui & Company Limited	-	451,500	-	451,500	-	-	-	-
<b>REFINERY</b>								
Attock Refinery Limited	-	5,500	-	5,500	-	-	-	-
National Refinery Limited	-	13,500	-	13,500	-	-	-	-
<b>INSURANCE</b>								
Adamjee Insurance Company Limited	-	120,000	-	120,000	-	-	-	-
<b>OIL &amp; GAS EXPLORATION COMPANIES</b>								
Pakistan Petroleum Limited	-	783,000	-	720,000	63,000	15,498	0.81	1.90
Oil & Gas Development Company Limited	-	729,000	-	729,000	-	-	-	-
Pakistan Oilfield Limited	-	1,142,500	-	1,142,500	-	-	-	-
<b>OIL &amp; GAS MARKETING COMPANIES</b>								
Pakistan State Oil Limited	-	1,000	-	1,000	-	-	-	-
<b>TEXTILE COMPOSITE</b>								
Nishat Mills Limited	-	79,500	-	79,500	-	-	-	-
<b>CEMENT</b>								
D.G. Khan Cement Limited	-	8,000	-	8,000	-	-	-	-
<b>FERTILIZER</b>								
Engro Chemical Pakistan Limited	-	455,500	-	455,500	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	-	1,500	-	1,500	-	-	-	-
		<b>9,535,810</b>		<b>9,472,810</b>	<b>63,000</b>	<b>15,498</b>		

6.3.1 Cost of investment in shares and mutual funds as at 30 June 2008 is 14.93 million (30 June 2007 : NIL) with an unrealised gain of Rs. 0.57 million (30 June 2007 : NIL).

6.3.2 This diminution represents the net unrealised loss on contract for future sale of 63,000 shares against holding of 63,000 shares of Pakistan Petroleum Limited (PPL) with settlement date of 29th July 2008.

### 7. CERTIFICATE OF INVESTMENTS AND DEPOSITS

	2008	2007
	(Rupees in '000)	
IGI Investment Bank Limited	150,000	-
Pak Libya Holding Company Limited	200,000	-
First Dawood Investment Bank Limited	50,000	-
Saudi Pak Leasing Company Limited	50,000	-
	<u>450,000</u>	<u>-</u>

7.1 Certificate of Investments and Deposits have maturity of twelve months to eighteen months (30 June 2007: Nil) and carry profit rates ranging from 10.92% to 13.43% (30 June 2007: Nil) per annum.

## First Habib Income Fund

8. INCOME RECEIVABLE	<i>Note</i>	2008	2007
(Rupees in '000)			
Income accrued on Continuous Funding System transactions		1,389	1,589
Profit accrued on Term Finance Certificates		22,378	2,208
Profit receivable on Bank Deposits		15,507	5,010
Profit accrued on Certificate of Investments and Deposits		12,060	-
Dividend receivable		662	-
		<u>51,996</u>	<u>8,807</u>
<b>9. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Deposit with National Clearing Company of Pakistan Limited	<i>9.1</i>	3,500	1,000
Deposit with Central Depository Company of Pakistan Limited	<i>9.1</i>	100	100
Tax deducted at source		-	59
Cash Margin with National Clearing Company of Pakistan Limited		2,000	-
Annual fee to National Clearing Company of Pakistan Limited		871	-
Others		24	-
		<u>6,495</u>	<u>1,159</u>
<b>9.1</b> These deposits are non remunerative.			
<b>10. PRELIMINARY EXPENSES AND FLOATATION COSTS</b>			
Preliminary expenses and floatation costs		2,578	2,620
Less: Amortisation during the year / period	<i>10.1</i>	(525)	(42)
		<u>2,053</u>	<u>2,578</u>
<b>10.1</b> Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from 2 June 2007.			
<b>11. SHORT TERM RUNNING FINANCE</b>			
Short Term Running Finance	<i>11.1</i>	<u>42,513</u>	<u>-</u>
<b>11.1</b> The Company has obtained running finance facility under mark-up arrangement from Bank Al Habib Limited (a related party) amounting to Rs.100 million (2007: Nil). This facility carries mark-up at the rate of 3 months KIBOR plus 1.25% (2007: Nil). This arrangement is secured by way of lien/pledge over Certificates of Deposits for Rs. 150 million.			
<b>12. PAYABLE TO HABIB ASSET MANAGEMENT LIMITED – MANAGEMENT COMPANY</b>			
Management fee	<i>12.1</i>	2,443	1,224
Sales load		-	2
Formation cost		-	2,620
Other payables		-	1,160
		<u>2,443</u>	<u>5,006</u>

## First Habib Income Fund

**12.1** Under the provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non-Banking Finance Company and Notified Entities Regulation 2007, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such net assets of the Fund. The Management Company has charged its remuneration at the rate of one and a half percent per annum for the current year in accordance with the Trust Deed.

**13. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE** *Note* **2008** **2007**  
(Rupees in '000)

Trustee fee	<i>13.1</i>	<b>245</b>	161
CDS charges		<b>23</b>	39
		<b>268</b>	<b>200</b>

**13.1** The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily Net Asset Value of the Fund.

**14. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

Under the provisions of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non-Banking Finance Company and Notified Entities Regulation 2007, a Unit Trust Scheme is required to pay annual fee to the Securities and Exchange Commission of Pakistan, an amount equal to one-tenth of one percent of the average annual Net Assets of the Fund.

**15. ACCRUED EXPENSES AND OTHER LIABILITIES**

Auditors' remuneration		<b>186</b>	90
Brokerage		<b>505</b>	491
NCCPL Settlement Charges		<b>43</b>	58
Annual listing fee-Lahore Stock Exchange		<b>15</b>	-
Accrued mark up on running finance facility		<b>147</b>	-
Others		<b>734</b>	-
		<b>1,630</b>	<b>639</b>

**16. COMMITMENTS**

Continuous Funding System transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase transaction have not been settled as at 30 June

	<b>95,061</b>	167,628
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**17. CLASS OF UNITS IN ISSUE**

The Fund has three classes of units as per the Trust Deed. Class 'A' units pertain to core investors. Such units are redeemable after two years of issue. Class 'B' and 'C' units are issued and redeemed in the usual course of business on a daily basis. Class 'C' units only rank for cash dividend.

Units in issue as at June 30 in each class are:

Type 'A' Units	<i>17.1</i>	<b>1,582,043</b>	2,620,000
Type 'B' Units		<b>7,009,567</b>	7,673,012
Type 'C' Units		<b>10,041,056</b>	-
		<b>18,632,666</b>	<b>10,293,012</b>

**17.1** During the year 1,037,957 units of were transferred from Class 'A' to class 'C'. The condition that core units are redeemable after two years from issue still applies.

## **First Habib Income Fund**

### **18. PROFIT ON BANK DEPOSITS**

For the period from  
6 September 2006  
to 30 June 2007  
**(Rupees in '000)**

Income on saving accounts	<b>19,748</b>	13,984
Income on term deposit receipts	<b>49,453</b>	144
	<b>69,201</b>	<b>14,128</b>

### **19. AUDITORS' REMUNERATION**

Audit fee	<b>200</b>	75
Out of pocket expenses	<b>40</b>	15
	<b>240</b>	<b>90</b>

### **20. EARNINGS PER UNIT**

Earnings per unit (EPU) for the period ended 30 June has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

### **21. TRANSACTIONS WITH CONNECTED PERSONS**

Connected persons include Habib Asset Management Limited being the Management Company, AL Habib Capital Markets (Private) Limited and Bank AL Habib Limited being companies under common management, Central Depository Company Limited being the trustee of the Fund and all other concerns that fall under common management or control.

The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market norms.

Remuneration to management company and trustee is determined in accordance with the provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulation 2007 and the Trust Deed respectively.

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

<b>Units sold to:</b>	<b>2008</b>		<b>2007</b>	
	<b>(Units)</b>	<b>(Rupees in '000)</b>	<b>(Units)</b>	<b>(Rupees in '000)</b>
<b><i>Management Company</i></b>				
Habib Asset Management Limited	<b>118,357</b>	<b>12,300</b>	48,324	4,832
<b><i>Associated Companies</i></b>				
- Bank AL Habib Limited	<b>14,808,840</b>	<b>1,525,000</b>	750,000	75,000
- Habib Insurance Company Limited	<b>789,833</b>	<b>80,000</b>	247,500	25,000
- Trakker Direct Insurance Limited	<b>-</b>	<b>-</b>	50,000	5,000
- The Habib Foundation	<b>48,871</b>	<b>5,000</b>	<b>-</b>	<b>-</b>

## First Habib Income Fund

	2008		2007	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
<b>Other related parties</b>				
- Directors and executives of the Management Company	7,360	750	34,010	3,434
- Habib Sugar Mills Limited-Staff Provident Fund	-	-	125,000	12,500
- Habib Sugar Mills Limited-Employees Gratuity Fund	-	-	125,000	12,500
- Hyderi Hostel Trust	-	-	55,000	5,500
- Habib Insurance Company Limited Employees Provident Fund	4,896	500	40,000	4,000
- Habib Asset Mangement Limited-Employees Provident Fund	2,011	205	-	-
- Sukaina Education and Welfare Trust	-	-	50,000	5,000
- Mrs. Shama Sajjad Habib	-	-	100,063	10,006
- Central Depository Company of Pakistan Limited	-	-	100,000	10,000
<b>Bonus Units Issued:</b>				
<i>Management Company</i>				
Habib Asset Management Limited	8,305	832	-	-
<i>Associated Companies</i>				
- Bank AL Habib Limited	11,250	1,127	-	-
- Habib Insurance Company Limited	3,713	372	-	-
- Trakker Direct Insurance Limited	750	75	-	-
- The Habib Foundation	-	-	-	-
<b>Other related parties</b>				
- Directors and executives of the Management Company	1,162	115	-	-
- Habib Sugar Mills Limited-Staff Provident Fund	10,744	1,076	-	-
- Habib Sugar Mills Limited-Employees Gratuity Fund	10,744	1,076	-	-
- Hyderi Hostel Trust	4,727	474	-	-
- Habib Insurance Company Limited Employees Provident Fund	3,780	378	-	-
- Habib Assct Mangement Limited-Employees Provident Fund	54	5	-	-
- Mrs. Shama Sajjad Habib	8,601	861	-	-
- Central Depository Company of Pakistan Limited	8,595	861	-	-
<b>Units Redeemed by:</b>				
<i>Management Company</i>				
Habib Asset Management Limited	24,245	2,500	-	-
<i>Associated Companies</i>				
- Bank AL Habib Limited	8,345,799	862,871	-	-
- Habib Insurance Company Limited	594,014	60,000	-	-
- The Habib Foundation	48,871	5,131	-	-
<b>Other related parties</b>				
- Directors and executives of the Management Company	36,102	3,242	949	96
- Sukaina Education and Welfare Trust	-	-	50,000	5,061

## First Habib Income Fund

Units held by:	2008		2007	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
<b>Management Company</b>				
Habib Asset Management Limited	150,742	15,425	48,324	4,913
<b>Associated Companies</b>				
- Bank AL Habib Limited	7,224,291	739,261	750,000	76,253
- Habib Insurance Company Limited	447,032	45,745	247,500	25,163
- Trakker Direct Insurance Limited	50,750	5,193	50,000	5,084
<b>Other related parties</b>				
- Directors and executives of the Management Company	5,481	505	33,061	3,361
- Habib Sugar Mills Limited-Staff Provident Fund	135,744	13,891	125,000	12,709
- Habib Sugar Mills Limited-Employees Gratuity Fund	135,744	13,891	125,000	12,709
- Hyderi Hostel Trust	59,727	6,112	55,000	5,592
- Habib Insurance Company Limited Employees Provident Fund	48,676	4,981	40,000	4,067
- Habib Asset Management Limited Employees Provident Fund	2,065	211	-	-
- Mrs. Shama Sajjad Habib	108,664	11,119	100,063	10,173
- Central Depository Company of Pakistan Limited	108,595	11,113	100,000	10,167

### Other transactions and balances

	Note	2008 (Rupees in '000)	2007
<b>Habib Asset Management Limited - Management Company</b>			
Management fee		33,576	1,224
Sales load for the period		-	2
Preliminary expenses and floatation costs		-	3,780
		33,576	5,006
Amounts paid during the year		36,139	-
Balance at the end of the year / period		2,443	5,006
<b>AL Habib Capital Markets (Private) Limited- Brokerage house</b>			
Brokerage expense for the year / period	21.1	722	59
Payments made during the year / period		781	-
Balance at the end of the year / period		-	59
<b>Central Depository Company of Pakistan Limited - Trustee</b>			
Remuneration for the year / period		3,239	161
CDS charges for the year / period		406	39
		3,645	200
Amounts paid during the year		3,577	-
Balance at the end of the year / period		268	200
Security deposit - Non interest bearing		100	100

21.1 The amount disclosed represents the amount of brokerage paid to connected person and not the purchase or sale values of securities transacted through them. The purchase or sale values have not been treated as transactions with connected persons as ultimate counter-parties are not connected persons.



**22. RISK MANAGEMENT POLICIES**

The Fund primarily invests in a portfolio of money market investments such as investment-grade debt securities and continuous funding system transactions. Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to:

**22.1 Market risk**

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan.

**22.2 Credit risk**

*Credit risk management*

Credit risk arises from the inability of the counter parties to fulfill their obligations. The risk is generally limited to principal amounts and accrued interest thereon, if any.

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Investment Committee. In addition, the risk is managed through assignment of credit limits, obtaining adequate collaterals and by following strict credit evaluation criteria laid down by the management. The Fund does not expect to incur material credit losses on its financial assets.

*Concentration of credit risk*

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentration of credit risk.

**22.3 Liquidity risk**

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

**22.4 Capital management**

The Fund seeks to maximise current income, consistent with low levels of risk and high liquidity by primarily investing in low duration, liquid investments including money market and other debt instruments as well as fixed income transactions in the capital market, with an aim to continue to provide returns for unit holders and benefits for other stake holders.

The units of the Fund are transferable and can be redeemed by surrendering them to the Fund at the option of the unit holder, except for the units issued to core investors which are not redeemable for a period of two years from the date of issue, as per the NBFC Regulations.

## First Habib Income Fund

### 22.5 Market rate of return (MROR) risk

MROR risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund manages its investment portfolio in order to reduce the risk of loss in market value of investments as a result of changes in market interest rates. In case the management expects economic uncertainty the portfolio will be restructured so as to comprise of short-term debt securities, money market instruments and continuous funding system transactions.

#### Market rate of return (MROR) / sensitivity position

The Fund's exposure to market / profit rate risk based on contractual repricing and maturity dates, whichever is earlier is as follows:

	Effective yield/ Interest rate	Total	2008					Non-interest bearing financial instruments
			Exposed to yield / interest risk					
			Upto One month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	
%			(Rupees in '000)					
<b>On-balance sheet financial instruments</b>								
<b>Financial assets</b>								
Bank balances	4.5 to 11	351,412	101,412	150,000	100,000	-	-	-
Receivable against continuous funding system transactions	10.11 to 50	275,422	275,422	-	-	-	-	-
Investments	11.10 to 16	817,111	81,787	328,002	392,332	-	-	14,990
Certificate of investments and deposits	10.92 to 13.43	450,000	150,000	300,000	-	-	-	-
Income receivable	-	51,996	-	-	-	-	-	51,996
Advances, deposits, prepayments and other receivables	-	6,495	2,000	-	-	-	-	4,495
Receivable against sale of investments	-	1,315	-	-	-	-	-	1,315
Preliminary expenses and floatation costs	-	2,053	-	-	-	-	-	2,053
		<b>1,955,804</b>	<b>610,621</b>	<b>778,002</b>	<b>492,332</b>	<b>-</b>	<b>-</b>	<b>74,849</b>
<b>Financial liabilities</b>								
Short term running finance								
Payable to Habib Asset Management Limited - Management Company		42,513	-	-	-	-	-	42,513
Payable to Central Depository Company of Pakistan Limited -Trustee		2,443	-	-	-	-	-	2,443
Payable to Securities and Exchange Commission of Pakistan		268	-	-	-	-	-	268
Accrued liabilities and other expenses		2,239	-	-	-	-	-	2,239
		1,630	-	-	-	-	-	1,630
		49,093	-	-	-	-	-	49,093
On-balance sheet gap - 2008 (a)		<b>1,906,711</b>	<b>610,621</b>	<b>778,002</b>	<b>492,332</b>	<b>-</b>	<b>-</b>	<b>25,756</b>

(a) On-balance sheet gap represents the net amounts of on-balance sheet items.

## First Habib Income Fund

	Effective yield/ Interest rate	Total	2007					Non-interest bearing financial instruments
			Exposed to yield / interest risk					
			Upto One month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	
%	(Rupees in '000)							
<b>On-balance sheet financial instruments</b>								
<b>Financial assets</b>								
Bank balances	9 to 10.5	355,975	255,955	-	100,000	-	-	20
Receivable against continuous funding system transactions	11.29 to 19.71	511,553	511,553	-	-	-	-	-
Investments	11.57 to 12.55	177,574	-	15,992	161,582	-	-	-
Income receivable	-	8,807	-	-	-	-	-	8,807
Advances, deposits, prepayments and other receivables	-	1,159	59	-	-	-	-	1,100
Preliminary expenses and floatation costs	-	2,578	-	-	-	-	-	2,578
		1,057,646	767,567	15,992	261,582	-	-	12,505
<b>Financial liabilities</b>								
Payable against purchase of investments		5,275	-	-	-	-	-	5,275
Payable to Habib Asset Management Limited - Management Company		5,006	-	-	-	-	-	5,006
Payable to Central Depository Company of Pakistan Limited -Trustee		200	-	-	-	-	-	200
Payable to Securities and Exchange Commission of Pakistan		82	-	-	-	-	-	82
Accrued liabilities and other expenses		639	-	-	-	-	-	639
		11,202	-	-	-	-	-	11,202
On-balance sheet gap - 2007 (a)		1,046,444	767,567	15,992	261,582	-	-	1,303

(a) On-balance sheet gap represents the net amounts of on-balance sheet items.

### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investments at fair value through profit or loss is based on the closing market prices prevailing at the day-end. The Management Company is of the view that the fair market value of most of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short-term in nature.

### 24. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

#### 24.1 At fair value through profit or loss

The Management Company has determined fair value of investments classified as 'at fair value through profit or loss' by using quotations from active market and rates notified by MUFAP. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgements (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

#### 24.2 Other assets

Judgement is also involved in assessing the realisability of assets balances.

## First Habib Income Fund

### 25. PATTERN OF UNITHOLDING

Unit holding pattern of the fund as at 30 June 2008 is as follows:

Category	Note	Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		276	1,577,464	161,424	8.47
Associated companies	25.1	3	7,722,073	790,212	41.44
Directors and Chief Executive	25.2	1	1,005	103	0.01
Executives		4	4,476	458	0.02
Bank / financial institutions		11	3,665,698	375,117	19.67
Insurance companies		2	315,609	32,297	1.69
Non banking finance companies		3	181,673	18,591	0.98
Retirement funds		21	2,591,596	265,202	13.91
Mutual Funds		1	253,750	25,967	1.36
Public limited companies		4	1,409,741	144,261	7.57
Others		10	909,581	93,079	4.88
		<b>336</b>	<b>18,632,666</b>	<b>1,906,711</b>	<b>100.00</b>

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

Category		Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		273	1,025,347	104,242	9.96
Associated companies	25.1	3	1,047,500	106,495	10.18
Directors and Chief Executive	25.2	2	30,682	3,119	0.30
Executives		5	2,379	242	0.02
Bank / financial institutions		16	4,250,000	432,078	41.29
Insurance companies		1	50,000	5,083	0.49
Non Banking Finance Companies		2	298,324	30,329	2.90
Retirement funds		11	724,000	73,606	7.03
Mutual Funds		5	500,000	50,833	4.86
Public limited companies		7	2,234,729	227,195	21.71
Others		4	130,051	13,222	1.26
		<b>329</b>	<b>10,293,012</b>	<b>1,046,444</b>	<b>100.00</b>

## First Habib Income Fund

	30 June 2008			30 June 2007		
	Number of Units	Investment amount (Rupees in '000)	Percentage of total investment	Number of Units	Investment amount (Rupees in '000)	Percentage of total investment
<b>25.1 Associated companies</b>						
- Bank AL Habib Limited	7,224,291	739,273	38.77	750,000	76,250	7.29
- Habib Insurance Company Limited	447,032	45,746	2.40	247,500	25,162	2.40
- Trakker Direct Insurance Limited	50,750	5,193	0.27	50,000	5,083	0.49
	<b>7,722,073</b>	<b>790,212</b>	<b>41.44</b>	<b>1,047,500</b>	<b>106,495</b>	<b>10.18</b>
<b>25.2 Directors and chief executive</b>						
-Imran Azim ( CEO )	1,005	103	0.01	2,000	203	0.02
-Mahmood S Allarakhia	-	-	-	28,682	2,916	0.28
	<b>1,005</b>	<b>103</b>	<b>0.01</b>	<b>30,682</b>	<b>3,119</b>	<b>0.30</b>

### 26. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Broker name	2008	2007
	(Percentage)	
Atlas Capital Markets	38.78%	-
Shehzad Chamdia Securities	2.50%	-
JS Global Securities	6.69%	-
Al Falah Securities	1.43%	5%
BMA Capital	1.82%	5%
Global Securities	8.92%	24%
IGI Finex Securities Limited	21.06%	25%
Atlas Capital Markets Lahore	4.98%	-
Escort Investment Bank	5.44%	28%
Al Habib Capital Markets	8.38%	13%
	<b>100.00%</b>	<b>100.00%</b>

### 27. INVESTMENT COMMITTEE

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

Name	Designation	Qualification	Experience in years
Ali Raza D. Habib	Chairman	Graduate	52 Years
Imran Azim	Chief Executive Officer	BA, MBA	31 Years
Shariq Abdullah	Director	Bachelor of Economics, MBA,CA (ICAEW)	20 Years

### 27.1 Other Funds managed by the Fund Manager

No other funds are being managed by the fund manager.

## **First Habib Income Fund**

### **28. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS**

The 11th, 12th, 13th, 14th, 15th, 16th, 17th and 18th board meetings were held on 6th July 2007, 21st August 2007, 10th October 2007, 29th October 2007, 27th February 2008, 3rd April 2008, 28th April 2008 and 17 June 2008 respectively.

Information in respect of attendance by Directors in the meetings is given below:

<b>Name of Director</b>	<b>Number of meetings</b>			<b>Meeting not attended</b>
	<b>Held</b>	<b>Attended</b>	<b>Leave Granted</b>	
Ali Raza D. Habib	8	6	2	13th and 17th meeting
Imran Azim	8	8	-	-
Shariq Abdullah	4	3	1	18th meeting. Appointed on 31st October 2007
Mansoor Ali	3	3	-	Appointed on 27th February 2008 to fill casual vacancy upon demise of Mahmood S Allarakhia
Mohammad Ali Jameel	8	6	2	11th and 14th meeting
Mahmood S Allarakhia	4	2	2	13th and 14th meeting.

### **29. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors have approved final cash dividend for class 'C' unit holders @ Rs. 2.25/- per unit and bonus units @ 2.2482/- for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2008, amounting to Rs. 41.923 million, in their meeting held on 03 July 2008. These financial statements do not reflect this distribution.

### **30. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue by the Board of Directors of the Management Company on 23 September 2008.

**For Habib Asset Management Limited  
(Management Company)**

\_\_\_\_\_  
**Chief Executive**

\_\_\_\_\_  
**Director**

**ANNUAL FUND MANAGER'S REPORT 2008**

**Introduction:**

The First Habib Income Fund, an Open-end Fund, was offered to general public on May 30, 2007 with the objective to achieve the best possible returns for the investors in comparison to other available investment avenues by maintaining a diversified investment with easy entry and exit. The first Net Asset Value (NAV) per unit was announced on June 04, 2007 at Rs. 101.01 after the close of Initial Public Offering (IPO). During the period under review, the Fund has provided the investors with an annual return of 9.14% p.a. and an annualized growth since inception of 10.22% p.a. The benchmark of the Fund is One-Month KIBOR. As there was major increase in KIBOR in the last quarter of the year, the average One-Month KIBOR reach to 10.11% which outperformed the Income Funds Industry's average return of 9.60% p.a.

**Yearly Review**

The financial year 2007-08 was a year of uncertainties as a consequence of political instability, general & presidential elections, hyper inflation, effects of sub-prime mortgage crises in USA and the ever increasing prices of oil and food items in the international and local markets.

**Economy**

During the year the Government kept on revising the GDP growth rates from 7.2% p.a. to 6.6% p.a., finally settling at only 5.8% p.a. as against an average growth rate of 7% p.a. during the last five years. The Consumer Price Index (CPI) climbed to 12% p.a. as compared to 7.8% p.a. of last year.

To address the inflationary pressures, the State Bank of Pakistan (SBP) took a number of measures. On 22nd May 2008 SBP raised the discount rate by 150 bps to 12% and Cash Reserve Requirement (CRR) & Statutory Liquidity Requirement (SLR) for banks to 9% & 19% (previously 8% & 18%) respectively. On the other hand, SBP made it mandatory for all the banks to pay a minimum profit of five percent on PLS or saving products.

In conjunction with these monetary measures, the Government decided to further control the rising trend of consumerism in the country by increasing duties and levying charges on various luxury items and consumer goods, including an increase in sales tax by 1% to 16%. The Government also reduced subsidies on POL products and plans to curtail these subsidies in future.

**Market Review**

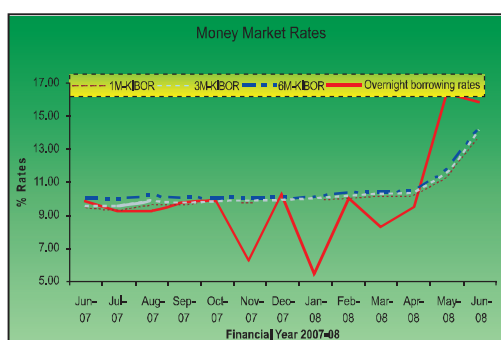
During the year the stock market remained very erratic. The KSE 100 index elevated to an all time high of 15,676 points, and plunged to as low as 11,162.17 points. Events like declaration of emergency, assassination of Ms. Benazir Bhutto and formation of coalition government as a result of general elections were some of the major factors that contributed to this instability. The stock market was also adversely hit by the increase in interest rates by banks. As a result of this situation, the net foreign portfolio investment Special Convertible Rupee accounts (SCRA) for the financial year 2007-08 remained low with cumulative inflow of US \$ 4,449.91 million as against the total outflow of US \$ 4,682.02 million i.e. a net outflow of US \$ 232.11 million out of which US \$ 146.68 million was for the month of June 2008 only.

KSE Performance			
Volumes	Highest on 13/7/2007	524.61	Million shares
	Lowest on 30/6/2008	7.30	Million shares
KSE 100 Index	Highest on 18/4/2008	15,676.34	Points
	Lowest on 23/6/2008	11,162.17	Points

## First Habib Income Fund

The announcement of tight monetary policy on May 22, 2008 and the measures taken by the State Bank of Pakistan (SBP) to increase the Discount Rate, Cash Reserve Requirement (CRR) and Statutory Liquidity Requirement (SLR) proved to be very challenging for the Money and Capital Markets. As soon as the Monetary Policy was announced, the overnight call rates jumped to as high as 20.25% on May 23, 2008 and settled at around 15% on 30th June 2008. The 6-months KIBOR rate shot up to 13.33% on May 23, 2008 from 11.40% a day earlier i.e. on May 22, 2008. The KIBOR rates for 1-month and 3-months were no exception and registered a sharp increase of around 2% from a day earlier of the announcement of Monetary Policy.

One, Three and Six months KIBOR finally settled at 13.64%, 13.88% and 14.19% respectively on June 30, 2008. The increase in KIBOR rates directly impacted the Term Deposit Receipt (TDR) and Certificate of Investment (COIs) rates and in the last quarter of the FY 2007-08, transactions were witnessed at around 17% p.a. and 18% p.a. respectively which were the highest of the FY 2007-08. The KSE 100 index reacted negatively on rising interest rate scenario and fell by 21.60% on June 30, 2008 from its highest ever level of 15,676 points on April 18, 2008. As a result the spread transactions also dried out as there was very thin volume in the future market. The average CFS rates went upto 22.98% because of the liquidity crunch in the money market subsequent to the increase in CRR in the last quarter of the year.



The return on Government securities also kept on climbing and almost all the securities witnessed an increase of around 250 bps in their profit rates. The Government borrowed Rs. 654.30 billion through 28 T-Bills and 8 PIBs auctions during the year.

### FUND PERFORMANCE:

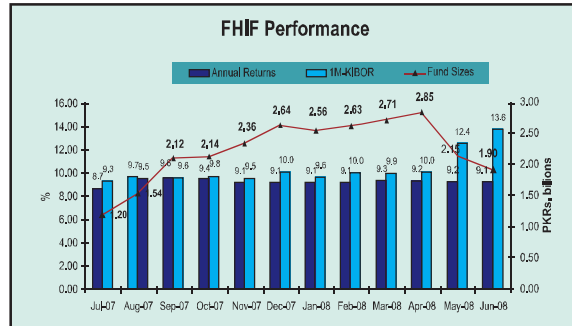
The Fund continued to follow a prudent investment policy, never compromising on the quality of assets. On 30th June 2008, 64% of the portfolio was invested in AAA to AA-, and 32% in A+ to A- rated instruments/ institutions, while 4% of the fund's investment in CFS & Spread transactions was in high quality not rated blue chip Scrips.

Asset Quality									
Avenues	AAA	AA+	AA	AA -	A+	A	A -	NR*	Total
TFC	1.00%	12.00%	42.00%	27.00%	12.00%	2.00%	4.00%	-	100.00%
COI / COD	-	-	-	44.45%	11.11%	33.33%	11.11%	-	100.00%
CFS	7.00%	23.00%	37.00%	8.00%	1.00%			24.00%	100.00%
TDR	-	-	42.86%	-	-	28.57%	28.57%	-	100.00%
SPREAD	-	-	-	-	-	-	-	100.00%	100.00%
CASH	-	-	98.00%	-	-	1.00%	1.00%	-	100.00%
% o f NA	1.00%	9.00%	31.00%	23.00%	8.00%	14.00%	10.00%	4.00%	100.00%

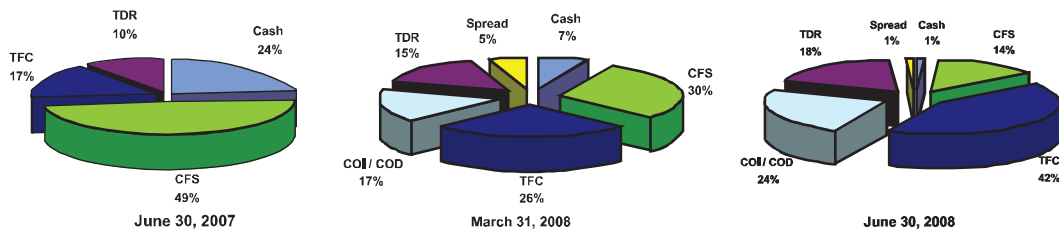


## First Habib Income Fund

The fund size which was Rs. 1,046 million on July 01, 2007 touched an amount of Rs. 2,990 million on April 10, 2008. However, due to the liquidity crunch in the market, the mutual funds industry as a whole was confronted with heavy redemptions in the last quarter of the year. As a result, the Fund's size settled at Rs. 1,907 million on 30th June 2008.



### Asset Allocation



Due to the reduction in fund size from the month of April onwards, the share of the TFC in the investment portfolio increased from 26% (on March 31, 2008) to 42% on June 30, 2008. Though the TFC allocation has increased, at the same time this will pave the way for achieving better returns for the Fund. The weighted average return on TFC which stood at 11.84% reached 13.21% on June 30, 2008. The return is expected to further improve as almost all the TFC coupons are expected to be repriced by November 2008 with higher KIBOR. As the political and economic situation stabilizes we expect an overall improvement in the Money Market and Stock Market and as such it will also have positive impact on our fund size and the rate of return.

### Breakdown of Unit Holding by Size as at June 30, 2008

Categories	No. of Unit Holders	No. of Units	% of total Units
Below 100 Units	52	2,893.25	0.02
From 100 to 500 Units	49	10,115.27	0.05
From 500 to 1,000 Units	34	22,993.92	0.12
From 1,000 to 10,000 Units	123	371,235.74	1.99
From 10,000 to 50,000 Units	29	642,277.39	3.45
Above 50,000 Units	49	17,583,150.63	94.37
<b>Total</b>	<b>336</b>	<b>18,632,666.19</b>	<b>100</b>

## First Habib Income Fund

<b>Fund Performance Table (NAV Movement &amp; Income Distribution)</b>		
	FY - 2008	FY - 2007
Opening Net Assets Value (NAV)(Rs.000)	1,046.00	979.00*
Opening NAV per unit (Rs.)(Ex. Dividend)	100.17	101.01*
Ending Net Assets Value (NAV) (Rs. 000)	1,907.00	1,046.00
Ending NAV per unit (Rs.)	102.33	101.67
Ending NAV per unit (Rs.) (Ex. Dividend)	100.08	100.17
High - Selling & Repurchase Price	107.14	101.67
Low - Selling & Repurchase Price	100.15	101.01
<b>Dividend Distribution</b>		
- Interim - (March 31)	Rs. 7/ 6.99 Bonus Units**	-
- Final	Rs. 2.25/ 2.248 BonusUnits**	1.50 Bonus Units/100Units
<b>Total Distribution</b>	<b>9.25</b>	<b>1.50</b>
Distribution out of Income	9.16	1.50
Distribution out of Retained Earnings	0.09	-
<b>Capital Growth</b>	<b>-0.09</b>	<b>0.17</b>
<b>Annual Return</b>	<b>9.14%</b>	<b>9.17%</b>
<b>Portfolio Duration</b>	<b>87</b>	<b>18</b>

- \*As on June 04, 2007, at the close of the IPO.
- \*\*Class 'B' Unit Holders 6.99 & 2.248 bonus units for 100 units
- \*\*Class 'C' Unit Holders Rs. 7.00 & Rs. 2.25 per unit (cash dividend)

**First Habib Income Fund**

**Client Category Summary as at June 30, 2008**

Type of Investor	No of investor	Number of Units Held	Amount of Investment	% of total NAV of fund
<b>(A) Residents Investors</b>				
Individuals	274	1,320,394.49	135,118,097.38	7.09%
Investment Banks	2	162,892.60	16,669,062.44	0.87%
Leasing Companies	2	30,930.97	3,165,215.68	0.17%
Insurance Companies	5	818,628.54	83,771,578.48	4.39%
Pension/Provident Funds	21	2,586,358.73	264,666,258.90	13.88%
Welfare/Social Organizations	3	269,762.87	27,605,269.31	1.45%
Corporates	12	2,174,279.73	222,497,550.37	11.67%
Commercial Banks	11	10,727,096.39	1,097,721,069.22	57.57%
Others	2	26,021.26	2,662,796.98	0.14%
Mutual Funds	1	253,750.00	25,966,646.62	1.36%
<b>(B) Foreign Investors</b>				
Individuals (Non-Resident)	3	262,550.61	26,867,227.23	1.41%
<b>Total( A+B)</b>	<b>336</b>	<b>18,632,666.19</b>	<b>1,906,710,772.61</b>	<b>100%</b>



# Habib Asset Management Limited

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