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VISION / MISSION / VALUES

Our Vision

Enabling people to advance with confidence and success.

Our Mission

To make our Investor(s) prosper, our staff excel and to create value for our stakeholders.

Our Values

Our values are based upon the fundamental principles that define our culture and are brought to life in our attitude and behaviour. It is our values that make us unique and stem from five basic principles.

- **Excellence**
The markets in which we operate are becoming increasingly competitive and our investors now have an abundance of choice. Only through being the very best - in terms of the service we offer, our product and premises - can we hope to be successful and grow.
- **Integrity**
We are an Asset Management Company in Pakistan and our success depends upon the performance of the Fund(s) which are under management and our investors and society in general expect us to possess an steadfastly adhere to high moral principles and professional standards.
- **Customer Focus**
We need to understand fully the need of our investors and to adopt our product and services to meet these. We must strive always to put the satisfaction of our investors first.
- **Meritocracy**
We believe in giving opportunities and advantages to our employees on the basis of their ability. We believe in rewarding achievement and in providing first class career opportunities for all.
- **Progressiveness**
We believe in the advancement of society through the adoption of enlightened working practice, innovative new products and processes and a sprit of enterprise.

CORPORATE INFORMATION

Management Company
HBL Asset Management Limited.

Board of Directors of the Management Company

Mr. R. Zakir Mahmood	Chairman
Mr. Shahid Ghaffar	Chief Executive Officer and Director
Mr. Sohail Malik	Director
Mr. Towfiq Habib Chinoy	Director
Ms. Sadia Khan	Director
Mr. Abid Sattar	Director

Audit Committee of the Board of Directors of the Management Company

Ms. Sadia Khan	Chairperson
Mr. Sohail Malik	Member
Mr. Abid Sattar	Member

Human Resource Committee of the Board of Directors of the Management Company

Mr. Towfiq Habib Chinoy	Chairman
Mr. Shahid Ghaffar	Member
Mr. Abid Sattar	Member

Company Secretary

Mr. Rehan N. Shaikh

Chief Financial Officer

Mr. Noman Ahmed Soomro

Fund Manager

Mr. Muhammad Amir Khan

Trustee

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

Auditors

A. F. Ferguson & Co. Chartered Accountants,
State Life Building No. 1-C, I. I. Chundrigar Road, P.O. Box 4716, Karachi.

Legal Advisor

Mandviwalla & Zafar, Advocates and Legal Consultants,
Mandviwalla Chambers, C-15, Block 2, Clifton, Karachi.

Bankers to the Fund

Habib Bank limited
NIB Bank Limited
Bank of Punjab
Bank Al Habib Limited
MCB Bank Limited
JS Bank Limited
Allied Bank Limited

Head Office

8B, 8th Floor, Executive Tower, Dolmen City, Block 4, Clifton, Karachi.

Registered Office

Suite # 403-404, The Forum, G-20 Khayaben-e-Jami, Clifton, Karachi.

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

A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 2426682-6 / 2426711
Facsimile: (021) 2415007 / 2427938

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 HBL Asset Management Limited, Management Company of HBL - Income Fund to comply with the Regulation No. 43 of the Listing Regulations of 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 personnel of the Management Company 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 period ended June 30, 2007.

Dated: 09 October 2007
Karachi.



Chartered Accountants

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS

A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 2426682-6 / 2426711
Facsimile: (021) 2415007 / 2427938

We have audited the accompanying financial statements of HBL Income Fund, which comprise the statement of assets and liabilities as at June 30, 2007, and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the period from February 19, 2007 to June 30, 2007 and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and 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.

Auditor's 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 statement are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon auditor's judgement, 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 Company, 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

- a) As explained in note 6.2.1 of the financial statements, the investments of the Fund in Term Finance Certificates (TFCs) were revalued as at June 30, 2007 using the average of the rates quoted by certain brokerage houses. In this connection rule 2 (xxxiv) of the Non-banking Finance Companies (Establishment and Regulation) Rules, 2003, (NBFC Rules) requires these investments to be revalued using the rates quoted on the stock exchanges on which these investments are listed. The Management is of the view that the rates used by the Fund are representative of the fair market value of these investments and this valuation methodology is fair to the existing as well as the new investors and is also in line with the treatment proposed in the revised draft NBFC Rules which are expected to be promulgated shortly. Had the investment of the Fund in TFCs been revalued on the basis as required under the existing NBFC Rules, the investments and the Net Assets Value (NAV) of the Fund, at June 30, 2007, would have been lower by Rs. 5,117,125 in addition, the NAV calculation of the Fund and consequently the calculations of number of units issued as well as the net element of income and capital gains included in units issued less those in units redeemed by the Fund, during the period would also have been different. These effects have not been quantified, as it was impracticable to do so.

In our opinion, except for the effects of the matters referred to in paragraph (a) above the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2007 and of its financial performance, cash flows and transactions for the period from February 19, 2007 to June 30, 2007 in accordance with approved accounting standards as applicable in Pakistan.

Other Matters

In our opinion, except for the effects of the matters referred to in paragraph (a) above, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed and the Non-banking Finance Companies (Establishment and Regulation) Rules, 2003.

Dated: 09 October 2007
Karachi



Chartered Accountants



REPORT OF THE TRUSTEE TO THE UNIT HOLDERS

HBL INCOME FUND

Report of the Trustee Pursuant to Rule 76(h) of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003

The HBL Income Fund, an Open-ended Scheme established under a trust deed executed between HBL Asset Management Limited as the Asset Management Company and Central Depository Company of Pakistan Limited as the Trustee on September 06, 2006. The scheme was authorized by Securities and Exchange Commission of Pakistan (SECP) on July 25, 2006.

In our opinion, HBL Asset Management Limited, the Management Company of HBL Income Fund has in all material respects managed HBL Income Fund during the period ended June 30, 2007 in accordance with the provisions of the Trust Deed (and the modifications authorized by the SECP from time to time) and Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (Rules).

For the purpose of information, the attention of the Unit Holders is drawn towards note 6.2.1 of the financial statements wherein it is specified that listed Term Finance Certificates have been valued with reference to quotation obtained from brokerage houses instead of the closing rate quoted on stock exchange as required under the Rules.



Mohammad Hanif Jakhura
Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi: October 11, 2007

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

Head Office: CDC House, 99-B, Block 'B', S.M.C.H.S., Main Shahra-e-Faisal, Karachi-74400, Pakistan. Ph : (92-21) 111-111-500, Fax : (92-21) 4326061
Progressive Plaza Branch: Suite # M-13-16, Mezzanine Floor, Progressive Plaze, Beaumont Road, Karachi, Pakistan. Ph: (92-21) 111-232-725 Fax: (92-21) 5679595, 5679596
URL : www.cdcpakistan.com E-mail: info@cdcpak.com

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of HBL Asset Management Limited is pleased to present the first Annual Report of HBL - Income Fund (the Fund) for the period from February 19, 2007 to June 30, 2007.

Public Offering

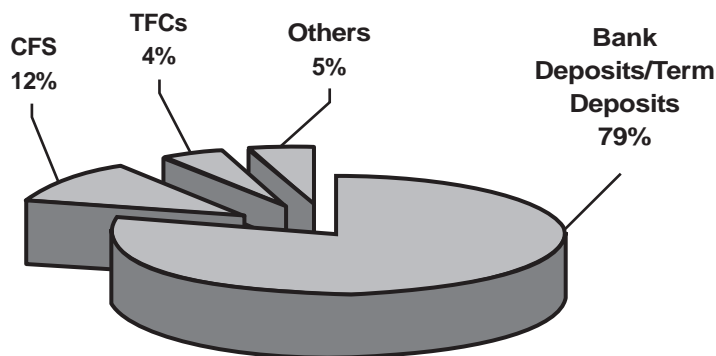
By the Grace of Allah the Fund was offered for Initial Public Offering (IPO) on March 15 - 17, 2007. A sum of Rs. 249.42 million was received from general public investors in IPO. In addition, a sum of Rs. 2.51 billion was received from Core Investor/pre-IPO investors. The response from pre-IPO investors amounting to Rs. 2.26 billion was the highest any open end fund has attained so far in Pakistan. This is an indication of confidence investors have shown in our sponsors and management.

Fund's Performance

The Fund which commenced its operations on March 19, 2007 earned a total income of Rs. 151.1 million for the period under review. After deducting total expenses of Rs. 19.7 million, net profit of Rs. 131.4 million was available for distribution. The NAV of the Fund consistently increased from Rs. 100 per unit to Rs. 102.73 per unit on June 30, 2007. The increase in NAV during the period was Rs. 2.73 per unit, translating into an annualized return of 9.58 per cent. The Board has approved a bonus distribution at Rs. 2.65 per unit which entitles each eligible unit holder 0.02648 units for each existing unit held on June 30, 2007.

Asset Allocation

The Fund has invested in Term Finance Certificates (TFCs), Continuous Funding System (CFS), Ready Future Spread (RFS) and Bank Deposits. As on June 30, 2007, a sum of Rs 4.00 billion was invested in bank deposits/term deposits, Rs. 587.54 million in CFS and Rs. 223.02 million in TFCs. The detail of asset allocation as of June 30, 2007 was as follows:



Market Review and Future Outlook

During the period under review the State Bank of Pakistan (SBP) pursued a tight monetary policy with a view to contain inflation. The tightening measures included raising of discount rate from 9% to 9.5% and increasing the reserve requirements for commercial banks. The SBP tried to mop up excess liquidity through open market operation and T-bills auctions. The surplus money continued to dominate the money market particularly in the last quarter of the financial year 2006 - 07. The Broad Money (M2) increased sharply to 16.7% as against government target of 13.5%. The increase in M2 can be mainly attributed to increase in Net Foreign Assets (NFA), lesser off take of credit, maturities from National Savings and huge inflow of funds due to record foreign investment. As a result one month KIBOR rate declined to as low as 9.35% in June 2007.

The impact of surplus liquidity has its bearing on CFS rates which declined to around 11.7% in May/June 2007 as against an average of over 14% p.a from July 06 to February 07, while return on ready future spread, TFCs and bank deposits also declined.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

Auditors' Qualification

The auditors have qualified their opinion on valuation of Term Finance Certificates:

The NBFC Rules, 2003 require investments in listed securities to be revalued using the rates quoted on the stock exchanges on which these investments are listed. The investments of the Fund in Term Finance Certificates were revalued as at June 30, 2007 using the average of the rates quoted by certain brokerage houses. The management is of the view that the rates used by the Fund are representative of the fair market value of these investments and this valuation methodology is fair to the existing as well as the new investors. Further, the valuation methodology adopted by the management is consistent with the treatment proposed in the draft revised NBFC Rules which are expected to be promulgated shortly. The draft revised NBFC Rules require a debt security listed but not traded regularly on a stock exchange to be valued at the average rate, notified by the Mutual Funds Association of Pakistan based on the rates quoted by three brokers dealing in the debt securities.

Auditors

The present auditors, Messrs A. F. Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment.

Pattern of Unit-holders

The pattern of Unit-holding as on June 30, 2007 is annexed to these financial statements.

Directors' Statement in Compliance with Code of Corporate Governance

This part of the Directors' report to unit-holders is given as required under section 236 of the Companies Ordinance 1984:

1. The financial statements, prepared by the management company of HBL - Income Fund, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of HBL - Income Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon HBL - Income Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. The Board of Directors of HBL Asset Management Limited held three meetings during the current financial year. The attendance of all directors is appended below:

Sr. #	Names of Directors	Attendances
1.	Mr. R. Zakir Mahmood	3
2.	Mr. Shahid Ghaffar	3
3.	Mr. Sohail Malik	3
4.	Mr. Towfiq Habib Chinoy	3
5.	Ms. Sadia Khan	2
6.	Mr. Abid Sattar *	-

* Mr. Abid Sattar was appointed Director on April 21, 2007

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

Acknowledgement

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

The Board also wishes to place on record its appreciation for the hard work and dedication shown by the staff.

On behalf of the Board

R. Zakir Mahmood
Chairman

Date: 09 October 2007
Place: Karachi

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007.

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 43 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.

HBL Asset Management Limited, the Management Company, is not listed and hence, the Code is not applicable to it. However, HBL - Income Fund (the Fund) being listed at the Lahore Stock Exchange 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 Operating Officer (COO) and the Company Secretary of the Management Company and other necessary personnel to manage its affairs.

HBL - Income Fund is an open ended mutual fund and was listed on Lahore Stock Exchange on March 26, 2007. The units of the Fund have been offered for public subscription on a continuous basis from March 15, 2007.

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. As on June 30, 2007 the Board consists of six directors with five non-executive directors including two independent directors. The Management Company is not listed on any stock exchange and therefore does not have minority interest.
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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancies occurred in the Board during the period from February 19, 2007 to June 30, 2007.
5. The Company has adopted a "Code of Business Ethics and Business Practices", which has been acknowledged by all the Directors and distributed to employees of the company.
6. The Board has developed a vision/mission statement, over all corporate strategy and significant policies of the Company. 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 remuneration and terms and conditions of employment of the CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met three times during the period (once in both quarters after commencement of operations of the Fund). 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 well aware of operations of the fund and the Management Company, therefore no orientation courses were arranged during the period from February 19, 2007 to June 30, 2007.
10. The Board has approved the appointment of COO and Company Secretary including his remuneration and term and conditions of employment as determined by the CEO.
11. Directors Report for the period from February 19, 2007 to June 30, 2007 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 COO before approval of the Board.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007.

13. The Directors, CEO and Executives do not hold units of the Fund other than those disclosed in note 19 to the financial statements "Transactions with Connected Persons/Related Parties".
14. The 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.
16. The meetings of the audit committee shall be held atleast once every quarter prior to approval of interim and final results of the Fund, as required by the Code. Terms of Reference of the Audit Committee have been prepared and advised to the Committee for compliance.
17. The Company has outsourced its internal audit function to a reputable firm of Chartered Accountants who is considered suitably qualified and experienced for the purpose.
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 Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

Shahid Ghaffar
Chief Executive Officer

Date: 09 October 2007
Place: Karachi

HBL INCOME FUND

STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2007

	Note	June 30, 2007 (Rupees in '000)
ASSETS		
Bank balances	4	2,325,783
Receivable against Continuous Funding System (CFS) transactions	5	587,535
Investments	6	223,025
Loans and receivables	7	1,675,000
Income receivable	8	44,608
Preliminary expenses and floatation costs	9	1,070
Other assets	10	234,500
Total assets		<u>5,091,521</u>
LIABILITIES		
Accrued expenses and other liabilities	11	26,729
Payable to HBL Asset Management Limited - Management Company	12	15,545
Payable to Central Depository Company of Pakistan Limited - Trustee	13	433
Payable to Securities and Exchange Commission of Pakistan	14	959
Total liabilities		<u>43,666</u>
NET ASSETS		<u><u>5,047,855</u></u>
UNIT HOLDERS' FUNDS (AS PER STATEMENT ATTACHED)		<u><u>5,047,855</u></u>
COMMITMENTS	15	Number of units
NUMBER OF UNITS IN ISSUE		<u><u>49,137,834</u></u>
		Rupees
NET ASSETS VALUE PER UNIT		<u><u>102.73</u></u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For HBL Asset Management Limited
(Management Company)

Shahid Ghaffar
Chief Executive

Sadia Khan
Director

**HBL INCOME FUND
INCOME STATEMENT
FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007**

	Note	For the Period From February 19, 2007 to June 30, 2007 (Rupees in '000)
INCOME		
Profit on bank deposits	16	83,882
Income from Continuous Funding System (CFS) transactions		18,065
Income from Term Finance Certificates		3,682
Income from spread transactions		920
Gain on sale of investments		547
Other income		392
Total Income		107,488
 EXPENSES		
Remuneration of HBL Asset Management Limited - Management Company	12.1	14,380
Remuneration of Central Depository Company of Pakistan Limited - Trustee	13.1	1,243
Annual fee to Securities and Exchange Commission of Pakistan	14.1	959
Brokerage		2,158
Capital value tax		19
Settlement and bank charges		407
Auditors' remuneration	17	90
Amortisation of preliminary expenses and floatation costs	9	65
Other expenses		356
Total Expenses		19,677
 Net income from operating activities		 <u>87,811</u>
 Net element of accrued income / (loss) and capital gains / (losses) included in prices of units sold less those in units redeemed		 43,038
 Net Income for the period		 <u><u>130,849</u></u>
 Earnings Per Unit	 18	

The annexed notes 1 to 27 form an integral part of these financial statements.

For HBL Asset Management Limited
(Management Company)

Shahid Ghaffar
Chief Executive

Sadia Khan
Director

HBL INCOME FUND CASH FLOW STATEMENT FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

	Note	For the Period From February 19, 2007 to June 30, 2007 (Rupees in '000)
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the period		130,849
Adjustments		
Amortisation of preliminary expenses and floatation costs		65
Net element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units redeemed		(43,038)
		87,876
(Increase) / Decrease in assets		
Receivables against CFS transactions		(587,535)
Investments		(220,327)
Loans and receivables		(1,675,000)
Income receivable		(44,608)
Other assets		(234,500)
		(2,761,970)
Increase / (Decrease) in liabilities		
Accrued expenses and other liabilities		26,729
Payable to HBL Asset Management Limited - Management Company		14,410
Payable to Central Depository Company of Pakistan Limited-Trustee		433
Payable to Securities and Exchange Commission of Pakistan		959
		42,531
Net cash outflow on operating activities		(2,631,563)
CASH FLOW FROM FINANCING ACTIVITIES		
Receipts from issue of units		7,102,200
Payments on redemption of units		(2,144,854)
		4,957,346
Cash and cash equivalents at the end of the period	4	2,325,783

The annexed notes 1 to 27 form an integral part of these financial statements.

For HBL Asset Management Limited
(Management Company)

Shahid Ghaffar
Chief Executive

Sadia Khan
Director

**HBL INCOME FUND
DISTRIBUTION STATEMENT
FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007**

	For the Period From February 19, 2007 to June 30, 2007 (Rupees in '000)
Net income for the period	130,849
Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units redeemed - amount representing income / (losses) that form part of the unit holders' funds	525
Undistributed income carried forward	<u>131,374</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For HBL Asset Management Limited
(Management Company)

Shahid Ghaffar
Chief Executive

Sadia Khan
Director

HBL INCOME FUND
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS
FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

	For the Period From February 19, 2007 to June 30, 2007 (Rupees in '000)
Issue of 70,112,700.0380 units	7,102,200
Redemption of 20,974,866.1128 units	<u>(2,144,854)</u> 4,957,346
Element of income and capital gains included in prices of units issued less those in units redeemed	
- amount representing accrued (income) / loss and capital (gains) / losses - transferred to Income Statement	(43,038)
- amount representing (income) / losses that form part of the unit holders' fund - transferred to Distribution Statement	(525)
	(43,563)
Net unrealised appreciation in the value of available for sale investments	2,698
Net income for the period	130,849
Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units redeemed - amount representing income / (losses) that form part of the unit holders' funds	525
Net assets as at the end of the period	<u><u>5,047,855</u></u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For HBL Asset Management Limited
(Management Company)

Shahid Ghaffar
Chief Executive

Sadia Khan
Director

HBL INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

1. LEGAL STATUS AND NATURE OF BUSINESS

HBL Income Fund (the Fund) was established under a trust deed, dated September 06, 2006, executed between HBL Asset Management Limited as the Management Company and Central Depository Company of Pakistan Limited as the Trustee. The Fund has been authorised by Securities and Exchange Commission of Pakistan as a unit trust scheme on July 25, 2006.

The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units are transferable and can also be redeemed by surrendering to the Fund. The Fund is listed on the Lahore Stock Exchange. The units of the Fund were initially offered for public subscription at par from March 15, 2007 to March 17, 2007.

The principal activity of the Fund is to make investments in fixed income securities. Other avenues of investments include ready future arbitrage in listed securities and transactions under Continuous Funding System.

In accordance with the trust deed, the first accounting period of the Fund commenced on the date on which the Trust Property was first paid or transferred to the Trustee.

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 and the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Trust Deed, the NBFC Rules or directives issued by the SECP differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules and the said directives take precedence.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain investments are carried at fair value in accordance with the criteria laid down in International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement'.

2.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective.

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after November 1, 2006 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 increased disclosures in certain cases:

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

IAS 1 - Presentation of financial statements - amendments relating to capital disclosures	effective from accounting period beginning on or after January 1, 2007
IFRS 2 - Share based payment	effective from accounting period beginning on or after January 1, 2007
IFRS 3 - Business combinations	effective from accounting period beginning on or after January 1, 2007
IFRS 5 - Non-current assets held for sale and discontinued operations	effective from accounting period beginning on or after January 1, 2007
IFRS 6 - Exploration for and evaluation of mineral resources	effective from accounting period beginning on or after January 1, 2007
IFRIC 10 - Interim financial reporting and impairment	effective for accounting period beginning on or after November 1, 2006
IFRIC 11 - Group and treasury share transactions	effective for accounting period beginning on or after March 1, 2007
IFRIC 12 - Services concession arrangements	effective for accounting period beginning on or after January 1, 2008

2.4 Critical accounting estimates and judgements

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise their judgement in the process of applying the Fund's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgement was exercised in application of accounting policies are as follows:

- i) Classification and valuation of investments
- ii) Amortisation of preliminary expenses and floatation costs

2.5 These financial statements are presented in Pak Rupees, which is the Fund's functional and presentation currency.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below:

3.1 Cash and cash equivalents

Cash and cash equivalents include demand deposits with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

3.2 Investments

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

The management determines the appropriate classification of the investments made by the Fund in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement', at the time of purchase and re-evaluates this classification on a regular basis. Investments are categorised as follows:

a) Financial assets at fair value through profit or loss

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in prices are classified as 'Financial assets at fair value through profit or loss'. These investments are marked to market using the closing market rates at the end of each day and are carried on the Statement of Assets and Liabilities at fair value. Net gains and losses arising on changes in fair values of these investments are taken to the Income Statement.

Investments in de-listed / unquoted securities are carried at cost less impairment in value, if any.

b) Held to maturity financial assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Fund has the positive intention and ability to hold to maturity.

Held to maturity investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition these investments are carried at amortised cost.

c) Available for sale

Investments intended to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in prices, are classified as 'available for sale'.

Investments categorised as available for sale are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition, 'available for sale' investments are measured at fair value. Net gains and losses arising on changes in fair values of these investments are taken to equity until the available for sale investment is derecognised. At this time, the cumulative gain or loss previously recognised directly in equity is transferred to the income statement.

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset classified as available for sale is impaired. If evidence of impairment exists, the cumulative loss recognised in equity is removed from equity and is recognised in the income statement.

Investment in unquoted securities are carried at cost less impairment in value, if any.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

3.3 Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value plus transaction costs. Subsequent to initial recognition these are carried at amortised cost.

3.4 Securities under resale agreements – Continuous Funding System (CFS) transactions

Securities purchased under an agreement to resell (reverse repo) are included as receivable against CFS transactions at the fair value of the consideration given. All purchases and sales of securities that require delivery within the time frame established by the regulations or market convention such as 'T+3' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the asset. The CFS transactions are accounted for on the settlement date. The difference between the purchase and sale price is treated as income from CFS transactions in the Income Statement and is recognised over the term of the respective transactions. Transaction costs are included in the initial measurement of all CFS transactions except for transaction costs that may be incurred on disposal.

3.5 Spread transactions (Ready-Future Transactions)

The Fund enters into certain transactions involving purchase of a security in the ready market and simultaneous sale of the same security in the futures market. Securities purchased by the Fund in the ready market are carried on the Statement of Assets and Liabilities till their eventual disposal, and the forward sale of securities in the futures market is accounted for separately as a 'derivative' in accordance with the requirements of International Accounting Standard 39: "Financial Instruments: Recognition and Measurement".

3.6 Due from and due to brokers

Amounts due from and to brokers represents receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the balance sheet date, respectively.

These amounts are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment for amounts due from brokers. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker.

3.7 Impairment

The carrying amount of assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognised immediately in the financial statements.

3.8 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

3.9 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.

3.10 Accrued expenses

Accrued expenses are recognised initially at fair value and subsequently stated at amortised cost.

3.11 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I to the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the period, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded a tax liability in respect of income relating to the current period as the management company has the intention to distribute at least 90 percent of the Fund's accounting income for the period as reduced by capital gains (whether realised or unrealised) to its unit holders.

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that these will be available for set off against future taxable profits. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The Fund has not recognised any amount for deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least 90 percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised to its unit holders every year.

3.12 Dividend distribution

Dividend distribution to the Fund's unit holders is recognised as a liability at the time of its declaration.

3.13 Financial assets and financial liabilities

Financial assets carried on the Statement of Assets and Liabilities include balances with banks, receivable against Continuous Funding System (CFS) transactions, Loans and receivables, investments, income receivable and certain other receivables.

Financial liabilities carried on the Statement of Assets and Liabilities include payable to HBL Asset Management Limited – Management Company, payable to Central Depository Company of Pakistan Limited – Trustee, payable to Securities and Exchange Commission of Pakistan - annual fee and accrued expenses and other liabilities.

The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

3.14 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is 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 realise the assets and settle the liabilities simultaneously.

3.15 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the Management company / distributors during business hours on that date. The offer price represents the Net Asset Value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. Currently, the Fund is not charging any sales load (front-end load).

Units redeemed are recorded at the redemption price, applicable to units for which the Management company / distributors receive redemption applications during business hours of that day. The redemption price represents the Net Asset Value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable. Currently, the Fund is not charging any back-end load or duties or charges on redemption.

3.16 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 that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to income / (losses) that form part of the Unit Holders' Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

3.17 Net Asset Value per unit

The Net Asset Value per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the period end.

3.18 Revenue recognition

- Capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on reverse repurchase (reverse repo) transactions and Continuous Funding System (CFS) transactions is recognised on an accrual basis.
- Dividend income is recognised on the date of book closure of the investee company / institution declaring the dividend.
- Income on Term Finance Certificates is recognised on time proportion basis.
- Profit on bank deposits is recognised on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

		June 30, 2007 (Rupees in '000)
4	BANK BALANCES	
	Current accounts	390
	Savings accounts	825,393
	Term deposits	1,500,000
		<u>2,325,783</u>
5	RECEIVABLE AGAINST CFS TRANSACTIONS	<u>587,535</u>

The rates of return on CFS transactions outstanding at June 30, 2007 range between 11.50% and 13.00% per annum, with maturities ranging upto 1 to 30 days.

		Note	June 30, 2007 (Rupees in '000)
6	INVESTMENTS		
	At fair value through profit or loss	6.1	-
	Available for sale	6.2	223,025
			<u>223,025</u>

6.1 Investments at fair value through profit or loss

Equities securities purchased under future sale contracts

These securities are held under ready-future transactions. These securities are purchased in the ready "T+ 3" market and simultaneously sold in the futures market. The details are as follows:

Name of the Investee Company	---- Number of Shares ----			Balance as at June 30, 2007			Market Value as a %age of Net Assets
	Purchases during the period	Sales during the period	As at June 30, 2007	Cost	Market Value	Appreciation / (Diminution)	

----- Rupees in '000 -----

SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs.10 each unless stated otherwise

Commercial banks							
National Bank of Pakistan	425,000	(425,000)	-	-	-	-	-
Synthetic & Rayon							
Dewan Salman Fibre	16,000	(16,000)	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

6.2 Available for sale investments

Term Finance Certificates

Name of the Investee Company	--- Number of Certificates ---			Balance as at June 30, 2007			Market Value as a %age of Net Assets
	Purchases during the period	Sales during the period	As at June 30, 2007	Cost	Market Value	Appreciation / (Diminution)	

----- Rupees in '000 -----

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

Commercial banks

Bank Alfalah Limited II	6,000	2,000	4,000	20,038	20,488	450	0.41%
Allied Bank Limited II	3,000	3,000	-	-	-	-	-
Bank Al Habib Limited II	11,000	-	11,000	57,577	58,383	806	1.16%

Oil and Gas exploration

Chanda Oil and Gas Securitization Co. Limited	2,448	-	2,448	9,843	9,967	124	0.20%
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Leasing companies

Al Zamin Leasing Modaraba II	2,000	-	2,000	9,375	9,413	38	0.19%
Al Zamin Leasing Modaraba	516	-	516	1,628	1,627	(1)	0.03%
Orix Leasing Pakistan Limited II	15,139	-	15,139	76,665	77,141	476	1.53%

Privately placed TFCs

New Allied Electronics Industries (Pvt) Limited	9,000	-	9,000	45,201	46,006	805	0.91%
---	-------	---	-------	--------	--------	-----	-------

44,103 220,327 223,025 2,698

- 6.2.1 The NBFC Rules, 2003 require investments in listed securities to be revalued using the rates quoted on the stock exchanges on which these investments are listed. The investments of the Fund in term finance certificates have been revalued as at June 30, 2007 using the average of the rates quoted by certain brokerage house. The management is of the view that the rates used by the Fund are representative of the fair market value of these investments and this valuation methodology is fair to the existing as well as the new investors. Further, the valuation methodology adopted by the management is in line with the treatment proposed in the draft revised NBFC Rules which are expected to be promulgated shortly. The draft revised NBFC Rules require a debt security listed but not traded regularly on a stock exchange to be valued at the average rate, notified by the Mutual Funds Association of Pakistan based on the rates quoted by three brokers dealing in the debt securities.

June 30, 2007
(Rupees in '000)

7 LOANS AND RECEIVABLES

Term deposits

1,675,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

	Note	June 30, 2007 (Rupees in '000)
8		
INCOME RECEIVABLE		
		1,562
		37,844
		4,824
		378
		<u>44,608</u>
9		
PRELIMINARY EXPENSES AND FLOATATION COST		
	9.1	1,135
		(65)
		<u>1,070</u>
9.1		
Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These expenses are being amortised over a period of five years commencing from the end of the initial offering period as per the requirements set out in the Trust Deed of the Fund.		
		June 30, 2007 (Rupees in '000)
10		
OTHER ASSETS		
		<u>234,500</u>
This represents amount paid towards subscription of Term Finance Certificates of various issuers which have not been issued upto June 30, 2007		
		June 30, 2007 (Rupees in '000)
11		
ACCRUED EXPENSES AND OTHER LIABILITIES		
		90
		1,158
		25,265
		216
		<u>26,729</u>
12		
PAYABLE TO HBL ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY		
	Note	
	12.1	14,380
		1,135
		30
		<u>15,545</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

12.1 Under the provisions of the NBFC Rules, 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 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 period.

	Note	June 30, 2007 (Rupees in '000)
13		
PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		
Trustee's remuneration	13.1	<u>433</u>
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 there in, based on the daily Net Asset Value (NAV) of the Fund.		
	Note	June 30, 2007 (Rupees in '000)
14		
PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN		
Annual fee	14.1	<u>959</u>
14.1		
Under the provisions of NBFC Rules, a Unit Trust Scheme is required to pay as 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 scheme.		
		June 30, 2007 (Rupees in '000)
15		
COMMITMENTS		
Continuous Funding System (CFS) transactions (including transactions to be rolled over) entered into by the Fund in respect of which the net purchase transactions have not been settled as at period end.		
		<u>432,541</u>
		For the Period From February 19, 2007 to June 30, 2007 (Rupees in '000)
16		
PROFIT ON BANK DEPOSITS		
Income on savings deposits		66,037
Income on term deposits		<u>17,845</u>
		<u>83,882</u>
17		
AUDITOR'S REMUNERATION		
Audit fee		75
Out of pocket expenses		<u>15</u>
		<u>90</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

18 EARNINGS PER UNIT

Earning per unit (EPU) for the period ended June 30, 2007 has not been disclosed as in the opinion of the management determination of weighted average units for calculating EPU is not practicable.

19 TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons include HBL Asset Management Limited being the Management Company, Habib Bank Limited being the Sponsor, the Directors of the Management Company and entities having common directorship with the Management Company.

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

Details of the transactions with connected persons and balances with them, if not disclosed in relevant notes, at June 30, 2007 are as follows:

(Rupees in '000)

Habib Bank Limited - Sponsor	
Units Issued (2,500,000 units) during the period	250,000
Financial charges paid during the period	14
Profit on bank deposits earned during the period	40,068
Bank balances as at June 30, 2007	1,503,850
Loans and receivables as at June 30, 2007	1,400,000
Profit receivable on bank deposits as at June 30, 2007	32,519
Profit paid for pre-IPO period	1,589
Directors and Executives of the Management Company and their relatives	
Directors and their relatives	
Units issued (299,500 units) during the period	29,950
Units Redeemed (250,000 units) during the period	25,000
Executives and their relatives	
Units issued (800 units) during the period	80
Other connected persons / related parties:	
Units issued (8,971,896 units) during the period	905,000
Units redeemed (5,150,000 units) during the period	526,180
Profit paid for pre-IPO period	3,203

20 YIELD / INTEREST RATE RISK

- 20.1 The Fund is mainly exposed to mark-up / interest rate risk on its financial assets portfolio. The Investment Committee of the Fund reviews the portfolio of the Fund on a regular basis to ensure that risk is managed within acceptable limits. Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing on maturity date and for off balance sheet instruments is based on settlement date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

	-----June 30, 2007-----			
	Total	--- Exposed to Yield/Interest rate risk ---		Not exposed to Yield/ Interest rate risk
		Upto three months	More than and upto one year	More than one year
		----- (Rupees in '000) -----		
On-balance sheet financial instruments				
Financial Assets				
Balances with banks	2,325,783	2,325,393	-	390
Receivable against Continuous Funding System (CFS) transactions	587,535	587,535	-	-
Investments	223,025	104,853	102,848	15,324
Loans and receivable	1,675,000	-	1,675,000	-
Other assets	234,500	25,000	209,500	-
Income receivable	44,608	-	-	44,608
	<u>5,090,451</u>	<u>3,042,781</u>	<u>1,987,348</u>	<u>15,324</u>
Financial Liabilities				
Accrued expenses and other liabilities	26,729	-	-	26,729
Payable to HBL Asset Management Limited - Management Company	15,545	-	-	15,545
Payable to Central Depository Company of Pakistan Limited -Trustee	433	-	-	433
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	959	-	-	959
	<u>43,666</u>	<u>-</u>	<u>-</u>	<u>43,666</u>
On-balance sheet gap	<u>5,046,785</u>	<u>3,042,781</u>	<u>1,987,348</u>	<u>15,324</u>
Off-balance sheet financial instruments				
CFS transactions (including transactions to be rolled over) entered into by the Fund in respect of which the net purchase transaction has not been settled as at June 30, 2007	432,541	432,541	-	-
Off-balance sheet gap	<u>432,541</u>	<u>432,541</u>	<u>-</u>	<u>-</u>

20.2 The rates of return on financial instruments are as follows:

	Percentage per annum
Balances with banks	2.50% - 10.50%
Receivable against Continuous Funding System (CFS) transactions	11.50% - 13.00%
Investments - Term Finance Certificates	8.00% - 13.00%
Loans and receivables - Term deposits	10.50% - 12.25%
Other assets	11.57% - 12.49%
CFS transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase transaction has not been settled as at June 30, 2007	11.50% - 13.00%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

21 MATURITIES OF ASSETS AND LIABILITIES

The maturity profile of the Fund's asset and liabilities based on contractual maturities is given below:

	-----June 30, 2007-----			
	Total	Upto three months	Over three months and upto one year	Over one year
	----- (Rupees in '000) -----			
Assets				
Balances with banks	2,325,783	2,325,783	-	-
Receivable against CFS transactions	587,535	587,535	-	-
Investments	223,025	476	5,270	217,279
Loans and receivables	1,675,000	-	1,675,000	-
Income receivable	44,608	37,358	7,250	-
Preliminary expenses and floatation costs	1,070	57	170	843
Other assets	234,500	1,250	3,834	229,416
	<u>5,091,521</u>	<u>2,952,459</u>	<u>1,691,524</u>	<u>447,538</u>
Liabilities				
Accrued expenses and other liabilities	26,729	26,729	-	-
Payable to HBL Asset Management Limited - Management Company	15,545	15,545	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	433	433	-	-
Payable to Securities and Exchange Commission of Pakistan - Annual fee	959	959	-	-
	<u>43,666</u>	<u>43,666</u>	<u>-</u>	<u>-</u>
	<u>5,047,855</u>	<u>2,908,793</u>	<u>1,691,524</u>	<u>447,538</u>

22 RISK MANAGEMENT POLICIES

22.1 Market risk

Market risk is the risk that the value of a financial instrument may fluctuate as a result of changes in market interest rates or market price of securities due to change in credit rating of the issuer of the instrument, change in market sentiments, supply and demand of securities and liquidity in the market, there is a possibility of default of participants and of failure of the financial markets / stock exchanges, the depositories, the settlement of the clearing system etc.

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

22.2 Credit risk

Credit risk arising from the inability of the counterparties to fulfill their obligations in respect of financial instrument contracts, is generally limited to the principal amount and accrued income thereon. The Fund's policy is to enter into financial instrument contracts by following internal guidelines such as approving counterparties, approving credit, obtaining adequate collateral and transacting through approved brokers.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

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 diversified and transactions are entered into with diverse creditworthy counter parties thereby mitigating any significant concentration of credit risk.

22.3 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset at close to its fair value. In addition, the Fund is exposed to daily cash redemption of units. The Management Company manages liquidity risk by following internal guidelines such as monitoring maturities of financial assets and financial liabilities and investing in highly liquid financial assets.

22.4 Yield / Interest rate risk

Yield risk is the risk of decline in earnings due to adverse movements of the yield curve. Market rate risk arises from the possibility that changes in market rates of return will affect the value of the financial instruments. A Fund is exposed to yield / market rate risk as a result of mismatches or gaps in the amounts of financial assets and financial liabilities that mature or reprice in a given period. The Fund manages this risk by matching the repricing of financial assets and liabilities through risk management strategies. The position for financial instruments is based on earlier of contractual repricing date or maturity.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently differences can arise between carrying values and fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value.

For the period from
February 19, 2007
to June 30, 2007

24 PERFORMANCE TABLE

Net assets at the period end (Rs '000)	5,047,855
Net income for the period (Rs '000)	130,849
Net Asset Value per unit at the period end (Rs)	102.73
Earnings per unit (Rs) - (note 18)	
Dividend distribution (%) - (note 25)	
Highest offer price per unit (Rs)	102.73
Lowest offer price per unit (Rs)	100
Highest redemption price per unit (Rs)	102.73
Lowest redemption price per unit (Rs)	100.34

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM FEBRUARY 19, 2007 TO JUNE 30, 2007

25 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 06, 2007 have declared a bonus distribution at Rs. 2.65 per unit which entitles each eligible unit holder 0.02648 bonus units for each existing unit held on June 30, 2007. The financial statements of the Fund for the period ended June 30, 2007 do not include the effect of the bonus issue which will be accounted for in the financial statements of the Fund for the year ending June 30, 2008.

26 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on October 09, 2007.

27 GENERAL

Figures are rounded off to the nearest thousand rupees.

For HBL Asset Management Limited
(Management Company)

Shahid Ghaffar
Chief Executive

Sadia Khan
Director

HBL INCOME FUND
PATTERN OF UNIT HOLDING ON JUNE 30, 2007

S. No.	Particulars	Units Held	Percentage
1	Associate Concerns	6,321,896	12.87
2	Banks and Financial Institutions	27,350,087	55.66
3	Corporate	9,807,309	19.96
4	Directors and their Relatives	49,500	0.10
5	Individuals	897,166	1.83
6	Insurance Companies	325,000	0.66
7	Provident / Pension Funds	3,536,876	7.20
8	Others	850,000	1.72
	Total	49,137,834	100.00

HBL INCOME FUND DISTRIBUTION NETWORK

SINDH

Karachi

Corporate Branch

2nd Floor, HBL Plaza,

I.I. Chundrigar Road, Karachi.

Phone: 021-2418000

Fax: 021-2441492

Kehkashan Branch

DC-7, Block 7, Schon Circle, Clifton, Karachi.

Phone: 021-9250802, 021-9250768

Fax: 021-9250803

Foreign Exchange Branch

Foreign Exchange Centre, M.A. Jinnah Road,

Habib Square, Karachi.

Phone: 021-9213997, 021-9213939

Fax: 021-9213436

Clifton Broadway Branch

Broadway House, Karachi.

Phone: 021-9250899, 021-9250800

Fax: 021-5873310

Nursery Branch

Main Shahrah-e-Faisal, Jamshed Town, Karachi.

Phone: 021-4521127, 021-4381304

Fax: 021-4538482

Khayaban-e-Saadi Branch

Block -2, Clifton, Karachi.

Phone: 021-5810045-46

Shahrah-e-Jahangir Branch

Block L, North Nazimabad, Karachi.

Phone: 021-6648034, 021-6629671

Fax: 021-6642090

DISTRIBUTION NETWORK

PUNJAB

Lahore

Lahore Development Authority Branch

7 Egertan Road, Data Gunj Bukhsh Town, Lahore.

Phone: 042-6365015, 042-9200275

Fax: 042-6302032

Sharah-e-Quaid-e-Azam Branch

The Mall, 5 Bank Square, Data Gunj Bukhsh Town, Lahore.

Phone: 042-9212212, 042-9212226

Fax: 042-9212233

Corporate Branch

Habib Bank Corporate Centre, 102-103, Upper Mall, Lahore.

Phone: 042-9201022

Fax: 042-9201051

Gujranwala

Satellite Town Branch

Main Market, Satellite Town, Gujranwala

Phone: 055-9200590, 055-9200591

Fax: 055-9200590

Faisalabad

Madina Town Branch

Madina Town, Faisalabad.

Phone: 041-9220122, 041-9220124

Fax: 041-9220123

Canal Road Branch

West Canal Road, Faisalabad.

Phone: 041-8532077

Fax: 041-8531985

DISTRIBUTION NETWORK

Corporate Branch

HBL Corporate Centre

1152 Circular Road, Faisalabad.

Phone: 041-9200038

Fax: 041-9201041

Rawalpindi

Kashmir Road Branch

Kashmir Road, Saddar Cantt., Rawalpindi.

Phone: 051-5700107, 051-5582905

Fax: 051-5567928

Islamabad

Jinnah Avenue Branch

Jinnah Avenue, Islamabad.

Phone: 051-2201761, 051-2201228

Fax: 051-2822290

Corporate Branch

Ground Floor, HBL Tower, Blue Area, Islamabad.

Phone: 051-2820683

Fax: 051-2822206

NWFP

Peshawar

Arbab Road Branch

Peshawar Cantt., Peshawar.

Phone: 091-272167, 091-9211161

Fax: 091-278869

BALUCHISTAN

Quetta

Complex Branch

Shahrah-e-Gulistan, Quetta.

Phone: 081-2836575, 081-2829379

Fax: 081-2825791

DISTRIBUTION NETWORK

OTHER DISTRIBUTORS

Invest Capital & Securities (Pvt.) Ltd
Suite 806-808, Progressive Plaza,
Beaumont Road Karachi.
Phone : 021-521 5226-8
Fax : 021-521 5200
Email: info@investcapital.com

JS Global HEAD OFFICE
7/F The Forum, Block 9, Clifton, Karachi 75600 - Pakistan
Phone : 021-2799005
Fax : 021-2800167, 021-2800163

Jahangir Siddiqui & Co Limited
7/F The Forum, Block 9, Clifton, Karachi 75600 - Pakistan
Phone : 021-2799005
Fax : 021-2800167, 021-2800163

Foundation Securities (Private) Limited
Ground Floor, Bahria Complex II,
MT Khan Road, Karachi
Phone : 021-111 000 375
Fax : 021-5612262

IGI Investment Bank
Floor 7, The Forum, Suite 701-713, G-20, Block 9,
Khayaban-e-Jami, Clifton, Karachi – 75600, Pakistan.
Phone : 021-111-234-234
Fax : 021-111-567-567
Toll Free No: 0800 2 34 34

Invisor Securities (Private) Limited
Ground Floor, Bahria Complex II, M. T. Khan Road, Karachi, Pakistan.
Phone : 021-5611492-5
Fax : 021-5611532
Email: info@invisorsec.com

Yam & Company.
11, Quality Arcade, Mezanine Floor, BC 7, Block 7, Clifton, Karachi.
Phone : 021-5876823
Cell: 0333-2241661

